THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Diagnostic Review of Global Fund Grants to the Republic of Peru

GF-OIG-11-021
3 August 2012

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Introduction

1. This diagnostic review of the Global Fund grants to the Republic of Peru sought to identify and share good practices, identify key risks to which grant programs were exposed, and make recommendations for risk mitigation where weaknesses and gaps were found in the current risk response.

2. The fieldwork for the diagnostic review was conducted from 20 November to 13 December 2011. The review covered the three grants that were active at the time of the review, which had a total budget of USD 45 million of which USD 39 million had been disbursed. The review covered program activities from 1 October 2007 through 31 October 2011. The Principal Recipients for the grants reviewed were CARE Peru, Pathfinder and Parsalud.

3. The review documented strong examples of local ownership of activities initiated with Global Fund support that were subsequently continued with funding from Peruvian central or regional government budgets. This included the provision of services free-of-charge for antiretroviral, sexually transmitted infection, and multi drug-resistant tuberculosis treatment. Notwithstanding this, a number of risks were identified that may potentially impede the successful outcome of grant programs unless mitigated. In particular, the review found that tuberculosis control in Peru was deteriorating and proven public health standards for effective tuberculosis control were not implemented. An action plan in response to the report recommendations has been prepared by the Global Fund Secretariat, the Country Coordinating Mechanism and the Principal Recipients, and is included as Annex 2.

4. This report presents 3 "Critical" recommendations[1] and 9 categorized as "Important" which need to be implemented to address material risks to the effectiveness of the Global Fund´s support.

Key Outcomes

5. In the area of program design, grant recipients and implementers have agreed to:

a) Seek assistance from the Green Light Committee to review and revise the national approach to the control of multi- and extremely drug-resistant tuberculosis;
b) Take steps to assure full participation of the National Tuberculosis Program in program activities and to re-align these with national priorities;
c) Direct their efforts towards the evaluation of the previous national strategic plan for HIV and the development of a new Multisectoral Strategic Plan for the Prevention and Control of STIs and HIV for the period 2012 to 2016; and
d) Engage with the Ministry of Health to obtain accurate and timely indicator data and information to report against the Global Fund-approved performance framework.

6. With regard to procurement and supply chain management, stakeholders have agreed to develop a rapid distribution plan for the large stock of condoms and lubricants.

7. In the area of financial management and controls, grant recipients have agreed to:

a) Strengthen Sub-recipient financial oversight through timely on-site financial reviews; and

[1] Recommendations are categorized as "Critical "and "Important". Definitions are in Annex 2

b) Put a stop to the practice of transferring grant funds in lump-sums from grant-specific bank accounts to their organizational bank account to pay for program expenses; and reconcile and refund any funds inappropriately utilized.

Events subsequent to the audit

8. Regarding risks to control of tuberculosis, multi- and extremely drug-resistant tuberculosis (Risks 5 and 6) the National Tuberculosis Control has started the process of revising the national standards and protocols to conform to proven international standards and guidelines. Technical assistance is being provided by development partners such as PAHO, the European Union and USAID. In addition, the National Tuberculosis Control program has sought to strengthen its oversight over activities implemented by Principal Recipients and Sub-Recipients to ensure that program activities are implemented according to national policies on tuberculosis control.

9. The National HIV Control Program has provided the following update in July 2012 to the OIG:

a) The National Multi-sectorial HIV Strategic Plan is being formulated with financial assistance from MINSA and development partners such as UNAIDS, and UNFPA.

b) Distribution of lubricants and condoms had been completed in coordination with DARES. Further, the provision of lubricants has been included in the national guidelines.

c) The health information system will be strengthened in collaboration with the office of Statistics and Information.

MESSAGE FROM THE GENERAL MANAGER

The Global Fund
To Fight AIDS, Tuberculosis and Malaria

10 YEARS OF IMPACT

Gabriel Jaramillo, General Manager

gabriel.jaramillo@theglobalfund.org
www.theglobalfund.org

T +41 58 791 1842
F +41 58 791 1641

Chemin de Blandonnet 8
1214 Vernier, Geneva
Switzerland

Our ref: OGM/GJ/JK/2012.07.31-PERU

31 July, 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the Diagnostic Review of the Global Fund Grants to the Republic of Peru.

The diagnostic review was conducted from November 20 to December 13, 2011 and covered the three grants that were active at that time, with a total budget of US$ 45 million - of which US$ 39 million had been disbursed.

The review found strong examples of local ownership of activities that were initiated with Global Fund support and subsequently continued with funding from Peruvian central or regional government budgets. Those activities include the provision of free-of-charge antiretroviral therapy and treatment for sexually transmitted infections and multi drug-resistant tuberculosis. The review also identified good practices that, as this report points out, may serve as lessons for other countries receiving Global Fund support.

According to the review, there are a number of risks which may hinder the successful outcome of the grants, if not mitigated. Of particular concern is the control of tuberculosis. Peru is among countries with the highest TB burden in the western hemisphere. Declining treatment success rates for smear positive TB and increasing treatment default rates indicate weaknesses in the implementation of the national tuberculosis strategy. To address that, and other risks, the Office of the Inspector General makes 12 recommendations.

The Global Fund Secretariat, the Country Coordinating Mechanism and the principal recipients have drawn up an action plan, based on the review recommendations. The plan is included in this report as Annex 2.

Diagnostic reviews by the Office of the Inspector General are an essential form of quality control for the Global Fund. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Yours sincerely

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

PERÚ Ministerio de Salud | Despacho Ministerial

CONAMUSA
COORDINADORA NACIONAL MULTISECTORIAL EN SALUD

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ
"Año de la Integración Nacional y Reconocimiento de Nuestra Diversidad"

Lima, July 25th, 2012

Carta Nº 068 -2012-UG-CONAMUSA.

Mr. John Parson
General Inspector
Global Fund

Distinguished Mr. Parson,

On behalf of the Peruvian CCM, CONAMUSA, I appreciate very much you have included all the comments and amendments to the Final Report of the Diagnostic Review of the National Strategies for STI / HIV and for Tuberculosis Prevention and Control and Global Fund Programs in Peru requested by the Ministry of Health and the CCM.

We believe that the report takes into account the difficulties we are facing in the course of a process of decentralization and State reform but also the progress made by the country with the contribution of Global Fund programs.

We also believe that we face many challenges to pursue an effective multisectorial response but we hope to achieve it and we are seeing the commitment of the sectors involved in the response to Tuberculosis and HIV / AIDS.

As evidence of the statement, I must mention that the Government allocated U.S. $ 89 million to the strategies of HIV and TB last year and increased the amount to U.S. $ 151 million this year. Similarly, in the last quarter of 2011 the National and Lima (the capitol of the country) Governments began a multisectorial strategy for prevention and control of tuberculosis which will be extended to the whole country in the following months. Regarding the Prevention and Control of STIs and HIV, the Ministry of Health with the participation of CONAMUSA, is in the process of

www.minsa.gob.pe | Av. Salaverry 801
Jesús María. Lima 11, Perú
T: (511) 315-6600

PERÚ Ministerio de Salud | Despacho Ministerial

CONAMUSA
COORDINADORA NACIONAL MULTISECTORIAL EN SALUD

DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ
"Año de la Integración Nacional y Reconocimiento de Nuestra Diversidad"

elaborating its new Strategic Multisectorial Plan which will lead the next five year national response.

We trust that the above actions will contribute significantly for preventing new cases and for appropriate health and social care of people affected by HIV and TB.

Finally, we wish to thank the team of the General Inspector Office that visited Peru last year led by Mr. David Addison, for their dedicated and professional work as well as for the recommendations provided which the Ministry of Health and Global Fund Programs have already been taken into consideration in the formulation of plans and actions.

