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**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

## **The Office of the Inspector General**

### **Country Audit of Global Fund Grants to Zambia**

**Audit Report No: GF-OIG-09-15**

**Issue Date: 5 October 2010**

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### Acronyms

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immune Deficiency Syndrome
ART	Anti Retroviral Therapy
ARV	Antiretroviral
CBOH	Central Board of Health
CCM	Country Coordinating Mechanism
CHAZ	Churches Health Association of Zambia
CHI	Church Health Institutions
CIDA	Canadian International Development Agency
CP	Conditions Precedent
CQ + SP	Chloroquine and Sulphadoxypyremethamine
CSO	Civil Society Organisation
DFID	Department for International Development
DHMT	District Health Management Team
DR	Disbursement Request
FBO	Faith Based Organisation
GRZ	Government of The Republic of Zambia
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
IEC	Information, Education and Communication
IGA	Income Generating Activity
ITN	Insect side Treated Net
JAR	Joint Annual Review
LFA	Local Fund Agent
LLITN	Long Lasting Insect Treated Net
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MOFNP	Ministry of Finance and National Planning
MOH	Ministry of Health
MOU	Memorandum of Understanding
NAC	National AIDS Council
NGO	Non-Governmental Organization
NTP	National TB Program
OIG	Office of Inspector General
OVC	Orphans and Vulnerable Children
PHO	Provincial Health Office
PMU	Project Management Unit
PR	Principal Recipient
PSM	Procurement and Supply Chain Management
PUDR	Progress Update and Disbursement Request
QA	Quality Assurance
RDT	Rapid Diagnostic Test Kits
RFQ	Request For Quotation
SR	Sub Recipient

## Country Audit of Global Fund Grants to Zambia

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SSR	Sub-Sub-Recipient
STI	Sexually Transmitted Infection
TB	Tuberculosis
TOR	Terms of Reference
TRP	Technical Review Panel
UN	United Nations
UNDP	United Nations Development Program
US\$	United States Dollars
VCT	Voluntary Counselling and Testing
WHO	World Health Organization
XDR	Extensive -Drug Resistant
ZNAN	Zambia National AIDs Network

### Executive Summary

1. In 2009, the OIG Audit Unit undertook an audit of Global Fund grants to Zambia. The audit principally focused upon grant rounds 1 and 4, which were active between 2003 and 2009 and covered the operations of the four Principal Recipients; their interactions with the Sub-Recipients (SRs), as well as a review of the adequacy of the oversight provided by the mechanisms entrusted with fulfilling this responsibility—the Country Coordinating Mechanism (CCM), the Local Fund Agent (LFA), and the Global Fund Secretariat (Secretariat).

2. While the audit principally concerned rounds 1 and 4, Round 7 was covered to the extent it had begun to be implemented; and a limited review of the institutional arrangements proposed for round 8 was also undertaken as the grant agreement was close to finalisation at the time of the audit.

3. In connection with carrying out its responsibilities, the audit team, which included in addition to an OIG audit team leader and local audit staff, public health, procurement, and supply management specialists, visited 6 Zambian provinces, 14 districts, 48 health facilities and 67 SRs.

### Summary of findings

4. This section briefly highlights the findings and conclusions arising from the audit and the detailed findings are contained in the rest of the report. It is, however, essential that this report is read in its entirety in order to comprehend fully the approach to, and findings of the OIG's work.

5. The audit focused upon the four Principal Recipients i.e. the Ministry of Health (MOH), the Ministry of Finance and National Planning (MOFNP), the Zambia National AIDS Network (ZAN) and the Christian Health Association of Zambia (CHAZ). In each of the PRs, the audit identified significant financial management and control weaknesses, episodes of misappropriation and fraud, and losses of grant funds which called for reimbursements.

6. The OIG cannot give assurance that the MOH and the MOFNP have the required capacity to manage the grants effectively and recommended that other entities should be identified by the CCM to do so. In response the UNDP was appointed as Principal Recipient of the grants managed by the MOH. The OIG could not give assurance that the grant programs managed by ZAN and CHAZ were operating effectively at the time of the audit. Implementation of the recommendations offered by the OIG should help to considerably strengthen their effectiveness.

### Ministry of Health (MOH)

7. By way of background, from 2003 through 2006, Global Fund grants to Zambia were initially channelled through the Central Board of Health until it was absorbed by the Ministry of Health in 2006. In August 2006, the CCM appointed the MOH the PR, and in June, 2007, the MOH and the Global Fund formally signed a Grant Agreement.

8. During its tenure, the MOH accomplished some notable achievements with the Government and other cooperating partners, including successful treatment of close

to 90% of tuberculosis cases; providing ART to approximately 245,000 people; and providing at least 70% of households with at least one insecticidal treated bed net (ITN). Unfortunately, however, the audit exercise identified a number of major systematic problems that impacted upon the quality of health care, including inadequate human resources at the facility level and the lack of adequate funding of the DHMTs to execute its functions. In that regard, the requisite quota of quarterly visits to health facilities was found not to have been met.

9. As set forth in detail in the body of the report, as a result of these deficiencies, the OIG has concluded that the Ministry of Health, as the lead in country-PR, does not have the capacity to effectively manage Global Fund grants. This conclusion is reached principally on the basis of serious shortcomings in financial management and the identification of episodes of fraud and losses of funds; misuse of grant funds; poor management of SRs and procurement; and a significantly weak control environment that expose these entities to significant financial misappropriation risk that has materialized.

10. In connection with MOH's financial management systems, the OIG identified serious weaknesses, including significant financial losses and significant financial mismanagement. In particular, the OIG auditors identified over ZMK 20 billion (US\$ 4,365,000) arising from unsupported costs i.e. unsupported expenditure, unretired advances, with some outstanding since 2007, unsupported procurements etc. The OIG also noted inegligible expenditure amounting to ZMK 5.8 billion (US\$ 1,659,000) arising from expenditure outside of the approved budget, overpayment of etc.

11. In addition, instances of suspected fraud were identified. In March, 2009, a whistle-blower reported a suspected fraud at the MOH involving grant funds and the Expanded Basket Fund - into which most donor health funding is channelled which triggered a forensic audit carried out by the Office of the Auditor General (OAG). In July, 2009 the OAG reported that over ZMK 36 billion could not be accounted for, of which ZMK 1.9 billion (US\$ 413,000) was from Global Fund grant disbursements. As a result, a number of officials at the MOH were suspended, and a prosecution was recommended by the OAG.

12. Separately, the Global Fund's OIG's Investigations Unit conducted in country investigation missions between July and September 2009 that identified instances of fraud in per diem allowances and other financial misappropriation by some senior MOH officials. Seeking to further these cases through referral to national law enforcement authorities, the OIG sought to engage with the Zambian Anti-Corruption Commission (ACC), with disappointing results. To date, the national authorities have not taken action on these matters, nor charged individuals with violations of the relevant national criminal laws, nor sought to recover losses.

13. As such, the OIG is unable to report that the Zambian national authorities have the will to conduct timely and appropriate investigations of financial fraud in the government Ministries that handled Global Fund grant monies, and who are entrusted in fiduciary capacities with implementing the grants. This fact further adds to the in-country risk to grant funds in that misappropriated funds, even when identified, may not be sought to be recovered by the responsible officials and the responsible individuals prosecuted. Thus, there is little deterrent to future financial misconduct. The OIG investigation is continuing nonetheless on these matters.

14. Similarly, the OIG audit identified significant instances of the MOH's lack of compliance with grant agreement. The OIG audit noted several instances of expenditures made outside of the work-plan; the continuation of expenditures on expired grants after the closure date; undeclared and unaccounted for income from other sources; the use by some PHOs and DHMTs of Global Fund grant funds to pay VAT; and the failure of MOH to collect and remit PAYE from Global Fund paid employees working at MOH.

15. Significant deficiencies were also identified in the MOH's capacity assessment and management of SRs. The MOH did not undertake comprehensive reviews of the SRs prior to selection, and the OIG noted that several provinces and districts expended funds on activities that were not in the work plan, and that some imprest payments to staff were not retired. The MOH was found not to have a system for tracking advances made to SRs, and could not identify which SRs had, and had not, accounted for funds entrusted to it. Further, in many decisions concerning disbursements, documented criteria for disbursement determinations was absent, disbursements were not supported, and many appeared to have been made in an ad hoc manner i.e. they were not made against a work plan.

16. The audit also identified that the MOH lacks procurement and supply management capacity (PSM). This deficiency was noted through the lack of purchases of health products despite the fact that the MOH had attempted numerous interventions to strengthen the PSM function.

### **Ministry of Finance and National Planning**

17. While the MOFNP was able to achieve some management success through the recruitment of staff in the Program Management Unit (PMU) and undertaking the sensitization activities called for in the budget, the OIG identified a management gap in that the PMU was placed in the NAC and the reporting structure was not clearly defined. The PR delegated its responsibilities to the NAC (an SR) without formal documentation which created uncertainty in implementation roles and responsibilities. Further, it was identified that the NAC did not institute appropriate grant management structures, policies and processes to safeguard Global Fund resources.

18. In that regard, the OIG identified that since the start of the program there had been no functional oversight organ, and no internal or external audits had been undertaken on the program. SR supervision was also found to be deficient. Further, the audit identified that the PMU lacked technical staff to oversee the technical aspects of the program i.e. in HIV and there were no identified staff with clearly vested responsibilities for key functions such as grant management and procurement. These issues severely affected program implementation and contributed significantly to episodes of expenditures that were unsupported, and ultimately deemed ineligible.

19. Importantly, the audit noted instances of a lack of compliance with the grant agreement and work plans that resulted in the inappropriate use of program activity funds. In this regard, expenditures in the amount of ZMK 6.6 billion (US\$1,443,447)

made by the PR could not be supported and ZMK 6.9 billion (US\$ 1,508,068) were spent on ineligible activities. The PR should refund these amounts.

20. The PMU had made transfers to the MOH for these procurements and had not received any statements of accounts from the MOH for these funds. In some cases there had been no delivery of the items that were purportedly purchased, and also included purchases, including ambulances costing ZMK 2,654,246,000 (US\$577,010), which did not meet specifications and were not being used despite the fact that the PMU had taken possession of them. All of these exercises constitute invalid procurements, and are included in the total above noted for refund.

21. The audit also found that a member of staff engaged in fraud with respect to program funds and expended further amounts that were not supported. The audit identified over ZMK 479 million (US\$ 104,130) of expenditures that could not be accounted for in this account, which should be refunded.

22. The audit further identified that more than 70% of the grant funds were managed by the SRs, yet there were no set procedures to manage the SRs or their use of the grant funds. Further, no selection procedures for SRs was identified, their capacity to implement the programs was not assessed, no guidance was given to the SRs on the allocation of funds and there was no formal written agreement between the PR and SRs detailing the SRs' responsibilities with respect to the program or the funds to be used. All of these circumstances lead to a significant risk of misappropriation of funds.

23. The PR was also found to have significant management deficiencies. The audit identified weak controls over asset management; that there were no procedures in place to verify and oversee the assets, including expensive items such as motor vehicles and computers that were purchased by the SRs. Despite requests, the OIG was not provided with a record of all assets procured through the program which is estimated at ZMK 4.2 billion (US\$ 917,656). The exercise was made more difficult as the motor vehicles were registered with private number plates.

24. As a result of the foregoing, and as more specifically set forth in the body of this report, the OIG concludes that the MOFNP requires substantial capacity development in the areas of governance, financial management, grant management and procurement to be an effective PR, and is not fit to do so at the present time. As such, the CCM should consider identifying another institution with requisite capacity to manage the grants.

### **Zambia National AIDS Network (ZAN)**

25. In 2003, at the inception of Global Fund grants, ZAN was appointed a PR, to implement the civil society and private sector efforts to combat HIV/AIDS. ZAN has expanded over the years, and, in most cases, achieved the targets set out in the grant agreements. However, the audit identified three poor performance areas: 1) the number of patients with HIV/AIDS infections put on ARVs; 2) the number of patients with HIV/AIDS infections receiving nutritional supplements; and 3) the deficient number of persons being trained in M & E.

26. The audit identified several instances of fraud and/or misappropriation at the SR level in the approximate aggregate amount of US\$1.6 million. Of the 21 SRs visited, 6 were identified to have suffered instances of fraud, or had themselves misused grant monies. These amounts should be recovered and returned to the Global Fund.

27. A large number of SRs are funded in each round, and ZNAN has made over 900 disbursements since the commencement of funding in 2003. This equates to approximately 180 disbursements per year. While the organization has developed good selection criteria for the appointment of SRs, there were several instances of non-compliance with internal sub-granting requirements identified. And in other instances, grant funds were disbursed with no agreement between the PR and SR.

28. In connection with the operations and management in the PR, the audit identified that governance and oversight is provided by the Liaison Committee, which was found to be ineffective. The Committee has met only 9 times since 2003, when it is required to meet every quarter. In addition, the bulk of the membership is made up of members from SRs, creating a conflict of interest as potential SR members stand to benefit or be disadvantaged from decisions by the same management they oversee. Further, the Committee's work in the areas of setting policy for senior management, conflict of interest, and the approval of large financial commitments, the process for performance monitoring, and the approval process for SRs, was not readily identifiable.

29. A salary survey comparison with similar organizations revealed that salaries at ZNAN were in some cases more than 150% higher than in like positions in other organizations in the sector. With such high salary levels offered to attract the very best staff the OIG had not expected to find the management deficiencies noted above.

30. Further, the OIG found that ZNAN's internal audit arrangements were inadequate. First, the internal audit function reports to the Executive Director of ZNAN thereby restricting its independence and potentially its objectivity. Several errors in the ZNAN audited financial statements from 2003-2008 were identified. Out of the 12 audits conducted during the period, only one management letter was issued, and this letter only identified one weakness. As reflected herein, the OIG has identified a series of weaknesses that should have been identified and noted. Equally, the external audit of ZNAN was found to have shortcomings, and it is the OIG's view that the current auditors should be changed.

31. In conclusion, the OIG is unable to provide assurance that the grant programs managed by ZNAN were operating effectively at the time of the audit. Implementation of the OIG's recommendations should help to considerably strengthen ZNAN's effectiveness. The total amount refundable by ZNAN (including the amounts misappropriated by SRs noted above) is US\$ 1,795,321.

### **Churches Health Association of Zambia [CHAZ]**

32. The Churches Health Association of Zambia (CHAZ) was created in 1970 as an umbrella organization to represent work done by Church health institutions in Zambia. CHAZ complements government efforts in the delivery of quality healthcare

by bringing to the health sector human, material, financial resources, innovation, and more importantly, Christian love and care. CHAZ has 138 affiliates representing 16 different churches both Catholic and protestant, with a majority of them based in rural areas of Zambia. CHAZ is governed by the General Annual Council which convenes once a year, from which the Board members are elected.

33. CHAZ has registered a number of considerable achievements over the years. Under Round 1 most of the targets were achieved for establishing sites. Under the Rounds 4 and 7; there had also been significant progress towards the overall achievement of the targets. CHAZ responded to the changes that came with the increased funding by establishing appropriate structures and improving on the internal systems. Over the years of the Global Fund grants, CHAZ has been transformed from being a small indigenous organisation to the largest faith based organization in the health sector. At the start of the Global Fund Grants in 2003, CHAZ had 23 employees and by the end of 2008 had 82 employees.

34. CHAZ also faced a number of challenges including delays in procurement at the beginning of Round 1 grants, the appreciation of the Zambia Kwacha against the US dollar, delays in disbursement of funds by the Global Fund and the transfer of the trained government staff from the Christian Health Institutions resulting in loss in capacity.

35. CHAZ has undergone restructuring since 2006. Notable changes include the establishment of the Grants, Internal Audit and HR departments; the strengthening of the M &E and Finance and Administration departments. The implementation of the restructuring has been slow, has not had adequate professional input and the new structures are likely already to require amendment due to the passage of time. The CHAZ secretariat implements the Board decisions. However, there were instances where the CHAZ Secretariat took action without Board approval.

36. A review of the CHAZ benefits as detailed in the draft HR management policy document indicated benefits that seemed unreasonable especially when viewed in the light of the fact that they were paid from program funds. This included; (i) a settling in allowance for all new staff of 30% of basic annual salary; (ii) monthly housing allowance of 50% of basic salary; (iii) transport allowance of 20% of basic salary per month; children education allowance; gratuity; (iv) utility vehicles being used by managers with the agreement that they would be sold to them at the end of their first contract and laptops to be given to managers after 3 years of use.

37. Top up allowances were paid to the late Executive Director and the Programs Manager for a period of 31 months from February 2006 for running the programs funded by the Global Fund. The top-up allowances for the Executive Director and Programs Manager amounted to US\$ 4,660 and US\$ 3,660 respectively per month, and were reflected in the approved Global Fund work-plans and budgets as program coordination. There was no apparent justification made at the time since other staff directly involved in running the Global Fund activities were not considered.

38. CHAZ used 10% of program funds to cover administration costs. The OIG noted that on top of the 10%, the Global Fund also met other costs directly e.g. salaries, international travel and purchase of the Sun Accounting system. The OIG was not provided with the basis used to arrive at the 10% charge nor could the allocation of costs by donor be provided. For the 2.2% deducted for meeting Global Fund specific

costs, there was no reconciliation provided to the OIG of the amounts used, costs paid and the balance of funds held on this account. Balances held on this account constitute monies owed to the Global Fund. Between 2004-2008, the Global Fund contributed to 55% of all amounts classified as unrestricted funds. By definition, funds from the Global Fund should never be classified into the unrestricted fund since they are for specific purposes. The OIG noted that some expenses made from this account were not related to program activities e.g. the purchase of Celtel shares, Board expenses, General Council expenses and the purchase of Amandra House. CHAZ's classification and transfer of program funds to an unrestricted fund is in contravention of the grant agreement with the Global Fund and should be stopped immediately.

39. Due to lack of capacity by CHAZ to procure medical products, Crown Agents had been subcontracted to procure medical products. The procurements by Crown Agents include medical products for ZNAN for all the grants. The MOU signed for the procurement services has not been effectively managed by both CHAZ and Crown Agents. This has resulted in non compliance to the MOU requirements. Crown Agents has not built CHAZ procurement capacity and delay in stock deliveries have been reported that resulted in emergency procurements. There could well be further delays or disruption in the procurement activities due to the downsizing of Crown Agent's procurement office in Zambia. A decision had not been made between CHAZ and Crown Agents on how future procurements will be coordinated.

40. In conclusion, the OIG is unable to provide assurance that the grant programs managed by CHAZ were operating fully effectively at the time of the audit. Implementation of the OIG's recommendations should help to considerably strengthen CHAZ's effectiveness.

### Country Coordination Mechanism

41. Since its formation in 2003, the CCM has made some progress in creating governance structures and processes which provide a transparent and accountable multi-sector body. Governance tools have been developed. The CCM approved a manual of procedures in 2007, which was revised in 2009. Conflict of interest aspects are covered in the Manual. The manual also provides for how the CCM should be governed including the creation of the different Committees. The OIG notes that whilst the Manual of procedures provides good guidelines, the CCM has performed poorly in implementing most of the provisions of the Manual.

42. The OIG's meetings with various members of the CCM revealed a perception that the CCM is government controlled. This stems from the current arrangements where the CCM Secretariat is housed within an SR (NAC), which institutionally falls under the MOH, a government PR. There was a feeling that deliberations at the CCM are not well balanced and in some cases do not draw on the principles of transparency and open discussion. The proposal in early 2009 to change a PR from MOH to WHO was cited by some members as not having been handled in a transparent manner.

43. The CCM did not have a documented oversight plan to guide its oversight function. Most of the time CCM time was spent on proposal writing and this happened at the cost of oversight of program implementation. The OIG noted that since 2003, only two monitoring reports could be provided for work undertaken by the CCM M&E

Committee. This weakness can be attributed to various aspects which include, weak technical membership on the committee, members who are fully committed elsewhere and cannot find sufficient time to commit to the CCM business, inadequate funding to the committees and weak leadership of these committees. The CCM's role in the overall health sector should be reviewed with a view of engaging a broader range of stakeholders.

44. The coordination of the much needed collaboration between PRs has also not worked well. PRs continued, in some cases, working in a fragmented manner that increased the risk of duplication of service delivery across grants. The CCM should engage further with the PRs on this aspect. The CCM should also work with the CPs to develop arrangements that would improve harmonisation of the various sector interventions such as remuneration (salaries, allowances and top-ups) that the Global Fund supports.

45. The selection process for PRs and SRs in Zambia has improved since the start of funding in 2003. The CCM developed selection procedures for PRs and SRs for application under Round 8 and these provided, to a reasonable extent, for the principles of transparency, inclusion and fairness. The OIG notes that although the PRs have made some progress in applying the SR selection process, there was limited evidence to show how the CCM follows the PR selection, replacement and or reappointment process. There was no record of evaluation of existing PRs by the CCM prior to reappointment. Also the process for replacement of a PR, for example in the current case of MOH, was not well documented leading to confusion on how the crisis would be handled.

### Local Fund Agent

46. PricewaterhouseCoopers were appointed LFA in Zambia in 2003. The LFA contract was last renewed in 2008.

47. The LFA work in Zambia has been performed under a rapidly changing grant implementation environment and yet the LFA did not adapt appropriately leading to its failure to deliver on various aspects of its mandate. Additionally the LFA failed to provide appropriate resources and stable staffing which significantly compromised its ability to deliver quality work. Whilst the LFA recently proposed a comprehensive staffing plan and improved quality assurance arrangements, the OIG notes that during the period of review, the LFA did not provide, in most cases, quality in the contracted work it delivered. There were also noticeable delays in the performance of work with a lot of work assigned in 2008 only completed in mid 2009. Whilst PRs were late in submitting reports to the LFA, the OIG noted from the LFA records, that indeed the LFA contributed to the delays by not finalising the reviews on time. Delays in the LFA therefore contributed to delays in disbursing funds to the PRs.

48. The OIG cannot give assurance that the LFA work in Zambia, during the review period, provided the required oversight to safeguard the Global Fund resources. In some cases, the information provided by the LFA to the Secretariat for decision making was inaccurate thus affecting the Global Fund ability to make appropriate decisions. The Secretariat had for some time been raising concerns about the quality of service provided by the current LFA and now need to consider whether the current arrangements should be terminated and proposals sought from alternative providers.

### Cooperating partners

49. The Global Fund has no presence in the countries where it provides funding. This means that the Global Fund needs to rely on in-country stakeholders, including the development partners, to be “eyes and ears” in monitoring the grant implementation process. The Cooperating Partners (CPs) are represented in the CCM and have continued to provide financial support to the CCM Secretariat. Since the start of the health reforms in 1992, the Health SWAp in Zambia has been supported by the cooperating partners. The CPs are members to the governance committees of the SWAp, participate in the annual joint review missions and provide financial support through the basket fund arrangement. The CPs have also supported the Global Fund Programs through various initiatives including financial support to the CCM and participation in the CCM Committee work.

50. The OIG noted, however, that there were concerns among some CPs that the value of investment in the Zambia health sector is not reflected in the results accruing to the average Zambian. The process of measuring performance against investment in the sector is still weak. There were no planned periodic sector reviews on finance linked to program performance, which could be used by the CPs to assess progressive performance of the sector. The CPs could pool resources to commission oversight reviews such as value for money audits, performance audits, evaluations, tracking studies and specific/targeted performance reviews to ensure adequate information is obtained on the utilisation of funds.

51. The CPs should also consider mechanisms to strengthen the CCM in its role as an oversight body over grant implementation. Areas of capacity building could include creation of additional committees and, improving on the scope and reporting of existing committees. The role of the CPs in the health sector can be expanded to engaging the CCM as one of the key health sector SWAp institutions. This would support the ongoing process of alignment and harmonisation of the Global Fund programs in Zambia.

### The Global Fund Secretariat

52. The oversight work of the Global Fund Secretariat in-country is coordinated by the Fund Portfolio Manager. The FPM interacts with country structures including the CCM, the LFA, CPs and other sector players to facilitate smooth program implementation. Since the Global Fund, by design, has no direct in-country presence, the FPM relies greatly on the work of the LFA to make grant decisions.

53. The Secretariat in some cases did not provide timely feedback to the LFA and PRs on issues submitted by the LFA, which affected progress on certain program aspects. Some CPs felt that the written communications from the Secretariat were in some cases not clear enough on the actions expected from the country stakeholders and resulted in inadequate action in-country. A case cited was the recent temporary delay of disbursements in mid 2009 to MOH following the fraud allegations at the Ministry. The letters from the Secretariat were considered not to provide precise action required from the CCM to take the process forward. Sufficient guidance was, for example, not provided on whether the grants at the MOH had been suspended

creating confusion on the nature of the action to be taken by the in-country stakeholders.

The government PRs noted that better engagement with the Global Fund Secretariat could have improved their ability to deliver on programs. There was concern, specifically at MOH, over limited time dedicated to the PRs by the Secretariat during the FPM visits. MOH continued spending through the local bank accounts despite a communication from the Secretariat to stop. At the time of the OIG audit neither the Secretariat nor the LFA was aware that the PR had continued spending in violation of the instructions issued. This points to weak follow up mechanisms by the LFA and Secretariat.

54. The Secretariat disbursed funds i.e. US\$ 15.7 million to the MOH in December 2008 and January 2009 for grants closing in February and January 2009 respectively. The short period of time, left to close the grants was too short to carry out any meaningful activities especially considering the fact that part of the period was a holiday season. The OIG notes that indeed during the period December 2008 and May 2009 officials at the MOH undertook various activities that were non compliant with grant agreements and in many cases resulted in the misuse of the Global Fund resources. In this specific case, the disbursement of funds by the Secretariat to the country without an acceleration plan created the opportunity for the misuse of funds at the MOH during this period.

Introduction

55. The Office of Inspector General (OIG), as part of its 2009 work plan, carried out the audit of Global Fund grants to Zambia. The purpose of the audit was to assess the adequacy of the internal control and programmatic processes in managing the Global Fund grants in Zambia. The audit objectives were to:

- a) assess the efficiency and effectiveness in the management and operations of grants;
- b) measure the soundness of systems, policies and procedures in safeguarding Global Fund resources;
- c) assess the effectiveness of established mechanisms/controls to safeguard Global Fund resources in Zambia; and
- d) assess any risks (particularly fraud risk) that the Global Fund grants are exposed to and adequacy of measures taken to mitigate them.

56. The audit covered all the Global Fund grants to the Country whose details are shown in the table below:

Round	Component	Grant Number	Grant amount	Disbursed
<b>Ministry of Health of the Government of the Republic of Zambia</b>				
1	HIV/AIDS	ZAM-102-G01-H-00	40,884,928	35,757,291
1	Malaria	ZAM-102-G02-M-00	35,891,300	35,291,300
1	TB	ZAM-102-G03-T-00	35,807,890	18,354,137
4	HIV/AIDS	ZAM-405-G09-H	116,128,561	29,665,720
4	Malaria	ZAM-405-G13-M	30,223,812	16,940,617
7	Malaria	ZAM-708-G17-M	12,489,971	-
7	TB	ZAM-708-G16-T	1,271,474	-
<b>7 grants</b>			<b>272,697,936</b>	<b>136,009,065</b>
<b>The Churches Health Association of Zambia</b>				
1	HIV/AIDS	ZAM-102-G04-H-00	22,840,611	22,840,611
1	Malaria	ZAM-102-G05-M-00	3,382,500	3,382,491
1	TB	ZAM-102-G06-T-00	10,364,690	10,364,690
4	HIV/AIDS	ZAM-405-G10-H	71,400,023	46,077,638
4	Malaria	ZAM-405-G14-M	12,497,995	10,784,439
7	Malaria	ZAM-708-G19-M	5,225,953	2,422,691
7	TB	ZAM-708-G18-T	1,874,509	835,246
<b>7 grants</b>			<b>127,586,281</b>	<b>96',707',806</b>
<b>The Ministry of Finance and National Planning of the Government of Zambia</b>				
1	HIV/AIDS	ZAM-102-G07-H-00	6,395,758	3,057,134
4	HIV/AIDS	ZAM-405-G12-H	15,766,759	7,382,073
<b>2 grants</b>			<b>22,162,517</b>	<b>10',439',207</b>
<b>Zambia National AIDS Network</b>				
1	HIV/AIDS	ZAM-102-G08-H-00	20,204,481	20,204,481
1	TB	ZAM-102-G15-T-00	1,164,676	1,164,676
4	HIV/AIDS	ZAM-405-G11-H	33,023,395	14,575,239
7	TB	ZAM-708-G20-T	736,965	373,708
<b>4 grants</b>			<b>55,129,517</b>	<b>36,318,104</b>
<b>TOTALS</b>			<b>477,576,251</b>	<b>279,474,182</b>

Table 1: Summary of Grants [Source: The Global Fund Website]

### The report

57. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist management in deciding on the order in which recommendations should be implemented. The categorization of recommendations is as follows:

- a) *High priority*: Material concern, fundamental control weakness or non compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- b) *Significant priority*: There is a control weakness or noncompliance 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; and
- c) *Requires attention*: There is minor control weakness or noncompliance within systems and remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the benefit of the management of the grant programs.

### Ministry of Health

#### Background

58. Zambia has been implementing health reforms since 1992 under the framework of the Sector Wide Approach (SWAp). In the SWAp, resources from government and cooperating partners are pooled to ensure program harmonization and alignment with government systems for efficient development through non duplication of managerial and administrative layers, a joint planning effort and improved monitoring and evaluation through a joint system.

