



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the Republic of Mozambique

Report

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28 August 2012

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EXECUTIVE SUMMARY

Introduction

1. As part of its 2011 work plan, the OIG carried out an audit of Global Fund grants to Mozambique from November 2011 to March 2012. The OIG sought to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations.

2. The audit of the Ministry of Health covered three years: 2008, 2009 and 2010. From 2004 and 2008 the Global Fund disbursed USD 135.8m into a Common Fund for Health to support the health sector, known as PROSAUDE. From December 2009 through the end of 2010, the Global Fund disbursed USD 83.6m, through the Voluntary Pooled Procurement (VPP), for delivery of health products.

3. This report presents 22 “critical” and 12 “important” recommendations. Twenty-two other recommendations are contained in management letters (Annexes 5, 6 and 7) which address less significant control weaknesses or areas of noncompliance.

Grant Oversight

4. The root cause of many of the shortcomings in financial program and supply chain management identified by the OIG audit is the weak capacity of the Ministry of Health. Since 2011, the Global Fund Secretariat has had improved and continuous engagement with PROSAUDE and other in-country partners in Mozambique. The OIG encourages the CCM and development partners to support the Ministry of Health by coordinating capacity building initiatives. In 2012, the Global Fund Secretariat, health partners and the Ministry of Health management have jointly developed action plans to address system weaknesses in Public Finance Management and Procurement and Supply Chain Management.

5. The OIG observed several areas of good practice in relation to the functioning of the CCM. In particular, the CCM has set up a functional committee on grant oversight and undertakes detailed annual planning; the CCM Secretariat is hosted independently of the implementers. The CCM has committed to strengthen oversight by regularly reviewing progress reports from the Principal Recipients and by undertaking site visits itself.

Public Health Response

6. The programs for the three diseases are integrated in the national health program as outlined in the Mozambique national health strategy (PESS). However, the quality of service delivery is impacted by the insufficient number of qualified human resources.

Key actions agreed upon in response to the OIG audit

7. In responding to the risks identified by the OIG, the stakeholders have committed to:
- Improving the quality of service delivery by following up of treatment defaulters for MDR-TB and HIV, and addressing lapses in infection control. The Ministry of Health has undertaken to improve the ART case retention; strengthen prevention of mother-to-child transmission initiatives; scale up coverage of laboratory services; and increase prevention activities.

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- Ensuring that procurement is in line with good practice by reorganizing the units responsible and recruiting appropriately qualified personnel.
- Ensuring that reliable information for decision-making and reporting are available by improving the quality of consumption data used for quantification and distribution of pharmaceuticals (especially ARVs and ACTs) and health supplies (laboratory supplies and test kits). PSM working groups have been given the mandate to monitor the quality of forecasts.
- Ensuring that drugs are delivered to intended recipients. In particular, the PR will implement a new logistics management information system; improve inventory management practices at warehouses; and implement new standard operating procedures for management of medicines at all levels.
- Ensuring good financial management. Specifically, the PR will ensure timely reconciliation of all bank accounts; preparation of monthly financial statements; implementation of an automated payroll that is integrated in the core financial software (e-SISTAFE); implement policies to enforce timely settlement of advances; and regularly follow up on audit recommendations.

Prioritization of audit recommendations

8. To address the weak areas identified, the recommendations in this report have been prioritized as:

- **Critical**: 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, significantly erode internal control, or jeopardize achievement of aims and objectives. It requires immediate attention by senior management.
- **Important**: There is a control weakness or non-compliance within the system, which presents a significant risk and 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 control, or undermine achievement of aims and objectives.

9. This report includes tables (Annex 3) that identify a total amount of USD 3,318,395 that was not adequately supported. The OIG recommends that the funds are repaid by the PR into the PROSAUDE fund. The PROSAUDE Partners are in agreement with the OIG's recommendation and have started to engage with the Ministry of Finance on the technical aspects of the repayment.

10. Some issues that call for further investigation are being pursued by the Inspector General of Finance in collaboration with the OIG.

Overall conclusion

11. At the time of the OIG audit, the OIG was unable to provide reasonable assurance that adequate controls were in place to manage the key risks impacting the Global Fund-supported programs. However, the OIG recognizes the recent efforts of the Global Fund Secretariat, the Ministry of Health in Mozambique and health partners to develop and closely monitor plans of action for improving the control environment.

MESSAGE FROM THE GENERAL MANAGER OF THE GLOBAL FUND



10 YEARS
OF IMPACT

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22 August, 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 audit of Global Fund grants to the Republic of Mozambique.

As of the end of 2011, the Global Fund had disbursed USD 235 million to Mozambique. The audit of the Ministry of Health was carried out between November 2011 and March 2012, and covered the years 2008, 2009 and 2010, in which the Global Fund disbursed USD 140 million. The report presented 22 critical and 12 important recommendations.

The audit found scope for improvement in the quality of service delivery, procurement and supply chain management, data collection and analysis, and financial management. Among the recommendations presented by the report and to address the issues raised, stakeholders in country need to work on improving the anti-retroviral case retention, strengthening Prevention of Mother-to-Child Transmission initiatives, scaling up of laboratory services, and increasing prevention activities. The report also recommends ensuring that procurement activities are in line with good practice; improving the quality of data; ensuring that drugs are delivered to intended recipients by implementing a new logistics management information system; and ensuring good financial management by providing timely financial reporting.

The root cause of the identified problems was the weak capacity in the Ministry of Health, which, together with partners, is already working on addressing the issues through current working plans.

The report includes tables, in the Annexes, that identify a total amount of USD 3,318,395 that the OIG recommends should be repaid into the PROSAUDE fund, the common fund to which the Global Fund contributed approximately 33% during the audited period. It is our understanding that PROSAUDE Partners support this recommendation and we have jointly started to engage with the Ministry of Finance on the technical aspects and timing of the repayment.

The audit report observed several areas of good practice in relation to the functioning of the CCM. It also mentions areas of significant progress in the fight against the three diseases. The nation-wide malaria incidence rate per 1,000 inhabitants declined from 315 (2006) to 202 (2009), and nation-wide coverage of LLIN distribution among pregnant women was high (84.6% in 2010 and 86% in 2011). 88% of all TB cases were tested on HIV in 2009,

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against 68% in 2007. According to current HIV policies, 80% of eligible persons for ART should be on treatment by 2015. Currently, over 200,000 persons are on ART, which represents approximately one quarter to one third of all eligible persons.

Audit reports 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

A handwritten signature in dark ink, appearing to be 'J. - I.', is located below the text 'Yours sincerely'.

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM



Republic Of Mozambique Country Coordination Mechanism

**Mr John Parsons
Inspector General
The Global Fund to Fight AIDS, Tuberculosis and Malaria
Chemin de Blandonnet 8
1214 Vernier
Geneva
Switzerland**

Our Ref.2012/CCMES/016/2012
Maputo, 20th August 2012

Subject: Comments on the OIG audit report

Dear Mr Parsons,

On behalf of the Country Coordinating Mechanism of Mozambique, the Principal Recipients, the Ministry of Finance, the Health Partners Group and other relevant stakeholders, I wish to express our appreciation for the manner in which the audit was conducted and for allowing the participation of all relevant stakeholders and, above all, for basing your final recommendations on the results and plans of ongoing work led by the Ministry of Health and supported by a wide group of institutions and individuals. We appreciate as well the recommendations addressed to other Principal Recipients, which point to needed improvements to their systems.

The OIG audit report focuses not only on the resources provided by the Global Fund, but also on resources provided by members of the Health Common Fund - PROSAUDE, of which Global Fund resources constitute approximately one third.

The OIG audit report identifies weaknesses to be addressed. It also acknowledges the efforts and progress made by the audited institutions to address and overcome those weaknesses, in order to enable the development of an effective and strengthened health system in the foreseeable future.

As you are well aware, some of the initial findings of the OIG audit, especially those regarding the need for full and acceptable documentation of financial transactions, although dealt with great care and treated as strictly confidential, have caused unintended and

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serious delays in funds disbursements, with significant negative consequences in the well-functioning of, and service delivery by the Ministry of Health. The initial findings of the OIG audit caused great anxiety, which has only started to abate upon your submission of the final draft of the OIG audit report.

In this regard, we would like to recognize the hard and dedicated work and personal involvement of the Prime Minister, the Minister of Finance, the Minister of Health, the General Inspectors of the Ministries of Finance and Health, and representatives of the Health Partners Group, who worked in close consultation and cooperation with your own audit team.

We are proud to underline the openness, commitment and collaboration of auditors and auditees, enabling the process to become a learning opportunity towards improving the management of public finances and donor resources.

We are also committed to implement the Action Plan, as a pivotal contribution to a more effective and efficient health system under the stewardship of the Ministry of Health, and to better performing civil society Principal Recipients.

In this regard, work is already underway and significant progress has been made to implement key recommendations, including structural reforms at the Ministry of Health.