Sincerely yours, best regards

Mr. Eduardo Coora Timoteo
Vice President
CCM Peru / Vice Presidencia CONAMUSA, Perú

www.minsa.gob.pe
Av. Salaverry 801
Jesús María. Lima 11, Perú
T: (511) 315-6600

INTRODUCTION

What was the review about?

10. As part of its 2011 plan, the OIG undertook a diagnostic review of the Global Fund grants to Peru. This review sought to:

a) Identify key risks to which Global Fund grant programs are exposed and make recommendations for risk mitigation where weaknesses and gaps are found in the current risk response.

b) Identify and share good practices.

11. A diagnostic review is different from a country audit in that no overall opinions are provided and no assurance is provided regarding how grant funds were spent. Furthermore, the level of detailed testing is much less and is focused on drilling down into areas of particular risk. The team for the diagnostic review included technical experts in public health, procurement and supply chain management, and financial management. The fieldwork for the diagnostic review was conducted from 20 November to 13 December 2011.

12. Since the beginning of Global Fund support to Peru in November 2003, a total of seven grants to support the response to HIV and tuberculosis have been signed with three Principal Recipients for the equivalent total amount of USD 134,365,193. Disbursements at the time of the review totaled USD 124,991,343 (93%). At the time of the review, negotiations of agreements for two Phase 2 Round 8 grants for tuberculosis were ongoing. An agreement for a Round 10 grant for HIV focusing on transgender populations and men who have sex with men was signed with INPPARES as Principal Recipient on December 8, just before the final debriefings of the OIG mission. The review focused on the three active grants:

			Start	End	Grant	Disbursed
PER-607-G05-H	Round 6 HIV (Phase 2)	CARE Peru	1-Oct-07	30-Sep-12	32,669,809	28,991,163
PER-809-G06-T	Round 8 TB (Phase 1)	Pathfinder	1-Feb-10	31-Jan-12	4,851,693	3,686,363
PER-809-G07-T	Round 8 TB (Phase 1)	Parsalud	1-Feb-10	31-Jan-12	7,930,545	6,406,420
				Total	**45,452,047**	**39,083,946**

Source: Global Fund database accessed 25 October 2011

What is the environment within which programs are implemented?

13. The HIV epidemic in Peru primarily affects men who have sex with men and the transgender population. The HIV prevalence in these populations ranges from 3 percent in the Amazonas Region to 12 percent in Lima/Callao. More than one in five transgender individuals in Lima and Callao is living with HIV.[2] Less is known about trends in HIV prevalence among female sex workers. The most recent reliable

[2] CARE Peru; Estudio de Vigilancia Epidemiológica de ITS y VIH en Hombres que Tienen Sexo con Hombres, Lima 2011

estimate of 0.7 percent dates back to 2002.[3] In the general population the prevalence of HIV has been stable at a low level. Less than one in 500 pregnant women who were tested for HIV during antenatal care in the first half of 2011 was found to be HIV positive.[4] Currently, the Ministry of Health reports about 19,000 persons living with advanced HIV infection, of which about 16,500 are receiving ART. The ratio of men to women is 3:1.[5] ART is provided by 79 health facilities in the country, including three prison hospitals.[6] All antiretroviral drugs are procured by the Government of Peru and provided free of charge to patients.

14. With an estimated annual incidence of 106 new clinical infections per 100,000 population[7], Peru is among the countries with the highest tuberculosis burden in the Western Hemisphere. In 2010, Peru reported 32,477 cases of tuberculosis (new and relapse) for an estimated case detection rate of 100 percent. The treatment success rate for smear positive tuberculosis has, however, declined significantly over the past three years to a low of 81 percent for the 2009 cohort. This may be an overestimate, since the treatment outcome of about 20 percent of the 2009 cohort is not reported.[8]

15. The incidence of MDR and XDR tuberculosis in Peru is very high. In the first three quarters of 2011, a total of 1,613 newly diagnosed patients with MDR tuberculosis were approved for treatment and the number of active patients with XDR tuberculosis had grown to 184.[9] About one third of MDR tuberculosis is diagnosed in patients without previous treatment. Almost all patients are treated in ambulatory care. The last approval by the WHO Green Light Committee (GLC) for an expansion of the patient cohort in Peru was in 2006. The only letter of agreement for procurement support by the GLC was signed in 2000.[10]

16. Starting from the late 1990s, Peru has gradually implemented political reforms leading to a decentralized system of elected Regional Governments with increased authority and administrative/financial control over public health services.

17. Public health sector reform has in the last two years fully transferred planning, management, supervision and oversight of public health services to the 25 Regional Health Directorates (DIRESAs) of the country.[11] The DIRESAs are headed by regional health directors supported by a team that includes technical coordinators for HIV and tuberculosis.

[3] Proyecto PREVEN; STD Surveillance among female sex workers and their clients in Peru; 2002
[4] Excerpt from the MINSA ESN-ITS/HIV database (SMEII) accessed Nov. 25, 2011
[5] MINSA-DGE; Análisis de la Situación de la Epidemia del VIH-SIDA; December 2011
[6] www.minsa.gob.pe/PortalVIH/, accessed Dec 3, 2011
[7] MINSA-ESNPCT indicated that following the audit a review and validation of data showed that the 2010 incidence was 96.10 cases per 100,000.
[8] www.who.int/tb/data, accessed Nov 19, 2011
[9] MDR and XDR situation in the 3rd quarter 2011. (National data presented to OIG by Regional Reference Laboratory Callao)
[10] http://www.who.int/tb/challenges/mdr/greenlightcommittee/en/, accessed Nov 30, 2011
[11] The Lima metropolitan area does not have a regional health authority (DIRESA) and is administered by three Health Directorates (DISA)

GRANT IMPLEMENTATION AND PRACTICES

Who is responsible for implementing the program?

18. From November 2003 to January 2010, CARE Peru was the sole Principal Recipient (PR) for Global Fund tuberculosis and HIV grant programs. From February 2010, with the inception of the Round 8 tuberculosis grant, Parsalud, a unit of the Ministry of Health (MINSA) and Pathfinder International joined CARE as PRs. Parsalud is responsible for introducing the Practical Approach to Lung Health (PAL) to selected health facilities as well as improving MDR and XDR TB diagnosis. Pathfinder International is responsible for tuberculosis prevention through advocacy, communication and social mobilization as well as for social and nutritional support of patients with XDR tuberculosis. The PRs implement the programs in close coordination and with technical assistance of various units of the Ministry of Health MINSA such as the National Tuberculosis Program (ESN-PCT), the National STI and HIV Program (ESN-ITS/VIH), the Procurement Unit of MINSA (DARES) and the National Drug Regulatory Authority (DIGEMID). The programs are implemented in collaboration with implementing partners and sub-recipients such as Regional Health Services (DIRESAs), Regional Hospitals, Health Centers, non-governmental organizations and community-based organizations.

19. DARES, which is an institution of MINSA, is responsible for coordinating the quantification of medicines and health supplies, procurement and distribution to regional warehouses. The DIRESAs in turn distribute drugs and health supplies to health facilities within their jurisdiction. In 2009, a national procurement law was adopted which seeks to establish a transparent process and regulations that facilitate efficient and effective national, regional and local government procurement. A supervising government institution for public procurement (OSCE) was established to oversee national procurement. The Government of Peru, through DARES, procures and provides ARVs, tuberculosis drugs including drugs for MDR tuberculosis as well as certain STI drugs free of charge to patients. The DIRESAs and hospitals follow a process of pooled procurement via DARES for those essential medicines that are not provided free of charge. This includes medication for opportunistic diseases among people living with HIV.