59. The underlying principle of these reforms is decentralisation of health service delivery through the delegation of key management responsibilities from the centre to the district and hospital levels. Decentralisation is also aimed at shifting resources from the centre to operational levels, where healthcare delivery services are conducted. The reforms also emphasized the importance of community participation in the management of health services and the need for a well motivated and remunerated work force.

60. The health sector in Zambia is funded mainly through the extended basket fund. The basket fund is supported by the Cooperating Partners (CPs) and the Government of the Republic of Zambia. The extended basket fund is managed by the MOH. According to the MOH records, about 55% of the MOH funding is accessed from CPs through the expanded basket and 45% accessed through the MOFNP as part of the general budget support. The Expanded Basket Fund is funded directly by four CPs namely SIDA/DGIS, CIDA, UNFPA and The World Bank. The general budget support component received in the basket fund through the MOFNP includes funds from USAID, EU and DFID.

61. Four core structures were established to provide oversight over the Zambia Health Swap: the Annual Consultative Meeting, Sector Advisory Committees, the Monitoring and Evaluation Committee, the Health Sector Joint Annual Review Missions and Other Technical Working groups. Joint Annual Review Missions are carried out regularly and reports from this exercise were available to the OIG for review.

62. The MOH also implements vertical programs i.e. outside the basket funding arrangement. The funding sources for the vertical programs include the Global Fund, USAID, WHO, UNICEF, GAVI, Clinton Foundation, and CDC. These programs are implemented within the existing MOH structures but with certain modifications for additional safeguards to track and report on the specific funds involved. Although the programs funded by the Global Fund are not part of the MOH basket fund, they form part of a single health sector agenda and are implemented within the existing ministry structures but with modifications and additional resources allocated to track and report on the funds involved.

63. The public health system comprises the following:

- (a) MOH head office in Lusaka - Responsible for overall policy formulation, resource mobilization and national level technical support in planning, organization, coordination, and monitoring and evaluation of the health sector;

- (b) Nine Provincial health offices (PHOs) - Responsible for providing technical support, planning, coordination, supervision, and monitoring and evaluation at provincial level;
  - (c) 72 District health management teams (DHMTs) - Responsible for planning, coordination, supervision, and monitoring and evaluation at district level; and
  - (d) Health service delivery facilities - These are facilities involved in the provision of health care services and include hospitals, health centres (HCs) and health posts (HPs).
64. The core objectives of the grants funded by the Global Fund were to:
- (a) reduce new infections through multi-sectoral behavior change communication and to mitigate the impact of HIV/AIDS through provision of ART;
  - (b) expand treatment, care and support to persons with advanced HIV/AIDS;
  - (c) reduce the mortality associated with malaria through improved case management and use of insecticide treated bed nets as a measure of vector control;
  - (d) reduce malaria transmission in rural and urban districts through scaling up coverage for IRS, access and availability of ITNs among pregnant women and under 5-year olds;
  - (e) increase prompt and effective treatment of malaria cases in children under 5 to exceed 80% and increase ITN household ownership and use to exceed 80%;
  - (f) extend Directly Observed Treatment Short-course (DOTS) to all 72 districts of Zambia;
  - (g) pursue high quality DOTS enhancement and expansion through timely detection and standardized treatment of patients; and
  - (h) Scale up prevention and impact mitigation and strengthen health systems.

### Central Board of Health [CBOH]

65. CBOH was created in 1995 through the National Health Service Act to monitor, integrate and coordinate the programs of the health management boards. All health service delivery was contracted to CBOH and MOH's role was to make sector policies and regulate the sector. In 2003, the Central Board of Health [CBOH] was appointed PR and was responsible for implementation of the programs until 2005. CBOH received US\$ 60,903,520 representing almost 45% of the grants from the Global Fund.

66. As part of the restructuring of MOH to strengthen the health care delivery system, CBOH was absorbed into the MOH structure on 10 March 2006. The National Health Services (Repeal) Act, 2005, wound up the activities of CBOH. All assets and liabilities of CBOH were handed over to MOH. Following the winding up of the CBOH, MOH was appointed to be PR in January 2007.

67. There was no transition plan from CBOH to MOH leading to a loss of institutional capacity that had been developed at CBOH since 1995. The lack of a proper transition process contributed significantly to the program implementation glitches that are noted later in this report. CBOH continued spending funds since the bank mandates for CBOH were not withdrawn. The CBOH accounts were never closed and continued to be used until the end of 2008, the OIG was unable to confirm the actual amount of funds that were transferred from CBOH to MOH.

68. There was a loss of financial records, assets, financial systems and staff as CBOH was wound up. This created a control environment that was prone to fraud. The financial system Navision which was in use at CBOH was abandoned for the manual financial system at MOH. The OIG noted expenditure with no supporting documentation relating to CBOH period amounting to ZMK 16.3 billion (US\$ 3,543 478) by the end of the audit i.e. 04 December 2009. This is in contravention of the Government Financial Regulation No. 19 which requires that accounting records like the main cash books, ledgers and receipts of all types are preserved for 10 years.

### Achievements and challenges

69. The Programs funded by the Global Fund are part of a national Program. So any program achievements outlined below cannot be attributed to Global Fund alone but are a result of funding from a number of CPs under the leadership of government.

70. Zambia has successfully managed to scale up the ART treatment services. It is estimated that approximately 60% of the national need for ART is being met. At the end of June, 2009 an estimated 245,382 people were on ART throughout Zambia. Of these 13,203 (8%) were children. These services were available through some 350 ART sites. With the exception of delayed training of professionals and community adherence supporters, overall, ART targets have been met. It is estimated that around 95% of pregnant women attend antenatal care at least once and that most of these are tested for HIV. Those women found to be HIV infected are started on treatment.

71. The TB treatment success rate is about 90%. Most of the TB patients were tested for HIV and were referred to clinics if found to be positive. Performance is at 150% rate compared to the set target.

72. There has been a general reduction of malaria incidence during the period 2006 to 2008 from an incidence of 412 per 1,000 people in 2006 to 252 per 1,000 people in 2008. During this same time period there was a 54% drop in the children who were infected with malaria. This represents a performance of over 106% compared to the set targets.

73. However, there are some factors that have impacted MOH's implementation of programs. The dissolution of Central Board of Health and subsequent takeover of its assets and liabilities by MOH was not properly planned resulting in the loss of program momentum, the absence of good controls, staff and systems in place. MOH also lost implementation time on the grants as dissolution of CBOH commenced in March 2006 and MOH was appointed a PR in January 2007. The first disbursements to MOH were made at the end of July 2007 i.e. about 16 months since the CBOH dissolution commenced.

74. The inadequate human resources at MOH impacts on service delivery. The OIG was informed that at the time of the audit MOH was operating at 50% of its staff component. The growth in grants over the years therefore creates further burden to an already strained HR system as the existing staff have to put in extra time to get the routine work as well as program work done on time.

75. Consolidation of the TB Round 1 and Round 7 has not been finalised. As a result, the performance framework for TB has not been approved and the grant

agreement for Round 7 had not been signed at the time of the audit. Although the Malaria Round 7 grant agreement was signed in October 2008, there had not been any disbursements at the time of the audit due to an incomplete consolidation process.

76. The implementation of program activities was not fully decentralized in line with the decentralisation policy at the MOH. Several program activities for implementation at province and district level were directly controlled and executed by officials from the MOH headquarters. This approach delayed program work given that the officials from center were not readily available to undertake the required activities.

77. There were significant delays in the procurement of health products which hampered program implementation. This is partly attributable to a dysfunctional procurement unit mainly due to the lack of a department head. The hiring of procurement agents did not alleviate the problems in this area as there continued to be delays in the supply of program inputs to inform the work of the procurement agents.

78. The disbursements for some rounds were very late in the grant period leaving the PR with very limited time to implement program activities. Under the HIV Round 1 grant, US\$ 8.9 million was received on 24 December, 2008 for a grant closing on 24 January 2009. For the Malaria Round 1 grant, US\$ 6.8 million was received on 3 February 2009 for a grant closing on 14 February 2009.

79. There was a fraud in the MOH early 2009 which resulted in many CPs, including the Global Fund, withholding funds. This affected the momentum of the programs since funds were not readily available for implementing program activities.

### Strengthening grant management

#### Institutional aspects

<p>There was weak oversight over the grants funded by the program with limited top Ministry official involvement in reviewing the performance of grants. The Global Fund grants were not discussed adequately during senior management meetings. Internal audit had been focused on pre auditing transactions and the external auditors from the Office of the Auditor General had recently been invited to pre audit transactions. External audit recommendations are repeated every year with little management action taken in response</p>
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80. The MOH has a well established structure. The Ministry of Health of the Republic of Zambia is headed by a Minister assisted by a Deputy Minister and a Permanent Secretary. The Ministry has five directorates namely the Directorates of Planning and Policy, Public Health and Research, Clinical Care & Diagnostic, Technical Support Services and Human Resources. The programs funded by the Global Fund are implemented within the general systems and structures of the Ministry of Health. The programs fall under the Directorate of Public Health and Research with its Director as the focal person for these Programs.

81. Senior management meetings are held every Monday and Global Fund grant issues form part of the agenda. However, the discussion in these meetings is usually

focused on mobilization of resources and with little or no attention given to program implementation. There is no evidence from the minutes of management meetings that financial and technical reviews of the program were undertaken.

82. The MOH structure had not given priority to financial management and this was evident from the weaknesses noted during the OIG's review. MOH does not have a Finance Directorate. The Accounts unit falls under the Human Resource Directorate within the MOH organisational structure and the Chief Accountant is at the level of Assistant Director. Administratively the Chief Accountant reports to the Human Resource Director while functionally she reports to the Permanent Secretary. As a result of this arrangement, financial aspects within the MOH are not given the same priority as the Program aspects. With the highest finance person at the level of Assistant Director, the Chief Accountant does not have the authority to address issues of financial importance, especially on transactions cleared by the directors.

83. There is inadequate role definition and coordination among the directorates with regard to finances. The directorate of policy and planning (DP&P) is responsible for resource mobilization and also coordinates the extended basket fund. The directorate tracks donor commitments against what has been received by MOH so far and generates a report for the donors on any outstanding commitments. It also coordinates the generation of the semi annual Sector Advisory Groups which report on the results of the previous two quarters triggering disbursements for the following quarters. At the time of this audit, the OIG noted that the DP&P did not share information about the resources mobilized with other directorates. As a result, the respective directorates do not know what funds are available for implementation and are unable to have effective oversight over the utilisation of these resources. The finance unit also does not perform budget monitoring over these funds.

84. Following the recent fraud at MOH, the DP&P has generated a position paper dated 15 June 2009, which proposes more involvement by the directorates in the utilisation of the funds received through furnishing them with information of funds mobilized for their activities. However in the same paper, the DP&P has proposed that it develops its own Finance Administrative Management System (FAMS) unit to monitor implementation and update the quarterly progress reports. This goes against the principle of segregation of duties where the resource mobilizers should ideally not be involved in resource utilization and reporting. This role should go to the finance department.

### **Recommendation 1 (High)**

(a) *Senior management oversight over the utilization of Global Fund grants should be strengthened. As part of its oversight role, senior management should review grant performance, ensure that there are proper controls to safeguard Program assets, ensure compliance with the grant agreement and laid down procedures, that targets are met and that impediments to implementation are addressed timeously.*

(b) *A finance unit should be elevated to directorate level to allow it to implement its mandate of checks and balances with adequate authority. The DP&P's resource mobilization should be divorced from resource utilization, control and reporting in order to ensure proper segregation of duties and strengthening of the internal control environment.*

85. MOH has an internal audit function. Financial Regulation No. 20 that extends the role of the function to ensuring that the safeguards for the prevention or prompt detection of fraud or loss of stores, cash or other Government assets is to be commended. Internal Audit pre audits transactions and carries out occasional post payment audits at the provinces and districts. There are four individuals in the internal audit unit at MOH headquarters with one internal auditor at each of the nine provinces of Zambia. Five internal auditors have been placed at other MOH affiliated institutions. Internal auditors from UTH assist the team from HQ when there is an audit to be carried out at the provinces or districts. The OIG noted that some internal audit staff were implicated in the fraud that happened earlier in the year and were on suspension at the time of the audit

86. The external audit function is carried out by the Office of the Auditor General (OAG) for MOH, the provinces, the districts and the Government Health Institutions. The role of the OAG has also changed somewhat since the forensic was audit undertaken following the fraud; with the OAG staff pre auditing all payments at MOH. This is likely to impair the independence of the OAG as external auditors of MOH since they will be auditing transactions they participated in.

87. The OIG noted that the external audits were tardy and are submitted past the required date in the grant agreement. Audit reports should have been submitted within six months after the closure of the period under audit. The 2007 audit of MOH Global Fund grants was completed in January 2009 while the 2008 audit of the Global Fund grants had not been completed by the end of the OIG field work in December 2009.

88. The OIG noted that there was weak commitment by MOH management to implement audit recommendations. The OAG audits for 2006 and 2007 had repeatedly raised issues like misapplication of funds, unreturned imprests and missing vouchers but the OIG did not see evidence of management action to address the weaknesses. Similar issues have been identified during the OIG review of the grants.

### ***Recommendation 2 (High)***

*Internal audit and OAG staff should not perform pre audits at MOH so that their objectivity and independence are maintained. Management should prioritize and implement audit recommendations if the systems at MOH are to improve. The senior management team should ensure that an action plan is developed to address how recommendations will be implemented, a timeline set for this and it should identify people that will be responsible for the implementation.*

### **Compliance**

There were some instances noted of MOH's non compliance with the Global Fund grant agreement and the applicable laws and regulations. MOH should comply with the grant conditions and the GRZ laws as this will ensure that the conditions put in place to safeguard the Global Fund assets are operational.

89. MOH spent grants on activities that were not part of the approved work plan and budget. For example construction projects were undertaken that were not in the plan and or exceeded the budgeted amounts amounting to ZMK 1.97 billion [USD 418,913] i.e. some ZMK 1,000 million for converting offices at UTH into a TB ward;

and ZMK 2,127 million for the construction of a Blood Bank at Kabwe whose budget was ZMK 1,200 million.

90. MOH continued to spend beyond the grant closure dates for the time barred grants without authorization from the Global Fund Secretariat and despite receiving instructions from the FPM to stop. The OIG noted that close out budgets had not been approved at the time of the audit in September 2009. The funds were mostly spent on the purchase of health products. The table below provides a summary of the expenditure:

Grant	Close out date	Budget recommended by LFA for approval for the close out activities USD	Amount spend after grant expiry USD
Malaria R1	14 February 2009	100,318	3,833,746
HIV/AIDS R1	24 January 2009	28,016	2,248,302

Table 2: Funds spent after grant closure [Source: MOH records]

91. Audit reports and periodic reports were not submitted within the time frame specified in the grant agreement. Periodic reports should be submitted within 45 days after the end of each reporting period.

92. The grant agreement requires that all income incidental to grant activities should be recorded and used for program activities. The OIG noted that the income from the sale of tender documents for grant procurements was not accounted for nor used for program activities as required by the grant agreement. 40% of the money collected was transferred to the Zambia Public Procurement Authority (ZPPA). The OIG has calculated the amount owed to Global Fund grants of ZMK 357 million (US\$ 77,717). This amount should be recovered.

93. Proper books of account were not maintained as required by the grant agreement. The OIG noted expenditure amounting to US\$ 35.6 million without supporting documentation. Also the OIG noted expenditure worth US\$ 1.27 million that was ineligible i.e. not in the approved work plan and budget and US\$ 880,000 of irregular expenditure relating to excessive allowances paid and the hiring of venues to undertake procurement evaluations.

94. MOH does not assess the capacity of SRs to implement program activities before disbursing funds to them. While MOH management feels that PHOs and DHMTs are part of the MOH financial system and so do not need assessment, there is a need in the OIG's view, to assess the capacity of these institutions to identify what support they would require to implement programs effectively and enable them to account for the funds and report as required. MOH also did not enter into sub grant agreements or MoUs that stipulated how funds would be spent.

95. The grant agreement requires the PR to ensure that expenditure using Global Fund grants are exempt from taxes and duties imposed in the host country. Some Provincial Health Offices (PHOs) and District Health Management Teams (DHMTs) are paying VAT on purchases made from grant funds. MOH has obtained exemption from payment of VAT but the OIG did not see evidence that this status had been communicated to the PHOs and DHMTs. Failure to exercise this option by the PHOs and DHMTs implies that less money is available for program implementation.

96. MOH did not comply with the local taxation laws to deduct and remit Pay As You Earn (PAYE) from the staff paid from program funds. No employees on the US Dollar payroll remitted PAYE during the period under review. This raises the risk of penalties.

### **Recommendation 3 (High)**

*MOH should ensure compliance with the Global Fund grant agreements. The conditions set out in the grant agreements are meant to safeguard Global Fund assets and reduce the risks that the Global Fund grants are exposed to. Failure by the PR to comply with the conditions in the grant agreement leaves the grants exposed to the risk of financial loss.*

### **Financial management**

There were inadequate controls in the financial management function to safeguard grant resources. The financial policies and procedures were last updated in 1992 and were not reflective of the environment in which grants were being implemented. The procedures did not provide the required guidance for financial matters. The financial records were only maintained to the level required to generate donor-specific reports. Management did not obtain financial reports to aid its oversight role. Financial systems at MOH were manual and the records maintained by the units could not be reconciled.

97. The Accounts team at MOH is headed by a Chief Accountant assisted by a Principal Accountant. Two Accountants and two Accounts Assistants were recruited to assist with the grant work. Funds are disbursed by Global Fund to the MOH US\$ accounts for the respective Round being funded. MOH maintains accounts in both US Dollars [USD] and in Zambian Kwacha [ZMK] for each Round and for each disease. For funds to be spent in ZMK, funds are obtained from the USD account and sold at market rates to obtain ZMK which are banked in the ZMK account.

98. The Finance Manual at MOH was last updated in 1992. MOH has a manual accounting system. The grants records are maintained in Excel spreadsheets with no back ups prepared. The spreadsheets are not protected and are susceptible to changes as and when the Accountants deem it necessary. The maintenance of records in MS Excel spreadsheets lacks checks and balances, is prone to errors and manipulation and therefore susceptible to fraud. A computerised system would ensure; (i) restricted access to the accounting information; (ii) audit trail for any entries into the system especially for past periods; (iii) reconciliation of information in Accounts and other units like the procurement and Grants office; (iv) completeness and accuracy of information; (v) generation of timely analytical reports that will facilitate informed decision making; and (vi) security of the records through back ups.

99. Currently, MOH does not reconcile its information with that maintained by other related units e.g. procurement or Grants unit. At the time of the audit, the procurements list could not be reconciled to the cash book from the Accounts unit. Without reconciliations, the OIG is unable to give assurance that the records presented to the OIG are accurate and represent a comprehensive record of the financial transactions that occurred.

100. The OIG noted that the approval process for payments happens before the verification process. The Permanent Secretary approves the payment requisition and the associated memo from the Director of the respective requisitioning directorate before these documents have been verified by the Accounts unit. The payment requisition and the associated memo only proceed for review and generation of a payment voucher by the Accounts unit after the PS's approval. The PS is, therefore, not placing reliance on the existing system of checks and balances provided by the Accounts unit and internal audit staff since approval is done before verification.

101. Two signatories are required to authorise a cheque withdrawal for each MOH bank account. MOH has two panels of signatories made up of five individuals each, one of directors and the second one of senior accountants. The requirement is that each panel provides one of the signatories for a cheque withdrawal from any of the MOH accounts. This number of signatories for each panel of signatories is high thus defeating the purpose of the control. It also creates the risk that managers will sign for payments that they are not responsible for or that they do not have the necessary information on to approve.

### **Recommendation 4 (High)**

*(a) The MOH finance manual should be updated to ensure it guides the capturing, recording and reporting of financial transactions in a timely manner. MOH should obtain a computerised accounting system that can maintain and reconcile records for the multiple programs in MOH.*

*(b) The Permanent Secretary should review and approve payment requisitions only after they have been reviewed and cleared by the Accounts unit. The verification by the Accounts unit will provide assurance to the Permanent Secretary that the transaction is within the budget and has adequate support.*

*(c) The panels of signatories should be decreased to two individuals per panel and these signatories restricted to specific accounts which they are responsible for.*

102. At the time of the audit, MOH was holding unaccounted for imprest advances amounting to ZMK 7.96 million [US\$ 1,730,434] and some were advanced in 2007. Financial Regulation No. 96 requires officers to retire imprests within two working days after the activity for which the imprest was advanced. The OIG also noted that the Accounts Unit did not review all imprest accountabilities at the time of retrieving them. Additional advances were also given before prior advances were accounted for. This is contrary to financial regulation 96 that states that staff with outstanding advances should not be given additional advances.

103. The OIG noted that MOH had advanced money to institutions as SRs that were not part of its network of program implementation as detailed below:

- (a) ESU School of Nursing, a private company, received ZMK 564,576,048. ESU is under investigation by the Anti Corruption Commission for fraudulent dealings with MOH.
- (b) Mungwi HIV/AIDS Project, a CBO, received ZMK 155,098,500 and was also under investigation by the police for embezzlement of the funds advanced to it.
- (c) The MOH also advanced ZMK 420,900,000 to Mututa Memorial Day Care.
- (d) The MOH further disbursed funds of ZMK 676,111,755 [USD146,981] to the CCM Secretariat without approval from the Global Fund.

The funds disbursed above were not part of the MOH work plan. All funds advanced for activities not included in the MOH work plan should be refunded.

**Recommendation 5 (Significant)**

(a) *Staff should account for imprests in accordance with the financial regulation in place. The retired imprests should be reviewed by a senior official and initialed as evidence of review. MOH management should enforce the financial guideline that requires staff with outstanding advances not to receive additional advances. MOH management should pursue the retirement of imprests and submit cases of delays to the Permanent Secretary to institute disciplinary action as recommended in the Financial Regulation.*

(b) *MOH should not advance grant funds to organisations outside its Program implementation network of PHOs, DHMTs and health institutions. Where MOH requires specialist services from an organisation outside its network, the selection should be done through the procurement process. MOU should refund the total amounts involved i.e. USD 394,932 to the Global Fund.*

104. The OIG audit noted that allowances were paid to staff for performing work which is within their ordinary duties performed at their station of work. These allowances were paid using the subsistence daily allowance (SDA) rate advised by GRZ for payment to individuals performing work away from their station of work for a period of 8 hours. Although management explained that these payments were compensation for long hours worked by staff, they were unable to explain how the rate was arrived at and how many extra hours individuals worked to justify this amount or the approval process for this extra time. Allowances paid in these circumstances for ordinary office work totaled ZMK 1,236 million (US\$268,695). Tender evaluations were held off the office premises leading to unnecessary costs. The total cost incurred in these evaluations was ZMK 322 million (US\$70,000)

105. Subsistence day allowance (SDA) paid out to a sample of MOH staff involved with the Global Fund grant was analysed for the two months of January and February 2009. The total working days for January and February 2009 were 42 days. However the number of days claimed for the staff sampled are detailed in the table below. These cases have been referred to the Anti Corruption Commission.

Position	SDA days paid for Jan & Feb-09	SDA received ZMK
Case A	213	2,140,000
Case B	341	9,810,000
Case C	147	37,940,000
Case D	89	27,200,000

**Table 3:** Irregular payment of allowances [Source: MOH records]

106. Tender evaluation costs for the selection of the project manager and the selection of the Contractor for the construction of a Blood Bank at Kabwe were charged in both the SR's accounting records and also in MOH records. The SR, Zambia National Blood Transfusion Service, filed the original supporting documents and copies of these documents were filed at MOH. The total amount of ZMK 41 million (US\$8,913) was drawn on Cheque No 65 of ZMK 8 million by Jane Banda and Cheque No 36 of ZMK 33 million by Nalwimba Namundi. This double payment should be refunded to the Global Fund.

### **Recommendation 6 (High)**

(a) *Management should not pay allowances for ordinary office work to employees. Where compensation is required for long hours worked, the arrangement should comply with the applicable government regulations and the amounts incorporated into the MOH budget. Management should also avoid excessive expenditure, for example, holding tender evaluations off the office premises. Payment of allowances should also be aligned to the practices of GRZ and other CPs in the health sector.*

(b) *MOH Management should investigate the purpose of these SDA payments with a view to identify any cases of abuse. Should any cases of abuse be discovered, the individuals should refund the money and disciplinary/criminal action be instituted against them.*

### **Allegations of fraud at the MOH**

#### The allegations

107. In March 2009, a fraud at the Ministry of Health was reported, through a whistle blower. The allegations were related to fraudulent procurement practices that led to loss of program finances and involved funds from the Expanded Basket Fund and of the Global Fund.

#### Reactions by the Government and CPs

108. Following this allegation of fraud, the Office of the Auditor General was commissioned to carry out a forensic audit covering specific cases of procurement for the period 01 January 2007 to 31 May 2009. The exercise was completed in July 2009 and OAG report revealed that over ZMK 36 billion could not be accounted for by the MOH. Of this total, ZMK 1.98 billion related to the Global Fund grants. The report recommended prosecution of certain officials of the Ministry that had caused financial loss to government. At the time of the audit, a number of officials at the MOH had been suspended.

109. Following the report of suspected fraud, the key funding Cooperating Partners to the Basket Fund, Sweden and the Netherlands, suspended their funding to the Zambia health sector. According to the 2010 national Budget released in October 2009, the health sector had suffered a reduction in its funding from cooperating partners by over 25% for the FY 2010.

110. In July 2009, the Global Fund temporarily withheld all disbursements to the Ministry of Health. In August 2009, the Global Fund required all expenditure through the Ministry accounts to be pre-verified by the LFA before payments out of the accounts could be made. However, the OIG noted that MOH did not comply with this requirement as payments were made out of the Ministry bank accounts without the knowledge of the LFA or the Global Fund.

111. In July 2009 MOH signed a Governance Plan which sets out a roadmap to ensure adequate mechanisms were established to safeguard the resources of the sector. The Plan included, among other aspects, a commitment to refund all funds that were reported as lost through the alleged fraud at the MOH. The ministry further committed to commission three audits that would cover systems, procurement and

financial aspects. The OIG noted that although the terms of reference for these audits had been approved by both the CPs and the Ministry, there were no clear indications at the time of the OIG audit about when these audits would commence. Discussions with the OAG indicated that the OAG was ready to commence the audit exercise but had not received instructions from MOH.

112. While MOH is keen to improve its financial management capacity, the process will take some time and must be in line with other GRZ initiatives coordinated by the Ministry of Finance and National Planning. The Governance Plan indicates the activity, the target start date, target completion date, the performance measure, means of verification, responsibility and the resources required. There were no documented updates of the plan at the time of the OIG audit. The Global Fund should reassess the capacity of MOH to safe-guard the grants and to also maintain and provide accurate financial reports on Program activities.

### Investigation work done by the OIG

113. The OIG conducted investigation missions to Zambia in July and September 2009, in order to gain a fuller understanding of these allegations and a clearer indication of the level of risk to grant funds. The OIG has sought to engage with the national authorities (Anti Corruption Commission (ACC) and police), in relation to the scope of their investigations and possible expert assistance from the Global Fund and other funding partners. The response received was extremely disappointing, with the national authorities failing to provide assurances of appropriate action regarding fraud against Global Fund grant programs.

114. In October 2009, the OIG audit team uncovered what was suspected to be further evidence of irregularities and fraud within the Global Fund grant programs in the MoH, in particular what appeared to be multiple fraudulent allowance claims by senior members of the MoH staff. An OIG investigation team was deployed to the country and, in November 2009, referred comprehensive evidence to the Zambian ACC. Further investigations by the OIG are in progress.

115. The OIG remains in the dark regarding the scope of any investigations being conducted by the ACC or police, that stem from the original whistleblower allegations, or whether their efforts extend beyond those persons originally named as suspects. Similarly, despite numerous requests, the OIG has not received any feedback on the clear evidence of fraud against the Global Fund that was formally referred in November for criminal investigation.

116. In both cases, the OIG is unable to report with any confidence on the capacity, will or efforts of the national authorities in conducting timely and appropriate investigations. The OIG is therefore unable to provide assurance as to the safety of investing further funds through the Ministry of Health while the issues surrounding the investigations by national authorities remain unresolved.

### What allowed the frauds to occur?

117. Although understanding what may have contributed to the alleged fraud was not part of the OIG audit ToRs, the OIG sought to understand what allowed the fraud to occur in order to understand the environment within which the programs were

being implemented. The OIG has not undertaken a comprehensive review of the frauds but based on its work, notes below the weaknesses that may have contributed to the frauds.

118. The Ministry of Health has established systems. There are manuals that contain policies and procedures to guide implementation and the Ministry has set oversight structures to supervise the programs. However, a review of the OAG's forensic audit report revealed that the structures, systems, policies and procedures put in place were not operational and therefore do not in practice safeguard resources. This observation has been reinforced by the findings of the OIG audit.

119. The OAG report points to collusion which included senior management in the MOH. The OIG's review revealed that the cases of mismanagement of funds at the MOH were perpetuated over a long period of time with limited evidence of senior management at the MOH demanding accountability from program managers. There was delayed reporting that was not followed up, the financial management systems remained manual exposing funds to abuse and several cases of non compliance were not followed up. In some cases senior management was involved in the abuse of funds, including payment of irregular allowances. Several transactions that did not comply with laid down regulations and guidelines were often approved by senior management creating a high risk grant operating environment. The OIG did not see evidence of commitment by Senior Management to ensure that financial regulations were complied with.