Yours sincerely,



Narciso Matos
CCM President

OVERVIEW

Audit Objectives

12. The objectives of this audit were to assess the adequacy and effectiveness of the controls in place to ensure:

- efficiency and effectiveness in the management and operations of the grants;
- soundness of existing systems, policies and procedures in safeguarding Global Fund resources;
- effectiveness of oversight mechanisms over the grants;
- compliance of grant recipients with the Global Fund grant agreements and related policies and procedures, and the related laws of the country;
- that steps are taken to identify risks that the grants are exposed to and adequate risk mitigating measures are in place; and
- recommendations to strengthen the management of the grant-supported programs based on the above stated objectives.

13. The audit reviewed the operations of the Principal Recipients (PRs), their interactions with their Sub-recipients (SRs) and implementing partners (IPs), the supply chain for the goods and services purchased with the Global Fund Grant funds, and the oversight functions of the Country Coordination Mechanism (CCM), the Local Fund Agent (LFA) and the Global Fund Secretariat.

Audit Scope

14. The audit of grant to Mozambique covered grant oversight arrangements, programmatic aspects, Procurement and Supply chain Management (PSM), and financial management systems. The programmatic review covered Monitoring and Evaluation (M&E) systems and quality of services for HIV, Malaria and TB. The review of quality of service delivery included visits to 3 provinces (Maputo, Sofala and Nampula), 6 districts, 6 hospitals and 6 health centers. The PSM review included visits to 2 central warehouses, 3 provincial warehouses, 3 district medical stores and 2 health center pharmacies.

15. The financial review covered the implementation environment at the Directorate of Finance (DAF) and 3 provincial health offices. The financial review covered all PROSAUDE central level expenditure for 2008, 2009 and 2010. Annex 2 shows the disbursements for the period of audit from Global Fund and the PROSAUDE partners.

16. To provide the context for the recommendations to address challenges faced by the Global Fund in implementing grants to Mozambique, the OIG reviewed implementation and oversight arrangements. The review of oversight arrangement covered the period from signature of the first grant in 2004 until 2007. Although outside the scope of the audit, this information is summarized under the section on oversight in order to provide context to the whole report.

Prioritization of Audit Recommendations

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

- Critical: 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, significantly erode internal control, or jeopardize achievement of aims and objectives. It requires immediate attention by senior management;
- Important: There is a control weakness or non-compliance within the system, which presents a significant risk and 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 control, or undermine achievement of aims and objectives;

Events Subsequent to Audit Field Work

18. The audit field work was completed on 30 March 2012. To enable the Country commence action on audit findings, the OIG shared audit recommendations with the auditees on 6 April 2012 and a draft report on 15 June 2012. The Ministry of Health was allowed a further three months more time obtain and provide the OIG with missing support documentation. Between 2 and 6 July 2012 the OIG reviewed the additional support documents provided by the Ministry of Health, and this report reflects the final outcome.

GRANT OVERSIGHT

Background

19. The Common Fund to Support the Health Sector, known as PROSAÚDE, is a partnership between the Ministry of Health in Mozambique and development partners involved in the health sector. The Common Fund is only a part of the whole SWAP arrangement in Mozambique which aims at all partners working in a harmonious and coordinated way, and aligning their reporting requirements to those of the Ministry of Health. The initial Memorandum of Understanding (MoU), covering four years, was signed on 12 November 2003. Its successor, PROSAUDE II commenced on 30 July 2008. The core principles of the PROSAUDE I MoU were:

- The funds to be deposited, managed and utilized in accordance with the State budget laws and regulations;
- The funds to be applied towards eligible expenses of the health sector in Mozambique;
- MISAU to allocate all available funds to the priorities of the health sector through the Annual Operational Plan; and
- Signatory partners to participate jointly with MISAU and other partners in the review of priorities and performance of the sector, taking consideration of the Ministry's planning, budgeting, and monitoring cycle.

20. Global Fund grants to Mozambique commenced in April 2004 with the signing of Round 2 grants with the Ministry of Health and the National AIDS Council (the Conselho Nacional de Combate ao HIV/Sida, CNCS).

21. The 2006 external auditor's report pointed to weaknesses in the internal control environment at the Ministry of Health (MISAU). In response, when approving the phase 2 HIV Round 2 grant in September 2008, the Global Fund Secretariat provided MISAU with a set of time bound conditions. The conditions required the PR to submit to the Global Fund: (i) a detailed budget and work plan for Phase 2; (ii) costed M&E Plans; (iii) a costed staff capacity building plan and (iv) a plan for management of sub recipients.

22. Due to a lack of predictability of funding, in September 2007 the PR asked the Global Fund to leave the Common Fund. PROSAUDE II started in August 2008 and the Global Fund did not sign onto the MoU. The Global Fund in 2008 requested the Ministry to set up a separate accounting system for grant monies, separate from PROSAUDE for both drug procurement and other grant expenditures. However although the Global Fund was not bound to the PROSAUDE, the grants continued to be managed and implemented under the same institutional arrangements. Subsequent to this i.e. in 2009, although it was not the Global Fund's initial intention, disbursements to the country were effected in kind through Voluntary Pooled Procurement (VPP).

23. In October 2008, the Global Fund disbursed USD 2.1 million from the TB Round 7 grant to the PR for procuring TB pharmaceutical products. The PR was not able to report on

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the use of these funds. Information reviewed by the LFA showed that the Round 7 TB funds were transferred in the PROSAUDE pool account.

24. In 2009 the Progress Update and Disbursement Requests (PUDRs) submitted by the Ministry of Health for LFA review were not of acceptable quality. The PUDRs lacked required information and contained erroneous calculations and mistakes. For example the PR was not able to report expenditure towards pharmaceutical health products and audit reports were not submitted within the timelines agreed in the grant agreement. Failure by the PR to submit PUDRs of acceptable quality and the unchanged implementation arrangements resulted in the Global Fund not disbursing funds directly to the Ministry of Health.

25. In 2010, the Directorate of Planning and Cooperation (DPC) in the Ministry of Health has established a Program Management Unit (PMU) for Global Fund-supported programs. This Unit has developed procedures to ensure accountability and reporting by disease and grant. The systems for Global Fund accountability and reporting have not been tested as no funds were disbursed directly to MISAU since 2008.

26. The external audit report for 2009 was only issued by KPMG in June 2011. Grant Thornton was contracted to validate the KPMG-issued report in order to address concerns about the quality of the audit report. Grant Thornton reported initiatives taken by MISAU to resolve non-reconciled balances and act on control weaknesses.

27. In April 2011, the Ministry of Health submitted two disbursement requests for the purchase of pharmaceutical products from the Round 9 HIV and Malaria grants. The PR was not able to provide sufficient information to support the needs (gap analysis) stated in the disbursement request. This was because of a lack of accurate drug consumption information for ARVs and Malaria drugs and test kits.

28. In 2011, the Ministry of Health informed the Global Fund and its other partners that there was a large quantity of expired drugs in a warehouse. Around the same time, the Global Fund became aware of bed nets on sale that were supposed to be distributed free of charge. As a result of this, the Global Fund Secretariat and United States Government funded a Supply & Logistics Internal Control Evaluation (SLICE) study to assess the supply chain controls in the distribution system. The study reported that controls were not adopted uniformly throughout the supply chain system and that inventory controls were weak (lack of documentation).

29. In March 2012, the Ministry of Health, Global Fund Secretariat and in-country partners developed action plans for strengthening the Public Financial Management and Procurement and Supply Chain Management systems. The stakeholders agreed to joint monitoring arrangements for these action plans.

The root causes for the implementation challenges

30. In July 2005, the Global Fund signed onto the PROSAUDE I MoU. At this time the Global Fund did not have a substantive policy to guide funding through common funding mechanisms.

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31. Although the Global Fund did not sign onto the PROSAUDE II MoU, the management and implementation of the Global Fund grants continued under the same MISAU institutional arrangements. The Ministry's implementation arrangements could not meet the specific reporting requirements of the Global Fund after 2008, as no separate systems had been put in place. Subsequently, in 2010, these arrangements were put in place through technical assistance from Grant Management Systems (GMS). However at the time of the audit, these arrangements had not been put to use or their effectiveness tested.

32. The Ministry of Health did not have sufficient capacity (especially financial management systems and human resources) to manage, account and report for grant funds. Several past reviews and audits of the Ministry of Health had reported a lack of capacity at the Directorate of Administration and Finance (DAF). Many of the weaknesses in financial management were reported as early as 2006 but had not been addressed by 2012 when the OIG audit took place. In the OIG's view, the root causes were: (i) insufficient monitoring of provincial and district levels of government to ensure timely and accurate reporting; (ii) insufficient mechanisms to monitor compliance to the Ministry's policies and procedures, and (iii) a failure to act on external reviewers' recommendations.

33. Although development partners have separately provided technical assistance to the Ministry of Health, this effort was not well coordinated and sustained long enough to secure the required impact. In the past, the Ministry of Health did not give technical assistance providers the necessary support. For example, Supply Chain Management System (SCMS) that was providing technical assistance to the Central Medical Stores (CMAM) only had limited access to government facilities.