How are grant funds managed?

20. Grant funds are kept in separate bank accounts to facilitate financial control and management. Joint signatories are required for disbursements. Funds are maintained in local banks, all of which are rated “A” or higher by the National Financial Regulator. In December, 2011, the three PRs were working with a total of 14 SRs. PRs review monthly SR financial reports and copies of supporting documents sent to Lima. Original supporting documents are retained by SRs due to local tax regulations. Sales tax paid and recovered is monitored by the PRs. Procurement is done by each PR. Parsalud follows government procurement regulations and procedures while CARE and Pathfinder follow procurement regulations and procedures approved by their institutions. The LFA performs financial and programmatic reviews of the grant programs regularly every six months, and ad-hoc reviews upon request from the Global Fund Secretariat.

21. In addition, the OIG assessed how inherent risks in the following areas were managed by the PRs:

a) Funds received from the Global Fund
b) Cash balances
c) Segregation of duties
d) Value-for-money for purchases
e) Grant funds advanced to sub-recipients.

What good practices were observed during this diagnostic review?

22. The following is a list of good practices that were observed by the OIG team in the course of the diagnostic review. Since the review was focused principally on the examination of risks, this list is neither exhaustive nor systematic. These good practices may serve as lessons for other countries receiving Global Fund support.

a) Peru is far advanced in the process of decentralizing administrative and financial authority and responsibility to Health Regions (DIRESA), Districts (Redes de Salud) and Sub-Districts (Microredes de Salud). Although this is not without problems (some of them noted in the Risk section of this report), it has greatly contributed to increasing public participation in the planning and implementation of health services. Several health districts, for instance, have already started to include the work of peer health promoters in their budgets and work plans.

b) The gradual expansion of results-based budget allocation (PPR), which since 2011 also includes the budget for tuberculosis control, HIV and STI programming has helped to strengthen human resources for these programs in health facilities, improving staff retention and performance.

c) The expansion of rapid drug sensitivity testing for tuberculosis to a network of Regional Reference Laboratories supported by the Global Fund grant administered by Parsalud has greatly reduced the time for the diagnosis of MDR tuberculosis and has shortened the time for the inclusion of these patients in MDR tuberculosis treatment protocols.

d) The OIG observed many examples of activities initiated with Global Fund support over the past eight years that were taken over by the Government of Peru and continue with funding from national or regional budgets. This includes the provision of ART, STI, and MDR tuberculosis treatment free of charge, and current initiatives to use health promotion materials developed under the Round 8 grant in awareness and education campaigns funded by regional governments. The introduction of Centers of Excellence for TB (CENEX TB) was a strategy to respond to the high prevalence of MDR TB.

e) The program for respiratory health promotion among secondary students implemented by the Ministry of Education with support of Socios en Salud under the Global Fund grant agreement with Pathfinder is well integrated into a "healthy school" initiative. The material designed to support this initiative uses a state of the art approach to health promotion that compares favorably to more narrowly focused tuberculosis education seen in other countries.

f) Pathfinder Peru has developed an on-line monitoring and evaluation system (SIME) in which all SRs post expenses incurred, scanned copies of their invoices, work plans, monthly activity reports, result reports and any other information required for programmatic and financial monitoring. The system allows for timely on-line monitoring of program activities.

Is oversight adequate?

23. There is strong government commitment, involvement and leadership of HIV and tuberculosis programs both at the national and regional levels. The CCM (CONAMUSA) meets regularly and its technical sub-committees for HIV and tuberculosis provide oversight of the grant programs. The CCM Secretariat receives program updates and audit reports from grant recipients. It is also kept informed of all issues affecting the programs. Since 2009, the CCM has used a dashboard to monitor the programs. Further, external audits are performed on a timely basis.

24. PricewaterhouseCoopers has been the LFA in Peru since the inception of the grant programs. Program officials and Secretariat staff interviewed were generally satisfied with the quality and timeliness of services provided by the LFA, including the country risk assessment. However, going forward, the LFA should be more pro-active in raising financial control weaknesses (see section below on risks related to financial management and controls).

25. Programmatic review by the LFA is primarily provided in the context of OSDVs and at the time of the review of PUDRs. The LFA has a public health consultant on call to assist in these tasks. OSDVs have been done at regular intervals and the reports are satisfactory. However, in the LFA review of the most recent PUDR (HIV R6 Period 16), the public health specialist was not consulted. Not all comments by the LFA on this PUDR are technically sound. Going forward, the LFA should ensure that sound public health advice is consistently sought.

26. There has been on average a new FPM every two years for the Peru grant portfolio. Program officials said that this turnover has not had a negative impact on program implementation.

RISKS

What risks did the diagnostic review team identify?

27. After eight years of Global Fund support to the response to HIV in Peru under three different grant agreements there have been significant achievements in the development, scale up and integration in national systems of prevention and treatment services. The last of the three grant agreements will end in less than one year. This is not the time to recommend major changes in grant implementation, but there are some identified risks that may still be mitigated in these final months. The Round 10 HIV grant recently signed has a new Principal Recipient and will shift the focus of Global Fund support further away from the health sector towards the community response.

28. The HIV program risks identified by the diagnostic review include those that can be addressed by the current PR in the short term, and others that are relevant to the implementation of the Round 10 grant.

29. The situation with respect to the Global Fund contribution to tuberculosis control is quite different. The level of integration in national systems of Global Fund supported activities in tuberculosis is less than in HIV. Three years of programming remain under two Phase 2 agreements, which were not yet signed at the time of the diagnostic review in December 2011. This leaves much greater scope for the grant partners, the PRs, the CCM, the LFA and the Global Fund Secretariat to take action in response to identified risks.

What are the risks related to the HIV program?

Risk 1: The regional and national strategic planning processes for HIV are out of phase.

30. The Strategic Plan for HIV in Peru (PEM 2007-2011) was approved by Presidential Decree in May 2007.[12] The formulation of local and regional plans is included under Objectives 7 and 8 of the PEM. A detailed methodology and work plan for the evaluation of the PEM was published in April 2011.[13] This work was not complete at the time of this diagnostic review. The formulation of a new five-year national strategic plan has been delayed until 2012.

[12] http://www.planvihperu.org/, (accessed December 4, 2011)
[13] http://www.scribd.com/doc/56281139/Plan-de-Trabajo-Evaluacion-Del-Pem-Vih-04-05-11, (accessed Dec 4, 2011)

31. As Sub-Recipient of the Round 6 HIV grant, the national NGO INPPARES provides support to Regional Governments for the formulation of Regional Multi–Sector Strategic Plans for HIV (PERM) within the framework of the PEM 2007-2011. At the time of the diagnostic review, ten PERMs had been approved and three were in the process of being approved.[14] Because of delays in developing and approving the PERMs at regional level, several have time frames that extend beyond the national plan. For example, the PERM for Ica region covers the period of 2011 to 2016. It is well aligned with the objectives and goals of the PEM 2007-2011, primarily translating national objectives into regional ones.[15] Nevertheless, it uses a dated national strategy that has not yet been evaluated to define a regional strategy. There have been many lessons and developments in the response to HIV at international and national level since 2006 when the PEM was formulated. To date, the regional and national strategic planning processes for HIV are out of phase, which gives rise to the risk that (a) Regional Strategic Plans developed with Global Fund support may not be based on the most up-to-date evidence, and (b) that the regional strategic plans may be a constraint rather than a constructive contribution to the development of a new national HIV strategy.

32. There is a good opportunity for the CCM right now to encourage the alignment of these plans.

Risk 2: The procurement and distribution of lubricants for male and female sex workers and for men who have sex with men under the R6 HIV grant has no firm programmatic basis.