120. The capacity in the financial and procurement functions was also found to be particularly weak in terms of the numbers and skills deployed. At the time of the audit, the finance function was housed under the directorate of HR with no real power to control expenditure. The procurement function had not had a substantive Head for a long period of time weakening the oversight in this function. This created a laxity in the controls that should have been in place to act as a check to any mismanagement of funds.

121. The mechanisms put in place to ensure a strong internal control environment were also not effective. As already mentioned, the internal and external audit mechanisms in place were not effective due to their staffing, the tasks they undertook vis a vis their roles within the MOH, their independence etc. There were no additional safeguards put in place to ensure that the funds were used as required e.g. value for money audits, tracking studies etc. The Sector could also have benefited from more regular financial, procurement and programmatic audits.

122. The Sector Working Groups concentrated on the programmatic aspects without paying attention to the financial aspects. Whilst meetings were held regularly, there was lack of specific focus on program performance and how this was linked to the sector investment. The value of money secured from the investment in the health sector (specifically through the Basket fund) did not feature satisfactorily on the agenda of these meetings leading to a weak oversight role.

123. Senior management at MOH has been changed since the alleged fraud occurred. There have been efforts by government to demonstrate commitment to improve the control environment at MOH. However, the OIG noted that the Ministry continued 'business as usual' as it continued to undertake transactions that were non compliant with regulations. At the time of the audit in October 2009, the Ministry was still

spending without following the requirements issued by the Global Fund and Government regulations.

124. The current SWAp arrangements require strengthening especially in the areas of oversight, financial management and procurement. Support should be provided in setting up more functional and reliable financial management and procurement systems. Whilst the Global Fund subscribes to the principles of the Paris Declaration, the OIG cannot give assurance over the current SWAp mechanisms in Zambia for the Global Fund to invest through such systems. The CCM should work closely with the sector governance structures to map out a process for enhancing the alignment and further harmonisation of the Global Fund supported programs to the sector mechanisms.

125. The OIG notes that the Ministry of Health as lead sector PR, requires substantial capacity development in the areas of governance, financial management and procurement to effectively deliver on its mandate. A comprehensive needs assessment should be undertaken on overall Health structures, systems and processes and a prioritized action plan developed on how capacities can be developed. The CCM should consider establishing immediate interim arrangements to cover financial, procurement and supply management. However, in the short term, immediate action is needed to bolster financial and procurement capacity by putting a capacity building and a transitional plan in place to transfer all responsibilities to the Government over time. This calls for commitment from Government and CPs.

### SR management

While the MOH spends 70% of the total grants at MOH head office, especially on procurement of health and non-health products, 30% of all grants are disbursed to PHOs, DHMTs and government health institutions. MOH does not have policies and procedures to guide SR management. No capacity assessments are undertaken for SRs; there are no documented criteria for determination of the amount to be disbursed; no advance ledger account is maintained for disbursements; and there is no reliable system to monitor performance and ensure regular reporting from SRs.

126. The Zambia public health system is based on a model of 9 provincial offices and 72 districts, each with a district health management team (DHMT) guiding and giving oversight to implementation in health facilities in the district. Implementation takes place through a system of provincial and district hospitals, urban and rural health centres of varying sizes. In 2008 there were 1,564 health facilities. Of these 1,355 were government owned health facilities, 92 were private facilities and 117 mission facilities.

127. MOH does not categorise PHOs and DHMT as SRs but as part of the MOH network which are therefore reliant on the MOH financial processes. Capacity assessment is not undertaken for any of the SRs and no grant agreements or MOUs have been signed to provide guidance on how money should be utilized. The SRs did not have specific budgets against which disbursements were effected nor were targets set for them against which their performance would be measured.

128. There was no documented criteria on how MOH determines the level of funding to SRs. These amounts were determined by the Program Officers based on the

conditions for each area, for example, disease burden, population density, funding to the area from other partners, capacity to implement programs, etc. These factors were not documented and choice of parameter is at the discretion of the Program Officer. The decision making therefore varied by disbursement, grant and disease. The MOH had a basis for funding running costs at PHOs and DHMTs and this can be built upon in order to identify parameters against which program related disbursement can be effected.

129. Poor past performance and unliquidated advances were not considered in making the decision to disburse. The Accounts and M&E units are not involved in the decision making for disbursement. In the OIG's view these units have the best information on fund utilisation and reporting which should form the basis for the criteria for disbursement.

130. The Global Fund grants are disbursed for specific work plans and budgets approved at the start of the grant. The grants disbursed to PHOs, DHMTs and government health institutions should be applied to activities consistent with these work plans. However, the OIG was informed by the PHOs and DHMTs that sometimes they do not receive work plans on how the Global Fund grants disbursed to them by MOH should be used. In these instances, funds sometimes remained unutilized.

131. The Accounts unit was responsible for following up on accountability reports but currently has no system in place for monitoring the status of accountability of SRs and ensuring regular reporting from them. No advance ledgers were maintained for amounts disbursed. Funds are tracked by disbursement and not by expenditure. The OIG noted that there was irregular reporting by the SRs and no evidence that the reports submitted by the provinces or districts were reviewed. According to the report register, districts like Katete, Chadiza, Mwense, Chiengi, Milenge, Nchelenge and Mambwe had not submitted any reports for 2008 and 2009. However, these DHMTs continued to receive funding from MOH.

132. There were weak and sometimes non existent links between the program and finance reports. The Program Officers did not review financial reports to understand the funds spent to achieve the results. The Accounts team did not have access to the Program reports nor does it prepare a budget variance analysis report which would have given it an overview of the cost of the activities being implemented. This was a missed opportunity for improved decision making based on known unit costs of running the programs.

133. While achievement of results suggests that the operations are effective, it may not measure efficiency and the economy of the operations unless the analysis extends to the funds invested to achieve the results. It is therefore important that a link exists between the Program reports and the finance reports. It is one of the ways the Global Fund can get the assurance that it is getting value for money from its investment.

### Findings from the field visits

134. The OIG team visited 6 provincial health offices, 14 district health management teams and 4 health institutions to confirm that the Global Fund grant operations at these levels are being managed economically, efficiently and effectively. On these visits therefore, the OIG sought to understand the role of the

PHOs and DHMTs from the budgeting stage through implementation and finally to reporting. The achievements reported by the programs were also verified with the beneficiaries at these levels. Some of the issues noted are listed in the paragraphs below.

135. *Commingling of funds:* Provincial health offices (PHOs) like Kabwe PHO, Ndola PHO and Livingstone PHO and the District Health Management Teams (DHMTs) like Kafue and Masaiti receive funds from MOH for all their activities as a lump sum. This amount is sent by EFT to an operational account that is held by the PHO or DHMT. Although the funds are commingled, the PHOs and DHMTs monitor use of the funds on that account using a ledger card system to track the balance of funds for the respective programs.

136. *Ineligible allowances paid to staff:* During the OIG visit to Kabwe PHO, it was noted that staff were attending workshops and receiving Subsistence Day Allowance (SDA) for workshops attended within Kabwe town. These staff do not qualify for this SDA as they were still working in their duty station.

137. *Use of Global Fund grants to pay VAT:* While MOH has received a tax exemption from Zambia Revenue Authority (ZRA) regarding the value added tax and other institutional taxes, this message has not been communicated to the SRs. At Livingstone PHO and Kabwe PHO, payments made to the hotels for the venues and conference facilities were all VAT inclusive. The sub grant agreement states that Global Fund grants shall not be used to pay taxes. MOH needs to communicate the exemption to the SRs.

138. *Unretired imprests:* Masaiti DHMT, Mwense DHMT and Mansa PHO, were carrying unretired imprests that were outstanding longer than the mandatory 2 days, at the time of the OIG visit.

139. *Non competitive procurements:* While the provinces and district offices are not expected to engage in significant procurements, they should still follow competitive procurement practices when selecting hotels for hosting workshops and trainings, or purchasing other items for consumption. Quotations from several suppliers offer the buyer a choice at a better price and better quality. For the procurements at Kafue DHMT, Mansa DHMT, Ndola PHO and Kabwe PHO, the OIG was unable to obtain evidence that there had been competitive procurements for all the purchases.

### **Recommendation 7 (High)**

(a) *The MOH should use internal and external assessments undertaken within the Ministry as part of monitoring [e.g. the Joint Annual Reviews] to identify the entities that have weak capacity and should benefit from closer supervision and capacity building. While it may not be reasonable to have MoUs with all these entities receiving funds, MOH should issue guidelines to PHOs and DHMTs on how the funds should be utilised.*

(b) *MOH should document the criteria that will be used in determining the amounts to be disbursed to the respective SRs. Documented criteria will ensure that there is consistency in disbursement making and also increase transparency with which funding decisions are made. Disbursements to the SRs should be accompanied by detailed work plans on the activities to be implemented in order to ensure that the grants are utilized for the purpose they were advanced.*

(c) *Guidance should be given to the SRs on the use of the Global Fund grants, defining the obligations expected in order to strengthen the controls over funds utilised. A reporting template should be provided to SRs to enable them to provide standard reports and therefore facilitate faster review of accountability reports.*

(d) *Accountabilities from SRs should be followed up and where there are unusually long delays, disbursements should be tied to submission of accountabilities. Regular review of the accountability reports from the SRs should highlight such issues and constructive feedback should be provided to them. Where there is a need, capacity building should be provided to the SRs by the accounting team at MOH in charge of Global Fund grants. The MOH Accounts unit may also opt to use the PHOs as the first point of review for all DHMT reports to lessen the workload at the center.*

(e) *MOH Senior Management should establish a link between the grant amount utilised and the results achieved so that efficiency in utilisation of funds can be monitored. Program Officers should be trained in basic financial management for non-finance managers so that they can understand and appreciate the financial reports regarding their programs. The Accounts team should be granted access to all information required for them to prepare analysis of the Programs.*

### Procurement and logistics management

#### Overview

Zambia has a good legal framework for the selection of suppliers. The Public Procurement Act, rules and regulations are clear with adequate national guidelines that are based on best procurement practice. The MOH has also had many interventions in the PSM function aimed at strengthening capacity and ensuring that procurements are undertaken in an efficient and effective manner.

140. The procurement and supply system has always been supported by a legal framework of the Procurement Act, rules and regulations since the start of the grants in 2003. Between 2003 and 2006 when CBOH was PR, the procurements for the public and grant funds were then under the supervision of the Zambia National Tender Board (ZNTB). The Procurement Act of 2008 has repealed the ZNBT Act Chapter 394, to form the Zambia Public Procurement Authority (ZPPA). At the time of the audit the procurement rules and regulations were in the final stages of approval by the MOFNP. It is hoped that the revised legal and regulatory framework, the enhanced procurement procedures and practices, the more effective and transparent oversight by ZPPA and the establishment of the Independent Procurement Appeals Tribunal will bring back confidence in the public procurement system.

141. Several interventions have been made at the MOH aimed at improving PSM arrangements and underpinning effective and efficient procurement at the MOH. The support systems for the PSU processes and procedures include:

- (a) the World Bank providing technical support through the secondment of a procurement specialist to the PSU for the Malaria Booster Program from May 2009;
- (b) The Drug Supply Budget Line (DSBL) unit which was established in 2005 and its TORs include provision of an advisory role to the PSU;

- (c) JSI has supported the activities of commodities forecasting and implementation of a successful Logistics Management Unit for ARVs and related commodities since 2007;
- (d) Appointment of several third party procurement agents [TPPAs] to support the procurement processes;
- (e) Crown Agents has been providing technical assistance to Medical Stores Limited (MSL) and have contributed significantly to optimising the functioning of MSL. The MSL distribution capacity has been improved by additional delivery trucks funded through the Global Fund supported program. Crown Agent's previous management contract expired in August 2009 and negotiations for extension were underway by the time of this audit.

### PSM oversight and structures in place

There are PSM oversight structures in place. A Procurement Technical Working Group and a Ministerial Tender Committee is also in place. However, these arrangements are not operating effectively.

142. The Procurement Technical Working Group (PTWG) was established in 2005 to provide oversight as well as an advisory, monitoring, coordinating and supportive role to MOH. The PTWG has a balanced representation of the MOH, CPs, and MSL for logistics, RPA for regulatory issues, and NGOs. The TOR for the PTWG covers advisory, monitoring, coordinating and supportive role of the body to the MOH. The PTWG is however not effective as evidenced by:

- (a) There were no minutes of the PTWG meetings provided for review;
- (b) The PTWG failed to address the capacity issues in the PSU. The PSU did not have a substantive PSU head for a long period of time. Also the several interim PSU Heads were not actively involved in the PTWG activities;
- (c) Key activities that should drive procurement activities like the 2009 MOH Procurement Plan and Procurement and Monitoring Matrix for procurements funded by the Global Fund remained unfinalized at the time of the audit;
- (d) Key reporting requirements were not complied with e.g. the MOH has not reported its prices on the Price and Quality Reporting Mechanism from July 2009;
- (e) MOH did not have a functional procurement MIS and information was not readily available and even when it was, it was not comprehensive;
- (f) There was a lack of controls over procurement leading to financial loss; and
- (g) There were unresolved delays in procurement which affected Program implementation.

143. The Ministerial Tender Committee (MTC) was set up as per the Act, to provide an oversight role for all MOH procurement activities carried by the PSU, including the Global Fund. However, the committee was not functional until early 2009 when the current PS at MOH was appointed. The PS had put in place a plan to train and orient the MTC members to improve their effectiveness. The OIG review of the operations of the MTC revealed questionable effectiveness of the operations of the MTC as evidenced by the following:

- (a) There was no evidence of participation and contribution by all MTC members since the MTC Papers were only signed by the Chairperson, Secretary and Accountant and not other members;

- (b) There were no signed attendance registers and signed minutes of the MTC meetings;
- (c) The 'Round robin' process was followed where instead of members of the MTC sitting and deliberating on tender award recommendations, the documents are circulated to the members who simply signed and the award was considered reviewed and approved. In such instances the results were not ratified at the next meeting;
- (d) MTC members did not get enough time to review and study documents before the MTC meeting; and
- (e) The OIG noted several procurements that had been processed without due MTC approval and without signed contracts.

144. The MOH had an established Procurement and Supply Unit (PSU) that is mandated to carry out all procurements for MOH. The procurement includes medical and non-medical products, services and works. Procurement for the grants by MOH is centralized in the MOH headquarters.

145. The PSU did not have a substantive Head of Unit for over three years. At the time of the audit it was reported that the PSU had had six Heads of Unit in the last three years. A new head had been appointed in August 2009 but had not started work at the time of the audit. The OIG noted that a Senior Procurement Specialist had been seconded from ZPPA to strengthen capacity in the Unit. Three Procurement Specialists were also recruited at the beginning of 2009 for Global Fund supported Programs.

146. The OIG noted that the capacity in the PSU unit to undertake PSM activities was weak as evidenced by the following: At the time of the audit, staff were not knowledgeable about the relevant PSM policies and guidelines related to programs e.g. the Global Fund procurement policy and the procurement staff code of ethics; Skills in tender process and contract management were inadequate as evidenced by the weaknesses identified in the procurement processes that the OIG reviewed; The additional staff that were recruited to bolster procurement capacity within the Global Fund programs were involved in the procurement of goods and services not related to the Global Fund programs; the OIG also noted that the Unit lacked skills in contract management and shipping and customs clearance for MOH imported consignments.

147. Although the roles and responsibilities of procurement were clearly defined in the ZPPA, rules and regulations as well as the draft MOH Procurement Procedures manual, the OIG noted continued non-compliance by the PSU with the set procurement rules and regulations. There was no evidence that all staff and MTC Members involved in procurement signed a declaration that they had no conflicts of interest and confidentiality agreements. A review of the job descriptions of the Senior Procurement Specialist and the Procurement specialists revealed overlaps sometimes creating confusion of roles and responsibilities.

148. At the time of the audit, the MOH had not finalized the Procurement and Monitoring Matrix (PMM) as required by the Global Fund. The matrix is required for use as a monthly reporting tool for procurement progress. The draft matrix provided to the OIG did not cover all procurements as required by the Global Fund to enable monitoring of all procurements. Omissions mainly related to printing services, construction works, food rations, and hospital equipment. There was also no evidence of coordination and

reconciliation between the approved PSM Plan, budgets and work plans to ensure that the PMM was comprehensive. The matrix had not been reviewed by the PTWG and was still to be approved by Global Fund at the time of the audit. The OIG's comparison between the PSM plan and the budgets and draft PMM revealed differences in the items and quantities to be procured. The matrix did not have notes to explain the variances noted.

### ***Recommendation 8 (Significant)***

*The PTWG and MTC should be fully operationalised to provide oversight over the PSM processes in the health sector. The PTWG should work to address the obstacles to PSM e.g. capacity, delays, internal control etc. All MTC and procurement staff and evaluation committee members should sign a declaration of no conflict of interest and confidentiality agreements. The procurement code of ethics should be added to the contracts for all procurement staff. The job descriptions for the Senior Procurement Specialists and the Procurement specialists should be reviewed in line with their roles and responsibilities and reporting structure.*

### Procurement processes

149. The OIG reviewed 33 tender processes for medical products and non-medical products between 2007 and 2009. The procurement of health products was characterized by excessive delays from the inception of the programs in 2003. The delays occurred even when the third party procurement agents were used. This had resulted into the procurements for program inputs remaining in "emergency mode" which resulted in procurement processes having to be circumvented and prices tending to be higher compared to prevailing market rates.

150. The OIG's review of the selection of suppliers shows that most suppliers were identified through national and not international competitive bidding because procurements were undertaken on an emergency basis. Single sourcing was also used in the identification of suppliers as well as 'shopping' for non medical low value items. Suppliers for the 'shopping method' were identified from the ZPPA list of registered suppliers. While it is commendable that competitive bidding was done through bidding documents, the OIG noted that the content, format and wording of the bidding documents in many cases was not comprehensive to allow for the preparation of proper bids, and were often not consistent from tender to tender.

151. Evaluation of suppliers was done through evaluation committees. These committees were nominated by the Head of PSU and approved by the PS depending on the technical areas of the product to be evaluated. The composition of the committee was at times inappropriate for the respective tender evaluations i.e. where nominated members lacked the requisite expertise for the bids under evaluation e.g. the Home Based Care Kit specialist who sat in the evaluation of a motor vehicle tender instead of having the transport officer. The committee attendees also exceeded the maximum number required by the Act.

152. The OIG noted that the evaluation meetings were carried out at venues external to the MOH offices. The justification given by the Senior Procurement Specialist was that there is no confidentiality at the MOH offices and that there would be interference by the suppliers. The external evaluation committee meetings noted also took too long i.e. with staff taking 5-16 days evaluating bids. The holding

of the evaluations out of the office also meant that staff received out of office allowances and/or per diems.

### **Recommendations 9 (significant)**

*All tender evaluations should be held at MOH premises. To make the process more effective, the PSU staff should carry out bid examinations and preliminary evaluation before the evaluation committee meets. The evaluation process should be strengthened by nominating appropriate members to the committees and ensuring that the number is restricted to the recommended number of 8 as per regulation.*

153. The OIG noted several instances of non compliance with the PSU and donor set regulations as detailed below:

- (a) There was no proper record keeping system in place. The tender process files for CBOH were not made available to the OIG for review. The OIG noted that there was inadequate security for bidding documents. Some bidding documents were kept on top of cupboards. Additionally, there was no evidence of a register for bids received by courier or post. There was incomplete information on how much was collected from the sale of bidding documents.
- (b) The Global Fund set a requirement in March 2009 that procurement requests were to be submitted to the LFA for verification after review by the PTWG and before contracting. However, the OIG did not see evidence that the MOH sought "No objections" for the procurement of medical products before contracting as required. For example, the MOH submitted a procurement approval request to LFA in August 2009 that included contracts which had already been executed. Retrospective approval had not been provided by the Global Fund at the time of the audit.
- (c) MOH is not reporting to the PQR, a requirement for grant disbursement.

154. The OIG noted that processes are not standardized because there are no procurement process SOPs in use. Draft SOPs were under review pending finalisation at the time of the audit. This process was facilitated through funding from the PATH program. The OIG also noted that the following standard steps as per ZPPA rules and regulations were not followed in tender processing:

- (a) Completion of the intent form and sending this to the secretary of the tender committee;
- (b) Approval of availability of funds is sought before procurement;
- (c) Having a realistic period for delivery of goods;
- (d) Submission of confirmation of availability of funds to the secretary of TC;
- (e) Inclusion of the E-Record of the intent in the procurement intent register;
- (f) Scrutinizing the intent form for completeness and correctness;
- (g) Bid opening minutes to record total number of bids received; and
- (h) Explanation of how late submission of bids, modifications, withdrawals, were handled.

155. The OIG further noted that MOH had made irregular procurements, details of which are provided below:

- (a) Procurements that MOH carried out when they were supposed to use a procurement agent (PA ): (i) From Aspen procurement ARVs of US\$ 1,381,536.00 in February 2009, Minutes of the MTC were not signed by the

Chairperson. This was single sourcing and stock was received at MSL in May 2009; and (ii) Procurement from Cipla for ARVs for USD 233,280 in February 2009, for which full payment had been made but for which no delivery had been made at the time of the audit.

- (b) MOFNP requested MOH to procure commodities including ambulances in October 2008. The OIG noted that the technical specifications of the ambulances were poorly drafted and did not reflect the unique features of an ambulance. Signatories to the evaluation report for procurement of the ambulances were not appointed by the PS. The Ambulances delivered to MOFNP/PMU in October 2009 at a cost of USD 577,010 were Nissan Patrols passenger cars with slight modifications made to supposedly make them ambulances. The OIG noted that the ambulances delivered did not meet the technical specifications and observed that the 'ambulances' were not fit for the purpose for which they were procured.
- (c) With regard to the procurement that was under investigation by the ACC i.e. mother baby Kits, the OIG noted the following; (i) the quantity in the budget was for 400 but the tender advertised for 50,000; There were no explanations for the changes in the quantities; (ii) Specifications of the kit were changed during the tendering process; (iii) The units awarded for procurement was 100,000 with the lowest bidder Melcome being awarded 50,000 and another contract being awarded to Kahekam for additional 50,000 units. No reason was provided for not awarding the whole contract to Melcome; (iv) Kahekam was paid 90% (K1,980,000,000) advance instead of 10% as per contract; and (v) The kits had not been delivered at the time of the audit.
- (d) There were procurements made that were outside the approved work plan and budget e.g. (i) procurement for blood bags for US\$ 89,017.18 awarded to SSEM; and (ii) 56 motor vehicles, 2 ten tonne trucks and 8 two tonne trucks.
- (e) There were instances noted where the procurements made were in excess of budget e.g. the Mwachisompola construction with a budget of K1.25 billion for which a contract was signed with Kegen Services for K2,73 billion. Under HIV R1 P2 grant, 19,896 HBC kits were procured instead of 7,568 that were in the budget.

156. The OIG noted that MOH had not effectively coordinated related procurements through GRZ and Global Fund grants. There was no documentation to indicate the consolidation of such procurements. This created confusion at the point of paying for supplies, with transactions reversed in some cases after payment had been done. Some transactions had cases of alteration of quantities caused by uncoordinated multiple procurements especially in the procurement of vehicles.

157. There was no defined supplier contract management system to enable PSU to track, monitor and evaluate supplier performance. Advance payments were often made in contravention with contract terms. Examples of such payments were payments to Toyota, Kahekam, Scientific, Bayer and Top Motors of 90-100% of the contract price when the advance should have been 10%. There were also no formal record of contracts status nor was there a systematic follow up of supplier's contracts. Staff followed up contracts without proper justification. Accurate and

complete order status information was not readily available at the time of the audit. There are no specified supplier performance records to enable supplier performance monitoring and subsequent enforcement of contract penalties. While the average delivery dates stated in the contracts was 6-8 weeks for most tenders, the actual lead times ranged between 5 weeks to over a year.

158. The PSU was assessed as lacking capacity to procure and the Global Fund required that MOH use TPAs for procurement of health products. MOH contracted UNICEF, Missionpharma, WHO and IDA as TPAs from 2003. The contracts were managed through signing of MOUs. The OIG noted cases of partial deliveries on contracts with no evidence of follow up by MOH. In most cases full payment had been made before delivery of goods. There were also often delays caused by a breakdown in communication between the TPA and the MOH.

159. The OIG noted that weak capacity at the PSU to manage the TPA contracts often resulted in delays in the procurements. The following generic weaknesses were noted for TPA services:

- (a) The roles and responsibilities for each party were not fully defined;
- (b) Shipping instructions were not specified, thus deliveries for UNICEF were not easily identifiable because the relevant Global Fund contract numbers were not included on the invoices;
- (c) There was no inclusion of scheduled reporting by suppliers;
- (d) There was no evidence of coordination meetings being held during the implementation of contracts;
- (e) There was no evidence that MOH confirmed the technical specifications, quotations etc before procurement was done;
- (f) MOH did not appoint account managers for the TPA contracts; and
- (g) There were no recording systems maintained for the TPA services.

### **Recommendation 10 (high)**

- (a) *Refunds should be provided for all procurements that were (i) outside the approved work plan and budget; and (ii) related to the cancelled Kahekam contract.*
- (b) *MOH should comply with laid down policies and regulations in order to strengthen the internal control environment in which procurements take place. The PQR should be completed in accordance with Global Fund requirements. MOH should designate secure and appropriate bidding documents storage area, with a defined filing system. The system should specify the period of storage before disposal of bidding documents.*
- (c) *A supplier contract management system should be put in place in the PSU. The system should define the contract management parameters, the tools for contract management, the responsible staff for contract management, procedures for reporting and tracking supplier performance, procedures for enforcing penalties for non performance or non-compliance and the record to be maintained for supplier performance management. Contract management of TPAs should also be strengthened.*

### Storage and distribution system

The storage and distribution system is functioning well for the TB drugs and ARVs and related commodities. However for the Malaria program, the storage and distribution system is not effective with the exception of the distribution of LLINS that was coordinated by NMCC.

160. The Zambia public sector has one central storage and distribution point in Lusaka. The MSL is the storage and distribution agent for medical products for the public sector. The distribution is done from Lusaka to all provinces and districts of the country. The DHMT offices act as the district depots for the district health facilities and are responsible for the subsequent distribution to health facilities. Transport for distribution at district level is a challenge, resulting in cases where consignments pile up at the DHMT. PHOs and DHMTS do not have contracts with third party transport providers for delivery of emergency orders.

161. MSL has a defined monthly delivery schedule. Districts and hospital that order directly from MSL have to submit their orders in line with the order processing and delivery schedule of MSL. This has resulted into emergency orders that were not delivered by MSL. The service centers are asked to collect emergency stock from MSL which is not cost effective for the service centers that are in the hard to reach areas or they have to wait for the scheduled monthly order time.

162. MSL has signed an MOU with Crown Agents to manage the storage and distribution function. The OIG noted that contract had expired in August 2009. Discussions were underway with the MSL Board at the time of the audit to renew the management agreement.

163. Based on the established LMIS for ARVs, Test kits, PMTCT supplies and laboratory products, information on stock status and quantities required flows from the service point through the DHMT to the LMU. The consolidated information is used for inventory decision making e.g. forecasting and quantification of the commodities by the MOH and redistribution of stock where there is overstocking. The Logistics Management Unit is stationed within MSL. The unit is getting technical support from JSI and the project is going on well. There is no LMIS for anti-malarials. Anti-malarials will only be included in the LMIS after a pilot and is being funded by World Bank. The pilot is due to be evaluated and rolled out in 2010. TB drugs and commodities have their own LMIS. No documentary evidence was provided for the system in place though it was reported to be working well.

164. The inventory management system for commodities is functioning well at the central level. Several challenges have affected effective inventory management system at service level. The MSL uses the MACS computerized system for inventory management, storage and distribution management. Some districts have computers although these are not being used for inventory management due to lack of appropriate software. Where computers are in use, the inventory data processing was MS Excel based and the systems were not adequate for effective and efficient inventory management. The inventory management system is able to capture and report on stock status, slow moving items, short dated stock, expired stock, stock receipts and issues.

165. Despite the MOH policy that service centers must keep a buffer stock of one month stock, stock outs were reported for RDTs, cotrimoxazole, ARVs, e.g. tenofovir was out of stock in Chibombo district for two months at the time of the audit. TB drugs also recorded stock outs for rifampicin capsules. Coartem was also reported to get out of stock at times. The reasons for stock outs were unexpected increase in demand and at times to stock not being available at MSL.

166. Inventory management reports produced and circulated by the LMU included overstocked facilities, non-reporting facilities, and excessive quantities distributed. These were also distributed to other stakeholders e.g. CRIS, ZPCT, CHAZ, JSI. It is not clear how and at which point MSL/LMU send inventory management reports to MOH.

167. The risk of stock expiry within the supply chain was assessed as high at all levels of the supply chain. An adequate policy structure has been put in place for inventory management. All levels of the supply chain are required to store and issue stock according to first-expiry-first-out (FEFO) rule as a stock management technique. The program manages and issues stock according to FEFO inventory procedures at all levels. In addition the MSL computer inventory management system does not accept stock with less than three months expiry at receipt.