34. Between 2008 and 2010, the Ministry of Health and in-country partners wrote to the Executive Director of the Global Fund to alert him to the lack of sufficient communication from the Global Fund Secretariat and a lack of guidance on the mechanisms for in-country stakeholders to meet funding requirements (to receive additional funds). Since 2011, the Global Fund Secretariat has had better and continuous engagement with PROSAUDE and other in-country partners in Mozambique. The OIG encourages the CCM and development partners to support the Ministry of Health in meeting Global Fund requirements by coordinating capacity building initiatives.

Global Fund Secretariat

Background

35. The Global Fund's Framework Document states that in making funding decisions, the Fund will favor proposals which build on, complement, and coordinate with existing regional and national programs in support of national policies, priorities and partnerships, including Poverty Reduction Strategies and sector-wide approaches.¹ In July 2005, the Global Fund signed on to the PROSAUDE I Memorandum of Understanding (MoU) as part of a harmonization initiative. Between 2004 and 2008 grant funds to Mozambique were disbursed into the PROSAUDE pooled funding arrangement and these funds were utilized to fund the national health strategy using national systems.

Capacity of the Principal Recipient

36. A capacity assessment of the Ministry of Health was not conducted prior to commencement of grant disbursements in 2004. Due diligence points to the need for such assessments, although they were not formally required until 2009.² In September 2004 the Global Fund commissioned the LFA to undertake a PSM desk review³ but no comprehensive assessment of the procurement and supply chain management systems was undertaken. This meant that the Secretariat had not undertaken an independent assessment of the PR's procurement and supply chain management (PSM) capacity prior to disbursing funds.

37. In October 2004, the Global Fund commissioned the LFA to conduct a financial review⁴ of PROSAUDE after the first disbursement. The LFA concluded that established policies and procedures put in place for program and financial management were not being followed and supervision and internal controls were not adequate to manage the program effectively. The LFA did not recommend further disbursements to PROSAUDE under the prevailing circumstances. The internal control weaknesses identified by the OIG in 2012 are similar to those reported by the LFA in 2004, i.e., the control environment had not changed substantially in 8 years.

38. In 2007, the LFA undertook a capacity assessment of the Ministry of Health and concluded that capacity gaps posed "minor risks" and that strengthening measures could be completed concurrently with implementation. After grant signature, the disbursements for the Round 6 grants did not proceed in accordance with the disbursement schedule in the grant agreement, as the PR was unable to provide the LFA with sufficient information to make a disbursement recommendation. In response, Ministry of Health set up a Program Management Unit (PMU) in 2010 to ensure that Global Fund resources would be used according to grant budgets and that reports could be submitted in a timely fashion.

39. The standard terms and conditions of the grant agreement require the PR to carry out external audits and to submit these to the Global Fund. Standard practice requires the PR to submit external audit reports to the Global Fund within six months after the financial year end. However the Ministry of Health did not submit audit reports for 2008, 2009 and 2010

¹ The framework document of the Global Fund, Principles -Section III , H-4.

² OPN-Principal Recipient Assessments 2009-article 13

³ Off-site assessment by LFA, 1-5 September 2004

⁴ Assessment of the 1st financial report of PROSAUDE – 14 October 2004

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within that timeframe. The 2009 report was submitted in June 2011. It had a qualified audit opinion and identified significant control weaknesses. In response to the lack of audits the Secretariat compiled recommendations from previous audits into a list of actions which were included as conditions precedent to the Round 8 (signed in November 2009) and Round 9 grants (signed in February 2011). Many of these control weaknesses were still evident at the time of the OIG audit in 2012.

40. From 2008 until the time of the OIG audit in 2012, the Ministry of Health was not able to provide the Global Fund with information on drug and commodity consumption; the basis of commodity forecasts; and the basis for calculating the number of Malaria and HIV patients on treatment for grant disbursement requests. In response to reports of expiry and loss of donor funded commodities, the Global Fund Secretariat and United States Government funded a Supply & Logistics Internal Control Evaluation (SLICE) study to assess the supply chain controls in the distribution system in 2011. The study reported that controls were not adopted uniformly throughout the supply chain system and that inventory controls were weak (lack of documentation).

41. The findings of the SLICE report and this OIG audit demonstrate significant supply chain weaknesses such as poor inventory control; a failure to reconcile stock balances; and reports of stock expiry. Although grant funds were disbursed only through VPP after 2009 (USD 87 million or 39% of the disbursements) for direct procurement of pharmaceutical health products, the weak supply chain system remains a major risk to Global Fund investments. Sufficient steps have not been taken to mitigate these supply chain risks.

42. In 2012, the Global Fund Secretariat, health partners and MISAU management co-developed Public Finance Management (PFM) and Procurement and Supply Chain Management (PSM) Action Plans to address system weaknesses. A joint process of periodic monitoring of progress against the agreed timelines for implementation of the action plans has been agreed between Global Fund, other Health Partners and the Ministry of Health. In view of the limited human resources capacity at the Ministry of Health, in the OIG's view, the Ministry may not be able to implement the required system strengthening actions within the short term without partner (external) support. Based on its audit, the OIG was not able to provide assurance over the effectiveness of controls in place to manage risks impacting the Global Fund supported programs.

Recommendation 1 (Critical)

The Global Fund Secretariat should support the Ministry of Health in developing a capacity building plan. The Global Fund should make disbursements which support the capacity building plan. A competent entity should be appointed to support the Ministry of Health to strengthen internal control systems for financial management, procurement and supply chain management and monitoring and evaluation.

This entity should report to the highest level of management at MISAU as well as the Health Partners Group. Capacity building activities should also include provincial and district levels.

Recommendation 2 (Critical)

The Global Fund Secretariat should review the scope of verification work undertaken by the LFA to ensure that verifications provide assurance that risks in Mozambique are being adequately addressed.

Compliance with Global Fund Policy

43. In November 2009, the Global Fund Secretariat approved a six-month extension to 30 June 2010 of the Phase 2 term of the Round 2 HIV, TB, and Malaria grants. The previous delays in grant disbursements were given as a rationale for this decision. USD 32,929,969.68 remained undisbursed from the grant, which was available for the no-cost extension period out of which USD 10,238,321.89 were disbursed on 21 and 22 December 2009, with a further USD 15,448,235 disbursed on 29 June 2010 (one day before the end of the grant extension period). The justification given by the Secretariat for the final disbursement was to cover a buffer stock of health products for the post-grant period and to avert a potential stock-out of medicines, reagents and other medical supplies, which the Secretariat had been alerted to by the Minister of Health. The Secretariat was not able to validate those assertions as the Principal Recipient did not provide details of the stock position for the Global Fund-funded commodities.

44. Global Fund policy⁵ provides for extensions of up to six months after the end of Phase 2 only if exceptional circumstances prevented the PR from using the full amount of grant funds during the Phase 2 term (or further implementation time is justified because of those exceptional circumstances). Exceptional circumstances are defined as being outside the reasonable control of the PR and CCM, such as natural disasters, sudden outbreak of disease, or outbreak of civil or political unrest. There is no evidence that those circumstances were present in Mozambique to justify the extension. The OIG recognizes that some delays in disbursements were due to delays in approval of disbursements by the Secretariat, which were to some extent beyond the control of the PR. However, one reason why the Secretariat had delayed disbursements was because of the PR's failure to meet certain requirements of the grant agreement, such as audit reports not submitted within the required timelines; and supporting documents not provided to the LFA for the purchase of pharmaceutical products.

45. In February 2010, the Minister of Health of Mozambique wrote to the Executive Director of the Global Fund stating his dissatisfaction with the Fund's failure to disburse against signed grants. The Minister reported imminent stock out of drugs if the Global Fund did not disburse funds. As noted above, the Secretariat was not able to validate those assertions.

46. The grant terms for the Round 6 HIV and Malaria grants ended on 30 June 2010. Six month extensions were granted on 28 September 2010 allowing the grant period to end on 31 December 2010. In October and November 2010, USD 60,723,015 was disbursed against these grants through VPP.

⁵ OPN Extensions of Phase 1 and Phase 2 terms

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47. Funds disbursed during the no-cost extension periods could not all be utilized during the grant term as required by the grant agreement.⁶ The OIG was not able to provide assurance that the funds disbursed after the normal grant term were properly justified in accordance with the Global Fund's core principle of performance-based funding.

Recommendation 3 (Critical)

The Global Fund Secretariat should confirm assertions provided by local stakeholders before disbursing funds for health products.

Local Fund Agent

LFA Management

48. As the Global Fund does not have offices in the countries where it grants funding, it relies on Local Fund Agents (LFA) to provide grant oversight services at the country level. The LFA provides the Global Fund Secretariat with information on PR capacity to manage implementation of grant activities; recommendations on grant disbursements and renewals; and information on issues or risks that might affect grant performance. In the case of Mozambique, grants had common implementation arrangements with other funders. In consequence, the standard guidelines provided by the Global Fund for on-going verification of grant performance by the LFA could not be directly applied. This was because the use of grant funds (for implementation) was not directly tied to grant budgets and work plans.