33. In June 2010 CARE Peru procured 3.3 million sachets of lubricant, at a total cost of USD 697,000, to be distributed to men who have sex with men, transgender individuals and female sex workers in STI clinics (CERITs and UAMP) and by peer health promoters (PEP) associated with these clinics. At the time of the diagnostic review, all 3.3 million sachets of lubricants (with expiry dates between March and May 2013) remained in storage in a rented warehouse. There are no national guidelines for the distribution of lubricants, and lubricants are mentioned neither in the National Directive for Condom Distribution,[16] nor in the Directive for Periodical Health Care of Female and Male Sex Workers.[17]

34. Groups of sex workers, which the OIG met, confirmed that there was a high demand for lubricants, which is generally not met. The situation in the CERITs visited by the OIG varied greatly. In Ica, lubricants were available but only 10 sachets were given to clients at each monthly visit. In Callao and Lima Ciudad, no lubricants were available. The CERIT at the Alberto Barton Health Center in Callao, which has a large population of male sex workers, had recently returned a batch of expired lubricant sachets that were nearly dried up. The Center was told by the DIRESA Callao that lubricants were out of stock.

[14] Presentation of INPARES to the OIG mission
[15] PERM Ica 2011-2016
[16] Directiva Sanitaria 022-MINSA/DGPS-V01 (2009)
[17] Sistema de Atención Medica Periódica para los(as) Trabajadores(as) Sexuales (2003)

35. A group of PEPs interviewed at the NGO Via Libre stated that the free distribution of lubricants motivated sex workers to attend their periodic health check. In the absence of a directive by the Ministry of Health on lubricant distribution or plans by the Government of Peru to procure lubricants for sex work, this seems insufficient. The recently signed Round 10 grant intends to shift the distribution of lubricants to transgender and sex worker community groups. We recommend that the lubricants be distributed as a matter of urgency.

Risk 3: Data reported by CARE Peru in Quarter 16 are not comparable to baseline.

36. The "indicator measurement study" commissioned by CARE Peru to cover all the indicators of the final progress update report (PUDR) of the Round 5 HIV grant and of PUDR 12 of the Round 6 grant was an investment that provided little value for money. Indicator data for PUDRs should be available from routine monitoring systems and only rarely require collection through special studies. Further, the study used different definitions from those used in the baseline for a number of indicators, making assessment of progress difficult. Although the HIV grants administered by CARE Peru are nearing their end, there are still opportunities to strengthen systems and procedures to better serve the data needs of the PR.

37. The OIG reviewed a number of the analyses of indicator reports included in the study, focusing on high level indicators of the Round 6 grant reported in the PUDR for Period 16. Most of the data for these indicators were derived from the national health information system that at the time was being strengthened with support of the Global Fund. Nevertheless, there is a need to use comparable data over time to be able to follow trends. This was largely neglected, resulting in a report of limited value for the assessment of performance for some indicators. Examples include the report of a 1,000 percent increase in the incidence of syphilis in the general population and a 300 percent increase among female sex workers.

38. There is a need for the PR to engage with the MOH to obtain accurate and timely information to report against the Global Fund-approved performance framework.

What are the risks related to the TB program?

Risk 4: The activities implemented under the Global Fund Round 8 grant, especially those of Parsalud, are not sufficiently linked to the National Tuberculosis Program (ESN-PCT).

39. The Minister of Health expressed concern that the Global Fund–supported TB program is poorly coordinated with the National Program and the National Strategic Plan. A preliminary report of a National TB Program evaluation conducted by PAHO in September 2011 makes the same point.[18] The OIG team found several examples to confirm this finding. These include the program focus on introducing and expanding the strategy of the Practical Approach to Lung Health (PAL), which is not part of the national tuberculosis strategy. Similarly, the national tuberculosis monitoring and evaluation plan developed with Global Fund support had not been appropriated by the National Program (ESN-PCT) eight months after being finalized. The National Tuberculosis Coordinator was unaware of its existence. Although these findings can partly be explained by recent changes in the leadership of MINSA and the ESN-PCT, they do illustrate a risk that will need to be addressed in the proposed Phase 2 program.

Risk 5: Tuberculosis control in Peru is deteriorating and proven public health standards for effective tuberculosis control are not implemented.

40. Declining treatment success rates for smear positive TB and increasing treatment default rates[19] indicate that there are weaknesses in the implementation of the National TB strategy. The OIG team noted the application of a non-standard DOTS protocol in the maintenance phase of tuberculosis treatment, the absence of fixed-dose combination drugs, and the failure to consistently obtain a second sputum sample for diagnosis among patients with respiratory symptoms.[20] The preliminary PAHO monitoring report also mentioned weaknesses in supervision and the over-the-counter sale of tuberculosis drugs.

41. These weaknesses may partly be due to the process of decentralization, which has placed the authority for tuberculosis control at the level of the Regional Health Authorities (DIRESA) and the budget at the level of the Regional Governments. The ESN-PCT only has "technical" authority and must negotiate the implementation of tuberculosis control activities with regional health authorities.

42. There is a need to further strengthen ESN-PCT, including, for example, supervision, better implementation of core principles of tuberculosis control, and support for the revision of the national tuberculosis diagnosis and treatment guidelines.

[18] OPS. Misión de monitoreo y evaluación de la Estrategia Sanitaria Nacional de Control de la Tuberculosis (ESN-PCT) de Perú; 3-10 octubre 2011; Informe Preliminar.
[19] www.who.int/tb/data, accessed Nov 19, 2011
[20] In the Juan Pérez Carranza Health Center in Lima Ciudad, the OIG observed that on average only 8/10 new patients provided a second sputum for microscopy.

Risk 6: The strategy for the control of MDR and XDR tuberculosis in Peru is not effective and Global Fund resources for patient support under this strategy are not contributing to halting the spread of these infections.

43. The high prevalence of MDR and XDR tuberculosis in Peru is an issue of particular concern. A large proportion of Global Fund resources are invested in the social and medical support of ambulatory patients. One rationale for this approach is the belief that providing patients with better housing, nutrition and home care will generate a public health benefit by reducing the circulation of these patients in the community. The OIG team visited two sputum positive XDR patients in their home. Both attend the local Health Center daily without wearing a mask. One of them attends prayer meetings in church every evening also without a face mask. While two observed cases may not indicate causality, the high proportion of primary MDR and XDR tuberculosis infection documented in the national statistics puts in question the strategy currently implemented.

44. The Global Fund Round 8 grant includes a USD 50,000 annual budget line item for the WHO Green Light Committee. The National Tuberculosis Coordinator stated that the last support mission of the GLC took place in 2008. There is a need for a greater involvement of normative agencies (WHO/GLC) to ensure that appropriate TB control measures are taken.

Risk 7: The support to the development and expansion of the PAL program by the Global Fund under the Round 8 grant is not a national priority.

45. Approximately Euro 1.4 Million, a quarter of the Phase 1 Global Fund grant budget administered by Parsalud, is allocated to the introduction of the Practical Approach to Lung Health (PAL) in 30 hospitals and 120 health centers in Peru. PAL programs have a proven track record in improving tuberculosis control in several countries. It is, however, questionable whether the introduction of PAL is a priority in a country that is experiencing a major deterioration in the quality of tuberculosis control. PAL is not mentioned in the National Tuberculosis Strategy except in a reference to the Global Stop TB Strategy. It is not considered a priority by the ESN-PCT Coordinator. The scaling up of PAL will require the establishment of a system to manage and control drugs that are dispensed free of charge to patients with respiratory diseases and will require the investment of time, money, staff and other resources that are currently urgently needed for the implementation of tuberculosis control.