168. However stock expiry has been recorded at all levels of the supply chain and this includes ARVs and laboratory items. Expired stock from Liteta Hospital included Lamivudine tablets and solution, Abacavir, nevirapine syrup, and stavudine syrup. The reasons for expiry is poor implementation of the inventory management policies, and shortage of manpower at health facilities to manage logistics. The shortage of appropriate storage space had resulted in poor stock rotation and thus stock was short dated or had already expired. Quantification of expired ARVs and related commodities could not be done due to lack of complete data from health facilities.

### ***Recommendation 11 (significant)***

*MOFNP and MOH should finalize the management contract with Crown Agents. MSL should provide for the handling of emergency orders, to enable service centers get supplies in cases of emergency situations. PSU and MSL should establish a report sharing mechanism that will inform LSU of the stock status and a trigger for procurement. The MOH should re-enforce the use of the FEFO rule for storage and issuing of stocks at service levels.*

### Quality assurance processes

169. All pharmaceuticals imported into Zambia should be registered with the Pharmaceutical Regulatory Authority (PRA). For items not registered fast track applications are possible or can be sought from PRA. There were no applications for fast track registration or waivers for registration for grant products. With regard to inspections and licensing, MSL has been inspected and awarded with a wholesalers' license as confirmation that Good Distribution Practices were being followed by MSL.

170. With regard to pharmaco vigilance, a pharmacovigilance department has been established at PRA but its effectiveness was limited by staff shortages. There was no Expert Review Committee to review the ADR Reports and give advice. It was reported that there were reports for ADR for ARVs and Coartem but these were not available

to the OIG for review. The OIG also noted that the National Quality Assurance laboratory at PRA has no capacity to carry out QA activities for ARVs and FDCs.

171. MSL reported that they use the services of Pharco Laboratory for other drug quality testing. The laboratory is however not validated and has no WHO laboratory status. MSL also employs physical inspections of goods by Pharmacy personnel to check on expiry dates and physical appearance of goods, appropriateness of packaging and labeling; before goods are released from quarantine. There is a product recall procedure that MSL uses to recall defective products.

172. At the bidding stage of procurement, the technical specifications for ARVs, LLINS and RDTs require that products be WHO-Prequalified. The OIG noted a procurement for LLINs which was done from a non-WHO prequalified supplier, Field York. The nets were later sent through WHO to Portugal (company name not given) for Quality Assurance (QA) before payment and acceptance. This non compliance increased the transaction costs on the procurement. The Zambia Bureau of Standards (ZBS) is currently carrying out QA for condoms. It can also be used for developing technical specifications for medical equipment if required.

### **Recommendations 12 (significant)**

*MOH should use the services of WHO prequalified laboratories for QA of pharmaceuticals procured until PRA has built capacity to enable it to carry out the required QA tests.*

### **Public Health aspects**

*Overall the public health system appears to be working reasonably well. There are trained personnel in place, with knowledge and skills to deal with the three diseases of HIV, TB and malaria. Drugs are generally available, although it was noted that there were stock-outs of basic drugs, indicative of problems with the supply chain management system.*

*Although each of the three programs has clear guidelines for the expected achievements and implementation of HIV, TB and Malaria programs these guidelines for the most part, for all three diseases, were not available at facility level. There are two major systemic obstacles facing the improvement of the health system. The human resources at facility level are not adequate for their mandate. There is an overall lack of human resources at facility level and there is lack of running costs at DHMT level.*

173. Lack of funding to the DHMTs compromises the ability to carry out their responsibilities. DHMTs lack key facilitation for their work like transport. This has a spin off in reducing the quality of the overall functioning of the health system. For example districts are funded for running costs, based on a per capita formula, with no allowance for geographical size. Therefore in Southern Province two adjacent districts, Kazangula (a large rural district), has the same funding structure as Livingstone, which is a relatively small, largely urban district, with a much higher population density. This plays out in achieving savings through cutting down on travel costs and decreasing the frequency of supervisory visits. As a result there was a 6 monthly supervision visits of facilities, which is inadequate, compared to the previous quarterly visits (which is the minimum expected).

174. At facility level, supervision guidance and support is provided by the DHMTs on a quarterly basis. The supervision visits however do not result in written feedback to facilities. This undermines the value of the supervision visits and limits the capacity of the DHMT to ensure continuing quality improvements. One district focal point person stated “in the year 2008, the district has only 2 running vehicles which were used for all activities thereby making it difficult to carry out supervision and monitoring of risks to centers”.

### Monitoring and Evaluation (M&E)

The MHIS is a single information tool for the capture of routine information in all health facilities in Zambia. This is the HMIS. The use of the HMIS needs to be strengthened and all collaborating partners should buy into the concept of a single information system and do away with any duplicative data capturing forms and tools. This is especially important where partners are putting resources into data collection as the use of incentives undermines the activities of health workers.

175. The MOH is in charge of management of the M&E system for all health facilities in Zambia. The routine data system for all patients coming to health facilities is known as the Health Management Information System (HMIS). This routine system is complemented by other sources of data such as surveys like the demographic and household survey ( DHS).

176. The HMIS was recently revamped and version 1.4 (December 2008) was introduced nationally at the beginning of 2009. This version is an attempt to have one repository of information and is a comprehensive approach with 220 indicators. All health facilities in all districts are using this system and aggregated data is generated from facility level to the district level. This in turn is cascaded up to provincial level and national level. One of the major problems facing the HMIS is the failure to submit information on time. Theoretically at national level each manager has access to the HMIS in the form of pivot tables. In practice this system has not yet been implemented on a server so managers are not able to access the data. Managers also do not receive currently regular routine reports from the HMIS.

177. There is a quarterly review system where program and data managers jointly review information and indicators at national, provincial and district levels. At these data verification workshops data submitted is reviewed, scrutinised and corrected where necessary. However there are no written reports of these workshops. In the absence of reports, it could be that these workshops are not happening; or that the quality of work done in the event that they occur cannot be verified. One risk that is inherent to the health systems is the lack of adequate supervision.

178. All facilities operating in the district, MOH and other (e.g. line ministries, ZNAN, CHAZ) have agreed to use the same HMIS and on a quarterly basis submit information to the DHMTs through the district information officer (DIO). There were clear guidelines related to the flow of information and the expected dates. For example facilities were expected to provide information to the DIO by the 7<sup>th</sup> of the month. There were a number of implementation issues regarding data accuracy, completeness and timeliness. However these were being systematically dealt with and appear to be improving.

179. Despite the fact that the HMIS is supposed to provide for a single information system there were still a number of duplications. At facility level there were multiple partners who require additional information on different forms to be completed by the facility. These partners include the DTAF, Brown University, CIDRZ and CHAZ. These additional forms take time to complete and use up scarce resources at facility level which could be more appropriately used in patient care and management. The OIG noted instances where some collaborating partners pay incentives for data collection. This should be discouraged since it undermines the formal system. It is particularly important that where collaborating partners are putting resources into data collection that they use these resources for strengthening the HMIS and not parallel systems of data collection.

**Recommendations 13 (Significant)**

(a) *There should be one data aggregation tool at facility level which is the HMIS. All partners who need information should be encouraged to use the existing information from the HMIS instead of setting up parallel systems which are costly and detrimental to the national system. MOH should dialogue with partners to find ways of strengthening the national system. Payment of incentives for data collection should also be discouraged since this will undermine any efforts made to strengthen the national system which is unable to pay such incentives. Collection of data outside the national systems should only be on an exceptional basis and should be in a form that is not duplicative of HMIS indicators and data elements.*

(b) *All program managers should get quarterly standard reports of key indicators in their programs which are extracted from the HMIS by the data managers. Written recommendations should follow each of the data verification workshops at each level.*

SmartCare system

<p>The SmartCare individual patient electronic data management system has been organically developed over a long period and has huge potential to assist with improving the quality of care given to individual patients and the health system. However there are a number of major implementation challenges, including human resources capacity, to be overcome. Scale up should therefore be implemented at a pace that health system can cope with.</p>
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180. The Smart Care system is an electronic data collection tool, which is intended to create efficiencies in the collection and analysis of information. The Smart Care system vision is: “Each person in Zambia has a complete electronic health record that is used to assure them of a continuity of high quality confidential care, by providing timely information to caregivers at the point of service and to health policy makers through integration with the national HMIS.”<sup>1</sup> Behind this vision is a notion that this electronic information system will capture every patient’s interaction with every formal health facility in Zambia.

181. SmartCare has the potential to provide extremely useful information especially for the ART program where the successful implementation of this program will see patients on treatment and care for prolonged periods of time. This useful information

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<sup>1</sup> PowerPoint presentation. Version 4.0. Undated

is applicable to clinicians who are dealing with individual patients e.g. drug resistance). It is also applicable at facility level where lists can be generated of patients who have defaulted on scheduled appointments. These lists can be used to follow up patients on a timely basis. At a managerial level the SmartCare system can be used to generate information related to the success of the program in relation to successive cohorts of patients and can pinpoint areas of improvement and success and vice versa.

182. Currently the system has been significantly rolled out to collect information in relation to patients who are HIV positive and enrolled in care for pre-ART and ART. The numbers of patients on ART represent more than 90% of all patient numbers on this system. The balance is made up of patients on VCT, PMTCT and other components of maternal health. However these components have not been rolled out to any significant extent throughout the health facilities in Zambia. In addition to being an electronic patient system also has a Smartcard facility where individual patient information can be kept on a Smartcard.

183. Although some aspects of the information capabilities are being used, SmartCare is not being used to its potential and at no level within the public sector was there evidence of cohort analysis being carried out. There were numerous systemic problems related to its roll out. These included hardware failures, regular maintenance, electricity load shedding and lack of UPS and alternative electricity sources, viruses and lack of back-up procedures. Most importantly though there is inadequate human resources, both quantity and quality, to cope with the requirements of the SmartCare system.

184. There is no costed, time-bound plan for the scale up. Nor has there been any *independent* evaluation to assess its feasibility and sustainability for full scale-up in the Zambian context. Given the human, financial and other infrastructural constraints present in the Zambian health sector it seems ambitious to embark on full scale-up (including the addition of further modules such as TB) at present.

### **Recommendations 14 (Significant)**

*(a) Given its undoubted potential SmartCare deserves a clear scale-up plan with clear milestones and associated costs. The ART component should be fully completed before further modules are rolled-out. The MOH should ensure that all facilities rendering ART services go onto the latest SmartCare system as soon as possible. An individual facility by facility plan should be developed to ensure that the system is installed and that data collection is made up to date and kept up to date. This will include the need to review the human resources requirements, the back-up of data requirements, the power supply requirements and hardware maintenance. A standard cohort analysis report should be included as part of the suite of reports available. This information should be used for decision making. Regular quarterly feedback on performance needs to be given from one level of the Smartcare system to the next.*

*(b) An independent evaluation on the full scale-up, feasibility and sustainability of SmartCare in the Zambian context should be carried out.*

### HIV

#### Antiretroviral therapy (ART)

There has been a massive scale-up in the numbers of patients receiving ART from around 40,000 patients in 2005 to nearly 250,000 by mid-2009.

185. Zambia has managed to massively scale up the ART treatment services. It is estimated that approximately 60% of the national need for ART is being met. At the end of June, 2009, there was an estimated 245,382 people on ART throughout Zambia. Of these 13,203 (8%) were children. These services were available through 350 ART sites. ARVs are available and there were reports of stock outs. The NAC reported through its own M&E system a significantly larger number (10%) of patients on ART of 270,904 at the end of Q1 than the numbers in the MOH system at the end of Q2 of 245,382. This discrepancy had not been resolved nor explained at the time of the audit.

186. There are clear guidelines from the MOH for the management of ART services. However, these were generally not available at facility level. The plan for the scale-up of ART covered the period to 2008. There is no current plan guiding the on-going scale up HIV care and ART services.

#### Quality of care

187. Eighteen facilities had patient numbers of more than 3,000. Of these five facilities had more than 5,000 patients receiving treatment with nearly double the number on pre-ART care. These large patient numbers inevitably create logistical challenges and this leads to long waiting times, inferior access for patients and declining quality of care.

188. There is inadequate laboratory CD4 capacity to diagnose whether patients who are HIV positive are eligible to be put onto ART. This compromises optimal care for pregnant women who are HIV positive and people who are on pre-ART care who are not being tested timeously for CD4 counts. In one very busy facility visited there was rationing of CD4 tests to 20 per month and most of these were for patients already on treatment to monitor their progress.

189. Although the SmartCare system is in place in many facilities, the managers of ART clinics are not using available data to ensure that there is continuous improvement in the quality of care. For example they were not aware of how many patients were on treatment in their facility; and they were not generating lists of patients who had missed their appointment in the last month so that these lists could be passed onto community care-givers in order for them to follow up these patients in the community.

190. No cohort analysis done at any level of the MOH system (although this is being done by research partners). There is no real analysis of the data and feedback to lower levels of the system is not provided. It is estimated that around 25% of all patients started on ART in Zambia have either died or been lost to the system but there is little awareness of these data among managers.

### HIV/TB collaboration

191. There are no formal guidelines at national level to guide screening for TB in HIV positive patients. As a result this aspect of the HIV program is functioning poorly and there is little integration of HIV with TB. Patients in pre-ART care and on ART are not being adequately tested and screened for TB.

#### **Recommendations 15 (High)**

(a) *The ART program needs a strategic plan covering the anticipated scale-up over the next 3-5 years. This should be developed in consultation with the cooperating partners.*

(b) *The number of patients seen at an individual facility (on a facility by facility basis) should be capped and alternative access provided. Consideration should be given to follow the model used by the TB program where patients are commenced treatment at central level facility and then followed up at lower levels of the system.*

(c) *CD4 capacity needs to be urgently increased. The long term strategy is to increase CD4 capacity to cope with the need. In the short term consideration should be given to changing the guidelines about how many times people currently on ART require to be tested for CD4 count. This would free up capacity for those patients who need testing urgently.*

(d) *Formal guidelines for the management of HIV patients for TB need to be produced, disseminated throughout the health system with associated training.*

### Prevention of Mother to Child Transmission (PMTCT)

The PMTCT program is reaching nearly all pregnant women in Zambia who are being tested for HIV. This is a huge achievement. However it is the first step in a cascade of interventions. Innovation is required to ensure that HIV infected women, who deliver outside of a health facility, and their babies get the necessary medicines and are followed up.

192. There are clear guidelines for the scale-up of the PMTCT program. It is estimated that around 95% of pregnant women attend antenatal care at least once and that most of these are tested for HIV. Those women found to be HIV infected are started on treatment. In some facilities the single therapy is still being used, but there are clear moves to ensure that the dual therapy guidelines are in place at all facilities.

193. As a result of the inadequate CD4 count capacity many HIV infected women are not having their CD4 counts checked and as a result those with counts less than 350 are missing out on being put on to triple therapy Highly Active Anti Retroviral Therapy [HAART].

194. The PMTCT cascade of interventions is not being completed in many instances as around 50% of deliveries take place at home. This is especially pronounced in rural areas where there are long distances to the places of delivery.

#### **Recommendations 16 [Significant]**

*The MOH should ensure that all facilities move to dual therapy treatment for PMTCT. As already recommended, CD4 capacity should be strengthened to ensure that women that should be on HAART are identified early enough and put on the relevant treatment. Innovative ways are required to either get more women to deliver at health facilities or else followed up at community level. Consideration should be given to the scaling up of incentive schemes. There are examples of international best practice that could be reviewed (e.g. Incentive schemes in rural areas in India).*

### Voluntary Counseling and Testing

195. Voluntary Counseling and Testing program in Zambia is functioning well and there are clear guidelines developed at the MOH. There have been some stock-outs of RDTs, which compromise the ability to carry out tests consistently as required. The SmartCare system has been introduced for VCT in some facilities. However, there is no evidence to show that this system is being used to improve the quality of care of patients or the management of the system yet.

### Prevention of HIV/AIDS

196. There is a good program of ensuring that no HIV infections are caused from blood transfusions and 100% of all blood units are screened for HIV. Progress with prevention of mother to child transmission continued and there is now virtual universal testing of pregnant mothers. However because of the low delivery rate in health facilities, estimated at around 50% many babies exposed to HIV are still not benefiting from receiving antiretroviral therapy.

197. Regarding behavior change there is reason for great concern. Many of the indicators recorded in the demographic health survey in 2001 showed deterioration compared to the same indicator in the 2007 demographic health survey. For example in 2001 there were 10.3% of young men and women who had their sexual debut before the age of 15 while in 2007 this had increased to 14.6%. Also the proportion of people aged 15 to 49 who had more than one sexual partner in the previous 12 months increased from 6.4% in 2001 to 7.2% in 2007.

### ***Recommendation 17 [Significant]***

*It is likely that the messaging on behaviour change is not being sufficiently well-targeted or is not being sufficiently well done and as prevention is the key to the long term success of HIV, there should be accelerated efforts in this area.*

### **Tuberculosis**

The TB program is functioning well with very high treatment success levels which are close to 90%. However the diagnosis and management of MDR-TB needs more attention.
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198. The TB Program is generally a well-functioning program with clear guidelines which are being followed. Although no guidelines were available at facilities all the staff had good knowledge of the DOTS approach to TB. Registers were well completed and up to date and districts have quarterly review meetings where all data for the previous quarter is reviewed. The data, based on the registers, is cascaded upwards from the district. The treatment success rate is close to 90%.

199. Almost all TB patients were tested for HIV and were referred to HIV clinics if found to be positive. However, there is a lack of integration between TB and HIV as if these are two distinct diseases.

200. There is a lack of diagnostic capacity for TB. Especially in rural areas there is a lack of laboratory capacity and X-Ray machines. There is inadequate follow up of contacts of sputum positive patients. Importantly there was inadequate management of patients suspected of having multidrug-resistant (MDR) TB. It appears that there is inadequate attention given to this and no clear protocols were seen for the diagnosis or management of MDR-TB.

***Recommendations 18 [Significant]***

*Greater attention should be given to MDR-TB and clear protocols and guidelines for diagnosis and management should be given to staff at facility level. Greater emphasis needs also to be placed on follow up of contacts and use of community health workers should be considered. Diagnostic capacity for TB needs to be increased and should parallel the increase in diagnostic capacity and testing for HIV.*

**Malaria**

The malaria program has achieved notable successes and there have been measurable impacts on the health of the population. This can be ascribed to a well-managed program implementing international best practices.

201. This program is seen as one of the flagships of the MOH. There has been a general reduction of malaria incidence during the period 2006 to 2008 from an incidence of 412 per 1,000 people in 2006 to 252 per 1000 people in 2008. During this same time period there was a 54% drop in the children who were infected with malaria.

202. The program is following international best practice which includes the following components:

- (a) Using RDTs and microscopy to diagnose and treat only confirmed cases;
- (b) Treatment with artemisinin based drugs (artemisinin-based combination therapy-ACT);
- (c) Have distribution policy on long lasting insecticide-treated bed nets (LLINs), with pregnant women prioritized for distribution at antenatal care;
- (d) All pregnant women treated with intermittent presumptive treatment with Fansidar; and
- (e) Indoor residual spraying (IRS) is done just before rainy season.

203. Although no guidelines were available at facility level all the staff had good knowledge of malaria program and were following guidelines of identifying positive cases through use of RDTs and then treating the positive cases with artemisinin based drugs (viz coartem). All facilities were managing malaria in pregnancy and following national protocol.

204. All facilities had stock out of RDTs for about 2-3 months in middle of 2009 as a result of a national stock-out. In some facilities visited they were currently out of stock of RDTs as well as fansidar.

205. LLINs are given preferentially to pregnant women but there are limited supplies and districts and facilities were not aware of the quantities they were to receive next and when. There was no plan for numbers of nets to be distributed and it seemed to be done on ad hoc basis when nets were received.

### ***Recommendations 19 [Significant]***

*The PSM chain for malaria drugs and accessories viz RDTs needs to be reviewed and improved to prevent both systemic and intermittent (facility level) stock-outs. The distribution plan for LLINs needs to be communicated to districts so that they can plan for distribution at the local level.*

### **Conclusion**

206. The current Ministry of Health capacity in the areas of Financial Management and Procurement are inadequate to safeguard the Global Fund's investments in Zambia. The OIG concludes that the Ministry of Health as lead sector PR at the time of the audit, requires substantial capacity development in the areas of governance, financial management and procurement to effectively continue its role as PR. Immediate interim support should be provided in financial management and procurement to ensure resources can be safeguarded if the MOH is to retain PR-ship. The OIG however recommends that a comprehensive plan be developed and followed for the eventual transfer back of responsibility once the MOH has demonstrated that it has built the requisite capacity.

207. The OIG has referred the case of overpayment of allowances noted to the Anti Corruption Commission. The MOH should refund to the Global Fund all the amounts that are not supported by documentation and all irregular and ineligible expenditure.

### Ministry of Finance and National Planning (MOFNP)

#### Background

208. The Ministry of Finance and National Planning (MOFNP) derives its powers and authority from the constitution of Zambia. The Ministry is responsible for managing, supervising and directing matters relating to the financial affairs of the Republic. The Loans and Guarantees Act empowers the MOFNP to source revenues from external sources and domestic borrowing.

209. The Ministry was selected as PR because of its well developed financial systems which offered flexibility and allowed resource flows to the programs with minimum reporting bureaucracy through Financial Monitoring Reports (FMRs) and Project Management Reports (PMRs). The MOFNP was also assessed by the LFA to have the relevant technical, managerial and financial capabilities for managing Global Fund grants.

210. Under the Global Fund grants to Zambia, the Ministry of Finance and National Planning is the PR for the HIV Grant Nos. HIV R1 ZAM-102-G07-H and HIV R4 ZAM-405-G12-H. The MOFNP is responsible for the coordination of the line ministries' response to the HIV epidemic in Zambia. The MOFNP signed the first grant agreement (Round 1) with the Global Fund for the HIV/AIDS Program on 3 December 2003 and on 27 June 2005 for Phase I Round 4. The third agreement was signed on 7 July 2008 for Phase 2 of Round 4.

211. At the time of signing the first agreement with Global Fund, the PR had capacity gaps in its technical expertise and program management skills to run and oversee the activities. The PR therefore opted to work through NAC. The PR relied on the NAC to oversee programs and for monitoring and evaluation until a PMU was set up in 2006.

#### Achievements and challenges

The MOFNP has achieved some success in the implementation of program activities despite the challenges faced earlier in the program. The PR was able to set up an operational Program Management Unit to oversee activities and reached a significant number of SRs through its programs. In addition, the PR was able to achieve a number of its work plan targets including developing a monitoring and evaluation plan, training both professional and non-professional health workers in delivery of ART and training peer educators to carry out sensitization on HIV stigma. But significant challenges were also experienced resulting in delays in implementation.

212. This PR disbursed funds to 43 SRs comprising 23 line ministries and departments and 20 statutory bodies/government institutions. The core activities of the grants undertaken by MOFNP are human resources development to deliver ART; and strengthening of community systems for scaling up ART. Grant funds are also spent on; (i) infrastructure and equipment capacity building; (ii) Procurement and supply management; (iii) Monitoring and evaluation; and (iv) Program

management and coordination. The PR registered the following achievements against its work plan; (i) health professionals and health care providers received support; (ii) sensitization activities about ART were undertaken in line ministries, stigma reduction and HIV/AIDs testing; (iii) the PMU undertook M&E training in line ministries; and (iv) non health agents received support.

213. However, the MOFNP's achievement results have been constrained by:
- (a) Delays in disbursement of funds from the Global Fund with the first disbursement under Round 1 Phase1 made over a year after signing of the agreement. As a result of this delay the PR was unable to get Phase 2 funding.
  - (b) At the signing of the grant agreement, the PR did not have in place the required staffing and skills to implement the Programs. The custodianship and implementation of activities was delegated to one SR, NAC.
  - (c) The SR had not been trained on the operations of the Global Fund causing delays in implementation even after receipt of the disbursements. Reporting was not yet operationalised until the Program Coordinator and M&E Officers were recruited i.e. over a year after funds were received.

### Strengthening grant management

#### Institutional arrangements

The PR set up the Program Management Unit in 2006 to oversee the activities of the SRs. This was housed at the NAC. However, there was no MOU signed between the PR and NAC detailing responsibilities passed on to NAC and those retained by the PR. In addition, the OIG did not see any evidence operationalising the Steering committee composed of senior management which was set up in 2004 to oversee the overall program activities. There are no internal and external audit arrangements in place. The institutional arrangements put in place by MOFNP have significant shortcomings and cannot be relied upon to safeguard program funds.

214. According to the program management and the program coordinator, a steering committee made up of the Senior Management Team of the Ministry met on a quarterly basis to review performance of program activities. However the OIG found that the meetings were irregular with none held for the nine months to October 2009. In addition, management was unable to make available the minutes of all earlier meetings since 2004 available to the OIG. There was therefore no form of evidence to confirm that there had been adequate oversight over the Global Fund grants within the Ministry since inception of the grants.

215. Between December 2003 and July 2006, the grants to MOFNP were under the management of NAC. The OIG noted that there was no documented arrangement for the transfer of PR obligations to NAC. There were no terms of reference describing the relationship between NAC and MOFNP nor were NAC's roles and responsibilities defined. The position was complicated by the fact that NAC was also an SR of MOFNP. This lack of a formalized arrangement created confusion on how the program was to be managed. NAC did not set up the required structures for grant management, which significantly contributed to the program failures under Phase 1 of R1. The OIG noted that out of the first disbursement to NAC of ZMK 1,038,847,160 (US\$ 225,836), ZMK 911,817,427 (US\$ 198,221) was used for non

program related activities. The OIG noted that ZMK 440,278,942 of this had been paid back as at the time of the audit in October 2009 leaving the balance of ZMK 471,538,485 million not refunded.

216. Following an initial period of weak Program management under Round 1, as noted above, the PR setup a Program Management Unit (PMU) in July 2006 to undertake Monitoring and Evaluation; enhancement of implementation and coordination of sub-recipients; and training of the line ministry focal persons. The PMU was placed under the oversight of the Permanent Secretary-Planning and Economic Management Division, and was directly supervised by the Director-Technical Cooperation.

217. The PR employed 4 program staff under the PMU i.e. Program coordinator, M&E officer, finance officer, secretary and driver. The Program Coordinator was recruited in July 2006 first as the M&E officer until August 2008 when he became the program coordinator. The other staff were recruited in 2008. There was no evidence seen of direct oversight of the MOFNP over the matters of the PMU.

218. The PMU was located at NAC. The OIG's review showed that the activities of the PMU were, following the relocation to NAC, largely controlled by NAC in the following aspects:

- (a) All PMU bank accounts were controlled by NAC with NAC signatories;
- (b) The PMU Accountant reported to the Finance Manager of NAC;
- (c) The Procurements of the PMU were undertaken by NAC with no evidence of involvement of the PMU Coordinator
- (d) The payroll of PMU staff was maintained by NAC staff; and
- (e) The PMU's books of account were maintained by NAC.

219. The OIG was not provided with any documentation to explain the relationship between the PR, NAC and the PMU. Without this, there was unclear operating reporting structure in place creating ambiguity in roles and responsibilities and weakening the control environment in which program activities were managed in. The PMU also did not have policies and procedures manuals in place to provide guidance on the implementation of program activities. The PMU staff did not have clear job descriptions that laid down their roles and responsibilities. This resulted in PMU monies being used by the NAC for non program related activities. The PMU staff could not reconcile amounts owed by the NAC to the program at the time of the audit. The OIG reviewed the expenditure involved and concluded that expenditure amounting to ZMK 2,388,146,426 (approximately USD 519,162) was ineligible i.e. not in line with approved work plans. This amount had not been paid back at the conclusion of the audit.

220. No one took the responsibility for managing SRs i.e. assessing the capacity of SRs before they were appointed, allocating activities and targets in approved work plans to SRs, ensuring timely disbursement to SRs, ensuring SRs account for funds disbursed timeously, and ensuring SRs undertook program activities in line with work plans and targets. The OIG also noted that the PMU did not have the technical skills and expertise to design and review the quality of the training being implemented by the SRs. Since the main activity of the PR is training the PR needed expertise in this area to ensure the quality of the training.

221. There was also no one in the PMU responsible for overseeing program procurements which resulted in mis-procurements, failure to follow up MOH for procurements and failure to follow set guidelines. Amounts disbursed for these procurements totaled K4,831,623,800 (US\$1,050,353) representing 10 % of the total disbursements received by the PR. However, the OIG noted incidences of late deliveries by the MOH e.g. procurements ordered in October 2008 were only partially delivered in October 2009.

**Recommendation 20 (High)**

(a) *An agreement or MoU should be prepared and signed by both the PR and the NAC clearly defining the oversight responsibilities passed on by the PR to the NAC over the PMU and the responsibilities retained by the PR. The PR should clearly define the responsibilities of all the PMU staff and ensure that all aspects of program management are covered by the available program personnel. E.g. the Program coordinator to act as grants manager and exercise oversight over MOH procurements and the M&E staff to evaluate the technical quality of the trainings implemented by the line ministries.*

(b) *Senior Management at the PR should be actively involved in the progress and developments related to Program activities. This could be through regular review of progress reports or meetings to review program activities.*

**Compliance aspects**

There were some instances noted of the MOFNP’s non compliance with the Global Fund grant agreement and the applicable laws and regulations. MOFNP should comply with the grant conditions and the applicable country laws. This will ensure that the conditions put in place to safeguard the Global Fund assets are operational and reduce the risks that the Global Fund money is exposed to.