49. LFA guidelines require verification of programmatic data for one to three indicators at least once a year for every grant.⁷ As provided by the PROSAUDE MoU, the Health Partners Group and Ministry of Health conduct an annual joint review of the health sector, which includes visits to health facilities. Prior to 2011, the LFA did not undertake an independent verification of reported data. For the regular progress update reports, the LFA verified reported results against program reports of the Ministry of Health by desk review without validation of source information. In view of the weak Health Information System, data reported by the Ministry of Health could not be relied upon without independent verification by the LFA.

50. The LFA Manual provides that the performance of LFAs is evaluated on a regular basis⁸ through on-going evaluation of LFA deliverables; in-country evaluations of LFA teams; and mid-term review between months 18 and 24 of the LFA contract. The Global Fund Secretariat did not perform a performance evaluation for the Mozambique LFAs. An evaluation of the current LFA, Grant Thornton, is not yet due as the appointment commenced in October 2011.

The LFAs Involved

51. Deloitte Emerging Markets Group was Local Fund Agent (LFA) for Mozambique between 2004 and 2010. The Global Fund appointed Grant Thornton as interim LFA in December 2010 and then as substantive LFA in October 2011.

⁶ Standard conditions of grant agreement Article 4

⁷ LFA Manual – Guidelines for data verification site visits

⁸ LFA Manual – Evaluation of LFA performance

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Deloitte Emerging Markets Group

52. Global Fund policy⁹ recognizes the LFA as a crucial part of the Fund's system of oversight and risk management. The table below highlights the limitations faced by Deloitte in undertaking the role of LFA in Mozambique.

LFA Role¹⁰	Limitation in scope of LFA services
Assesses PR capacity during grant negotiation	At the commencement of grants in 2004, LFA did not perform a PR capacity assessment. Instead Deloitte was commissioned to review the compatibility of the Global Fund grant agreement with PROSAUDE MoU.
Undertakes verification activities during implementation. Verification activities include: review of financial and programmatic information included in progress update and disbursement requests (PUDRs) as well as Onsite Data Verification (OSDV)	The PR's reported financial information was not directly linked to the grant agreement budgets and work plans. Reported programmatic information could only be traced to PR management's own generated reports but without underlying documents. Annual health sector review by health partners and Ministry of Health were substituted for the OSDVs. The LFAs were sometimes invited to be part of the sector review teams.
Reviews the CCM's Request for Continued Funding, assesses grant performance and makes a funding recommendation to the Global Fund	The LFA would not have been in position to take a view on financial performance of specific grants since disbursements for all grants flowed into a common fund until end-2008.

53. As Global Fund policy and guidance in the LFA Manual did not anticipate the implementation arrangements in Mozambique, i.e., common implementation arrangements without the possibility of reporting against activities in the grant work plans, the standard services delivered by the LFA could not adequately fulfill its oversight role. The LFA deliverables did not address the specific risks that the grants in Mozambique were exposed to.

Recommendation 4 (Critical)

The Global Fund Secretariat should provide guidance for all LFAs on how to address particular risks related to implementation arrangements in which expenditures (and activities) may not be easily attributable to the source of funds. To the extent possible, the LFA should be required to verify the quantity and quality of activities for which grants proposals were approved.

Grant Thornton

54. The LFA is expected to put in place methodologies to measure the performance of its work as well as quality assurance systems to ensure that tasks undertaken and outputs

⁹ Operational policy note on Local Fund Agents

¹⁰ Role as provided in the LFA Manual

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delivered to the Global Fund are of an acceptable quality.¹¹ The OIG's review of the work undertaken by Grant Thornton at FDC and World Vision demonstrates that the LFA did not have a documented methodology for performance of work or a formal documentation/filing system. In the absence of a methodology and formal documentation, the LFA would not be able to assure quality and consistency of deliverables.

Recommendation 5 (Important)

Grant Thornton should implement a methodology that ensures adherence to good practice for non-audit assurance services. Work should be documented by using an electronic working paper filing tool.

Country Coordinating Mechanism

Background

55. Country Coordinating Mechanisms (CCMs) are central to the Global Fund's commitment to local ownership and participatory decision-making and oversight. The Global Fund has produced guidelines and requirements for CCMs regarding their role in Global Fund processes. The PROSAUDE focal donor represents the other partners on the Mozambique CCM. At the time of the audit, the CCM Secretariat was hosted by UNAIDS.

Good Practices

56. The following areas of good practice by the Mozambique CCM were noted:

- Functional committees have been set up for governance, oversight, and proposal development roles. These committees meet regularly;
- The oversight committee makes regular supervisory visits to PRs and committee members are involved in PR orientation workshops;
- A well elaborated annual plan is in place and each year a report of its achievements is prepared; and
- The CCM Secretariat is hosted by UNAIDS. This arrangement minimizes potential conflicts of interest that could arise from implementers hosting the Secretariat;

Challenges Faced by the CCM

57. Communication between the PRs and the Global Fund was also not always shared with the CCM. The OIG observed cases where the Global Fund Secretariat received and acted on communication from in-country partners without informing and therefore bypassing the CCM. As a consequence, the CCM did not always have comprehensive information to undertake its oversight role.

58. The CCM Secretariat has in the past not had sufficient funds to meet its mandate. As a result the Secretariat was not able to fill all the positions in its structure and undertake oversight activities.

Compliance with Global Fund Policies

¹¹ Operational Policy Note – Local Fund Agents (Article 13)

59. Mozambique CCM guidelines do not follow a transparent process for the nomination of PRs as required by the Global Fund. The CCM did not have clearly defined and objective criteria for PR selection.¹²

Recommendation 6 (Critical)

The Mozambique CCM should revise its guidelines to include a transparent process through which PRs are selected

Oversight of Grant Implementation

60. Global Fund guidelines state that oversight is the most important function of CCMs. Through CCM oversight, PRs are held accountable to all country stakeholders. CCMs are required to oversee the performance of PRs to ensure that they will achieve the agreed targets of the programs they are implementing. A failure by the CCM to take action to address implementation challenges resulted in Mozambique's not maximizing the benefit of the funds made available.

Recommendation 7 (Important)

PRs should present information on grant performance and implementation challenges to the CCM. PRs should be provided with timelines within which performance should be improved. If this does not materialize, they should be replaced by entities with sufficient capacity.

Relationship between Proposal and Grant

61. There is a disconnect between grant proposals and implementation arrangements. This partly explains the difficulties that the Global Fund Secretariat faced in negotiating and overseeing grants to Mozambique.

62. The approved Round 6 HIV proposal had five objectives with a total of thirteen activities. The performance framework had 24 indicators of which 17 were tied and 7 were not tied to the Global Fund grants. During grant negotiation, it became apparent that the proposed PR, the Ministry of Health, was not able to implement the proposed work plan or report on any of the tied indicators. The performance framework was therefore revised to retain only indicators not tied to the grants.

63. There were some interventions in the approved Round 6 HIV proposal for which evidence of implementation could not be reported:

- Creating a laboratory environment;
- Care and support for the chronically ill;
- Human resources related nutritional support and home based care;
- Prevention programs including behavior change communication, community outreach and condom distribution; and
- Human resources for strengthening the health system.

¹² CCM guidelines – Requirement 2

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64. In the circumstances, the CCM was not able to ensure that implementation remained aligned to commitments in the approved proposal and work plan. The CCM did not proactively seek solutions to the grant implementation challenges.

65. One of the key roles of the CCM is oversight of PR performance. PRs shared progress update reports with the CCM; however, these reports were not discussed at CCM meetings. Out of the six active grants one was rated B1, two had not yet been rated and three (with commitments of USD 85.2m) had not received any disbursements since signature.¹³ Key programmatic weaknesses affecting grant performance included:

- A failure to provide external audit reports within agreement timelines;
- Delays in submitting progress reports and requests for funding;
- A lack of reliable information on requirements and consumption of pharmaceutical health products, and
- A lack of reliable M&E data for the three diseases.

Recommendation 8 (Important)

The CCM should, through its oversight role, ensure implementation of program activities as approved in the proposal, work plan and budget. Measures to address PR capacity to manage and implement programs should be instituted.

Recommendations for Future Implementation

Global Fund Policy

66. Global Fund policy does not allow implementation arrangements in which disease-specific programs and expenditure cannot be delineated. The Secretariat needs to review current policy in light of the Mozambique experience.

67. The OIG observed significant fiduciary¹⁴ risks related to implementing grants through the public system in Mozambique. Due to limitations in capacity, the Ministry of Health may not be able to meet the strict requirements of the Global Fund in the short to medium term. If the Global Fund is to continue investing in Mozambique in the short to medium term, the Global Fund should acknowledge the significant risks and set expectations for acceptable risk-taking in light of the weak control environment.