46. Major investments in equipment, training and planning have already been made for the introduction of PAL in Phase 1 of the Round 8 grant. However service delivery is only just starting. The facilities visited by the OIG missions had not yet taken their equipment into service, and only two were dispensing PAL drugs. We recommend that opportunities be explored to scale down the program in Phase 2 to a manageable pilot that can be properly evaluated and documented. This would create the evidence on which MINSA can decide whether, when and how to scale up this approach.

Risk 8: The Performance Framework for Phase 1 of the Round 8 grant administered by Pathfinder International has multiple weaknesses that need to be addressed.

47. The Performance Framework of the Round 8 grant to Pathfinder International includes 16 process indicators. Four of these count documents produced, three of which have a target of 1, while the fourth has a target of 6. None include measures of use or quality. These indicators had not been included in the initial project proposal reviewed by the TRP but were added at a later stage.

48. The Performance Framework incudes four indicators of numbers of people reached with tuberculosis training or information messages. These indicators require very complex procedures to collect and verify these data at the levels of the SRs and PR, involving multiple databases, checks and re-checks of lists. This is a very costly data collection, control and verification system that generates information of marginal usefulness (which is then verified by the LFA). In a further example (number of general population reached), the numbers are derived from inappropriate proxy measurements (e.g., number of newspapers sold that include a message on TB).

49. Two knowledge indicators are included in the Performance Framework derived from the results of post-training testing of students. The target in both cases is about 20 percent of the students attending the training workshops. These targets are reached and therefore the performance is rated as very good. The fact that less than 20 percent of students who attend workshops retain adequate knowledge at the completion of the workshop is, however, an indication that the workshops lack quality. This is not acknowledged and not considered as a relevant indicator of performance.

50. Finally, both tuberculosis grant Performance Frameworks have reporting periods starting in February, one month out of phase with national reporting.

51. There is an opportunity to correct these matters at the time of negotiating new grant agreements.

What are the risks related to procurement and supply management?

Risk 9: Inadequate segregation of duties and responsibilities on the special procurement committee of Parsalud.

52. The Government Procurement Act of 2009 established an office that defines and supervises the principles, regulations, processes

and procedures for public procurement (OSCE). Parsalud must procure according to these national regulations. They are detailed, transparent, and follow most of the Operational Principles for Good Pharmaceutical Procurement published by WHO[21]. The special procurement committee of Parsalud, composed of three staff members, is responsible for tender evaluation and contract award. However, some of the members of this committee are also responsible for the development of technical specifications and conducting market surveys to establish a reference price. This accumulation of responsibilities could compromise the procurement process. According to Global Fund Policy[22], procurement must be conducted in accordance with the WHO Principles requiring the separation of duties in the procurement process. These principles should be followed.

What are the risks related to financial management and controls?

Risk 10: Payment arrangements for grant expenditures instituted by CARE do not facilitate control/verification and tie up grant funds.

53. Since 2003, CARE has made periodic cash transfers in lump-sums from grant-specific bank accounts to its organizational bank account to pay for overhead, staff salaries and supplier invoices. It has an agreement with a bank that makes the payments. However, the amount transferred each time is not equivalent to grant program-related financial obligations on hand. For example, the OIG noted that from November 2009 to March 2011, cash transfers made by CARE to its institutional bank accounts exceeded payroll, overhead and suppliers payments required in significant amounts (ranging from USD 91,000 to USD 441,000). In addition, sales taxes recovered on purchases made with grant funds are deposited in CARE's institutional bank account. There is a risk that funds transferred in excess of needs could be used for activities not authorized by the grant agreement. There is a need to establish the extent of these practices, end them, and refund any funds inappropriately utilized.

Risk 11: On-site financial reviews were not conducted on a regular basis by CARE and the LFA.

54. CARE works with eleven SRs under the Round 6 grant. These SRs have a budget of USD 16 million, or 64% of the grant budget. The OIG visited four SRs during its diagnostic review.

55. CARE reviews monthly financial reports with copies of supporting documentation received from the SRs at its program coordinating office in Lima. The purpose of these desk reviews is to ensure that expenditures relate to approved activities. A report is issued to the SR, who has to reply and follow up on issues or queries raised. Based on these financial reviews, CARE schedules field visits to SRs with particular problems.

[21] Operational principles for good pharmaceutical procurement. Geneva: World Health Organization (WHO); 1999. Document No.: WHO/EDM/PAR/99.5

[22] Guide to the Global Fund's Policies on Procurement and Supply Management

56. The OIG noted that from 2009 to early 2011, CARE pointed out several accounting weaknesses to the SR CEPCO that were identified during desk reviews. However, these reviews were not followed up by timely on-site financial reviews. In May 2011, following an on-site financial review of CEPCO, CARE confirmed irregularities that occurred in 2009 and had been identified during a desk review. The PR has sought recovery of funds from the SR. The OIG learned that the SR has agreed to reimburse the funds in nine installments from January to September 2012.

57. The LFA oversight of SRs was limited to an average of two SRs per year per grant. This is inadequate given the financial management weaknesses found at SRs. The Global Fund Secretariat should require the LFA in Peru to extend the scope of its financial reviews to cover more SRs.

58. Annual external audits of the grants do not cover all SRs (which would potentially have compensated for the incomplete coverage through on-site financial reviews). While the external audit reports seen do not identify any material deficiencies, the OIG noted that during the 2011 external audit, on-site audits were done for six out of eleven sub-recipients as agreed with the Global Fund Secretariat.

59. There is a need to improve financial oversight over SRs through annual external audits.

Risk 12: Exchange rate losses in the Round 8 tuberculosis program of Parsalud

60. Parsalud has faced several challenges in implementing the Round 8 tuberculosis grant. Among them are:

a) Coordinating with other institutions such as the ESN-PCT and the INS to agree on technical specifications for procurement;
b) Delays in signing agreements with beneficiary institutions such as hospitals;
c) Applying the new procurement law;
d) Complying with national budget guidelines in order to commit funds.

61. This situation affected budget execution (28 percent spent and 33 percent committed as of November 2011) and led to an excess of cash held in Euro in a non-interest bearing account with an average bank balance of EUR 3.4 million from May 2011 through September 2011. Since the inception of the grant program the Euro has depreciated by 13 percent against the local currency, the Peruvian New Sol (PEN).

62. Keeping such large amounts of grant funds in Euro led to significant exchange rate losses, which has reduced the amount of grant funds available to implement the Round 8 tuberculosis program. This may result in the under-achievement of program objectives. There is a need for the PR to share with the Secretariat information on how it manages and mitigates foreign exchange risk regarding Global Fund grants.