222. The OIG noted consistent failure by the PR and the SRs to comply with the approved work plans and budgets. This was evidenced both under Round 1 and 4 where instances were seen of the PR passing on work plans to the SRs with activities that did not reconcile with the activities approved by the Global Fund. Examples of such activities included amounts allocated for rehabilitation of clinics and for procurement of lap tops and motor vehicles. In addition, some SRs failed to comply with the work plans/budgets that were sent by the PR. As a result, the OIG noted the expenditure in the table below that was not in line with approved work plans and which should be refunded to the Global Fund.

Organization	Amounts spent on activities outside the approved budget (ZMK)
PR	30,000,000
PMU	2,388,146,426
NAC	529,129,885
Ministry of Education	204,572,000
Ministry of information & Broadcasting	153,207,000
Ministry of Home Affairs-Prisons	49,135,000

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Organization	Amounts spent on activities outside the approved budget (ZMK)
Ministry of Home Affairs-Zambia Police	116,075,400
Cabinet Office	73,000,000
<b>TOTAL</b>	<b>3,543,265,711</b>
	<b>US\$770,275</b>

Table 4: Expenditure not in approved work plans [Source: PMU records]

223. No external audit of the PMU's financial statements has been undertaken since the inception of the program. This is contrary to the grant agreement that requires that program finances should be audited annually and the report submitted to the Global Fund Secretariat within six months of the end of the financial period. At the time of signing the grant agreements, the Global Fund agreed to use national audits for program audits. The Secretariat was provided with copies of 2004, 2005, 2006 and 2007 Audits by OAG Zambia. Having noted in 2007 that the national audits did not meet Global Fund minimum requirements, the Global Fund reached an agreement with OAG to conduct Global Fund specific audits with the first report expected in 2010.

224. An internal audit function exists at the Ministry and one at the NAC. However, as at the time of the audit, the PR's internal audit function had not been to the PMU to review program activities. In addition, from discussions with the internal audit manager at NAC, the review done at NAC does not cover the Global Fund activities. The SRs rely on the internal audit function at the line ministries to review controls over the program activities. However, it was noted that no reports had been prepared by these departments who only carry out a pre-audit of payment vouchers.

### **Recommendation 21 (significant)**

(a) *The PR should ensure that all work plans/budgets extended to the SRs for implementation agree to the approved work plan/budget. As part of the quarterly reporting done by the SRs, the PMU staff should check to ensure that all activities reported are in line with the approved budget with the Global Fund. All expenditure outside the approved budget should be refunded.*

(b) *The PR should ensure that audit arrangements for the program are communicated to the OAG on time. Adequate preparation should be made for timely submission of audit reports to the Global Fund in accordance with the grant agreement.*

225. Article 4 of the grant agreement stipulates that all assistance financed under the agreement will be free from all taxes, customs duties, tariffs, import duties and VAT. At the time of the OIG audit, all SRs and the PMU had paid taxes on all procurements including accommodation, motor vehicles and computers. Using funds to pay tax reduces the amounts available to carry out approved program activities, which affects program results. There was no arrangement to recover the taxes to replenish the funds for planned program activities. The records at the PR and SRs did not show any tracking and quantification of the amount of VAT for future recovery.

226. Article 7 of the grant agreement requires the PR to maintain adequate records to show, without limitation, all the costs, progress to completion and maintain books of account in accordance with Generally Accepted Accounting Principles of its country. The OIG noted that some SRs and the PR did not have documentation for some expenditure for periods covering 2005 to 2009. Examples of these unsupported expenditures by organization are noted below.

Organization	Amounts for which no supporting documentation was availed
PR	1,718,122,000
Ministry of Education	379,732,300
Ministry of Science & Technology	32,124,589
Ministry of Home Affairs-Prisons	859,210,000
Ministry of Health	2,177,377,800
Office of the President	1,473,288,112
<b>TOTAL</b>	<b>6,639,854,801</b>
	<b>US\$1,443,447</b>

Table 5: Unsupported expenditure [Source: PMU records]

227. Article 10 of the grant agreement requires that the PR should prepare agreements with the SRs which are in line with the agreement with the Global Fund. However the OIG noted that since the inception of the grant, there were no agreements or Memoranda of Understanding signed between the SRs and the PR.

228. The agreement stipulates that all procurements for drugs and medical equipment be done through the Ministry of Health. However, the OIG noted instances where SRs carried out procurements for drugs contrary to this arrangement. The procurements were also not in the approved work plan with these SRs. Examples of such cases are Ministry of Defence (ZMK 339,517,000; approx. US\$ 73,808) and Ministry of Community Development and Social Services (ZMK 193,120,000; approx US\$ 41,982).

**Recommendation 22 (Significant)**

(a) *The PR should ensure that SRs maintain records of all Program activities. The PR should refund, to the Global Fund, all funds that cannot be supported by the required documentation.*

(b) *The PR should ensure compliance with the Global Fund agreement provisions of tax exemption on purchase of goods and services. Specifically, the PR (MOFNP) should ensure that implementing SRs obtain VAT exemption waivers for procurement of goods and services under the grant. For the VAT paid since inception of the grants, the implementing SRs should compile a list of such payments and seek a refund through agreed arrangements with the responsible government authority.*

### Financial Management

The financial management environment within which the Global Fund programs were implemented was weakened by the lack of comprehensive financial policies and procedures, and lack of effective management oversight. The weak control environment exposed the Global Fund grants to the risk of loss of funds arising from long unaccounted for imprests and insufficient tracking of accountabilities against disbursements to SRs resulting in unbudgeted amounts being unrecovered and the PR not being aware of the bank balances at the SRs at any point in time.

229. The Program Management Unit located at NAC should follow two sets of financial guidelines: the Government of Zambia regulations and the regulations tailored to meet the specific activities of NAC. The PMU did not have tailored financial policies and procedures specific to the management of the funds received from the Global Fund leading to weak and unclear policies.

230. At the time of the audit in October 2009, accounting records (the cash book and income and expenditure analysis) at the PMU, NAC and at the Ministry of Foreign Affairs (Prisons) were not up to date and not reconciled to the bank statement balances. This increases the likelihood of errors going unnoticed and not being corrected on a timely basis.

231. Imprests provided to Program staff are expensed on issue prior to receipt of the accountabilities. In addition to this, SRs did not maintain imprest registers for tracking long outstanding amounts.

232. Under both Rounds 1 and 4, the PR and SRs procured at least ten motor vehicles, 10 ambulances and a number of laptops and computers costing a total of ZMK 4,221,217,587 (US\$917,656). The OIG noted that the PR does not maintain a comprehensive register of all the assets procured with Global Fund monies. In addition, no verification is done over the assets procured. This raises the risk of loss and misappropriation especially in light of Round 1 closing.

233. The OIG also noted that the motor vehicles procured through the program were allocated private number plates, exposing the assets to the risk of abuse through usage on private activities. There was also no policy provided to the OIG on use of motor vehicles.

234. The following control weaknesses were identified at several SRs and the PR:

- (a) Reconciliations of the bank balances to the cashbooks were not being done on a regular basis.
- (b) In many cases e.g. at the Ministry of Home Affairs-Prisons, Ministry of Science and Technology and at the PMU, there was no dedicated Global Fund account prior to the disbursement of funds resulting in commingling of funds. These institutions did not maintain adequate records to track and report transactions by donor.
- (c) The OIG noted instances where Global Fund resources were used for non-Program activities and in some cases not paid back after long periods.

- (d) No imprest register was maintained for tracking amounts advanced to staff members increasing the risk of additional imprests being issued to staff with unaccounted for amounts.
- (e) The OIG sought to confirm the PR bank account balance as at 30 June 2009 but noted that the PR did not have bank statements and therefore did not prepare reconciliations between the cashbook and the PR account.

### **Recommendation23 (significant)**

(a) *The PR should prepare bank reconciliations for all its accounts. The PR should also follow up SRs to ensure that reconciliations of cashbook amounts to bank statements are done on a regular basis. PR should only send disbursements to SRs with dedicated Global Fund Accounts and all expenses out of these accounts should be towards the approved activities.*

(b) *The PR and SRs should maintain an imprest register which ages imprests issued. This should be reviewed by management on a regular basis (monthly or quarterly) and procedures e.g. recovery from staff member's salary taken to recover the un-retired amounts. Management should strengthen controls over accountability of imprests to ensure that additional imprests are not issued to staff with unaccounted for amounts.*

(c) *The PR should maintain a comprehensive register of all the assets purchased with Global Fund grants. The Program Coordinator should check that all assets bought are being used for the approved purposes and that they are adequately labeled for identification e.g. motor vehicles should bear government plates as opposed to private number plates.*

### **SR management**

The line ministries (SRs) are responsible for implementation of 100% of all program activities under the MOFNP. However, there were no comprehensive policies and procedures for the management of grant relationships with these SRs. The structures and processes in place were inadequate to safeguard the resources disbursed to SRs.

235. The first disbursement from the Global Fund was made on 22 February 2005 (more than a year after signing of the agreement) with the program start date amended to 1 March 2005. After this amendment, however, implementation details were not adequately worked out leading to delays in disbursements by 3 months, consultations were subsequently held and a structure for implementation was agreed with recruitments of critical staff members and Global Fund bank accounts being opened at the line ministries.

236. However, there were no comprehensive policies and procedures for the management of grant relationships with these SRs. In addition the SRs did not have any knowledge of the operations of the Global Fund and the procedures and policies for the line ministries for disbursement of Global Funds. The reporting of the funds were not yet fully defined. This resulted in delays in implementation of the programs resulting in the PR having to forfeit the Phase 2 funding for Round 1 as Phase 1 implementation had ran for longer than the agreed time frame.

237. The PR is responsible for selecting the SRs through which Program activities will be implemented. From the OIG's review, there was no evidence of a proper process being followed in the identification of the SRs under both Rounds 1 and 4. There was also no assessment of the capacity of the SRs at the start of the grant. The OIG's review revealed that most of the SRs had significant capacity weaknesses, for example (i) No bank reconciliations were prepared; (ii) Absence of fixed asset registers; and (iii) Absence of competitive bidding in procurements.

238. There was no system at the PR to track disbursements made to the SRs against the accountabilities received. It was therefore impossible for the PR to determine amounts unspent at any one point and to claim and follow up outstanding balances with the SRs.

239. Although the Global Fund is a performance based grant, this criterion has not been followed at the PR with grant amounts being disbursed to SRs based on the availability of funds and not on the performance of the SR. The OIG noted that the disbursement of funds to the SRs, in all cases, was triggered by receipt of funds from the Global Fund rather than prior evaluation of performance of SRs to qualify for the next replenishment. This system exposed the grants to misuse of resources as evidenced by the many cases cited in the report; some SRs had not maintained sufficient records to support expenditure.

### **Recommendation 24 (significant)**

*(a) The PR should develop policies and procedures to guide SRs on how program funds should be managed. The policies and procedures should cover disbursement and accountability, programmatic and financial reporting (including formats), budget tracking and analysis, maintenance of accounting records monitoring and inspection of SR performance, guidance on internal and external auditing etc. The PR should periodically visit SRs and assess their performance against the guidance laid out in the manual.*

*(b) Going forward to Round 8, the PR should use a well documented process for identification of potential SRs. These should be assessed for both programmatic and financial management capacity in order to identify gaps that would affect program implementation. These assessments will provide useful information on the strength of the institutional, financial and management systems of the potential SR. Assessments also aid the PR in identifying capacity gaps and institutional weaknesses of the potential sub-recipient for effective and rational decision making.*

*(c) In order for the PR to accurately determine their funding needs, the PR should review all accountabilities received from the SRs and reconcile these to the disbursements made to the SRs. A record of bank balances at the SRs should be maintained at the PMU and used in analyzing amounts needed for future disbursements.*

*(d) To enable the PR to achieve the goals agreed with Global Fund, the PR should check that the SR has used prior disbursements in line with the work plan and is on target to achieve the objectives of the grant. These checks also ensure that the SR's financial and program mechanisms are identified and strengthened in a timely basis. The PR should strive to match grant performance by SRs to the disbursements made to ensure compliance with the grant agreement*

### Fraud

240. In January 2009, the NAC Cashier was advanced imprest of K118,500,000 (US\$ 25,760) for program activities which was subsequently put on hold. The program Accountant under the Global Fund grant to the MOFNP obtained these funds from the Cashier for re-banking. The Accountant did not deposit the funds as required but later refunded ZMK 77,200,000 (US\$ 16,782), leaving K39, 600,000 (US\$ 8,608) unaccounted for. This matter was investigated by management and reported to the authorities after the Accountant issued a fraudulent bank deposit slip of the balance i.e. ZMK 39,600,000 to management.

241. The OIG noted that this Accountant held significant balances i.e. ZMK 479 million (US\$ 104,130) in unaccounted for advances. At the time of the audit this amount had not been accounted for by the suspended Accountant. The balance is included in the total amounts to be refunded by the PR under the PMU category. There is currently a court case against the Accountant with charges including the above amount fraudulently acquired and the use of forged academic certificates to obtain employment.

### ***Recommendation 25 [High]***

*The PR should follow the court case to ensure timely resolution of the case. The amounts involved should be refunded to The Global Fund.*

### Procurement and supply management

242. The MOFNP had in its HIV RI and R4 work plan, procurements for health and non health products for its programs. The MOFNP assigned the procurement function of the health products and non-health products to the PMU. The OIG noted that the PMU did not have capacity to procure or coordinate procurement of health and non health products because there was no technical staff to lead and manage the procurement process. The PMU did not develop a PSM plan for guiding the budgeted procurements for the grants. The OIG noted that there was no responsible person at the PMU/PR responsible for procurement.

243. To facilitate procurement for health products, the PMU reached an arrangement with MOH for the MOH to procure the health products. No formal agreement was signed then though a letter was written by the PMU to state that the PMU would transfer all the funds for procurement of medical products to MOH. The PMU has subsequently signed an MOU with MOH in June 2009 although the contractual relationship went as far back as July 2005. A review of the MOU signed in June 2009 between MOH and MOFNP revealed the following weaknesses:

- (a) There was no clear definition of the roles and responsibilities for each party;
- (b) The MOU performance management parameters were not defined;
- (c) The list of products sent in October 2008 had no quantities;
- (d) The distribution system for procured commodities was not defined;
- (e) The charges by MOH for services offered was not defined and specified;
- (f) The schedule of requirements did not include medical procurements for line ministries; and
- (g) No coordination and performance monitoring mechanism of the MOH/MOFNP procurement agreement.

By the time of the OIG audit, the PMU had not received any statement of accounts from MOH for the transferred money. The OIG did not see any request sent by the PMU to MOH requesting for a statement or status of procurements for funds disbursed. This pointed to a lack of proper program management capability at the PMU, which exposed the program to mismanagement. At the time of the audit MOH had not accounted for the funds transferred by MOFNP of ZMK 4.8 billion (US\$ 1.05 million) for procurements as detailed in the table below:

Details	Date of transfer	Amount ZMK
Procurement request for ARVs	18.07.2005	214,676,480
Procurement request for ARVs	24.11.2005	993,117,194
Procurement request for medical equipment	01.10.08	3,623,828,437
Total		4,831,622,111
		US\$ 1,050,353

**Table 6:** Funds transferred to MOH for procurements [Source: PMU records]

At the time of the audit, procurements for the October 2008 request were underway at the MOH. This was evident where ambulances costing US\$ 577,010 (K2,654,246,000) were procured that did not meet the specifications and were delivered late.

### **Recommendations 26 (high)**

*The MOH should refund all the money transferred to its basket fund account by the PMU. PMU should only pay for delivered, invoiced and accepted supplies. MOH should refund the money for the procurement of the ambulances.*

244. For the procurement of non health products the PMU uses NAC procurement staff. NAC also uses its distribution system to distribute the non-health commodities. There is no MOU between NAC and PMU to govern the procurement and distribution of supplies services offered to PMU by NAC.

245. The OIG's review of the procurements carried out by NAC for PMU revealed that NAC has no capacity to carry out procurements for PMU because:

- (a) There was no separation of procurement roles; the procurement Officer at NAC carried out all the following roles centrally to the stipulated regulations i.e. the selection of suppliers using his discretion; invitation for quotations by phone and no formal RFQs; receiving the quotations, evaluating, awarding tender and approval for payment; and signed the evaluation report with a lot of critical information missing on the report e.g. date of tender evaluation, date of close of tender.
- (b) There was non compliance with procurement guidelines for consultancy services in the following aspects i.e. Requests for services, approval of request and TORs, RFP, proposals, final reports were not formally done; and payment was made on submission of report and not acceptance of report.

### **Recommendations 27 (high)**

*PMU should sign an MOU with a Procurement Agent that has capacity to carry out procurements for the grant.*

### Concluding Observations

246. The OIG notes that the MOFNP as PR, requires substantial capacity development in the areas of governance, financial management, grant management and procurement to effectively continue its role as PR. The OIG cannot provide assurance that the capacity at the PMU is adequate to safeguard the resources from the Global Fund. The possibility of getting an alternative body to manage these grants should be considered by the CCM.

### Zambia National AIDS Network

#### Background

247. There are over 1,000 civil society organisations in Zambia many of whom are engaged in the fight against HIV/AIDS. ZNAN was established in 1994 with the primary objective of promoting liaison, collaboration and coordination among NGOs and CBOs involved in HIV and AIDS prevention and care.

248. With the emergence of the Global Fund grants, the efforts of all these players needed to be co-ordinated. ZNAN was selected in 2003 to spearhead the civil society and private sector efforts in Zambia. ZNAN provides sub-grants to SRs and a portion of grant funds is retained to meet the organisation's operational costs. Some SRs, known as lead agencies, also sub-grant to sub-SRs (SSRs). This process enables ZNAN to achieve a higher level of outreach than would have been possible when operating on its own. ZNAN was identified as a PR for the Global Fund in Round 1 and has accessed 4 grants from the Global Fund.

249. The objectives of each of the grants are summarized below:

- (a) Program to Combat HIV/AIDS (ZAM-102-G08-H-00)- Round 1
  - Enhance the prevention of STIs and HIV
  - Strengthen care and support for people living with and affected by HIV/AIDS; and
  - Build the capacity at all levels to respond to the burden of HIV/AIDS
- (b) Program to Combat Tuberculosis (ZAM-102-G15-T-00)- Round 1
  - Increase uptake and adherence to TB treatment
  - Increase community support for people living with HIV/AIDS particularly those receiving ART and TB treatment
  - Strengthen community and health facility capacity to support quality TB management at community level
- (c) Scaling up of ART for HIV/AIDS in Zambia (ZAM-405-G11-H)- Round 4
  - Health systems strengthening
  - Procurement and supply management capacity building
  - Anti-Retroviral Treatment and monitoring
  - Providing prophylaxes and treatment for opportunistic infections
  - Monitoring and evaluation and operation research
  - Program management
- (d) Strategic Plan Implementation Update 2008 - 2012 (ZAM-708-G20-T)- Round 7
  - Pursue high quality DOTS expansion and enhancement
  - To address TB/HIV, MDR/TB and other challenges
  - To contribute to health systems strengthening
  - To engage all health care providers
  - Empower people with TB and communities
  - Enable and promote research

250. Of the US\$ 36.01m received from the Global Fund by ZNAN, US\$ 28.4m was spent on sub granting; US\$ 4.2m on administration; US\$ 1.65m on fixed assets and US\$ 1.76m on procurement of health products.

### Achievements and challenges

251. When ZNAN was appointed PR, it was a small organisation with no structures in place to effectively manage the Global Fund grants. The organisation had to rapidly evolve to be able to manage these grants. As part of this evolution, ZNAN established the following functions: Grants management function for the appraisal of potential sub-recipients for the implementation of the grants; Sub-granting policies and procedures to guide the selection and appraisal process; A database for all SRs which provides information regarding the grants accessed by each SR and is analysed by thematic area; Monitoring and evaluation function for assessing the effectiveness of SRs in implementing grants. On a quarterly basis, along with Internal audit, this function visits SRs to evaluate performance on grants; An NGO/CBO support function to provide SRs with guidance on how to implement grants in compliance with grant agreements; With the commencement of the Round 4 grant (Scaling up of ART to fight HIV/AIDS) the “HIV/AIDS specialization function” was set up. This unit assists with the national forecasting for ARVs as well as providing oversight to ZNAN for ART.

252. ZNAN has achieved most of the targets set in the grant agreements. However, the OIG noted that, ZNAN had performed poorly on three indicators namely number of patients with HIV/AIDS infections put on ARVs, number of patients with HIV/AIDS infections receiving nutritional supplements and the number of people training in M and E.

253. Moreover, the organisation has faced challenges in the implementation of grants. There have been delays in disbursement of grant funds to sub-grantees. Such delays have a significant impact on the implementation of activities. Delays increase the pressure on the organisation to conduct rapid assessments of SRs since targets and deadlines to achieve the targets seldom change. ZNAN represents a large constituency of CSOs and private sector organisations. As a result, the organisation obtains a large number of applications whenever a round of funding is advertised. ZNAN has to manage the SR expectations that it is supposed to provide them with funding.

254. Communication channels between the LFA, PR and the Secretariat present challenges. There are instances where communication back to the PR from either the LFA or Secretariat had been delayed, affecting decision-making at PR level.

### Strengthening grant management

#### Institutional aspects

ZNAN has put in place key structures to provide oversight and governance. However, these structures have not been structured well. This has resulted in weak governance and oversight.

255. The ZNAN constitution provides for a Liaison Committee to govern the organisation. The ZNAN Liaison Committee comprises of 9 members selected from the member organisations and three ex officio members. These members are leaders/senior management from the organisations they represent in the ZNAN

congress. As representatives of organisations that stand to benefit from ZNAN, conflicts of interest may arise restricting the ability of board members to provide objective and effective oversight to ZNAN's activities.

256. The ZNAN constitution requires the Liaison Committee to meet on a quarterly basis each year. In practice, the Liaison Committee has met only 9 times since the inception of the Global Fund grants. The Liaison committee did not effectively provide oversight over senior management of ZNAN. There was no evidence to show that the Committee was involved in various significant oversight activities including; approval of high value sub-grants above a certain threshold; approval of transactions involving senior management; setting policies to govern operations; carrying out scheduled oversight visits to program areas; and holding senior management accountable on a regular basis. For example, the OIG noted an instance where a member of senior program management borrowed program funds for personal use. While these advances were repaid, this was without the approval of the Committee.

### **Recommendation 28 (High)**

*The Liaison Committee should be reconstituted to include more independent members drawn from the wider civil society and private sector organisations. This will provide it with sufficient balance, independence and experience in providing oversight and governance for ZNAN. The Committee should also develop comprehensive guidelines that define the various oversight activities that should be performed by the committees formed to ensure its role is fully executed.*

257. The Internal Audit (IA) function reports to the Executive Director. This is contrary to best practice since it restricts the independence and objectivity of the operations of the function. The OIG's review of the of internal audit reports on key ZNAN functions showed that the reports contained brief recommendations and lacked details of audit findings, implications and management comments. There was no documented follow up to show whether the IA recommendations had been implemented. The OIG could not confirm the extent of implementation, by management, of the IA recommendations. The OIG also noted that Internal Audit participates in the appraisal of SRs. This is a core operational activity and their involvement in operations would potentially impair their independence and/or objectivity when reviewing the grants management function.

258. Most of the IA function's efforts dedicated to review of SRs with no reviews undertaken of Headquarters controls. The quality of the work of the Internal Audit function was brought into question by the following issues which although obvious, had not been identified by the IA department:

- (a) Some SRS receiving large amounts of money yet they had not been visited since the inception of the program e.g. the Maureen Mwanawasa Community Initiative;
- (b) Several instances were noted where SRs did not provide accountability and could not support the reports submitted to ZNAN;
- (c) Many instances where activities implemented were not in the approved work plans;
- (d) The OIG noted many instances of unsupported and/or ineligible expenditure; and

- (e) SRs had weak internal control environments which had not been identified by the PR.

259. ZNAN is audited by Newton Lungu & Associates. The OIG reviewed the ZNAN audited financial statements for the period 2003 to 2008 and noted that there were significant errors (something the LFA should have identified). ZNAN has used the same audit firm for the last 6 years. As part of their audit procedures, external auditors are required to review the internal control environment and provide recommendations for any weaknesses identified therein. Of the 12 audits conducted by the auditors, only one management letter was issued with one weakness identified. There were a number of weaknesses in the internal controls of ZNAN, identified in the OIG audit that the auditors should have identified.

### **Recommendation 29 (High)**

(a) *Internal audit should not participate in the day to day running of the organisation. It should report to the Liaison Committee. Ideally, an audit committee, comprising of experienced and independent or non-executive members, should be established from Liaison Committee members. This committee would oversee the internal audit function and report to the full Liaison Committee. For example, the committee would approve the internal audit work plan, assess the performance of the Chief Internal auditor, review internal audit reports and hold management accountable for implementing IA recommendations.*

(b) *The external auditors should be changed.*

260. ZNAN does not have a policy on declaration of conflicts of interest. The OIG noted several cases where senior management were involved in decision making in cases where they were conflicted. Conflicts of interest are not considered misconduct but need to be disclosed and managed appropriately in order to ensure the risks that they can become avenues for misconduct are mitigated.

### **Recommendation 30 (High)**

*A policy requiring the management team and the Liaison Committee to declare conflicts of interest should be developed and adopted by ZNAN. This policy should, in part, require members to periodically declare any interests and abstain from decision making in areas where they are conflicted.*

## **Compliance**

ZNAN has to large extent complied with the various rules and regulations that govern their operations e.g. grant agreements, tax rules etc. However the OIG noted several instances of non-compliance with the Global Fund agreements. The internal Audit function should conduct compliance reviews to ensure that the control environment in ZNAN remains adequate to safeguard program resources.
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261. Bank accounts for the PR were changed without approval from the Global Fund Secretariat. For HIV/AIDS Round 1, the bank account was changed from Standard Chartered Bank to Barclays Bank. HIV/AIDS R4 was changed from Barclays Bank to Stanbic Bank and then Access Bank. For Round 1, ZNAN wrote to the Global Fund Secretariat through the LFA requesting for a change in bank accounts. The

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Secretariat did not respond and the organisation proceeded to change the accounts without getting approval. For subsequent changes, no requests for approval were submitted.

262. The Global Fund encourages its PRs and SRs to maintain adequate financial records to ensure effective tracking and reporting of financial receipts and expenditures. However, funds from the Global Fund grant were commingled either between grants or with other donor Program funds at PR and SR level. For Family Health Trust, ZMK 249,865,070 (US\$ 54,318) was transferred from the Global Fund account and used to run another Program funded by Christian Aid. Maureen Mwanawasa Community Initiative (MMCI) combined funds for both Global Fund and the Joint Financing Arrangement (JFA) in the same account at Stanbic Bank. These entities did not have proper financial management systems in place that could record and provide balances by donor periodically.

263. The grant agreement requires that income generated from program resources is recorded, reported, and used exclusively for program related activities. Because the use of these funds were not included in the approved work plan and budget by the Global Fund then the PR should ask prior approval before using the income to finance particular program activities. The PR and its SRs did not obtain approval from The Global Fund on the use of revenues generated from Global Fund activities. Over the grant period, ZNAN generated US\$ 817,243.27 mainly from interest income which was spent without Global Fund approval.

### ***Recommendation 31 (Significant)***

*Revenues generated from Global Fund activities should be reported to the LFA/CCM. Approvals should be sought by the PR on how these funds should be applied to Global Fund programs before the funds are used. ZNAN should report all income generated and seek approval for expenditure incurred from these resources.*

### **Financial management**

ZNAN set up a financial management system to manage the Global Fund grants. The accounting package, Pastel Accounting, is used to track budgets by thematic area. Overall, administrative costs at PR and SR level appears to be high. Based on the PR records reviewed, the overall administrative cost for all grants is in the region of 27% of the total grant amounts disbursed.

264. ZNAN's finance function is headed by the Finance and Administration Manager. He is supported by three staff - an accountant, an accounts assistant and a cashier. ZNAN uses Pastel Accounting to record and report transactions related to Global Fund grants. Transactions are recorded as they occur and reporting is done on a quarterly basis.

265. Administrative costs for the PR are allocated on an ad hoc basis across grants. The overall administrative cost for all grants is in the region of 27% of the total grant amounts disbursed. Operating expenses are charged to whichever grant has funds. For example, in March 2007, gratuities for some Program staff were paid

from the HIV/AIDS Round 1 grant while salaries were paid from the HIV/AIDS Round 4 grant. This defeats the purpose of budgeting as a cost control mechanism. It is also contrary to the generally accepted accounting principles that call for expenditure to be matched to their income i.e. the specific grants in this case.

266. The OIG noted that ZNAN commingled funds, which is contrary to the signed grant agreement with the Global Fund and which implies that program funds may not have been available when needed for program implementation. The OIG noted the following inter grant borrowings:

- (a) US\$ 100,000 from the Tuberculosis Round 7 was transferred to the ART accounts and used for Round 4 activities.
- (b) Furthermore, US\$373,708 meant for TB Round 7 was transferred to the bank account for TB Round 1.
- (c) At least US\$9,980 from the Global Fund accounts was used to run Joint Financing Arrangement (JFA) activities on 6-8 July 2009. By the end of 2008, amounts advanced to run JFA activities amounted to US\$ 89,704 and had not been refunded at the time of the audit.