Systems Strengthening

68. The need to strengthen systems for financial and programmatic reporting is a key finding of this report. In March 2012, the Ministry of Health, the Global Fund Secretariat and in-country partners developed action plans for strengthening the Public Financial Management and Procurement and Supply Chain Management (PSM) systems. The stakeholders agreed to joint monitoring arrangements for these action plans. Equal attention needs to be paid to Health Management Information Systems (HMIS).

¹³ B1 means that “grant performance is adequate”

¹⁴ A high risk that best value may not be obtained from Global Fund investments

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69. The Ministry of Health should provide sufficient human resources for the critical areas of program and financial management. Consideration should be given to appointing a competent Technical Assistant (TA) agency to support the Ministry of Health to implement the action plans. The agency should report to the highest level of management at MISAU as well as the health partners group. Capacity building activities should also include provincial and district levels.

Revitalizing the Round 8 Health Systems Strengthening Grant

70. No disbursement has been made against the Round 8 HSS grant (USD 11,823,414) that was signed in November 2009. The Round 8 grant was to pay for community health workers, laboratory equipment for HIV tests, Health Management Information Systems (HMIS), and rational drug use.

71. There is scope to reprogram the unutilized grants to fund system strengthening activities (contained in the action plans) since this will safeguard grant funds and speed up grant implementation in the future. Consideration should be given to seeking Board approval for an extension to the Round 8 HSS grant as well as the required reprogramming.

Making the PMU Operational

72. The function of the PMU will rely on linkages with the other directorates (such as Finance & Administration, Health Information Systems, and the disease programs) to function effectively. In order for the PMU to function as designed, the Ministry of Health should:

- i. Identify and appoint a senior officer of the Ministry to lead the PMU to ensure sufficient coordination and support from the other directorates in the Ministry;
- ii. Ensure that Global Fund grants are aligned to the government's planning and budgeting cycle. This would ensure that activities in the grant proposals are communicated to Provinces during the annual planning process. The financial reporting cycles should be aligned to those of government;
- iii. Ensure sufficient technical capacity (Financial Management, Procurement and Supply Chain and Monitoring Evaluation specialists) at the PMU to ensure submission of funding requests and reports in a timely manner; and
- iv. Have continuous engagement between the Global Fund Secretariat and senior management at the Ministry of Health to resolve any issues arising that would affect the flow of funds as well as grant implementation.

73. The Global Fund Secretariat should consider disbursing funds to the Ministry of Health using established systems within the PMU. The Secretariat should ensure that the LFA or an independent party reviews expenditure against those disbursements on a regular basis, e.g., every six months.

THE MINISTRY OF HEALTH/MINISTERIO DA SAUDE

Public Health Response

Scope

74. The programs for the three diseases are integrated in the national health program as outlined in the national health strategy (PESS). The OIG noted a disconnect between grant proposals and implementation arrangements in Mozambique. As part of the audit, OIG reviewed the quality of service delivery and monitoring and evaluation systems for the three diseases. In this section the OIG provides, by exception, findings that have a direct impact on the implementation of Global Fund grants.

Malaria Program

75. At the time of the audit there was no system to collect data and accurately report on the use of Rapid Diagnostic Tests (RDTs) and ACTs. There were frequent reports of RDT stock-outs.¹⁵ A continuous supply of RDTs is essential to ensure that malaria treatment guidelines are adhered to i.e. that treatment is only upon positive malaria test. The availability of reliable information on usage of RDTs and ACTs will allow for better forecasting of requirements and adherence to the national treatment guidelines.

Recommendation 9 (Critical)

The Ministry of Health (MISAU) should ensure that the national Health Management Information System (HMIS) system collects accurate information on:

- i. the notified number of confirmed malaria cases (with RDTs and/or microscopy);*
- ii. the utilization of RDTs (average monthly consumption, adjusted for season and stockouts); and*
- iii. the utilization of ACTs (average monthly consumption, adjusted for season and stockouts).*

76. Several surveys are planned in the period 2012-2016. However, no funding has been secured for them. The surveys include Malaria Indicator Survey (MIS), the Demographic Health Survey (DHS) and Health Facility Surveys (HFS). Survey data are needed to monitor impact/outcome indicators of the comprehensive National Strategy 2012-2016 for the Malaria Control Programme.

77. The Malaria Programme coordinates with the Laboratory Department, CMAM, HMIS and MCH Departments to develop M&E procedures for key indicators. At the time of the audit, systems for reporting on the following indicators were not fully developed and not yet in place:

- Use of RDTs (“no. of tests done and read...”);
- Proportion of laboratories involved in Quality Assurance;
- Proportion and number of districts reporting on (absence of) stock-outs of malaria drugs;

¹⁵ Stockouts of RDTs and ACTs have been mentioned by the national malaria program. This was also confirmed by malaria focal persons at the Provincial and District levels during the audit team visits to six districts.

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- Number of cases of uncomplicated or severe malaria treated “appropriately”;¹⁶
- Activities carried out by community health workers; and
- Malaria prophylaxis during pregnancy.

Recommendation 10 (Critical)

Ministry of Health should conduct a Malaria Incidence Survey and implement the HIMS to collect data on use of RDTs; Quality Assurance of laboratories; stock levels of malaria drugs and other commodities; treatment data; community level activities, and malaria prophylaxis for pregnant women.

Tuberculosis Program

78. The OIG findings on the analysis of reporting for TB case detection are similar to those of the data quality audit study commissioned by the Global Fund Secretariat. The key observations were that (i) the TB Program has developed standardized tools for data collection and reporting that were used at all levels; (ii) data collection tools provide sufficient details to comply with indicator requirements; and (iii) responsibilities for M&E and data management were clearly defined at provincial and district level (where applicable). However there were no guidelines for correcting errors in reported data. These were also the findings of the Annual Joint Evaluation of the health sector (ACA 10, 2011).¹⁷

Recommendation 11 (Critical)

To address errors in data reporting, the Ministry of Health should:

- Develop and implement clear data management procedures at provincial and national level;*
- Intensify supervisory visits to TB District Coordinators with particular emphasis on data accuracy at the District level; and*
- Develop a specific plan to strengthen the capabilities of TB District Coordinators in data analysis and interpretation.*

Human Resources Development

79. Mozambique is facing a severe crisis in available human resources for health. The Government has acknowledged this, and MISAU has established an ambitious strategic plan for Human Resources Development (2008-2015). However, notwithstanding appropriate national strategies to ‘delegate’ clinical HIV services to medium-level staff, the HIV/AIDS epidemic will continue to put a very heavy strain on the scarce workforce. At the same time, the coverage of eligible persons on ART is far from complete and needs to be increased substantially. From the financial review, the OIG established that Ministry of Health did not make specific investments towards the human resources development plan.

Recommendation 12 (Important)

The MISAU with the support of development partners should include human resources development activities in the annual health budget. The progress of human resources development activities should be monitored by the annual health sector review (ACAs).

¹⁶ Indicator difficult to measure unless “appropriately” is specified.

¹⁷ Relatório de Verificação de Dados no Terreno, Avaliação Conjunta Anual do Desempenho do Sector X, Ministério da Saúde de Moçambique e Parceiros de Cooperação de Saúde Moçambique, SWAP-Saúde Moçambique, Março 2011

Monitoring and Evaluation – HIV/AIDS

80. At the time of the audit, there was no approved national HIV M&E plan; however, development of this plan was in progress. From sites visited, the OIG noted several weaknesses in the current HIV information system. These weaknesses, which are well recognized by the Ministry of Health and the Global Fund Secretariat, include:

- For ‘number of patients on ART’, reported figures are the cumulative number of patients on ART including deaths and lost to follow-up; and
- For ‘number of HIV tests provided’, reported figures do not always include tests for all service areas within a facility.

81. At the time of the audit, the Ministry of Health did not have data to report on key PMTCT indicators. The HIV Round 9 grant performance framework includes the following PMTCT related indicators for which no data was available for review:

- Number of HIV-positive pregnant women who receive antiretroviral prophylaxis to reduce the risk of mother-to-child transmission; and
- Number of children (0-14) with advanced HIV infection currently receiving pediatric ARV.

82. A review of the HIV management information system reviewed that MISAU is also not able to report on the following indicators:

- Number of pregnant women who know their HIV status;
- Number of children born to HIV infected women receiving virological test for HIV within 8 weeks of birth; and
- Number of infants born to HIV infected women who are started on Cotrimoxazole within 18 months of birth.

83. In an effort to address the reporting weaknesses for the HIV program, in 2011 the Ministry of Health tested a number of new data collection and reporting instruments for ART, VCT and PMTCT. The OIG was not provided with a funded rolling out plan to guide its planned implementation. In the absence of an implementable and funded plan, there is a risk that the HIV management information system will not be functional within the envisaged time.