Annex 1: Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
ART	Antiretroviral therapy
ARV	Antiretroviral
CCM	Country Coordinating Mechanism
CERIT	Reference Center for the treatment of STIs
CONAMUSA	(see CCM)
DARES	Directorate for the supply of health program resources (MINSA)
DIGEMID	General directorate of drugs and medical supplies (MINSA)
DIRESA	Regional health authority
ESN-ITS/VIH	National STI and HIV Program (of MINSA)
ESN-PCT	National Tuberculosis Program (of MINSA)
EUR	Euro
GLC	Green Light Committee (of WHO)
GMP	Good Manufacturing Practices
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
INPPARES	National NGO with main focus on reproductive health
INS	National Institute of Health (National reference laboratory for HIV and tuberculosis)
ISO	International Standards Organization
ITS	(see STI)
LFA	Local Fund Agent
M&E	Monitoring and Evaluation
MARP	Most at risk population (for HIV infection)
MDR	Multi-drug resistant (tuberculosis)
MINSA	Ministry of Health
MSM	Men who have sex with men
NGO	Non-Governmental Organization
OGEI	Office for Statistics and Information (MINSA)
OIG	Office of the Inspector General (of the Global Fund)
OPS	(see PAHO)
OSCE	Organization for the control of public procurement (Government of Peru)
OSDV	On-Site Data Verification
PAHO	Pan American Health Association
PAL	Practical Approach to Lug Health
PEM	National Multi-Sector Strategic Plan (for HIV)
PEN	Peruvian Nuevo Sol
PEP	Peer educator (for female sex workers, men who have sex with men, and for the transgender population)
PERM	Regional Multi-Sector Strategic Plan (for HIV)

PO	Purchase order
PPR	Results-based budget allocation (by MINSA)
PR	Principal Recipient
PSM	Procurement and supply management
SIME	M&E Information System (Pathfinder Peru)
STI	Sexually transmitted infection
TB	Tuberculosis
UAMP	Clinic for periodic health check of male and female sex workers
UNGASS	United Nations General Assembly Special Session (on AIDS)
USD	United States Dollar
WHO	World Health Organization
XDR	Extensively drug-resistant (tuberculosis)

Annex 2: Recommendations and Action Plan

Audit recommendations have been prioritized so as to assist management in deciding on the order in which recommendations should be implemented. The implementation of all audit recommendations is essential in mitigating risk and strengthening the internal control environment in which the programs operate. The categorization of recommendations is as follows:

- Critical: There is a material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization interests, erode internal controls, or jeopardize the achievement of aims and objectives. It requires immediate attention by senior management.
- Important: There is a control weakness or noncompliance within the system, which presents a significant risk. Management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal controls, or undermine achievement of aims and objectives.

Risk	Recommendation	Action	Responsible partner	Expected completion date
HIV				
1. The regional and national strategic planning processes for HIV are out of phase, which gives rise to the risk that (a) Regional Strategic Plans developed with Global Fund support may not be based on the most	**Recommendation 1 (Important)** In the remaining program period of the Round 6 grant, INPPARES should refocus its efforts and remaining resources on supporting the evaluation of the National Strategic Plan for HIV (PEM 2007-2011) and the development of a new PEM. To	Drafting of the Multi-Sectoral Strategic Plan for the Prevention and Control of STIs and HIV 2012–2016.	Ministry of Health – National Health Strategy for the Prevention and Control of STIs and HIV (MINSA- ESN ITS/VIH)	September 2012

up-to-date evidence, and (b) that the regional strategic plans may be a constraint rather than a constructive contribution to the development of a new national HIV strategy.	the extent that this may require short-term reprogramming of resources from regional to central level, this shift should be supported by the Global Fund Secretariat with minimal administrative delay.	The analysis and lessons learned from the implementation of the Multi-Sectoral Strategic Plan 2007-2011 for the Prevention and Control of STIs and HIV/AIDS in Peru can be used.	MINSA- ESN ITS/VIH	May 2012
		CARE Peru sent the reformulated operational plan in regards to Objective 4, Round 6, where a greater emphasis is placed on drafting a new MSP, to the Fund Portfolio Manager (FPM) on March 23rd. It will be implemented once it has been approved by the Global Fund. The proposal has been approved by CONAMUSA's assembly.	PR CARE Peru	GF's approval expected in April 2012
2. The procurement of lubricants for male and female sex workers and for men who have sex with men under the R6 HIV grant was not based on any national policies or directives, and distribution to health facilities is therefore very slow. There is a risk that (a) large quantities of lubricants will expire before they are distributed, and (b) the activity will not be sustained when current stock is exhausted.	**Recommendation 2 (Important)** CARE, in collaboration with DARES and the ESN-ITS/VIH should develop a rapid distribution plan for the remaining stock of lubricants on the basis of the number of sex worker clients reported monthly by each DIRESA. It should develop guidelines for the number of sachets to be provided to each client. It should then proceed with distribution. In order to move stock close to expiration, distribution should include community organizations of men who have sex with men in line with the Round 10 grant.	Condoms and lubricants distribution plan for each macro-region coordinated by CARE Peru, the ESN ITS/VIH, macro-regional SRs and CONAMUSA.	MINSA- ESN ITS/VIH	Distribution in 2012 in coordination with DIRESAs and SRs
		Inclusion of distribution of lubricants to those more vulnerable to STIs/HIV in the Health Directive on regular healthcare for sexual workers and MSM (RM 650-2009/MINSA).	MINSA- ESN ITS/VIH	September 2012
		In March, the DARES and MINSA provided CARE Peru with the list for the distribution of all the lubricants in the country regions. CARE Peru is moving the lubricants from its warehouses to the regional warehouses; the process should finish by April 2012.	PR CARE Peru	April 2012

Risk	Recommendation	Action	Responsible partner	Expected completion date
3. The "indicator measurement study" commissioned by CARE Peru to cover all the indicators of the final progress update report (PUDR) of the Round 5 HIV grant and of update number 12 of the Round 6 grant was an investment that did not provide value for money. Indicator data for PUDRs should be available from routine monitoring systems and only in a few instances require collection through special studies. Furthermore, for some indicators, the study used different definitions from those used in the baseline, thereby generating reports that do not allow the assessment of progress	**Recommendation 3 (Important)** For the remaining two progress update reports of the Round 6 HIV grant, CARE should, to the greatest extent possible, collect indicator data through routine monitoring and reporting mechanisms. Studies should only be commissioned for generating data on specific impact or outcome indicators that are not routinely monitored or for which there is no information available through existing surveys. The indicator definition should not change during the time of program implementation. If necessary, baseline data should be recalculated to be comparable to data in progress update reports.	Update of the MINSA HIS-MIS system, which includes monitoring and assessment of indicators for HIV. Implementation of the "financed plan" to support the updating of the HIS-MIS system in relation to HIV.	Statistics and Information Technology General Office (OGEI), MINSA	May-December 2012
		a. For both progress reports in Round 6, CARE Peru will continue to perform the tasks related to data collection, quality control and analysis established in the M&E Plan and the Manual of Processes and Procedures of the M&E System of the GFPMU as strictly as possible and fully respecting the performance framework approved by the GF. b. A Final Evaluation Study, as established in the framework of LP 003-2010, will be carried out in connection with impact and outcome indicators that are not related to regular program activities. Particular attention will be given to the review of the work plan to guarantee the comparability of the measurements. To this end, CARE Peru, in collaboration with ESN-ITS/VIH, CONAMUSA, ESN SSR (sexual and reproductive health), the General Epidemiology Directorate (Dirección General de Epidemiología, DGE), and the National Health Institute (Instituto Nacional de Salud, INS), is working on an approach that addresses the recommendation.	PR CARE Peru CONAMUSA ESN-ITS/VIH ESN SSR DGE INS	a. May and November 2012 b. September 2012 c. May 2012

		c. On the other hand, following a request from the FPM, the same partners are reviewing the information available, and will ask the Global Fund to adjust the performance framework where necessary.		
Tuberculosis				
4. With the change in leadership in MINSA and the ESN-PCT, strategic gaps have developed between the Global Fund Round 8 program implemented by Parsalud and the national strategy. Unless these gaps are closed early in the implementation of the Phase 2 grant agreement, there is a risk to the sustainability of program activities and program results in the long term.	**Recommendation 4 (Critical)** In the negotiation of the Phase 2 agreements of the Round 8 grants, CONAMUSA, Parsalud, Pathfinder International and the Global Fund Secretariat should assure the full participation of the ESN-PCT. Wherever strategic gaps are noted, planned activities to be supported in Phase 2 should be re-aligned with national priorities to the greatest extent possible.	The Phase 2 Plan of Action, Round 8 TB component has been jointly drafted by the ESN-PCT, and the PRs Pathfinder, PARSALUD and CONAMUSA. There are fortnightly meetings to follow up on the implementation of the Round 8 TB program to align its activities with national needs and policies.	MINSA, ESN TB; PRs Pathfinder, and PARSALUD ; CONAMUSA	From December 2011 onwards
5. The indicators of performance of tuberculosis control in Peru are deteriorating and proven public health standards for effective tuberculosis control are not implemented.	**Recommendation 5 (Critical)** To the extent possible, the Phase 2 grant should be reprogrammed to allow for greater financial and technical support to strengthen the ESN-PCT. This could	The Phase 2 Plan of Action in Round 8 has been aligned with the Operational Plan and decisions of the ESN-TB. A fortnightly calendar has been established for Phase 2 to coordinate meetings between the ESN-PCT, the PRs and the SRs with a view to speeding up the decision-making process and adjusting the activities to the priorities of the ESN-PCT, and resources available and the program's performance framework in Round 8.	MINSA ESN TB – PR Pathfinder and PARSALUD	Ongoing