267. The OIG noted that ZNAN management was provided with cars for personal use. The use of program assets for personal use is contrary to the grant agreement that requires funds to be used only for program activities. ZNAN did not obtain approval from the Global Fund before giving the cars away. The OIG was informed that this happened because more vehicles were procured and therefore there was no longer sufficient parking space in the ZNA compound. The staff that received these cars parked them in the ZNAN compound alongside the newer cars purchased and so the explanation provided is questionable. The cars could have been distributed to SRS or SSRs who had continuously been requesting for transport or better still to a DHMT or PHO for monitoring and evaluation.

### ***Recommendation 32(High)***

*(a) The vehicles should be immediately returned to ZNAN by the respective staff. ZNAN should write to the CCM and request that they be reallocated to where there is greatest need for transport to support program activities.*

*(b) Administrative costs at PR should be based on reasonable costs arising from activities related to the administration of grants. Appropriate cost allocation parameters should be developed based on the PR's history and pattern of administration costs to ensure reasonable allocation of overheads is done across all donor supported programs within ZNAN.*

*(c) ZNAN should not commingle funds from different funding sources and grants since they are all meant for different activities and goals. ZNAN should reconcile all grant balances and all amounts used for the payment of other activities should be refunded to the program account.*

268. The OIG obtained a salary survey for similar organisations and found that ZNAN salaries were in some cases over 200% higher than for similar positions within the sector. The Global Fund cannot determine what Program staff should be paid. Program funds should only be used to pay for what is reasonable so that program

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funds are used maximally for fighting the three diseases. A sample of results is shown in the table below:

Positions	Survey report monthly package ZMK'000	ZNAN monthly package ZMK'000	Difference ZMK'000	variance %
Executive Director	33,000	67,845	35,345	109%
Finance and Admin Manager	16,000	39,510	23,510	147%
Programme Officer	7,000	18,863	11,863	169%

**Table 7:** Salary Survey in the NGO sector [Source: KPMG Salary report]

269. There were significant amounts of program funds spent on activities such as international conferences that were not included in the approved work plan and budget for ZNAN. The OIG review noted that in some instances trips were paid for non-ZNAN Global Fund activities and in others amounts paid were excessive. This amounted to US\$ 49,674 and should be refunded.

### **Recommendation 33(Significant)**

(a) *The salaries paid by the Global Fund should be in line with sector levels. The contribution to salaries from program funds should be revised to reflect this and release funds to fighting the three diseases.*

(b) *Amounts spent on activities that are not in the approved work plan and budget constitute ineligible expenditure and should be refunded*

### **SR management**

Program design for the grant has created challenges with regard to appraisal, monitoring and evaluation of SRs. Over the past 5 years, ZNAN has made over 900 disbursements to SRs. Given the activities necessary to select and manage SRs, this number is large. The number of SRs should be reduced in a manner that enables outreach but also ensure that the SRs can be effectively managed.

270. ZNAN sub-grants fully to SRs and a portion of grant funds is retained to meet the Organisation's operational costs. Some SRs, known as lead agencies, also sub-grant to sub-SRs (SSRs) enabling ZNAN to achieve a higher level of outreach to its constituency. At the inception of the program, ZNAN sub-granted to 9 lead agencies and over 60 SRs in 2004. By early 2009, the lead agencies had reduced to 6 and the SRs increased to over 120. Over the period of the Global Fund grants, ZNAN had made over 900 disbursements.

271. ZNAN developed criteria against which SR appraisals are conducted. There were several instances where ZNAN did not follow its own sub-granting policies and procedures during the appraisal process resulting in inadequacies in the selection and final approval of SRs. Example included failure to obtain audited accounts for SRs, lack of record of proposals on file submitted by the SRs etc. There were no set threshold for final approval of SRs for funding. All SRs were approved by the Executive Director. The Liaison Committee did not participate in the approval process for large SRs/Lead agencies. The OIG specifically noted one lead agency

where the Executive Director had been the Executive Director of this organisation and was therefore conflicted and such a case should have been approved by the Liaison Committee. The OIG noted cases where SRs were selected yet they did not meet the set criteria. In those cases, there was no justification on file for exemptions provided. The OIG also noted that organisations that have demonstrated poor financial management continued to receive funding e.g. those that had not liquidated advances provided e.g. MMCI.

272. The OIG reviewed a sample of SR files maintained at ZNAN and noted that critical information was missing on some files. This information should have been provided at the time of applying for grants. It included:

- (a) Lack of audited financial statements;
- (b) Lack of bank statements from SRs on file;
- (c) Lack of activity reports on file;
- (d) Lack of copies of registration documents; SR constitution/by laws; and
- (e) Lack of monitoring and evaluation plans where applicable.

273. By the virtue of its large constituency, ZNAN worked with many SRs and SSRs. The number of SRs and SSRs has increased over the years while number of lead agencies has decreased from 9 to 6. A large number of SRs is funded per year by ZNAN. Since 2004, over 900 disbursements have been made by ZNAN. This gives an average of approx. 180 SR disbursements per year (given that disbursements in 2004 and 2009 were done for a full year). This shows that the number of SRs that ZNAN directly handles is on the increase. ZNAN's model was to select SRs on a quarterly basis which also created an increase in the work load. Given the requirements for appraisal, contracting, monitoring and evaluation, this places enormous strain on ZNAN resources and may negatively impact on grant implementation.

274. The OIG noted that ZNAN's approach of broad engagement presented various challenges for ZNAN's management and these included:

- (a) The quality of the vetting and assessment processes is inadequate as evidenced by the selection of SRs that clearly had not demonstrated their capacity to implement program activities.
- (b) The frequent assessments arising from quarterly selection of SRs took away a lot of program monitoring time at head office as well as weakening the PR's ability to engage with SRs.
- (c) High overheads that were distributed across so many recipients which brings to question the effectiveness of program delivery in cases of high administrative costs; and
- (d) The high number of SRs sometimes resulted in the disbursement of very small amounts of grants in some cases as low as ZMK 1 million (US\$ 217). It was doubtful that such small amounts would have impact or demonstrate that value for money would be obtained.

### ***Recommendation 34 (High)***

*ZNAN should comply with criteria set for sub-granting. The approvals process should be reviewed to improve its effectiveness. Approval thresholds should be set. The Liaison Committee should approve SR grants above a certain threshold e.g. \$50,000.*

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275. There were instances noted where SRs received funds without having a grant agreement signed with ZNAN. For example, on 11 June 2009, NZP+ Secretariat was granted ZMK 37,630,000 (US\$ 8,180) by ZNAN. There was no grant agreement for the amount. Without a grant agreement, ZNAN may not be able to enforce any agreed terms and conditions once funds are disbursed.

276. There were several SRs that did not maintain proper financial records. In addition, many SRs did not have audited financial statements for periods covered by Global Fund grants. Lead agencies such as Kara Counseling did not have any financial records i.e. cash books, payment vouchers and related invoices, bank statements and reconciliations for the period 2004 to 2006. International HIV/AIDS Alliance provided Group Accounts that provided insufficient information regarding their operation in Zambia. Maureen Mwanawasa Community Initiative had incomplete records that were incoherent.

277. An example of the weak record keeping was MMCI which signed a grant agreement on 8 August 2006 for ZMK 370,311,600 (US\$ 80,502) from the Joint Financing Arrangement [a basket fund for other donors). However, some funds were disbursed from Global Fund grants to finance this Program. The amount disbursed was ZMK 202,976,800 (US\$ 44,125), which should be refunded to the Global Fund. Furthermore, in January 2009, MMCI obtained ZMK 118,553,500 (US\$ 25,773) from ZNAN, which was spent on JFA activities.

278. The OIG noted several cases of misappropriation or mismanagement of funds at SR level. 6 out of the 21 SRs visited had suffered frauds or had very weak financial management systems in place. The OIG team was unable to obtain supporting documents for some amounts that had been spent. In some cases, such as MMCI, there were no cash books for the team to review. Others such as KARA Counseling did not have any records whatsoever for funds received between 2004 and 2006. Ineligible expenditure relates to funds spent on activities that were not included in the work plan. For NZP+ Lusaka, these funds were used to pay allowances for a board meeting and the purchase of groceries. The table below shows the institutions the OIG identified and the amounts in question. These amounts should be recovered from ZNAN and applied to program activities.

Sub-recipient name	Comments	ZMK
Maureen Mwanawasa Community Initiative	Unsupported expenditure	1,247,715,900
KARA Counseling	Unsupported expenditure	5,766,568,000
Zambia Tuberculosis and Leprosy Trust	Unsupported expenditure	12,936,000
ESU School of Nursing	Unsupported expenditure	56,000,469
Community-based TB Organisation	Unsupported expenditure	132,335,000
NZP+ Lusaka	Ineligible expenditure	37,630,000
<b>Total</b>		<b>7,253,185,369</b>
<b>US\$ equivalent (M)</b>		<b>1,611,818.97</b>

Table 8: Unsupported and ineligible expenditure [Source: ZNAN records]

### **Recommendation 35 (High)**

(a) ZNAN should ensure that SRs maintain proper records at all times. In addition, the organisation must ensure that SRs implement work plans that they have committed to. ZNAN should always disburse funds to organizations it has contractual obligations with. This will enable ZNAN to enforce terms and conditions that safeguard the Global Fund resources. All the funds noted above as ineligible or unsupported i.e. ZMK 7,253,185,369 should be refunded by ZNAN to the Global Fund.

(b) ZNAN should revisit its funding model. It is not feasible given the capacity at ZNAN for it to have 900 quality disbursements. For example, ZNAN should work through Lead Agencies to reduce the work load at the head office. The Internal Audit function should undertake a comprehensive review of the SRs that have in the past received funding from ZNAN.

279. The Global Fund requires that administrative costs be incurred by an implementing organisation should not exceed 15% of the grant value. This value is set as a maximum to manage the risk of excessive administrative costs being charged to the grant. The OIG observed that all sub-recipient budgets levied a 15% administrative charge in their budgets. In other words, the administrative portion of all budgets is 15% irrespective of whether there is need for administration or not or whether the activities to be undertaken warranted a 15% fee. Some SRs charged the programs with administrative related costs on top of charging the 15% overhead.

280. Some of the program costs paid did not relate to the program. The OIG also noted many instances where immediately the disbursements were transferred on to the SR's bank account, the 15% was immediately withdrawn irrespective of the duration of the grant and needs of the program. SRs in some instances could not justify and/or support the immediate withdrawal of the funds from the project's bank account. There was also no basis on which to justify the 15% charged at SR and SSRs level. While the charging of the 15% to administration is easier to monitor, it is susceptible to abuse and also may not be reasonable because some activities undertaken may not require as big a contribution for administration costs as others would.

281. The OIG noted that SRs pay value-added tax on purchases that they make. This is contrary to the requirements of the grant agreement between ZNAN and the Global Fund which stipulates that grant funds should not be used to pay taxes.

### **Recommendation 36 (Significant)**

(a) ZNAN should analyse its administrative costs and identify ways in which they can be brought into a reasonable range acceptable by the Global Fund i.e. 15% of grant resources. The practice of charging 15% of all grants to administration should stop. SRs and SSRs should be encouraged to charge their actual costs. This is in line with the grant agreement that states that grant funds should only be used to meet program activities.

(b) ZNAN should work with SRs to centralize procurements as much as possible so as to avoid using Global Fund monies to pay taxes. In addition, ZNAN should,

through the CCM, discuss with the Ministry of Finance and National Planning on ways to improve compliance in respect of tax payments.

(c) ZNAN should ensure that SRs possess sufficient financial management capacity before disbursing funds. This includes but is not limited to; (i) having qualified staff; (ii) Mechanism for recording financial transactions e.g. accounting software; and (iii) Demonstrated ability to report financial transactions on a periodic basis.

(d) The ability of an organisation to maintain financial records must be placed at the heart of the appraisal process. Organisations that demonstrate weak financial management should not be given sub grants. In addition, ZNAN should consider contracting auditors to perform audits of SRs receiving funds above a certain threshold. This will give assurance over the results reported by SRs.

282. The OIG reviewed the Income Generating Activities (IGAs). No capacity assessments were undertaken to determine whether the SRs could manage the activity. Without support from ZNAN, managing IGAs is a complex task that requires a variety of skills including credit analysis, business planning and book-keeping. Many of the groups tasked with the role are clearly not able to manage it evidenced by the very low success rates noted.

283. In addition, since the organizations that receive funds are vulnerable groups, the mode of disbursement i.e. as grants create an “entitlement” mentality and affect their attitude towards the responsibility to pay back. The success rate of the funded groups so far is very poor and reflective of ZNAN’s level of ability to identify, assess and support IGAs. The supported groups also lack the skill to run sustainable IGAs.

### ***Recommendation 37 (Requires attention)***

*ZNAN should strengthen its structures to manage IGAs. Organisations to be funded for IGAs should be assessed for capacity to operate as such and be closely supervised in order to achieve greater success. Alternatively, ZNAN could partner with microfinance organisations that are not-for-profit and channel funds for IGAs through them.*

284. There were government institutions and/or statutory organisations that were funded through ZNAN, leading to potential duplication since this was outside the mandate of ZNAN. ZNAN is the PR for civil society and private sector organisations while government institutions and statutory bodies are funded through either the Ministry of Health or Ministry of Finance and National Planning. The table below shows a sample of government institutions financed through ZNAN.

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<i>Organisation</i>	<i>Status</i>	<i>Amount (ZMK)</i>
Mkushi District Hospital	Government hospital	13,958,298
University of Zambia (Vice Chancellors Standing Committee)	Government educational institution	165,956,270
Zambia Wildlife Authority (ZAWA)	Statutory body for wild life conservation	68,206,000
Kakumbi RHC Mfuwe	Government health centre	152,506,325
Chainama College of Health Services	Government educational institution	68,273,660
		468,900,553
		US\$ 101,935

**Table 9:** Disbursements to government institutions [Source: ZNAN records]

285. The OIG team noted that assets purchased for SRs were allocated in an ad hoc manner. There is no policy to support the basis upon which SRs received program assets e.g. motor vehicles. The OIG was informed that only lead agencies were entitled to vehicles. However the OIG noted that Family Health, Global Impact, MMCI and Facing the Challenge received vehicles yet they were not lead agencies. The OIG noted that the MMCI vehicle had suffered from an accident at the time of the audit.

### ***Recommendation 38 (Significant)***

*(a) ZNAN should develop a basis for the allocation of assets. Such a policy would ensure that assets are distributed to those organisations that need them most where they will be best utilized and safeguarded.*

*(b) ZNAN should concentrate on funding only civil society and private sector organisations. This will ensure that resources set aside for the civil society organisations and the private sector are effectively utilized. In addition, the risk of duplication of funding and funding ineligible activities will be reduced.*

### **Service delivery**

#### Development of adherence supporters and community health workers

286. There is currently no policy governing volunteers in the country. All PRs were using volunteers with no uniformity of approach and no mechanisms were in place to ensure sustainability post Global Fund. SR/SSRs apply to ZNAN to conduct training with a proposal stating the number to be trained and the needs in that particular community. The proposal is reviewed by ZNAN and targets set. Once the proposal has been approved by the ZNAN secretariat the SR or SSR selects the individuals for training. There are no specified criteria for selection of trainees. Training should be demand driven i.e. ZNAN should first identify the trainees and then the SRs to train them as opposed to identifying SRs who then go out to find trainees.

287. All trainees receive an allowance once they have been trained and remain active volunteers. The remuneration is a great incentive for all trainees to remain active as support members. The OIG however noted that this scheme is not

sustainable without funding from donors. During periods when there was a delay in the disbursement of funds to ZNAN, these adherence supporters could not be paid. This lack of alignment to the sector normal incentive schemes specifically set by the MOH may weaken the program's long term sustainability. A large number of volunteers have been recruited. The controls in place are not adequate to track payments.

### ***Recommendation 39 (Requires attention)***

*The CCM should guide the development of a national policy and guidelines on training volunteers of all kinds (including adherence supporters), their selection, deployment, remuneration, incentives and expectations at community and national levels as well as career development.*

### Development of health professionals

288. ZNAN under R4 HIV trained health professionals to provide ARVs in the private and NGO sectors. By June 2008 ZNAN had trained 860 vs target of 980; 98 pharmacists and medical (non service providers) against a target of 116 in ARVs had been trained by the same date. The OIG noted that ZNAN has no internal capacity to conduct training activities for health professionals on ART. The training for health professionals was facilitated by NGOs such as Afya Mzuri and the Zambia Medical Association.

289. All training manuals on ART were developed by the MOH in conjunction with WHO and SAFAIDS. Most of the trainers used a curriculum for training health professional titled "Management of Antiretroviral Therapy: A reference Manual for Health workers", MOH, 2004 Edition. The curriculum is detailed and well laid out with nine modules. However, no standardised pre and post-training assessments were carried out.

### ***Recommendations 40 (Requires attention)***

*Training materials and curricula need to be updated at least every two years to ensure that these materials remain up to date and relevant. Standardised pre- and post-training assessment tools should be developed by MOH and used by ZNAN to assess the knowledge and skill levels of the trainees.*

### Retentions

290. In order to motivate and retain health care workers in the health system remuneration is given as an incentive. A total of 250 health care professionals working in private institutions received retention allowances from ZNAN. Doctors received \$150 per month and nurses received \$100 per month. At Lusaka Trust Hospital all health workers including pharmacists, laboratory technicians and management staff are paid retention allowances.

291. However, this process runs counter to the MOHs' retention policy ( in line with Public Service Commission recommendations) that only selected staff working in the rural and difficult to reach areas (areas C&D) should get retention allowances and not those serving in urban and easy to reach areas (areas A&B). It also has real potential to undermine the MOHs' retention strategy. The OIG further

noted that payment of retention allowances to all health workers presents sustainability questions. The focus should be on professionals involved in ART related services so the intended program objectives can be achieved.

292. The selection process for nurses and donors to benefit from this package did meet the expected criteria of accreditation prior to qualification. However, the tracking of performance of this arrangement was not effective to monitor its effectiveness and impact on the ART delivery program component.

### ***Recommendations 41 (Significant)***

*The Global Fund Secretariat should ensure that its funding is used uniformly among PRs to ensure that there is one overarching policy guiding the health sector in Zambia and that this is in line with PSC recommendations. ZNAN should conform to policies of MOH.*

### Strengthening the role of the community

293. ZNAN carried out activities which were aimed at decreasing stigma around HIV and AIDS; promoting testing campaigns; and increasing awareness and understanding regarding HIV. The activities included the training of peer educators as HIV promotional agents, the use of drama and written and radio media for mobilisation purposes.

294. In Eastern province, for example, Radio Maria and Breeze were used for broadcasting various messages on HIV and AIDS. ZNAN produced posters as a means of mobilising the community through print media. However, during audit visits to the same areas it was noted that there were no posters in relevant local languages available to re-enforce radio and television messages at community level. The posters were in either English or in Lozi, a local language spoken in the Western Province. The OIG also noted that there was no guidance on messages delivered on radio stations. Proposals for radio broadcasting lacked technical material to be presented.

### ***Recommendation 42 [Requires attention]***

*All educational material, especially printed posters, should be in an appropriate language and have suitable content to make them accessible for the communities targeted. Appropriate guidance and standards should be provided for all radio broadcasts.*

### Supply of health commodities

295. ZNAN supports ten private hospitals and clinics with ARVs and medical supplies. These are procured through CHAZ as ZNAN does not have capacity to procure, store and deliver. The OIG noted some instances where ARV drugs were being sold at some ZNAN supported health facilities. The Lusaka Trust Hospital data collection sheet for the last quarter of 2008 i.e October-December had 20 clients purchasing ART during this period.

### ***Recommendation 43 [Significant]***

ZNAN funded institutions should not sell ARV drugs which is contrary to the program requirements. ZNAN should also review the storage and distribution capacity of the institutions supported and work with the facilities to make improvements.

### Monitoring and Evaluation

*The monitoring and evaluation (M&E) system, work plans and data collection tools are clear and comprehensive. For the most part M&E indicators have been standardised for data collection by all SSRs. However, there is no common understanding of what is meant by support and care of OVCs. For example in one instance an OVC was being supported through tertiary education well over the cut-off age (he was over 21 and the cut off age was 18); another OVC was being funded at an expensive private school. Some data collection forms are too sophisticated for SSRs because of the low literacy levels and lack of skills amongst the adherence supporters who play an important role in data collection at SSR level.*

296. The monitoring and evaluation (M&E) system, work plans and data collection tools are clear and comprehensive. For the most part M&E indicators have been standardised for data collection by all SSRs. Some data collection forms are too sophisticated for SSRs because of the low literacy levels and lack of skills amongst the adherence supporters who play an important role in data collection at SSR levels.

297. ZNAN is in principle committed to strengthening the MOH's routine information systems at formal health services (viz HMIS) through using standardised data collection tools. However, some of the institutions (e.g. LTH, Thandizani laboratory-based VCT centre, Lundazi) have their own data collection systems that do not align to the HMIS.

### **Recommendations 44 (Significant)**

*(b) There should be a commonly agreed national definition (including Ministries of Social Services, MOH, and NAC) of what constitutes an OVC and what constitutes an appropriate package of care for an OVC. The Global Fund Secretariat and CCM should ensure that there is consistency among all the PRs.*

*(b) All formal health institutions should use the same data collection tools as the MOH in line with the HMIS. Civil society data collection tools should be designed to ensure that all users are able to use these. There also needs to be increased training on the use of these tools*

### **Procurement and supply management**

ZNAN is responsible for the procurement and supply of health and non health items for their SRs. However, the organization was assessed as lacking the required technical capacity to procure, store and distribute health items. ZNAN identified CHAZ to be its procurement agent for health products. It is however noteworthy

that CHAZ was also assessed as lacking the capacity to procure health products. ZNAN was however responsible for procuring non health products.

### Structures and capacity

298. The OIG noted that ZNAN did not submit any PSM plans for any of their grants. It is a requirement for all PRs to submit a PSM plan. This, therefore, constitutes a non compliance issue with Global Fund policy. The review of ZNAN's PSM arrangements revealed that the organization had limited procurement capacity, but for non health procurements they can manage with some specialized training to strengthen current weaknesses.

299. In June 2005 ZNAN signed an MOU with CHAZ to establish an arrangement that facilitates the procurement of antiretroviral drugs and other pharmaceutical products. The MoU detailed the mutual responsibilities of the two organizations. However, the fees charged by CHAZ for the services were not mentioned. The total costs for the services are as follows:

- (a) procurement fee: 5.75% of order value. This is equal to the fees charged by Crown Agents who are the procurement agents for CHAZ concerning ARVs and HIV-related equipment.
- (b) distribution fee: 5% of order value. This fee covers distribution to the 12 ZNAN sites that receive products procured by CHAZ.

300. The above terms shows that ZNAN pays 10.75% for the procurement, storage and distribution of health items. Currently the fact that ZNAN out sources its health procurement which is then partly outsourced again to Crown Agents results in a duplication of costs and a loss of efficiency. It is common practice among procurement service agencies to charge distribution fees at cost rather than an estimated percentage.

### ***Recommendation 45 [Significant]***

*ZNAN should revisit its MOU with CHAZ regarding procurement and distribution and undertake a cost benefits analysis of having a "middleman" in its TPPA arrangement. Matters to be addressed should include the distribution cost charged to ZNAN.*

301. In Round 1 ZNAN allowed two of its lead agencies (Kara Counseling and Family Health Trust) to procure their home-based care (HBC) kits themselves. The Global Fund restricts procurement of health products to only those organizations assessed to have procurement capacity. These two SRs's procurement capacity had not been assessed by the LFA. The OIG noted that the prices obtained by the SRs were significantly higher than those obtained by the agent. The table below provides some relevant examples.

Item	CHAZ Price	Family Health Trust prices	Difference
Amoxicillin caps	K 88,000	K 128,000	45%
Nystatin oral susp.	K 3,000	K 5,500	83%
Amoxicillin susp.	\$ 0.42	\$ 0.80	90%
Methylated spirit	\$ 2.50	\$ 3.72	49%

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Examination gloves 100 pcs	\$ 2.90	\$ 4.47	54%
Cotton wool 1 roll	\$ 1.79	\$ 3.30	84%

Table 10: Procurement of health products by SRs [Source: ZNAN records]

302. FHT estimated that they spent a total US\$ 240,000 on procurement of HBC kits. Based on this FHT spent US\$ 120,000 more than they would have spent had a TPPA been used.

303. ZNAN does not have technical ability to procure non health products. Two staff members are responsible for procurement i.e. the Finance and Administration manager and the Office Manager. Neither had procurement training. Since procurement of non health items was not their core job, less than optimal time is allocated to this important task. This has resulted in a number of misprocurements resulting in less value for money.

### **Recommendations 46 [Significant]**

*Procurement plans should be prepared for all current grants to define what and how services will be procured. This will also help management identify the capacity it will require to procure and ensure timely procurement of program inputs. ZNAN should obtain appropriate procurement capacity for its procurement of non health products to ensure that value for money is obtained on its purchases.*

### Procurement process and product selection

304. The procurement manual is not comprehensive in that it does not provide adequate guidance on key aspects of PSM e.g. thresholds for different procurement procedures. For example, the procurement procedures do not mention the composition of the tender evaluation committee. This leaves room for manipulation since it is not clear who can be a member, how members are selected and by whom. The procurement procedures also lack a section on a code of ethics for staff engaged in procurement. The OIG noted several instances where the guidance in the manual was not followed.

305. The procurement procedures were reviewed and compared to the actual process. Several weaknesses were observed as described below. According to the procurement procedures each procurement beyond US\$ 20 or the equivalent of ZMK 100,000 requires 3 quotations. It was noted that this does not happen in many of its procurements.

306. The OIG was not provided with documentation relating to the hiring of the architect for the refurbishment of ZNAN's buildings. The contract itself was not available for review. His fees amounted to 5% of the total contract cost, which is higher than the 2% normally charged by architects. However, without the actual contract the OIG could not confirm whether this was agreed with ZNAN.

307. The OIG reviewed tenders undertaken by ZNAN. The actual procurements were compared to work plans and compliance with regulations. The OIG noted that several procurements undertaken did not comply with regulations and in some cases not in the work plan as detailed in the examples below.

- (a) Purchase and refurbishment of property in 2003: Procurement of the plot and buildings was done in an appropriate way in terms of reviewing several available properties, composition of the evaluation team and payment. ZNAN launched a tender for the refurbishment of the acquired property on the plot. The tender document used for the refurbishment work was not based on the standard bidding document recommended by the Tender Board, which ZNAN uses for other non-health procurements. The tender letter in the bidding document mentions a 90 day bid validity while the invitation for bids mention a 60 day bid validity. The tender document did not specify payment conditions.
- (b) Tender ZNAN/GF 003 for supply & delivery of motor vehicles, motor bikes, bicycles, computers, photocopiers and computer accessories, May 2008: Two publication dates were found: 14 and 19 March 2008, which is inconsistent. The deadline for submission of 31 March gave suppliers very limited time to submit a bid. In the evaluation report it was mentioned that CFAO would receive an award for 5 double cab 4x4 vehicles since it was the only supplier that submitted a bid. The OIG noted, however, that the vehicles were sourced from Action Auto, who did not participate in the tender.
- (c) Procurements outside work plans: In HIV Round 4 a total of 3 desktop and 4 laptop computers were approved to be procured in Year 3 at a total budget of US\$ 11,800. However, in 2008 12 desktop computers and 2 printers were bought for US\$ 21,503.77. The printers were not in the work plan. This constitutes non compliance with the work plan an ineligible procurement with a value of US\$ 9,703.77.

### ***Recommendations 47 [Requires attention]***

*The current procurement manual should be reviewed for improvement to include the standard procurement practices. This would ensure ZNAN meets best practice and comply with the applicable requirements. ZNAN should ensure that tender documents used on similar procurements are consistent throughout to avoid ambiguity and improve transparency in the process of conducting procurements.*

### **Contract and inventory management**

308. The supplier contract management system at ZNAN was reviewed and noted to be poor. A formal supplier contract management system is not in place for non health procurement. For health procurement CHAZ is responsible for managing the contracts for pharmaceuticals although ZNAN does receive a copy of these contracts. No evidence was found of monitoring CHAZ's performance. The OIG noted a number of instances of late deliveries but no penalties were imposed despite the clause contained in the tender documents.

309. The storage and distribution of commodities do not pose major problems for ZNAN. The assets management system was noted to be adequate. However the supplied health facilities need to improve their speed of reporting to the national ARV Logistics Management Unit. ZNAN's ART/VCT sites are responsible for monthly reporting on their drug consumption and stock status to the Logistics Management

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Unit (LMU) who, in turn, send a report to CHAZ. According to CHAZ and LMU some of ZNAN's ART/VCT sites do not submit their reports on time or at all.

### ***Recommendations 48 [Requires attention]***

*ZNAN should require CHAZ to set up a supplier tracking system for tender contracts to ensure proper management of and closure of contract. Supplier compliance with terms of the contract should be of importance to ZNAN to improve program efficiency level in the delivery of inputs. Applicable penalties should be applied for late deliveries according to the contract agreement.*

### Churches Health Association of Zambia

#### Background

310. The Churches Health Association of Zambia (CHAZ) was created in 1970 as an umbrella organization to represent work done by Church health institutions in Zambia. CHAZ complements government efforts in the delivery of quality healthcare by bringing to the health sector human, material, financial resources, innovation, and more importantly, love and care.

311. CHAZ has 138 affiliates representing 16 different churches both Catholic and protestant, with a majority of them based in rural areas of Zambia. The membership is comprised of hospitals, health centres, faith based organizations and community based programs. Altogether, these institutions are responsible for over 50% of formal health services in the rural areas of Zambia and about 30% of health care in the country as a whole.