Recommendation 13 (Critical)

The Ministry of Health should accelerate the rollout of new data collection instruments for ART, PMTCT and VCT. Specifically MISAU should:

- Prepare a roll-out plan with a budget;*
- Obtain funding for the implementation of the HIV management information system; and*
- Include monitoring of implementation as part of the annual review process (ACA).*

Procurement and Supply Chain Management (PSM)

Background

84. The Central Medical Stores (Central de Medicamentos e Artigos Médicos, CMAM) is responsible for procurement and distribution of all pharmaceuticals and some medical supplies from the central level to the provincial level. CMAM is a department under the Directorate for Medical Assistance (the Direção Nacional de Assistência Médica, DNAM). Laboratory items are also stored in CMAM although managed by the Ministry of Health (MISAU). Other management actors in the procurement and supply chain for pharmaceutical health products include:

- Empresa de Importação e Exportação de Medicamentos (MEDIMOC), a government parastatal responsible for customs clearance and delivery to warehouse.
- Departamento Farmacêutico or Pharmaceutical Department is responsible for the regulatory, quality control and inspection functions for pharmaceuticals and related products.
- Laboratório Nacional da Qualidade de Medicamentos (LNCQM) or National Laboratory of Quality Control of Medicines under the Pharmaceutical Department is responsible for quality control of pharmaceuticals and other health products.
- Direção Provincial da Saúde (DPS) or Provincial Health Directorate is responsible for the drug stores at districts and health service delivery points within each province.
- A Project Management Unit (PMU) under the Direção de Planificação e Cooperação (DPC) or Directorate of Planning and Cooperation is responsible for facilitating the ordering and delivery of pharmaceuticals through the Voluntary Pooled Procurement (VPP) mechanism of the Global Fund.

Scope of PSM Review

85. The OIG's PSM review covered: two central warehouses in Zimpeto (Maputo) and Beira; Provincial warehouses in Matola (Maputo Province), Beira (Sofala Province) and Xai Xai (Gaza Province); District stores in Boane (Maputo Province), Dondo (Sofala Province), Bilene (Gaza Province); and Health centers in Mafambisse (Sofala Province) and Chisano (Gaza Province). In the absence of reliable data on volume of product consumption, Maputo, Sofala, and Gaza provinces were selected for review as they were recognized as having a high prevalence of HIV/AIDS, TB and Malaria.

Product Selection

86. The health products procured for HIV/AIDS, TB and Malaria (ARVs, anti-TB, anti-malaria and anti-opportunistic infection medicines) are in line with World Health Organization (WHO) recommended guidelines for the respective diseases. However, some of the medicines included in the May 2011 forecasting exercise are not part of the 2010 Essential Drugs List,¹⁸ particularly some drugs for malaria,¹⁹ pediatric ART and opportunistic infections.²⁰ The OIG also observed that the National Drug Formulary (Formulario Nacional de Medicamentos, 2007) needs to be updated with changes that have taken place since its publication.

¹⁸ Boletim da Republica, 3 Suplemento, Diploma Ministerial n.52/2010, 23 March 2010

¹⁹ Artesunate-amodiaquine combinations, artesunate suppositories

²⁰ Erythromycin 250mg (as stearate), Cefixime 400mg, Clotrimazole 500mg vaginal tablet (+ applicator)

Recommendation 14 (Important)

The Pharmaceutical Department with the assistance of the Committee for Therapeutics and Pharmacy (CTTF) should revise the National Formulary and update the Essential Drugs List to align with national treatment guidelines.

Forecasting and Quantification

87. The first comprehensive forecasting exercise took place in May 2011 when seven groups were set up to determine requirements for ARVs, anti-malaria, anti-TB, laboratory inputs, essential drugs, vaccines, and medical devices. The forecasting groups comprised disease program staff and the stakeholders in medicines supply, i.e., CMAM, DNAM, the Pharmaceutical Department and health partners. The forecast quantities were then imported into PipeLine,²¹ CMAM's pharmaceutical supply planning tool. PipeLine is used to define order quantities and coordinate shipments among the different sources of funding and supplies, i.e., MISAU, Supply Chain Management System (SCMS), Global Fund, WHO, World Bank.

88. A quantification group was set up to define requirements from the Global Fund Round 9 HIV grant for MISAU. The group comprised PSM experts from various health partners and MISAU. Its continued status, role and function are not clear. The absence of technical oversight for PSM arrangements in Mozambique could partly explain the significant system weaknesses.

89. Interruptions in funding of the supply pipeline has posed constraints on supply planning and resulted in insufficient stocks of some items (e.g., ACTs) and in particular some pack sizes. When pack sizes run out, clinicians improvise with alternative treatments/doses. However, the reported consumption quantities cannot be easily compared with the quantities supplied; in consequence, subsequent forecasting is less accurate.

Recommendation 15 (Important)

- i) Forecasting groups should meet on a regular routine basis to maintain the momentum on forecasting activities and:*
 - o Monitor the supply plan and consumption vs. forecast figures*
 - o Provide a regular update to Health Partners Group*
- ii) Ministry of Health (MISAU) working with the Global Fund Secretariat and partners should address interruptions in funding to ensure reliable supply planning.*

90. Forecasting for ARVs is supported by SCMS (Adult ARVs) and CHAI (Pediatric ARVs). Forecasting is based on program targets, number of patients on treatment (from DNAM program data), and number of patients on different regimens from pharmaceutical data (SIMAM). The Ministry of Health does not have accurate and complete data on the ART program which casts doubt on the reliability of forecast quantities for ARV drugs and commodities.

²¹ PipeLine software developed by the Deliver Project of John Snow, Inc.

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91. CMAM, through the assistance of SCMS and the malaria program have developed a forecasting tool that takes into account more than ten variables and assumptions for forecasting malaria drugs.²² The accuracy of forecasting cannot be verified due to the absence of reliable consumption data for ACTs and RDT. In addition, there have been supply problems and stock outs of RDTs and of certain packs sizes of ACT, requiring substitution with other pack sizes and this distorts the consumption data.

92. Forecasting for TB commodities is undertaken by WHO, the National TB Program and CMAM using tools provided by the Global Drug Facility (GDF). Forecasting is based on the number of patients on treatment as well as the national targets of patients on first line anti-TB drugs and MDR anti-TB drugs.²³ Forecasted figures are entered into PipeLine and managed through the supply tool.

Recommendation 16 (Critical)

For better forecasting and quantification, MISAU and CMAM should improve the quality of consumption data and use this data to validate previous forecasts.

Procurement

93. The procurement procedures applied by CMAM are based on the national Procurement Law (Regulamento) of 2005. For the Global Fund-supported commodities prior to 2008, CMAM procured ARVs, ACTs and anti-TB drugs using limited international bidding from WHO pre-qualified suppliers. After 2008, the Global Fund-supported PMU under DPC has been coordinating the ordering and delivery of these commodities through the Voluntary Pooled Procurement (VPP) mechanism.

94. The OIG audit documented that the CMAM Procurement Department has suffered from a high turnover of senior staff (procurement managers) in the last year and that at the time of the audit there was a lack of pharmaceutical expertise within the department. From a review of two past tenders for HIV (2009) and TB (2008), the following findings were observed in the tender process:

- Bid security and its expiry date were not recorded at bid opening stage;
- Communications with prospective bidders were not consistently filed;
- Insufficient bidding time;
- Significant increase in contract quantities after bid award;
- Computational errors in bid evaluation sheet; and
- Bid evaluation reports did not explain all changes.

95. MACS has a Purchase Order (PO) functionality which allows for the management of procurement contracts and monitoring the arrival of goods. However, this module is not put to use. The PO module can be used for items procured by CMAM or the other funding sources. Managing all the POs in MACS would allow CMAM to manage all contracts, expedite/delay deliveries according to need, and add to the quality of data in the warehouse.

²² Quantification & Gap for Malaria 30.6.11: Forecasting criteria on pages 16-17 and includes: Population census by age category, potential episodes a year by age category, months of risk, spraying coverage, nets coverage, seasonality, use of RDTs, etc.

²³ Mozambique's TB Commodities Needs 2011-2013, MISAU, July 14, 2011

Recommendation 17 (Important)

- i) *CMAM should recruit a competent pharmacist with procurement experience.*
- ii) *CMAM should implement and continuously use the Purchase Order module in MACS in order to ensure a timely flow of delivery information between the procurement and warehousing departments.*

Warehousing

96. At the time of the audit, Mozambique had three central warehouses for drugs and health commodities, two in Maputo (Zimpeto and Adil) and one in Beira. A substantial section of Zimpeto is racked, with boxes placed on pallets. Pallets are placed on racks and on the floor; due to insufficient space multiple boxes are stacked on top of each other. Only a small section of the Beira warehouse is racked, with the bulk of products remaining on pallets on the floor. The lack of sufficient space results in inventory disarray, and a risk that the oldest drugs and other commodities will not be issued on a First Expiry First Out (FEFO) basis.

97. The OIG observed that the warehouses at Zimpeto and Beira were full beyond design capacity and therefore difficult to operate effectively. The Zimpeto warehouse was modern and well organized but reported to be at 30% over capacity. The OIG was informed of plans to tackle the capacity issue by expanding the Zimpeto warehouse as well as constructing new stores in Beira and Nampula with the support of USAID.²⁴

Recommendation 18 (Important)

Before the planned extensions are available for use, i.e., Zimpeto warehouse extension and new warehouses in Nampula/Beira with USAID funding, MISAU should consider outsourcing or renting additional warehouse space to ensure good warehouse practice.