Risk	Recommendation	Action	Responsible partner	Expected completion date
The risks are that tuberculosis in Peru will continue to spread at a high rate, and that any positive impact of the Global Fund support will be impossible to document.	include, for example, greater supervision, better implementation of core principles of tuberculosis control, and support for the revision of the national tuberculosis diagnosis and treatment guidelines.			
		The ESN will conduct visits to monitor the implementation of the TB Prevention and Control Regional Plans (PPR TB) during the whole year as well as half-yearly assessment meetings	MINSA ESN TB	April-December 2012 (and onwards)
		Technical assistance to MINSA for the review of ESN TB's main actions; the review will be carried out at national level with the participation of national specialized institutions and experts.	RP PARSALUD - MINSA ESN TB - CONAMUSA	May-October 2012
6. The strategy for the control of MDR and XDR tuberculosis in Peru is not effective, resulting in the risk that Global Fund resources for patient support under this strategy are not contributing to halting the spread of these infections.	**Recommendation 6 (Critical)**. The ESN-PCT should seek assistance from the GLC to review and revise the national approach to the control of MDR and XDR tuberculosis control. The option of greater use of hospitalized treatment during the infectious phase of the disease should be considered for patients who constitute a public health risk in ambulatory care. The Global Fund should support the review, and maintain the flexibility to shift resources into the implementation of a new strategy once it is developed throughout Phase 2 of the Round 8 grant.	Request a Green Light Committee (GLC) visit Adjustment in the future of grant resources in Round 8 to the results of the review and the GLC visit.	MINSA ESN TB - PARSALUD	Second semester 2012

Risk	Recommendation	Action	Responsible partner	Expected completion date
7. The development and expansion of a PAL program is not included in the National Strategic Plan for Tuberculosis 2010-2019. It is questionable whether the support for this activity under the Round 8 Global Fund grant will generate a sustained impact. This risks the investment of Global Fund resources in activities that are not a priority in the current context of tuberculosis control in Peru.	**Recommendation 7 (Important)** In the negotiation of the Phase 2 agreement of the Round 8 grant, the CCM and the Global Fund Secretariat, in consultation with Parsalud and the ESN-PCT, should scale down the investment in the PAL program to a manageable pilot project that can be monitored, evaluated and documented to generate sufficient evidence on which MINSA can decide on the introduction of PAL in the National Tuberculosis Strategy at a future date.	The implementation of an ICTRD/PAL pilot project was included in the country proposal for Round 8 (component TB). This was in line with Component 3 of the Stop TB Strategy, and the Multi-Sectoral Strategic Plan of the National Response to TB in Peru 2010–2019 (PEM TB)", Objective 1.3 "Preventing, diagnosing and treating concomitant medical conditions: Co-morbidities and adverse reactions affecting the patient's health." In the first phase, medical supplies and equipment were provided to 150 healthcare centers; drugs were provided to 13 hospitals in Lima and Callao, and healthcare staff were trained on how to handle cases. The "Guide for the implementation of the Integral Care for Tuberculosis and Respiratory Diseases (ICTRD)/Practical Approach to Lung health (PAL)" and the "Directive on the system for referral and counter-referral in integral care for tuberculosis and respiratory diseases (ICTRD/PAL)" were drafted and approved; all these initiatives had the support and endorsement of the national coordination team of the ESN PCT. These regulatory documents have already been approved by the ESN PCT and will be submitted to the General Directorate for Health (DGSP) of the MINSA to request the approval from the Ministry. The proposal for extension of Phase 2 sent to the GF FPM on 15 October 2011 contemplated the strengthening of the pilot project in the next three years and purchasing drugs for 137 primary	ESN TB - PARSALUD Inclusion of ICTRD/PAL program in the rules and directives of the ESN TB MINSA	November 2012

		healthcare centers (which did not benefited from Phase 1). This proposal was rejected by the Review Panel. This eliminated the purchase of drugs and limited the ICTRD/PAL pilot project to the third year (2012). A ICTRD/PAL transfer plan has been drafted to ensure the sustainability of the ICTRD/PAL and its official inclusion in the national and regional strategies processes. This document was submitted to the ESN PCT and the PAHO representatives on 9th April and was forwarded to the GF on 15th April.		
		The MINSA-ESN PCT will include the PAL program interventions in the new technical standard regarding tuberculosis care services.	MINSA ESN TB	November 2012 (it will be aligned with the other recommend ations in the review of the TB strategy)
		Strengthening the transfer of PAL interventions from the PR PARSALUD to the TB Regional Health Strategy (Budget by Results for TB)	MINSA ESN TB - PARSALUD	During 2012
8. The Grant Performance Framework for Phase 1 of the Round 8 grant administered by Pathfinder International has multiple weaknesses including certain	**Recommendation 8 (Important)** In the negotiation of the Phase 2 agreement with Pathfinder International, the Performance Framework should be reviewed	The PRs Pathfinder and PARSALUD have modified the performance framework indicators according to the instructions given by the GF's FPM and the conditions included in the Phase 2 funding agreement.	Pathfinder and PARSALUD	March 2012

quantitative indicators, indicators that are costly to collect without generating useful information, indicators that could potentially measure quality but with targets that are set too low, and a reporting period that is out of phase with national reporting. This risks that resources are spent on measuring activities of little impact.	and revised to: • Remove single-digit indicators that measure documents produced; • Reduce counting of "heads" and the associated controls to the necessary minimum; • Focus on the quality of training rather than on the size of attendance; • Remove proxy measures with little meaning; and • Align the reporting periods with the national program.	The PF was modified, eliminating one-digit indicators and avoiding "head counts". It was decided that qualitative indicators will be included in capacity-building sessions. For Phase 2, the reporting periods will be aligned with those of the national program.		