312. The supreme organ of CHAZ is the General Annual Council which convenes once annually. Eight of the Board members of CHAZ are elected by the Annual General Council at the annual meeting, and the ninth is a co-opted legal member. The Executive Director is an ex-officio member of the Board. The Board is responsible for ensuring that the decisions of the Annual General Council are carried out and oversee the management of CHAZ.

313. CHAZ signed up to receive Round 1 Global Fund grants in 2003; and has since signed further grants under Round 4 and Round 7. The objectives of the various grants have been to:

- (a) Prevent new HIV infections and provide treatment and support to people living with or affected by HIV;
- (b) To reduce HIV-related morbidity and mortality and, ultimately, the socio economic impact of HIV/AIDS, and thereby contribute to the achievement of the United Nations Millennium Development Goals;
- (c) To significantly reduce malaria-related morbidity and mortality in Zambia to the extent that it is no longer a public health problem in Zambia, in accordance with the Abuja Declaration and the United Nations Millennium Development Goals;
- (d) To reduce malaria incidence and reduce mortality in children under the age of 5; and
- (e) To reduce mortality, morbidity and socio-economic burden associated with TB in the Zambia population

#### Achievements and challenges

314. CHAZ has to-date disbursed funds to and supervised 201 Sub-Recipients, disbursing a total amount of US \$ 41.7 million to them representing 43% of funds received. CHAZ has also successfully procured items worth US \$ 31.7 million; including Anti Retroviral Therapy drugs for approximately US \$ 20 million.

315. CHAZ responded to the increased funding by establishing the Grants unit with a manager; the HR Department; and the Internal Audit Department. The

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Monitoring and Evaluation has also been strengthened and is now headed by the M&E Manager.

316. Internal processes at CHAZ have improved over the years. A new accounting software; SUN Accounts was acquired and installed in 2007 to enhance the accounting function; a new M&E relational database has been installed to process M&E data; and the warehouse software was installed to improve record keeping in the warehouse. Documentation of procedures has also improved; with the update of the Grants Manual, the HR Policies and Procedures Manual and the design of the Internal Audit Manual in 2008 and 2009. M&E processes have greatly improved with 100% reporting from ART sites in June 2009.

317. The major challenge faced at the start of Round 1 was that procurement of all health items was done by the Central Board of Health leading to delays in the procurement and delivery of items. This led to underachievement of objectives in Round 1, especially results that depended on items such as mosquito treated nets, test-kits, condoms and drugs. Later a similar challenge was faced under Round 4 as CHAZ began to undertake its own procurement. The tender process applied had a lead time of nine months. As a result of this Year 2 procurement that should have taken place in 2006 was completed mid-2007.

318. The PR also faced the challenge of exchange rates between January 2006 and September 2008. During this period the exchange rate of the Kwacha to the dollar fell to as low as K3,100. The budgets in the approved proposal were in United States dollars while the implementation was done in local currency. Further, the unit costs used in the proposal were based on the Kwacha unit costs and the exchange rates ruling at the time of the proposal development. This resulted in large exchange losses over this period.

319. Another challenge faced was due to the fact that the staff members employed at the CHIs are government staff and were sometimes transferred away from them by government after being trained for the Global Fund programs. This has created capacity gaps at the SRs. This has particularly affected the quality of reports submitted from regional offices. The Round 8 proposal provides for closer supervision of the SRs and provision of additional training opportunities for the SR staff.

320. The delay in disbursement of funds by the Global Fund was another challenge faced by CHAZ. CHAZ had an arrangement where it received funds for a buffer period to mitigate the delays. Disbursements were sometimes delayed by up to 10 months.

### Strengthening grant management

#### Institutional aspects

CHAZ has been undergoing restructuring from late 2006. The restructuring has resulted in strengthened systems. The restructuring, however, has not been systematic throughout the organisation and the delay in implementing certain aspects of the restructuring has led to the changes implemented having to be amended because of the time-lag.

321. CHAZ works closely with the Ministry of Health and Government health service providers at all levels. CHAZ contributed to the National Health Strategic Plan 2006 - 2011 and is committed to the realisation of the targets. The CHAZ institutions submit reports through the districts and these are included in the national results. At national level, CHAZ represents the Faith- Based Organisations on the CCM. The doctors at Church Health Institutions are employed and paid by the Government and the institutions receive funding for operations from the government.

322. The CHAZ Secretariat is headed by the Executive Director who is answerable to the Board. This Board is charged with making policy decisions and providing direction to CHAZ. The Secretariat is the functional entity to carry out day to day business on behalf of the Board. The OIG noted some instances where the Secretariat made and implemented decisions without prior Board approval. These instances included the 'Salary Harmonisation' in August 2007 which resulted in a general salary increase ranging between 15% and 67% for all existing staff members; the gift of a CHAZ vehicle to the former Board Chairperson in August 2008; and the purchase of Celtel (now Zain) Shares worth US \$ 20,000 in 2008.

323. The OIG noted the existence of an "Executive Board" which is composed of the Chairperson of the Board, the Vice Chairperson and one other Board member. The Executive Board was established in 2009 with the purpose of taking the more 'sensitive' decisions and presenting them to the full Board. The decisions taken include the approval of the Secretariat salaries subsequent to a general salary increase of 20% and suspension of staff. This decision was not ratified at the Board meeting. However the Executive Board was not provided for in the Constitution and By-Laws of CHAZ.

#### **Recommendation 49 (High)**

*The CHAZ Secretariat should ensure that all major decisions taken should be approved by the Board. The constitution should be amended to incorporate the role of the Executive Board. The Board should ensure that all decisions and approvals are made by legally recognised and established bodies. All decisions made by the Executive Board should be referred to the Board for ratification.*

324. CHAZ signed the Global Fund grants in 2003 resulting in an immediate increase in the annual funds received over the next two years representing a growth of over 800% between 2003 and 2005. Annual funding received in 2006 was K72.8 billion (US\$ 15,826,086) up from K5.3 billion (US\$ 1,152,174) in 2003.

325. The Board responded to this growth in funding and activities by undertaking to restructure the organisation. Progress on the implementation was only registered in late 2007 with the creation of the HR department. The internal audit and grants departments were created in February 2009 and managers appointed. The grants department was only staffed in June 2009 and the internal audit staff member was recruited in October 2009. At the time of the audit, there were indications that the restructuring was still on-going and that some further modifications to the structures would be made. This delay in establishing these two departments affected the supervision of SRs by CHAZ.

326. The restructuring also resulted in the updating of existing manuals and the design of new manuals. At the time of the audit, the Human Resources Manual had been amended and awaited approval from the Board. The OIG's review of the manual, however, revealed that the HR manual did not adequately cover areas such as the salary structure; performance management and evaluation; discrimination and equal opportunity policy; and HR and the country laws. Additional shortcomings in the Hr Manual have necessitated the printing of sub-manuals on training and HR development.

327. The OIG reviewed the performance appraisal process at CHAZ and noted that appraisals were not prepared regularly but only prepared before the end of probation periods, before salary reviews and on the renewal of contracts. The OIG's review of some personal files indicated that some staff members had their salaries and contracts renewed without getting appraised.

328. A review of the CHAZ benefits as detailed in the draft HR management policy document indicated benefits that seemed unreasonable especially when viewed in the light of the fact that they were paid from program funds. This included (i) a settling in allowance for all new staff of 30% of basic annual salary; (ii) monthly housing allowance of 50% of basic salary; (iii) transport allowance of 20% of basic salary per month; children's education allowance, gratuity; (iv) utility vehicles being used by managers with the agreement that they would be sold to them at the end of their first contract and laptops being given to managers after 3 years of use.

329. Top up allowances were paid to the Executive Director and the Programs Manager for a period of 31 months from February 2006, for running the programs funded by the Global Fund. The top-up allowances amounted to US\$ 4,660 and USD 3,660 per month, and were reflected in the approved Global Fund work-plans and budgets as program coordination. There was no apparent justification made at the time since other staff directly involve in running Global Fund activities were not considered.

330. The internal audit department was established in 2009 and the then financial analyst offered the position of Internal Audit Manager. The internal Audit function reports to the Executive Director. Best practice discourages internal audit reporting to the Head of an organization but recommends the establishment of an independent Audit Committee to oversee the function. The OIG also noted that the internal audit reviews were undertaken only for the SRs and not for the CHAZ head office. An internal audit manual was prepared to guide the processes of the

department. The OIG noted that the internal audit manual indicates that a risk-based approach should be applied to all internal audit assignments. However, this approach was not applied at the time of the audit. For example the internal audit report for Coptic Hospital did not identify a number of key risks e.g. of funds without proper records to track and report financial transactions by donor.

331. Deloitte and Touche has audited CHAZ for over seven years and issued a management letter for each of the audits. While most of the issues raised in the management letter were followed up and implemented in a timely manner, the OIG noted that the unretired advances remained an issue over this period. This was decisively dealt with in August 2009 with some members of staff suspended over unretired advances and a strict policy over advances implemented whereby advances must be accounted for within four days after the end of the activity or trip. The OIG however noted that some unretired advances slipped through and remained unaccounted for at the time of the OIG audit; including one advance made out in November 2008 that was only retired when the OIG team raised it during this audit.

### ***Recommendation 50 (requires attention)***

*CHAZ should hasten the restructuring process while the approved changes are still relevant. The timely implementation of the restructuring will strengthen the organisation and enable management to ably manage the implementation of Global Fund programs. A full review of the Human Resources processes, policies and structure should be undertaken. A review of the salary structure and job descriptions should be undertaken which should result in an approved salary structure that is not subject to changes such as the general increase and the harmonisation. The payment of top up should be stopped. The internal audit department should report to a committee of the Board, comprised of independent and experienced members.*

### **Compliance**

There were some instances noted of CHAZ not complying with the Global Fund grant agreements.
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332. The grant agreements stated that any interest and/or other income from funds disbursed by the Global Fund shall be used for Program purposes. However the OIG noted that some income from program activities was used for purposes other than Global Fund Programs. Such income included the income from the sale of tenders which was placed in an account with other funds and utilised for evaluation of non-Global Fund tenders. The administration charge of 4.8% (ZMK 14.5 billion; approx. US\$ 3.15 million), which was withdrawn from the Global Fund accounts and banked in the CHAZ general Administration account was utilised for general expenses some of which did not relate to program activities e.g. the purchase of Celtel shares and write off of bad debts.

333. The grant agreements stated that “the PR shall ensure the audits of the expenditures of SRs”. The OIG noted that the CHAZ did not have a mechanism in place to ensure these audits took place’. A few SRs were audited (about 5) in the period from 2003 to 2008.

334. According to the grant agreements, the PR is obliged to submit reports within 45 days of the end of the quarter. A review of the reporting under the grants indicated that on numerous occasions reports were submitted much later than the stipulated time. Reports were noted to be sometimes submitted up to 216 days late than the due date.

### **Recommendation 51 (Significant)**

(a) *The PR should comply with the grant agreements in order to ensure that the conditions put in place to safeguard Global Fund assets are operational and therefore reduce the risks that Global Fund money is exposed to.*

(b) *CHAZ should ensure that reporting timelines are properly communicated to staff, followed through and met. This will facilitate timely and informed decision making at the Global Fund.*

### **Financial management**

The Financial management systems and structures have improved since the inception of the programs in 2003. However, there is a need to improve the documentation and to further improve some systems and processes.

335. CHAZ has a fully fledged finance department with systems in place. CHAZ uses the Pastel financial software to record the grant financial information and generate reports. CHAZ has a financial manual dated November 2003. However the manual has not been updated to cater for the changes that the organisation has experienced as a result of the growth from 2003 to-date. The following aspects were not provided for in the current manual:

- (a) guidelines over the maintenance of a fixed assets register and the details to be included;
- (b) guidelines for petty cash management and exchange rates mechanism;
- (c) description of the accounts department set-up; no indication of the reporting lines and no indication of authorization limits;
- (d) guidelines for vehicle management;
- (e) guidance on the preparation of bank reconciliations with no indication of deadlines and frequency of preparation; and
- (f) guidance on periodic reporting; the format, frequency of reports and deadlines;

336. CHAZ had a fixed assets register in place that was up-to-date. However the OIG's review indicated that the register was not comprehensive as it excluded some assets purchased on behalf of SRs. A house procured under Malaria Round 4 by Zambia Malaria Foundation (ZMF) was not included on the CHAZ assets register. The explanation provided by management for this omission is that the property has not been registered in the name of CHAZ. The title to the property was in the name of ZMF, contrary to the sub-grant between CHAZ and ZMF. The PR was in the process of transferring the title from ZMF to CHAZ at the time of the audit.

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### Recommendation 52 (Significant)

(a) The Finance Manual should be updated to include all the aspects above. By providing guidance on the minimum standards staff can employ in implementing the Global Fund programs, eliminating uncertainties and guarding against the risk of weak structures and systems, these manuals will also enhance the management of ZACH programs.

(b) CHAZ should ensure that all assets purchased are recorded in the assets register. Additionally, CHAZ should ensure that all assets purchased using Global Fund grants are registered in the PR's names.

337. CHAZ receives grants from other Cooperating Partners who also contribute the organisation's costs. The OIG reviewed some grant agreements where the Partners contributed to expenses that were fully covered by the Global Fund e.g. salaries for some staff members. For example the OIG noted that the CDC budget provided for salaries that were covered by the Global Fund as detailed below:

Position	GLOBAL FUND Grant	GLOBAL FUND Contribution	CDC contribution	Duration: April 2009 - March 2010
Grants Manager	HIV Round 4	100%	10%	12 months
TB Program Officer - Global Fund	TB Round 7	100%	20%	12 months
M&E Officer	Malaria Round 7	100%	10%	12 months
Laboratory Officer	HIV Round 4	100%	100%	12 months
IT Officer	HIV Round 4	100%	100%	12 months

Table 11: CDC Contribution to salaries [Source: Budget for Continuation Application April 2009 to March 2010 signed 11 August 2009].

338. The OIG's review of the salaries at CHAZ indicated that the salaries received by staff members were high when compared to salaries at similar sized organisations. A comparison with a similar sized organisation indicated that the salaries paid to CHAZ staff were more than what was paid to a manager at a similar level in an organisation of similar size. While the Global Fund cannot make decisions about what salaries organizations pay their staff, it is only reasonable that it makes reasonable contributions to salaries of staff therefore freeing more resources for program activities.

	Top NGOs 50 - 100 staff	CHAZ Salaries 82 staff	Difference CHAZ & Top NGOs	Diff %age
Executive Director	396,000	528,000	138,000	35%
Finance and Admin Manager	192,000	397,476	205,476	107%
Research Manager	144,000	397,476	253,476	176%
Programme Officer	84,000	163,141	61,141	73%
Admin Asst	24,000	95,544	29,544	123%

Table 12: Salary structure in the sector [Source: KPMG salary survey report]

**Recommendation 53 [significant]**

*The PR should allocate expenses and salaries to the Cooperating Partners based on the time allocation to the particular grant. CHAZ should provide justification for its salary charges to the Global Fund account. All funds involving double claims should be refunded to the Global Fund.*

339. CHAZ withdrew 10% of program funds to cover administration costs. The 10% administration charges were broken down as follows: (i) 3% for administration costs at SR level; (ii) 2.2% was charged to the Global Fund for specific related expenses; and (iii) 4.8% was charged for other expenses excluding procurements. On top of the 10%, the Global Fund also met other costs directly e.g. salaries, international travel and purchase of the Sun Accounting system. The OIG was not provided with the basis used to arrive at the 10% charge nor could the allocation of costs by donor be provided. For the 2.2% deducted for meeting Global Fund specific costs, there was no reconciliation provided to the OIG of the amounts withdrawn, costs paid and the balance of funds held on this account. Balances held on this account are monies owed to the Global Fund.

By definition, funds from the Global Fund should never be classified as unrestricted funds since they are for specific purposes. The 4.8% administration charge was transferred from the Global Fund bank account to the CHAZ General Administration account from where it was spent. Between 2004 and 2008, the Global Fund contributed to 55% of all amounts classified as unrestricted funds (See table below). The OIG noted that the some expenses made from this account were not related to program activities e.g. the purchase of Celtel shares, Board expenses, General Council expenses and the purchase of Amandra House. CHAZ’s classification and transfer of program funds to an unrestricted fund is in contravention of the grant agreement with the Global Fund. The agreement stipulates that program funds should only be used for activities that are related to the programs.

Year	4.8% Admin Fee charged to Global Fund ZMK'000	Total Unrestricted funds ZMK'000	Percentage from Global Fund
2004 - 2005	6,443,368	10,114,135	64%
2006	1,461,507	4,964,399	29%
2007	2,347,751	4,497,527	52%
2008	4,331,142	6,733,581	64%
Total	14,583,768	26,309,642	55%

**Table 13:** 4.8% Administration fee charged to Global Fund Programs [Source: CHAZ Accounting Records]

**Recommendation 54 (Significant)**

*(a) CHAZ management should provide a justification for the administration cost charges to the Global Fund. This should include allocation of costs by donor. This should be reviewed by the LFA and recommendations made to the Global Fund about the reasonableness of charges.*

*(b) The allocation of Global Fund resources to ‘unrestricted funds’ should stop. All costs incurred in the process of managing the project should be charged directly to the program account. The account to which the 2.2% is charged should*

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*be reconciled and verified periodically as part of the LFA verification on a quarterly basis.*

340. The OIG noted some instances where financial transactions incurred by CHAZ did not result in value for money. Some examples of this are:

- (a) Carrying out training in hotels and charging the Global Fund account when they could have been held at lower rates at Ngwezi Training Centre, a training center that was renovated at Global Fund's expense;
- (b) Holding management meetings at hotels and lodges including Hotel Protea, Intercontinental Hotel, and Chital Lodge; which could have taken place at the CHAZ offices or at the Ngwezi Training Centre; and
- (c) Sending staff on international trips paid from the Global Fund account which did not make a direct contribution to the achievement of program objectives. Examples include a Ghana Exchange visit by the Global Fund Accountant and the HR Manager; the TB Conference in France by the Finance and Administration Manager; the Senegal AIDS Conference by the Administration Accountant and the Training Manager at the Training Centre. All payments for these trips should be refunded.

### **Recommendation 55 (Significant)**

*Management should endeavour to get value for money on the program funds spent i.e. that to the extent possible, funds are spent economically, efficiently and effectively. Funds spent on the international trips noted above should be refunded.*

### **SR management**

CHAZ supports 33 out of 72 level 1 hospitals; 76 out of 1,294 rural and urban health centres. These together cater for around 10% of key patient contacts. The bulk (well over 90%) of total costs in CHAZ facilities are paid by MOH. The process of identifying and selecting SRs has improved since the first selection of SRs under Round 1 grants. The supervision of SRs including visits, review of accountabilities and follow up is still inadequate. The contract management process as well as the aspect of work plans could be improved. The identification and pre-award assessment of SRs to receive funds for Income Generating Activities as well as the supervision also continues to be inadequate.

341. CHAZ has a grant selection process for the SRs. SRs are required to submit proposals to CHAZ using guidelines provided after which the proposals are reviewed and assessed by the CHAZ Technical Review Panel. After the SRs have been short-listed, there should be a pre-award visit to confirm the information provided in the proposal and to determine the capacity building requirements. However, the process was not consistently applied under Round 1 where the proposal and pre-award process was only applied to Lead Agencies and to SRs who were not members of CHAZ. For Round 4 Malaria, SRs were neither assessed before they were included in the Global Fund proposal, nor assessed before disbursements took place.

342. Under Round 4 an assessment of Coptic Hospital was carried out in 2006 and the assessment focused on the technical details and did not cover the financial management capacity of the hospital. During a visit to Coptic Hospital the OIG

noted the following issues which should have been identified and addressed during the assessment.

- (a) The hospital had no financial or administrative manual in place to ensure proper utilization of Global Funds grants;
- (b) Poor controls over bank transactions was characterized by the Hospital having one signatory to all bank accounts, commingling of funds without proper financial records to separate financial transactions by donor and no bank reconciliation statements had been prepared for the period January 2006 to July 2008;
- (c) Payments are not supported by Payment Vouchers to evidence authorisation of expenses;
- (d) Proper financial records were not maintained. No cash book was maintained for the period up to 2006 and the financial records maintained could not be tied to the report submitted. The current Accountant could not explain transactions under HIV R 1 as there was no cash book maintained during that time and retrieval of documents was difficult. The OIG also noted that the latest Fund Accountability Statement submitted by Coptic Hospital did not reconcile to the bank balance on the statement; and
- (e) Weak capacity in the finance department with only one accountant hired to handle all financial matters that related to the grants and the hospital. The accountant had limited experience in financial management matters.

343. Another example of the impact of failing to undertake pre-award assessments was the case of Zambia Malaria Foundation (ZMF). The OIG noted that ZMF regularly delayed submission of reports and had repeatedly requested for increased funding towards its administration expenses. These were declined by CHAZ. Subsequent documentation indicated that CHAZ 'discovered' that ZMF was a 'one-man' organisation, with no other sources of funding. ZMF had purchased a house using the Global Fund funds received through CHAZ and sub-let it to another organisation without prior approval of CHAZ. The property was bought with the objective of building capacity of local malaria organisations. At the time of the audit, the ZMF's Executive Director had resigned, the organisation had been closed with a view to reorganizing it.

344. The OIG noted a number of agreements which were signed after the start of the sub-grant period and in some cases after the end of the grant period. Instances were also noted where there were no work-plans for the SRs at the time of signing the agreements to support the objectives and targets. This demonstrates that the conditions under which program activities are to be implemented are not defined and can result in misunderstandings. For example, the Coptic Hospital had an agreement with CHAZ that required the SR to spend funds on program activities and receive a refund from CHAZ according to the agreed budget. However, CHAZ did not provide Coptic Hospital with a budget for the period August 2007 to May 2008 resulting in Coptic Hospital submitting a claim for US \$ 562,235 against a budget of US \$ 162,781.

345. Disbursements to SRs was to be undertaken on a quarterly basis in accordance with an agreed annual work-plans. However the OIG noted some instances where funds were remitted to the SR with no work-plan in place. For example CHAZ disbursed ZMK 48.5 million (US\$ 10,543) to Coptic Hospital for

Income Generating Activities (IGA). It is noteworthy that these funds had not been requested for and guidelines were not provided to Coptic Hospital about how the funds should be spent. At the time of the audit, these funds had not been utilised.

346. The SRs were required to submit reports within 15 days of the end of the quarter. However, the OIG noted some instances where reports were submitted late (with some exceeding 6 months) and for which there was no evidence of follow up. Some organisations had unaccounted-for funds for long periods of time, some dating as far back as 2007 e.g. Coptic Hospital and Chikankata Hospital. However, these SRs continued receiving funds. The review of the accountability reports received from SRs was in some instances not comprehensive. For example one Expanded Church Response (ECR) exceeded the Administration budget line by 199% and the Human Resources component by 97.5% but this was not questioned.

347. CHAZ was unable to provide list which SRs had outstanding amounts at any point in time. CHAZ did not maintain a record of funds disbursed to SRs and how much had been retired at any one point in time. When advances were made to SRs the payment was recognised as an expense in the CHAZ financial records, and not advances until that time when they were retired.

### ***Recommendation 56 (Significant)***

*(a) SRs should be assessed for capacity to implement program activities. CHAZ should develop capacity building plans for those that are found to lack capacity.*

*(b) CHAZ should allocate targets in the work-plan to the various SRs Disbursements should be based on these expectations. Any changes in the agreed work-plan should be communicated in sufficient time to enable the SRs to respond.*

*(c) SRs should maintain a record of all disbursements made and retirements effected. SRs with long outstanding advances should be followed up and they should not receive additional funding until such time that they have retired all monies advanced to them. CHAZ should strengthen its review of accountabilities received.*

### **Construction Projects**

348. The OIG reviewed the Construction Projects that were undertaken using Global Fund grants. The construction of the warehouse was awarded to Zamchin Contractors after the appropriate bidding and evaluation. There was a delay in starting the process as the organisation sought permission for change of use. This permission was given in 2007 after which the bidding process started. The OIG reviewed the record kept of the project administration of the construction of the Pharmaceutical Warehouse and it conformed to good practice. However, there was no copy of interim certificate for work completed on the file.

349. The renovation of Ngwezi site and the refurbishment of the Ngwezi houses and conversion into a training centre was awarded to Matty Investments after a bidding process. The review and visit to the Ngwezi site revealed the following:

- (a) A stream ran through the site. At the commencement of the project, there were no tests done to ascertain the bearing strength of the ground for the foundations. The existence of the stream affects the future stability of the structure.
- (b) The progress reports do not have a record of concrete cube test results, and the blocks have no compressive strength test results. These results are intended to determine the future stability of the structure
- (c) Bill item 2 on page 17 of 32 for “*Overflow and waste pipe work are to be galvanized mild steel pipes including all brackets and fixing to walls as described*” Much cheaper pvc water pipes were used but the program was charged K 32,194,000 (US\$ 6,669) supposedly for galvanized mild steel pipes.

### **Recommendation 57 (high)**

*The PR should ensure that all appropriate documentation is filed. The PR should consider reviewing the contract with the resident engineer and possibly consider retaining a different engineer who would perform a full review of the contractor’s work. The substandard work should be corrected at the contractor’s cost.*

### **Service delivery**

#### Monitoring and Evaluation

350. Generally CHAZ M&E systems were working well. Data is flowing from facilities to CHAZ on a monthly basis and reports were generated on time. CHAZ facilities are using MOH data collection tools (viz registers, activity sheets) and all data is submitted to the DHMT on a monthly basis via HMIS aggregated data collection forms. CHAZ facilities are thus functioning exactly like MOH facilities in this respect and contribute to the application of a single routine health information system in Zambia.

351. However, in relation to the data sent to the CHAZ head office the data collection form is different to the HMIS form and requires health facility staff to prepare the information in a different format. In the ART facilities most but not all have the SmartCare system installed, is operational. However, CHAZ is also maintaining a hard copy paper system which is running parallel to the SmartCare system. This is duplicative and time consuming.

#### Coordination between PRs

352. The OIG noted weak collaboration between PRs on training. All PRs had budget provisions for similar training programs which presented the risk of running courses that targeted the same professionals. There is high risk of poor value for money on the training component of the overall program arising from a poorly coordinated course delivery process among PRs.

353. Both CHAZ and MOH are working with the same staff based in “CHAZ - owned” facilities. They are subject to all the general training that staff in MOH-facilities receive (e.g. HMIS completion, new TB guidelines, malaria, PMTCT etc). They also fall under CHAZ technical staff and also receive training from CHAZ on TB, malaria and HIV specifically. Although CHAZ explained that they try to ensure

that MOH focuses on its own facilities inevitably there is overlap and duplication, which requires sector attention.

### Retention

354. The OIG noted that CHAZ pays retention packages to some of its medical personnel. However, this process runs counter to the MOH retention policy that provides for only selected staff working in the rural and difficult to reach areas (areas C&D) to get retention allowances and not those serving in urban and easy to reach areas (areas A&B). There is a risk that it will undermine the MOH retention strategy.

### **Recommendations 58 (Significant)**

(a) *The CHAZ retention policy should be aligned to the overarching policy guiding the health sector in Zambia which is in line with PSC recommendations. CHAZ should conform to policies of MOH.*

(b) *CHAZ data collection tools should not duplicate the forms used for HMIS indicator but should be limited to additional indicators required. Where the SmartCare system is operational the duplicate paper collection of data should be discontinued to reduce the time that staff spend on data collection*

### **Procurement and supply management**

355. CHAZ is very eager to build its own procurement, storage and supply capacity in order to serve church health institutions. The organization has come a long way. However, more synergies with the existing supply system for HIV/AIDS and Malaria commodities could make the overall PSM system more efficient and cheaper in terms of distribution fees. Features of the PSM arrangements involving CHAZ as detailed below:

- (a) The procurement unit which was set up in 2007, procures all non-health procurements and the procurements of drugs for opportunistic infections, and reagents.
- (b) Crown Agents has been retained as a procurement agent for HIV-related pharmaceuticals and equipment.
- (c) UNICEF is used to purchase Coartem. CHAZ has an MOU with the MOH that covers this activity.
- (d) CHAZ also is a procurement agent for the Zambia National AIDS Network (ZNAV) for procurement, storage and supply of ARVs, other HIV-related commodities and drugs for opportunistic infections to 12 ZNAV ART/VCT sites.

356. At the time of the audit, the OIG noted that Crown Agents Zambia had downsized its local office. A decision had been made that all procurement related issues would be handled by Crown Agents in Kenya and the UK. This could have negative effects on the services provided to CHAZ.

357. Due to lack of capacity by CHAZ to procure medical products for the grants, Crown Agents has been subcontracted to procure medical products. The procurements by Crown Agents include medical products for ZNAV for all the

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grants. The MOU signed for the procurement services has not been effectively managed by both CHAZ and Crown Agents. This has resulted in non compliance to the MOU requirements. Crown Agents has not, as required, built CHAZ procurement capacity and delay in stock deliveries have been reported that resulted in emergency procurements. There could be further delays or disruption in the procurement activities due to the downsizing of Crown Agents procurement office in Zambia. At the time of this audit a decision had not been made between CHAZ and Crown Agents on how future procurements will be coordinated.