98. Some sections of the stores at the Zimpeto and DPM Matola warehouses and the Boane DDM bulk store could be accessed without authorization, which raises the risk of theft.

Recommendation 19 (Critical)

CMAM and MISAU should review and address security lapses at warehouses and district pharmacy stores to prevent loss of health products.

99. CMAM uses MACS as its computerized warehouse management system (WMS), to track goods received, in storage and distributed. Contracts and deliveries are managed through a separate system, with no link between the warehousing module of MACS and the procurement or delivery information. Warehouse staff are not kept up to date with the delivery schedule. As a consequence, there are unexpected deliveries at the warehouse for which space has not been arranged and which leads to a storage challenge.

100. Thirteen different CMAM staff have access to the stock adjustment module in MACS. Although the software allows for authority levels, there is no segregation of roles and this raises the risk of stock loss. The other areas in which MACS is not sufficiently utilized include the following:

²⁴ As reported by the Country Director, SCMS/DELIVER, Maputo.

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- Several standard management reports exist and if used would inform management/health partners on the stock situation in the country and could act as an early warning system, e.g., stock on hand, months in stock, quantities delivered by supplier, etc.;
- Key Performance Indicators (KPIs), which are not used to measure the performance of Zimpeto (where MACS is operational); and
- A methodology for inventory counting.

101. The audit team observed that in Beira Central Store and at the DPMs visited, stock takes are undertaken but there is no comparison between the physical stock figures and the computerized inventory/stock card figures and no explanation of stock variances. Without investigating stock variances, there is a risk that stock losses are not identified and this further weakens the control environment.

Recommendation 20 (Critical)

CMAM could improve the use of MACS with regard to:

- Updating orders and deliveries in MACS on a timely basis*
- Fully utilizing the standard reports and having these reports reviewed by third parties*
- Introducing and regularly monitoring KPIs for the warehouse*
- Using MACS inventory counting methodology when verifying actual stock on hand.*
- CMAM/SCMS Zimpeto to introduce levels of authority and limit access of users in MACS to specific modules/areas linked to specific areas of work.*

102. At the sites visited, the OIG observed the following weaknesses in the inventory management system:

- A high level of pallet/stock adjustments seen in the last three quarterly stock takes as well as lapses in monitoring the temperature of the cold room at Zimpeto;
- Three out of five of the tracer items did not match in the stock verification exercise at the Beira warehouse;
- At Matola DPM, Boane DDM, Mafambisse HC, and Chisano HC physical stock did not reconcile with stock cards, stock cards were not always available or were not in use, and the stock card had numerous unexplained adjustments; and
- A failure to reconcile stock records with actual quantities.

Recommendation 21 (Critical)

CMAM should introduce perpetual physical inventory with regular stock reconciliation at all warehouses. Disparities in physical stock against MACS inventory should be investigated and reported.

Distribution

103. CMAM has individual distribution plans for ARVs and ACTs, but no comprehensive plan for all commodities, i.e., essential drug kits, malaria kits, TB, test kits (malaria and HIV), laboratory, X-Ray, nutrition, and MCH. There is no set lead-time for order processing

by CMAM to process, pack and ship orders to provinces; however, *via classica*²⁵ orders are delivered within 2.5 months.

104. CMAM receives frequent emergency orders from facilities which disrupts the routine workflow and adds additional pressures on the distribution analysis work. There are no restrictions on the number of emergency orders a facility can make; CMAM risks that emergency orders are now becoming a routine. The OIG noted two instances of partial delivery from CMAM Zimpeto to DPMS. The partial deliveries were not accompanied by documentation of contents of the part delivery. Only a copy of the full order was dispatched with the supplies, with the shortfall not explained. This presents a risk that commodities can be lost in transit between CMAM and the provincial warehouse.

105. Between CMAM and its customers, orders are not consistently finalized and closed in MACS with the proof of delivery. Although the proof of delivery is printed and sent along with the orders, it is not always returned; when returned to CMAM it was not always entered into MACS to close the order. It was not possible to confirm that commodities issued by the warehouse were delivered to the intended destinations.

Recommendation 22 (Critical)

CMAM should:

- i) Prepare one comprehensive document/SOP that describes the reporting/ordering/distribution cycle for all commodities with frequency of ordering, reporting forms and order forms as well as lead-times for processing, packing and delivery by CMAM, and ensure that the reporting deadlines are harmonized across programs;*
- ii) Describe the procedure for handling partial deliveries and supply discrepancies;*
- iii) Set lead-times for processing of orders, packaging, and delivery of goods to the Provinces as a KPI that can be monitored; and*
- iv) Strengthen the system of obtaining and recording 'proof of delivery' into MACS.*

106. The audit team observed that RDTs were not available in two of the ten sites visited (Dondo DDM and Mafambisse HF). This was more due to poor ordering processes than a stockout situation nationally, as the RDTs were available at a higher level in the supply chain. ACTs were available at all sites but not always in the four dosages. A failure to ensure availability of commodities at the facilities raises the risk of interruption of care.

107. The ordering and reporting system for TB commodities is a vertical program overseen by TB focal personnel at each level of care. For one Fixed Dose Combination TB tracer item (RHE 150/75/275), the OIG observed no stock outs at national and district levels at the time of the audit, but noted stockouts at the TB clinics visited. There had been stockouts of tracer drugs in 2011 in the provinces visited. The OIG was informed that when one fixed dose combination is not available, treatment is continued using other drugs in combination with single doses. This practice skews consumption data and raises the risk that patients may not complete doses due to the large number of pills to be taken.

²⁵ Commodities packaged specifically for distribution by community health workers

Recommendation 23 (Important)

The Ministry of Health should put in place and monitor minimum and maximum stock levels for essential drugs at all health facilities and hospitals. Ministry, Provincial and District supervisors should regularly monitor stock levels and take action to prevent stock outs and overstock.

Logistics Management Information System

108. At the time of the audit, the Ministry of Health could not provide information on the frequency of reporting by the 255 ART centers. In consequence, the OIG was not able to provide assurance on the accuracy and completeness of ART-related data.

109. At the sites visited, the OIG also observed the following:

- Different versions of the same reporting form (Livro Mapa Mensal de Informação ARVs, MMIA). At one District Hospital (DPM), five different MMIA forms were in use;
- Insufficient forms for reporting, resulting in health facility (HF) staff using their own funds to photocopy forms (Mafambisse and Chisano HFs);
- Insufficient copies of the patient file for recording patient information (Folha Registro Individual de Dispensa Medicamentos ARVs, FRIDA-Adultos) (Mafambisse HF);
- Different deadlines for reporting of MMIA from HF to District, from District to Province and from Provinces to CMAM (national); and
- Incomplete/late reporting, giving rise to a risk of duplication (Carmelho HF in Chokwe district, Gaza Province).

Recommendation 24 (Important)

MISAU and CMAM with the support of health partners should improve the accuracy of ART reporting by:

- i) Defining and monitoring reporting standards for all levels of care including timeliness;*
- ii) Ensuring availability of forms for reporting and recording; and*
- iii) Providing refresher training and supportive supervision with regard to data accuracy.*

110. From a review of ART data on the number of patients on treatment (program data from DNAM) and pharmaceutical data (SIMAM), the following disparities were observed by the OIG as shown in Table 2 below:

- For the period of August to September 2011 the difference between the number of patients on treatment reported by the program (through the HMIS reporting system) vs. the SIMAM was 72%; and
- Some provinces were reporting far lower figures than reported through the HMIS system, in particular Niassa and Cabo Delgado. The target for reporting through SIMAM is set at 80%.

111. The disparities in reported data are symptoms of a poorly functioning LMIS. Some of the reasons for the adverse variances are that: (i) health facilities, hospitals and districts do not submit reports on time, (ii) staff at treatment facilities do not correctly record data resulting in errors, and (iii) there is insufficient supervision and validation of reported data.

Table 2: Comparison of number of patients on ARV treatment as reported through DNAM and SIMAM²⁶

Province	Latest DNAM data (Aug 2011)	Latest SIMAM data (Aug-Sept 2011)	% reporting
Niassa	6,300	1,879	30%
Cabo Delgado	11,112	4,916	44%
Nampula	12,421	8,787	71%
Zambezia	23,359	17,818	76%
Tete	15,494	9,825	63%
Manica	17,162	15,120	88%
Sofala	24,369	18,939	78%
Inhambane	13,013	8,737	67%
Gaza	33,936	30,769	91%
Maputo Provincia	36,307	22,302	61%
Total	193,473	139,092	72%

Recommendation 25 (Critical)

CMAM should improve data collection by:

- i) Strengthening the use of SIMAM in the Provinces, through training and provision of additional qualified staff with the appropriate skills to enter data;
- ii) Extending the use of SIMAM to all hospitals; and
- iii) Monitoring the accuracy and completeness of data entry throughout the system.