Risk	Recommendation	Action	Responsible partner	Expected completion date
Procurement and supply management				
9. The assignment of procurement decisions to staff members of Parsalud who also participate in drafting technical specifications, conducting market surveys and evaluating tenders, risks undermining the needed transparency.	**Recommendation 9 (Important)** During a procurement process, Parsalud should make an effort to assign responsibilities for drafting technical specifications and conducting market surveys to staff members who are not members of the special procurement committee. When this is not possible, management should document this in a memo which should be put in the procurement file.	PARSALUD deals with tendering and contracting processes according to current national regulations based on transparent procedures. It should be noted that the purchases made by PARSALUD comply with provisions established by national procurement regulations and strictly observe the principles governing public procurement, which are provided by section 4 of the Public Contracting Law. These procurement procedures are also included in the Operations and Functions Manual of the Round 8 project – PR PARSALUD, approved by the GF's FPM on 7 May 2010 (CP 1), and in the Procurement and Supply Management Plan (PSM Plan) approved for Phase 1 on 14 June 2010 (CP 3) and for Phase 2 on 13 March 2011. However, the recommendation cannot be applied due to the current structure of the team authorized by the Global Fund. In fact, section 24 of the Public Procurement Law (legislative decree 1017) says "the Special Committee will consist of three (3) members: one (1) of them will be a user of the goods, services or work tendered, and another will work in the agency responsible for the organization's procurement. One of the members must have expertise in the area open for tender." Furthermore, section 27 states: "The body in charge of procurement in each entity will determine the reference value of procurement",	*PARSALUD*	

		and adds that "the reference value will be calculated on the basis of a research on the different prices and conditions offered by the market." Further, section 27 of the Rules established in the Public Procurement Law (184-2008-EF) says that "the head of the entity or the person who has been designated for the task, will nominate in writing the members of the Special Committee, indicating their full names and who will be the president, and making sure there is a correspondence between each titular member and his/her substitute." On the other hand, the administrative structure for PARSALUD authorized by the Global Fund only includes two people: a Procurement Expert and a Procurement Assistant. This means that the body in charge of procurement in the entity consists of these two people. Besides, taking into account that each member must have a substitute, both people participate as members in all Special Committees in the project, alternating as titular or substitute member as required. On the other hand, the body in charge of procurement in the entity is also in charge of conducting market research; therefore, whoever carries out the market research will, in any case, be a member of the Special Committee. Doing something else would mean violating the rule. The same applies to experts hired for the project. Each expert has his/her specialty so, in accordance with procurement needs, experts are the only ones who are able to draft technical specifications in procurement related to that specialty. However, on the other hand, we have to respect the rule that one of the Special Committee		

		members must have expertise in the area open for tender, which makes it inevitable and obligatory for the expert to be part of the Committee. Furthermore, it must be noted that in order to ensure transparent processes: (i) The information on all processes and their timelines are provided to CONAMUSA for its information and participation if required, (ii) Technical representatives of the ESN PCT or the INS also participate in most evaluation processes, (iii) In processes related to selective direct award, direct public award, public procurement and public tendering there is a public opening of envelopes in the presence of a Notary complying with national legislation. If despite this explanation the Global Fund considers it is necessary to implement its recommendations there would be different ways of doing it: 1. Authorizing to triple the number of experts in the project team. 2. Authorizing the hiring of two additional administrative staff so that they share and carry out market research. This way, existing staff would be part of the Special Committee as titular and substitute members. 3. Modifying the funding agreement so that project procurement follows an international rule that matches the recommendation, and restructuring the project team according to the number of people needed to comply with said rule. In conclusion, in view of national regulations and the staff structure currently authorized by the Global Fund, the OIG's recommendation CANNOT BE APPLIED.		

Financial Management and Control				
10. CARE makes periodic cash transfers in lump-sums from grant-specific bank accounts to its organizational bank account to pay for overhead, staff salaries and supplier invoices. The amounts transferred are not supported or justified by grant program-related invoices on hand. Cash transfers made by CARE from grant bank accounts to its institutional bank accounts significantly exceeded the amount needed to pay for grant-related expenditure. This practice creates the risk that grant funds are used for activities not authorized by the grant agreement.	**Recommendation 10 (Important)** CARE should only transfer funds from grant-specific bank accounts that are needed to pay the total amount of supplier invoices on hand and to meet program payroll and overhead. Grant funds transferred to its institutional bank accounts should be reconciled and verified by the LFA. The Secretariat should establish that this practice has ceased. The Secretariat should establish through an independent financial verification, performed by the LFA or a reputable financial firm, the extent of these practices and any funds used inappropriately should be refunded to the program or the Global Fund. The verification report should be shared with the OIG.	CARE Peru identified these risks and carried out monthly financial reconciliations from March 2007 in order to reimburse excess fund transfers from the grant accounts as well as those expenses covered by the PR's own resources so that none of the parties risks using the funds inappropriately. It is worth noting that previously these reconciliations were only made in the last month of the donor's implementation year. These reconciliations are part of the documentation given to the LFA and the auditors for their review and validation. Special emphasis will be placed on the review of these reconciliations by the LFA and the terms of reference for the next external audits, requesting a specific report on this matter.	PR CARE Peru	Ongoing until closure of Round 6 Program

Risk	Recommendation	Action	Responsible partner	Expected completion date
11. Financial review of sub-recipients is done off-site through desk reviews of photocopies of supporting documentation sent by sub-recipients to CARE's office in Lima. On-site financial reviews are not conducted on a regular basis. This leads to a risk of delays in the detection of any financial irregularities at the SRs.	**Recommendation 11 (Important)** CARE should strengthen its financial monitoring of sub-recipients by conducting on-site financial reviews of each SR at least once a year. The timing and scope of the reviews should be determined through a risk assessment derived from the routine desk reviews performed. These on-site financial reviews should complement the SR audit visits of the external auditors. The Global Fund Secretariat should require the LFA to extend the scope of its reviews to include more SRs.	When this report was issued, CARE Peru had already implemented the recommendation. During the audits of the fourth year of Round 6 Program, external auditors visited the following SRs: 1. Vía Libre, INPPARES (objetive 4), Cedro, Flora Tristán in Lima 2. Selva Amazónica and ADAR in Iquitos Additionally, CARE Peru conducted in March programmatic and financial monitoring visits in Chiclayo to the SR IDIPS in relation to its two objectives and to the SR INPPARES (objective 1). Thus, CARE Peru has visited to date 9 out of 11 SRs in Round 6. In the next months, CARE Peru will visit the remaining SRs to follow up on the implementation of recommendations by the SRs. CARE Peru will include in the contract with the SRs a mandatory site visit at least once per year.	PR CARE Peru	Ongoing until the end of contracts with SRs, until September 2012
12. With the Euro depreciating against the Peruvian Sol, keeping large amounts of grant funds in Euro could lead to significant exchange rate losses. This leads to the risk that the amount of grant funds available for implementation is reduced.	**Recommendation 12 (Important)** To facilitate timely implementation of grant activities, the PR should improve coordination and planning with its implementing partners in order to mitigate the risk of holding large cash balances that could depreciate over time.	The Program Operations Manual for PARSALUD establishes a procedure for foreign currency exchange. This also applies to all resources of multilateral origin such as the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD), as well as resources coming from donations and transfers (the Global Fund). This procedure establishes that monetization should take place when payments need to be made to providers in the local currency. This Program Operations Manual was sent to the FPM on 12 November 2010 as part of the CP 1.	We suggest that the Global Fund develops this point	

		The procedure was established by the banks financing PARSALUD and, initially, it was meant to mitigate the exchange risk when the local currency depreciates against the foreign currency, which is what had happened historically. However, the contrary has been happening for some time, which is what we are dealing with. It is worth noting that when the Greek crisis started, which is what began the depreciation of the euro, PARSALUD exchanged all the funds in the euro account, thus avoiding a bigger loss; however, this was an exceptional situation. On the other hand, the adoption of particular unilateral decision-making measures by PARSALUD could be interpreted as speculation and result in negative comments or sanctions. Therefore, we consider that, for greater transparency and objectivity purposes, procedures to mitigate exchange risks should be clearly established by the Global Fund in its policies, guidelines or in the agreements, which prevail over national rules. This way, PRs would have a consistent tool and the reviews by monitoring and control bodies would be easier. In view of the explanation above, the OIG's recommendation could be implemented as long as the Global Fund defines the procedures to manage and mitigate the foreign exchange risk in relations to the grant funds.		