112. The malaria program has developed a consumption sheet (Folho de Consumo Mensal de Artemeter-Lumefantrina e TDRm na Unidade Sanitária) for recording the cases of malaria registered in the health facility, the number of treatments given, and usage of RDTs. At the time of the audit, the form was being distributed with each malaria kit. No reporting was taking place at the sites visited; however; some ACT consumption data and numbers of patients treated were being reported where the form had been introduced and training undertaken.²⁷ While there is a need to obtain information on the consumption of ACTS and RDT, as well as stock-outs of ACTs and RDT, the new reporting system will undoubtedly place additional demands on the current HF/District/Provincial staff, particularly in those sites also reporting on ART.

Recommendation 26 (Critical)

The Ministry of Health should:

- i) Develop and roll out a comprehensive LMIS that routinely collects information on all commodities and drugs at all levels of health care; and
- ii) Appoint additional qualified personnel to reduce workload of existing staff.

²⁶ ARV distribution and information management, SCMS, November 2011

²⁷ ACT consumption data and number of patients treated are available for the month of November 2011 from Zambezia Province.

Quality Assurance

113. Batch numbers are not consistently tracked. Batch numbers were only recorded when receiving large quantities, which was in cases where batches had the same expiry dates. For smaller quantities with multiple batch numbers/expiry dates there was no active batch tracking. In the absence of active batch tracking, it is not possible to recall a faulty product in a timely, efficient manner.

Recommendation 27 (Important)

CMAM should actively track batch numbers for all commodities at all levels of the supply chain.

114. The commodity receiving process includes completeness checks, but no Quality Assurance (QA) checks; CMAM does not have any staff assigned to Quality Assurance. The MISAU Pharmaceutical Department is responsible for the quality control of pharmaceutical and related products and has developed Standard Operating Procedures (SOPs) for sample testing when commodities are received by CMAM. However, due to insufficient funding these SOPs are yet to be implemented.

115. The Pharmaceutical Department developed an annual QA plan, which includes sampling of drugs twice a year at all levels of the supply chain. This QA Plan has been used to a limited extent with partner support: In 2011 some samples were tested in a WHO pre-qualified laboratory in Vietnam.

116. The QA Plan has not been fully implemented due to insufficient funding (Round 9 HIV (MISAU) includes funding for this.) Routine post-distribution surveillance of drugs was not conducted. The OIG observed that while most of the sites visited were aware of the procedures for handling expired medicines, keeping a record, separating stock and regularly disposing of it, not all sites adhered to the procedures. There was no active monitoring of wastage along the supply chain system.

Recommendation 28 (Important)

i) CMAM should:

- a. Strengthen Quality Assurance (QA) in the warehouses; define QA functions, identify persons responsible for QA and for liaising with the Pharmaceutical Department; and*
- b. Monitor short dated stock with a view to re-distribute in the country (where possible) before expiry; monitor the value of expired drugs*

ii) MISAU should ensure adequate funding of QA by the Pharmaceutical Department with implementation of:

- a. Quality checking of all incoming goods according to standard operating procedures; and*
- b. Updating and implementing the QA Plan for sampling and testing of drugs at all levels.*

iii) MISAU should:

- a. Ensure inclusion of refresher training on the handling of expired medicines during the nationwide training on Pharmaceutical and Health Products Management and SoPs recently produced.*
- b. Consider setting up a system for collecting information on expired drugs to calculate wastage levels.*

Financial Management Systems

Background

117. The scope for the financial review of the Ministry of Health included calendar years 2008, 2009 and 2010. As Global Fund grants were disbursed into the Common Fund, the scope of the review covered all PROSAUDE funding for the period audited. The financial review did not cover expenditure at provincial level (2008: 23%; 2009: 37%; 2010: 32%).

Accounting and Reporting

118. The Ministry does not prepare financial statements and this contributes to delays in finalizing audits. The external audit report for 2008 reported significant errors in cash balances. For the period of the audit, the PR could not reconcile its financial statements to bank records. Failure to reconcile bank records raises the risk that errors and fraud will go undetected. Without regular financial statements the Ministry of Health is not able to account for money received, have financial information for its decision making or meet donor requirements.

Recommendation 29 (Critical)

The Ministry of Health should ensure that DAF:

- i. Reconciles bank records on a monthly basis; and*
- ii. Prepares financial statements on a monthly, quarterly and annual basis*

119. Out of the USD 158,426,873 of PROSAUDE expenditure reviewed by the OIG, the Ministry of Health could not provide any form of payment documentation for USD 2,570,527.²⁸ In addition, for USD 747,868 the documentation provided was not adequate to support payment. The amount of USD 3,318,395 (detailed in Annex 3) included payments for which there were: (i) no supporting invoices or receipts; (ii) only photocopy invoices; (iii) no evidence of requisition of payments for field expenses; and (iv) salary payments without indication of payees.

Recommendation 30 (Critical)

The Ministry of Health should repay the inadequately documented expenditure (USD 3,318,395) into PROSAUDE.

Salaries and other Human Resources Expenses

120. The Department of Finance (DAF) did not consistently maintain monthly payrolls for the period under review. Payrolls constituted Excel spread sheets and could not be traced to payment records. For the financial year 2009, MZN 12,487,734 (USD 423,370) was paid to 156 staff for whom contracts or appointment letters were not available at the time of the audit.

121. The Ministry's financial regulations require *efectividade* (attendance sheets) to be filed for all contract staff and expatriates prior to making payments. For the period under review, these *efectividades* were not consistently maintained. Employee 'top-ups' for a group of

²⁸ Annex 3 provides details by expense type

people were transferred to a bank account held and operated by a department within the Ministry of Health, with no proof that beneficiaries received payments.

Recommendation 31 (Critical)

Ministry of Health should strengthen controls over human resources payments by

- a. Acquiring and implementing payroll software;*
- b. Maintaining and regularly reviewing a staff master list;*
- c. Making payments against efectividades;*
- d. Ensuring that for each month payments are reconciled to the payroll; and*
- e. Providing staff with pay slips (as proof of payment) with a breakdown of deduction or changes in pay.*

Expenditure for Travel and Field Activities

122. The OIG made the following observations with regard to payments for travel and field activities that contravened the Ministry's finance procedures:

- Travel requisitions were not filed prior to issuance of cash advances;
- There was no documentation to evidence that travel was in line with the purpose for which cash advance was given;
- The computation of per diem days and amounts advanced was not clear from review of supporting documents; and
- There was no accountability provided for cash advanced.

123. Recipients of fuel advances did not always provide accountability. In addition, the OIG observed instances where large unexplained quantities of fuel were issued (e.g., 1,200 and 4,000 liters, respectively). The department responsible for fleet management did not monitor fuel consumption but issued the same quantity of fuel for each vehicle without consideration of mileage covered. Ministry policy requires the use of vehicle log books but these were not used consistently or appropriately completed: Out of 128 vehicles at Ministry Headquarters, only 20 log books were available for OIG review and these were only partially filled.

124. The above observations point to a failure to comply with set internal controls, which raises the risk of abuse and irregularities.

Recommendation 32 (Critical)

The Ministry of Health should take measures to improve compliance with policies and procedures for travel and field activities by taking the following mitigating actions:

- *Staff should always acknowledge receipt of cash advances;*
- *Advances should only be made against an approved travel requisition;*
- *Department of Finance (DAF) should maintain a log of advances and recover unaccounted for funds at the end of each month;*
- *Department of Finance (DAF) should obtain and file fuel receipts, travel report, completed guia de marcha (travel form) and boarding passes prior to settling advances;*
- *No new cash advances should be made to individuals with outstanding accountabilities; and*
- *Put in place systems to monitor the use of vehicles and issuance of fuel.*

Planning and Budgeting

125. The Ministry of Health uses the treasury chart of accounts, which breaks down budgets and expenses by account type and cost center (cost centers are the departments of the Ministry of Health). The Ministry, Provincial,²⁹ and District Health Offices do not develop detailed work plans for activities to be implemented. In consequence, it is not possible to obtain budget or expenditure reports by activity (i.e., the strategic interventions in the Plano Economico e Social, PES). Reporting in line with PES strategies would enable verification of application of funds in relation to the annual plan. In addition, it would be possible to obtain assurance that PROSAUDE funds are spent on health programs at the lower levels of implementation.

Recommendation 33 (Critical)

The Ministry of Health should ensure that detailed work plans, for activities for which PROSAUDE Funds should be applied, are developed at all levels of government.

Audit

126. The Ministry of Health was not able to meet the requirement to submit external audit reports within six months as required by the Global Fund and the PROSAUDE MoUs. At the time of the audit, management had not taken action on external auditor recommendations from 2008. A failure to act on audit recommendation results in missed opportunities to strengthen the control environment.

Recommendation 34 (Critical)

The senior management of the Ministry of Health should actively follow up action of audit recommendations.

²⁹ As seen at DPSs in Maputo (Matola), Beira and Nampula, expenditures were not in line with Provincial or District PES.