358. The CHAZ procurement unit consists of a senior procurement officer and a procurement officer and has been operational only since 2007. The OIG's review of CHAZ's PSM arrangements showed that the organization has limited procurement capacity, but it is growing and has improved over the grant period. The current weaknesses can be improved with some capacity building. The OIG reviewed a sample of procurements undertaken by CHAZ and noted the following:

- (a) There were delays in delivery of program supplies. There were no penalties imposed for these delays. Tardy delivery of program inputs affects program implementation and it should be discouraged since Global Fund grants are time bound grants. Since timelines for delivery form part of the evaluation process, deadlines should be met and in cases where they are not, that suppliers should be required to pay penalties. Examples of delays noted include the tenders for motor cycles, bicycles, hammer mills, ox ploughs, oil processing machines, computers and other office equipment, (CHAZ/01/05 to CHAZ/05/05) where delivery happened after 23 weeks against the proposed delivery dates of 6-8 weeks. In the case of speed boats and banana boats, Rockshield delivered the inputs after 9 months against a quoted delivery timeline of 6-8 weeks. Saro Agri Equipment also delivered its hammer mills, ox ploughs and oil processors 10-14 weeks late. No penalties were applied.
- (b) There were several instances noted where the quantities of several items were increased after tender evaluation. This was the case in the purchase of computers from Necor Zambia in 2004, purchase of computers and related equipment in 2009 and purchase of motor cycles and bicycles in 2009 where the number was increased in the contract after the evaluation was completed.
- (c) The OIG noted several instances where the numbers procured exceeded the numbers in the approved work plan and budget. In some of these cases, there was always an adequate budget to cover the increased numbers which indicates that the budgets were 'padded'. For example under Malaria Round 4 grant, CHAZ procured 125 more bicycles without significantly exceeding their budgets. In other cases, the budgets were exceeded as shown in the table below:

Items	Total budget \$	Total spent \$
Computers 2006: 2 planned vs. 14 bought	6,400	17,003
Printers 2006: 1 planned vs. 14 bought	600	4,728
Bicycles 2008: 200 planned vs. 400 bought	24,000	37,588

359. The inventory management system is currently hampered by the lack of storage space. The lack of storage space results in products having to be moved around whenever a large delivery is made instead of items having a fixed location. Due to the lack of space additional warehouse space is rented at US\$ 2,000 until the new warehouse is finished. The new warehouse is scheduled for completion in March 2010.

360. The FEFO (first expiry, first out) system is used at the CHAZ central warehouse and at its health facilities. No significant stock expiries were noted at the CHAZ central warehouse and at facility levels. CHAZ charges 5% distribution fees for distribution, but this was never costed. It is possible that CHAZ may be under or overcharging ZNAN for distribution of health items to its 12 ART/VCT sites. In addition it is common practice to charge these fees at cost and not at a flat percentage as is the practice with CHAZ.

### ***Recommendations 59 [High]***

*(a) A meeting should be organized with Crown Agents to discuss the way forward after the downsizing. After this discussion CHAZ should review whether it should continue with Crown Agents in 2010.*

*(b) CHAZ should strengthen its procurement and contract management especially in regard to delivery of program inputs. Penalties for late deliveries need to be applied according to the contract agreement. Modifications of tender quantities should only be done with approval from the evaluation committee.*

*(c) The distribution fee charged to ZNAN should be costed and charged accordingly.*

### Oversight

#### Country Coordination Mechanism Zambia

Since its establishment in 2003, the CCM in Zambia has successfully applied for funding under various Global Fund Rounds of funding. There is adequate representation of required constituencies on the CCM. The CCM Manual of Procedures was developed in 2007 and revised in 2009. The M&E and Finance Committees have been created with members appointed to these committees. However, the CCM has, over the years, not adapted effectively to the increasing complexity and related demands of the Global Fund grants. The CCM faces several challenges in its effort to provide oversight of the Global Fund programs. The established committees have also not performed effectively resulting in significant shortcomings in the discharge of the CCM's oversight role. The CCM should strengthen its structures, processes and systems to align itself with the growing complexity of grants in Zambia.

#### *Background*

361. In 2003, the CCM in Zambia was established as part of the Global Fund requirements following application for Round 1 grants. The CCM has successfully accessed over 20 grants from the Global Fund under the different Rounds. It has also been successful in applying for Phase 2 funding. Since formation of the CCM, the grant implementation environment has changed especially with the increased number of grants, which has resulted in an increasing for effective oversight.

362. The Zambia CCM has a constituency of 7 sector groups represented by 23 members. This is in line with the Global Fund guidelines. The CCM has evolved since 2003, when it was under the Chairmanship of the Permanent Secretary of the Ministry of Health. Since 2009, the Chairperson has been a representative from the Academic/educational/research institutions sector group. The CCM has established committees which should provide oversight over its grants. The CCM has developed a manual of procedures to guide its operations. The OIG noted that the manual provides adequate procedures for the operation of the CCM.

363. The CCM has a conflict of interest policy which the OIG found to be adequate. Four of the 24 CCM members are PRs and SRs creating a potential conflict of interest. The OIG noted that on several occasions, the policy was applied during CCM meetings by calling on members to excuse themselves from particular agenda items. Nonetheless, these conflict of issues relating to PRs and SRs were also noted as potentially weakening and undermining the CCM oversight function especially when it came to deliberating on matters that affected them.

364. The CCM is hosted by the NAC. NAC is also the Secretariat of the CCM as provided in the CCM Manual of Procedures which designates the Director General of NAC as the CCM Executive Secretary. NAC institutionally falls under the MOH, which is also a PR. NAC is an SR to the MOFNP. These CCM institutional arrangements make it difficult to detach the CCM from control of the MOH. From interviews with CCM members, there was a general feeling that the CCM and its Secretariat are government dominated.

### *Effectiveness of business at the CCM meetings*

365. The OIG reviewed the minutes of the CCM meetings and met members of the CCM to get an understanding of how they conducted business. The OIG also reviewed compliance of the CCM to its manual of operations. The record of CCM meetings indicated that on average 65% of the elected members attend meetings. CCM meetings were often attended by alternates or other representatives. This practice weakens the CCM's ability to follow through issues for effective implementation.

366. The CCM is commended for the several meetings that were convened to discuss and review proposal development. However, the OIG notes that CCM discussions focused, in most cases, on proposal development, with insufficient time allocated to policy and oversight matters.

367. The CCM Manual of Procedures requires that the agenda for the CCM meetings be communicated at least 7 days prior to the meeting. In most of the cases reviewed, this requirement was not met. The agendas also failed to reflect emerging issues in the program implementation environment. For example, the case of concerns surrounding the abuse of funds at MOH although a public affair was only discussed, according to the record of meetings provided to the OIG, in the CCM after receipt of the letter from the Global Fund regarding the problem.

368. A review of the effectiveness of the CCM business revealed that action plans from the CCM minutes, in many cases, lacked specific direction on the way forward. There was also weak follow up of action points from previous meetings. For example there were no follow up actions noted from the presentations of the Finance and M&E committees. The requirement that PR performance is discussed at CCM meetings was not effectively followed through until 2009 nor was the suggestion that the LFA share concerns they have about the PRs with the CCM. Performance score cards for PRs recommended in 2007 had not been implemented at the time of the audit in September 2009.

### *Effectiveness of the functions of the CCM*

#### Proposal writing and resource allocation

369. The CCM dedicates a significant portion of its time to proposal writing. This has resulted in the commendable success it has had in obtaining grants from the Global Fund under various Rounds. The OIG reviewed the process followed in proposal writing and resource allocation.

370. The process for the identification of gaps in funding and the subsequent allocation of activities and budgets among the PRs was ineffective in as far as it resulted in duplication. At the time of the audit, there was considerable overlap of activities undertaken by the different PRs e.g. all four PRs have facilities that provide VCT and ART services and each of the PRs is involved in buying and distributing their own program inputs. One good example of collaboration was where CHAZ helped MOH distribute RDTs to 22 Malaria sites. The OIG noted cases

where CHAZ and the MOH were covering the same areas in PSM, supervision and training. CHAZ and ZNAN were also planning to set up their own provincial structures and offices which would inevitably increase the overhead costs for the programs. Zambia is a resource constrained country and efforts need to be made to ensure that scarce resources are not wasted through duplicative arrangements. The CCM should ensure that program activities are harmonized among the PRs and different funding sources and that the strengths of PRs are leveraged on. The existing MOU between the MOH and CHAZ is currently being negotiated and this is an opportunity to re-look at how best the two parties can work together to support and complement each other.

371. The credibility of the work plan and budget formulation process is inadequate as evidenced by the work plans and budgets reviewed by the OIG that had excessive estimates and padded costs. The proposal development process lacks a verifiable process for identification of sector input parameters to support the quantifications and costing of the grant budgets. There were significant cuts in budgets proposed, by the LFA, as part of the grants negotiation process but this did not address the full extent of the problem. This resulted in cases of wasteful spending going undetected especially at MOH and MOFNP.

372. There were weak linkages between the work plan which outline program activities and the budget. This is evidenced by the Ministry of Health that was noted to have achieved targets when the Global Fund had not disbursed funds. This concern was also raised at a CCM meeting in July 2009. This suggests that the Global Fund resources were not needed to undertake the activities and meet targets as was stated in the proposal. It also points to the possibility of duplicate funding.

### ***Recommendations 60 (Requires attention)***

*The CCM should establish a committee that ensures parameters that feed into the proposals are well researched, verified, and approved for adoption prior to finalisation of proposals. There should be greater communication between partners about plans to extend services and support structures (e.g. sharing of provincial offices to avoid duplication). Creative ways of all partners using common services in the areas where they have a comparative advantage should be looked into and the activities distributed along those lines. There is a possibility of existing DHMTs assisting to supervise non MOH facilities such as those operated by ZNAN and MOF. In return ZNAN and CHAZ could help support these DHMTS both technically and financially.*

### **Process for nomination and selection of Principal Recipients**

373. The CCM developed guidelines for selection of PRs and PRs. However appropriate training for CCM members on the application of these guidelines, particularly PR selection, had not been done. CCM members interviewed did not demonstrate a clear understanding of how the GF procedures and guidelines are applied by the CCM in approving, reappointing or changing PRs. An example was the proposal to change the PR after the MOH fraud case noted below.

374. Following the OAG forensic audit report on the MOH, the Global Fund Secretariat temporarily withheld disbursements to the MOH except for the life saving activities. The CCM responded by making a proposal for interim management of the Global Fund activities under MOH. To this end a proposal for the approval of a new PR to take over the role of MOH was presented to the CCM. The CCM approved the proposal, but it was not clear in the minutes whether the process met the consensus principle for CCM business. According to the CCM members interviewed, the proposal was only circulated to members 3 days before the meeting, a timeframe that insufficient to allow for consultations in order to provide a constructive dialogue at the CCM. Moreover none of the CCM members interviewed during the audit expressed approval for the proposal.

375. Additionally, the minutes for the reappointment of PRs for Rounds 4, 7 and 8 did not indicate the process followed to identify and assess the effectiveness of the existing PRs to continue as PRs under the new Rounds. The go-ahead to retain existing PRs was not supported by any in-depth evaluation of the PRs' current performance. This did not conform to the Manual guidelines.

### ***Recommendation 61 [significant]***

*The process for selection of PRs should more transparent and systematic. Proper evaluations should be carried out for all PRs that are to be retained. Procedures for change of PR should be developed and CCM Members should be adequately sensitized on them at least a week in advance of a CMM meeting.*

### **Oversight**

376. One of the key functions of the CCM is oversight. There was a noticeable imbalance in the CCM business with the CCM activities dominated by proposal writing and limited time being committed to oversight work. The CCM did not have a documented oversight plan to guide this important function.

377. The OIG reviewed the performance and effectiveness of the CCM sub committees. Two committees were formed in 2007 and these were the Finance Committee and the M&E Committee. Whilst the revised Manual of Procedures mandates the creation of disease specific committees, these had not been formed at the time of the audit. It was not clear how the disease specific issues were addressed by the CCM. The profiles of committee members were not available at the Secretariat to assess the whether the committee benefits from the appropriate technical input to the committees.

378. The Finance Committee met more frequently than the M&E Committee. In general, the information provided to the CCM was inadequate to aid decision making. The OIG noted that there was also weak reporting on the effectiveness of the performance of PRs. Reports provided covered funds flow with limited and in most cases no coverage of how financial performance was linked to meeting program targets. Key areas that should have been covered by a typical Finance Committee like external audits were not covered and therefore any matters relating to the audit of program activities were not considered at the CCM level.

379. The M&E committee is ineffective as evidenced by the two presentations that this committee has made to the CCM since 2007. The quality of reports is poor with limited information on the status of service delivery. USAID has been leading an initiative to get technical assistance for the committee.

380. There was no committee for procurement and logistics management at the CCM although PSM accounts for a significant percentage of the grant funds and is a critical success factor for effective grant implementation. This area has been plagued with significant issues since the inception of the program and this has affected the program implementation especially under Round 1. It also has been one of the areas most prone to abuse in the health sector as evidenced by the fraud that has taken place.

381. Some other areas that the OIG noted that would benefit from better oversight were:

- (a) Reporting: The CCM has not developed minimum expectations for information to be reported by PRs. This has affected the quality of information provided by the PRs. The CCM attempted to develop a score card for measuring PR performance but the process was never completed, resulting in weak follow up on agreed action points. Several instances were also noted where PRs did not make presentations on progress as required e.g. MOFPED backed off making regular CCM presentations.
- (b) Weak coordination among PRs across disease specific grants leading to duplication. The CCM has not effectively coordinated the PRs to reduce duplication of efforts. For example, in the case of CHAZ and MOH, there is need to ensure that the program coverage for the three diseases in all the districts is well coordinated to ensure value for money.
- (c) Weak monitoring of the adequacy of the PRs structure to manage funds. MOH and MOFNP have been weak for a very long time in the areas of governance, financial management and Program monitoring and supervision. Some of the issues were raised in the CCM meetings but there was no firm action taken to investigate or follow up the weaknesses.
- (d) The CCM did not follow up the audit reports of the PRs.
- (e) There was limited effort (and when done in most cases it was late) in addressing the key program challenges e.g. the PSM arrangements at MOH and MOFNP that were not working, fraud in the health sector.

### ***Recommendation 62 [Significant]***

*The CCM should develop a comprehensive oversight plan that is followed and monitored on a regular basis. The CCM should strengthen its follow up mechanism on actions arising from meetings. Adequate time should be provided to members for deliberation on issues at the CCM. The agenda for meetings should be circulated in time to ensure that emerging issues are well understood by members before the meeting. The Committees should be strengthened. Detailed reporting*

*templates with clear areas of performance should be designed and followed when providing reports*

### Linkages with other development and health assistance programs

382. The CCM is responsible for ensuring that the programs funded by the Global Fund are well linked to other development and health assistance programs. The OIG noted that although the programs are responsive mainly to the Health SWAP needs, a lot more can be done to strengthen linkages with other programs in the sector. Several issues have not been effectively implemented and this has impacted service delivery. Issues of remuneration within the sector have remained contentious with some CPs stopping funding for certain allowances within the sector. The Global Fund has not aligned itself well with some of these initiatives, including harmonisation of allowances and other incentives within the health sector. This has created implementation difficulties across other health programs.

383. There is a need to carry out a sector-wide impact assessment on the key health interventions and reforms to realign the current and future programs to new developments. The current health sector plan expires in 2010 and this should be an opportune time to fast track the harmonisation process. The roles of the various sector working groups should be strengthened and focused to monitor program results. Coordination of sector activities across the different CPs and implementing partners should be emphasized to limit duplication of efforts, which is one of the major threats to securing value for the health investment in the country.

384. Another area that requires better coordination is the staff retention scheme. There is a great shortage of human resources in Zambia, especially in rural and hard to reach areas. There is a well-thought through retention strategy in place in the MOH which has been endorsed by the Public Service Commission. However, there are multiple staff retention strategies in place in the health sector in Zambia. This includes different practices by the PRs funded by Global Fund.

385. The OIG noted that there are various other incentive (“salary top-ups”) schemes in place using Global Fund funding and based on Global Fund work plans and budgets by the four PRs. There are also various incentives in place paid by other partners of the MOH. These all have potential to undermine the official retention scheme and distort human resource distribution and management in the health sector in Zambia. There should be a single government led HR retention strategy followed by all donors and recipients of donor funding.

386. Another area that can benefit from better coordination by the CCM is training. There are multiple uncoordinated training courses taking place throughout the health sector. Some of these courses appear to be unnecessarily long and too technical. There are also non-standardised curricula and little evaluation to see whether these trainings are achieving the stated aims. These aims are not always stated. There was no evidence provided to show that these training courses had been evaluated to assess whether they achieve their aims. Additionally the aims and objectives of the training courses are not always clear.

### **Recommendations 63 [Significant]**

(a) *The MOH retention scheme should be endorsed by all partners. This process can be coordinated by the CCM since it is the only body that brings together the various stakeholders in the health sector. The Global Fund Secretariat should ensure that the allowances paid are in line with this scheme. All other top-ups and incentives should be transparently introduced after review by structures representing partners that should endorse these prior to implementation.*

(b) *There should be standardised training based on clear objectives for different categories of staff and different target audiences should be developed (e.g. treatment supporters, teachers, and learners).*

### **Performance of the CCM Secretariat**

387. The CCM Secretariat currently employs one full time staff member supervised by the Executive Secretary. The current Administrator is overwhelmed by the workload at the Secretariat which affects the effectiveness of the Secretariat. The Secretariat has no policies and procedures but follows NAC policies.

388. A review of the sustainability of the CCM Secretariat revealed a lack of an effective strategy to mobilize funds for the CCM. There is a need to de-link the Secretariat from NAC and ensure the effectiveness of the Secretariat in order to attract funding. UNAIDS has expressed interest to support the CCM but this and other sources of support would require a clear plan to create an effective Secretariat to attract sustainable funding.

### **Recommendation 64 [Significant]**

*The CCM Secretariat should be strengthened. A proper structure for running the Secretariat should be developed. The CCM should develop policies and guidelines for the Secretariat.*

### **Local Fund Agent**

The LFA work in Zambia was undertaken under a rapidly changing grant implementation environment. The LFA did not adapt appropriately to the rapid changes thus affecting its ability to effectively deliver on its mandate. Additionally the LFA did not secure appropriate staff i.e. in terms of numbers and skills. Moreover, the OIG cannot give assurance that the LFA delivered services commensurate to the fees paid. The work undertaken by the LFA was often tardy and resulted in reports that did not provide the Global Fund Secretariat with adequate information to provide decision making. The current LFA in Zambia, in the OIG's view, should not be retained.

### **Background**

389. PricewaterhouseCoopers were appointed LFA in Zambia with the first framework contract being signed effective 16 November 2003 covering the period ending 15 November 2006. The LFA contract was renewed in 2008. However

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appropriate contract amendments and extensions were provided to ensure continuity of the LFA oversight activities.

390. The OIG noted that since the inception of funding in 2003, the grant implementation environment changed significantly specifically in the following aspects: (i) Funding has increased from 9 signed grants in 2003 to over 20 signed grants at the time of the audit. (ii) The funding to the country increased from US\$ 176,936,834 to US\$ 477,576,251. (iii) The in-country architecture became more complex with an increase in the activities undertaken by the PRs and through over 700 SRs engaged by 2008. (iv) The capacity of the PRs to manage program activities was stretched as the grants and amounts increased and the SRs also increased; and (v) The environment within which the program was implemented has been characterized by publicised fraud at all levels.

### Staff

391. There was no clear team structure between 2003 and 2008 with no evidence of dedicated staff as part of the GF team below the Partner/Director level during that period. While a Team Leader was identified in 2004, he was evidently overwhelmed by the increased workload that followed the growth in grants. Below the Director level, there were no managers available to supervise the work of staff undertaken at PR/ SR level. A team structure was at last developed at the time of the audit and the proposed structure appeared reasonable for meeting the LFA's mandate.

392. The LFA failed to scale up the team to match the growth in grants. This is demonstrated by the staffing in 2003 at 7 which only increased to 9 by 2008. The staffing plan proposed in September 2009 proposed 25 people to effectively implement the LFA mandate. The staff number increased significantly with changes in the areas of financial management experts increasing from 3-16, introduction of 2 public health experts and an increase from 3 to 4 M&E experts.

393. All the PRs complained about the caliber of staff that the LFA provided to undertake their work. In some instances, inexperienced staff i.e. with less than two years experience were provided as Financial Management Experts, which seriously compromised the ability of the LFA to provide quality work. In such cases, there was no evidence of effective supervision of the work undertaken by such staff.

394. The OIG requested and was not provided with the record of the staff that were deployed to undertake LFA services in Zambia. The OIG could therefore not provide a reconciliation of the resources quoted on the Work Order Sheet against the staff that actually undertook the work. The OIG however noted that proposed staff were not always used on assignments. In cases where staff left the firm, the OIG was not provided with evidence of approval by Global Fund to replace staff previously proposed in the work orders.

395. The OIG noted that the LFA undertook some training for its staff. However, this training was not adequate given the high staff turnover. There was no evidence of a continuous training plan for staff deployed in the Global Fund

assignments to ensure staff had a good understanding of the Global Fund business. The training plan for both knowledge and skills transfer was necessary given the high staff turnover. The OIG noted that staff were sometimes booked on the assignment for less than a week and given the steep learning curve required for the work to be undertaken, it is unlikely that these staff added any value to the assignment.

396. Despite having been budgeted for in the work order, the OIG did not see evidence of the involvement of the engagement partner in overseeing the assignment. The lack of direct partner involvement is likely to have led to the inability of the country team to effectively resource the assignment, and for the assignment to be effectively directed, controlled and quality assured. In the debriefing meeting with the partner, his response was that none of the issues raised in relation to the audit were new to him. What is of utmost concern was that the LFA's leadership had knowledge of the weaknesses and had not taken the trouble to address them. This raises the pertinent question about whether PricewaterhouseCoopers considers the Global Fund to be a valued client. At the time of the audit, the OIG was told of the various proposals made on how PwC was going to strengthen its leadership. However, the OIG was not able to assess the reasonableness of the proposals made because none of them had been firmed up.

### Quality of work

397. The OIG commends the work undertaken by the M&E Specialist. In most aspects, the work of the M&E consultant could be supported by working papers; the consultant was skilled and consistent in the presentation of issues. One of the PRs commended him as having recommendations that added value to their work.

398. The OIG noted that the LFA was not proactive. Several requests by the FPM to improve on delivery of work were not responded to on time leading to delayed reporting by the LFA. The LFA deliverables were usually late and this affected the Global Fund's ability to make timely decisions.

399. The LFA is required to provide the Global Fund Secretariat on an ongoing basis with the relevant information on issues or risks which might affect grant performance (Section 6 of the LFA Manual). The OIG requested and was not provided with a risk assessment of Zambia grants. The OIG could not confirm therefore that the work of the LFA in Zambia was risk based and that the necessary oversight activities were undertaken by the LFA to safeguard the Global Fund resources in Zambia. The OIG noted that spot audits were undertaken in 2009 after the frauds at MOH came to light but these should have been proposed much earlier had the LFA identified fraud risk to be high. Such risk profiling would be useful to the Global Fund especially in the development of terms of reference for the LFA.

400. The OIG also noted that there was a disconnect between the work of the LFA as reflected by the ratings that PRs were given and the outcome of the OIG audit. As an example the rating of the MOFNP as presented by the MOFNP, was A [from the PUDR review]. However, the OIG's review of the structures, policies and procedures in place revealed that they were insufficient to safeguard the Global

Fund resources. The LFA is required as part of the PUDR review to check the completion of the PQR. However, the OIG noted that this was not completed and this was never brought to the attention of the Secretariat.

401. The OIG also found some instances where the information presented by the LFA was factually inaccurate. The OIG expects an LFA to follow due diligence to confirm the factual accuracy of the information that is provided to the Global Fund for decision making. For example in a letter dated 24 March 2009 issued by the LFA, responding to the issues of the OIG audit of 2006, the LFA made some misleading remarks on the strength of the financial management systems at MOH. The LFA reported that MOH: (i) was adequately reviewing all reports/accountabilities from districts; (ii) was following the GRZ approved policy on allowances; (iii) had full information on the capacities of the SRs. This audit however revealed all the above remarks were not true.

402. In light of the poor quality of work delivered by the LFA, the OIG reviewed the quality assurance arrangements followed by the LFA to ensure acceptable standards. As already noted, there was no evidence of the country leadership's involvement in the planning and execution of this assignment. The OIG also did not see evidence of the Geneva based PwC Country Coordinating Team's involvement in overseeing the performance of the Country LFA team.

403. The OIG noted poor documentation of work done between 2003- 2008 with very limited evidence of sign-off for performance and review of such work. A number of working files reviewed by the OIG did not support the conclusions reached in the reports such as assessment reports and PU/DR reviews. The LFA, in 2009, started documenting work using the electronic filing system (My Client). Whilst this is a commendable development, the OIG noted delays in starting to use it for planning purposes (planning for the quarter starting April 2009 had not commenced by October 2009). This delay in planning is likely to present similar problems with delayed reporting.

404. The LFA is required to carry out their work in a swift and efficient manner to ensure timely decision making. Specifically the LFA is required to transmit the final version of an ongoing PU/DR from the PR within 10 days after receiving the final version from the PR. From the LFA records, this transmission was delayed, on several occasions, by over a month and in some cases by up to 6 months without any evidence of communication to the Global Fund. During the OIG interaction with the PRs, they noted significant delays by the LFA in responding to their requests as noted in the various sections of this report.

405. The work of the LFA was guided by the terms of reference detailed in the work orders and the LFA Manual issued in May 2008. The OIG noted deficiencies in the quality delivered against the Work Orders signed with the LFA, examples of which are provided below. This undermined and impaired the effectiveness of the LFA's role as the "eyes and ears" of the Global Fund at country level:

- (a) Several PUDRs for the year 2008 were completed late, in 2009. This meant that there was no timely information from the country for decision making at the Global Fund Secretariat.

- (b) The Global Fund threshold for grants qualifying for On Site Data Verification is US\$ 9 million. However, the OIG noted that the LFA only undertook OSDV for one PR in 2008 i.e. CHAZ yet the other PRs had grants that exceeded the threshold.
- (c) The Global Fund from time to time issued instructions to the PRs, the compliance of which the LFA was expected to report on. However, the OIG noted that PRs particularly MOH did not comply with the instructions and the LFA did not alert the Global Fund on time of the non compliance. An example is the MOH continuing to procure without verification by the LFA and the MOH continuing to spend funds after the grant expiry date when the Global Fund had given instructions that this should stop.
- (d) Contrary to the requirement that the LFA review and advise the Global Fund on PRs and their SRs' audit arrangements, the OIG noted that one of the PRs had not been audited since the inception of the program i.e. 2003 and this was not brought to the attention of the Global Fund. In another instance, the choice of auditors, their ToRs and the quality of report provided by the auditors were of poor quality but the LFA did not raise these issues with the Global Fund.
- (e) ZNAN and MOFNP did not prepare procurement plans for all Rounds and yet they were allowed to continue with program implementation contrary to the GF funding requirements. They attributed this to the fact that they outsourced the procurement of health products to a third party. The LFA should have advised ZNAN and MOFNP to develop PSM Plan Version B (PSM plan for Principal Recipients/Sub-Recipients that completely outsource procurement to a procurement agent). The OIG, however, noted that these two PRs still procured health products despite not having been cleared to procure health products. The OIG did not see evidence that the LFA identified this anomaly.
- (f) The LFA carried out spot audits in June 2009 but this work failed to reveal significant weaknesses that affected effective Program implementation and proper accountability. The specific institutions noted were; Coptic Hospital (SRs for CHAZ)-single bank account, no proper Accountant, no reporting; Family Health Trust (SR for ZNAN) - no independent audit, fraud; and MOFNP-no tracking of disbursements, no system for procurement, PMU controlled by NAC, no oversight by PR.

### ***Recommendation 65 [High]***

*The current LFA should not be retained. The recruited LFA should:*

- (i) *at all times, ensure that the quality of work delivered is closely monitored through appropriate quality assurance arrangements. Evidence of review of work should be well documented and retained for future reference.*

- (ii) *take a proactive role in advising the GF on the country risk profile to ensure appropriate scope of work is developed through the Work Orders issued. Specifically the LFA should undertake progressive risk assessment of the grant operating environment and how they plan to respond to the assessed risks. This risk assessment report should be part of the deliverables to demonstrate the LFA's understanding and appreciation of the country context.*
- (iii) *take a proactive and risk based approach when mobilising resources on Global Fund work. Specifically, leadership of the team mobilised should be given special attention. Staffing should be driven by work load and the required expertise. The LFA should (i) ensure strong and effective leadership is maintained on the team; (ii) staffing arrangements do respond to the needs of the job; and (iii) appropriate training plans are developed and followed to ensure quality.*

### Cooperating Partners

406. The Global Fund has no country presence and so relies on in-country stake holders including the development partners to oversee the grant implementation process. The Cooperating Partners (CPs) in Zambia have played a key role in the mobilisation of technical and financial support in the Health Sector. The CPs are represented in the CCM and have continued to provide financial support the CCM Secretariat.

407. Since the start of the health reforms in 1992, the Health SWAp in Zambia has been largely supported by the cooperating partners. The CPs are members of the governance committees of the SWAp, participate in the annual joint review missions and provide financial support through the basket fund arrangement.

408. There were concerns among some CPs that the value of the investment in the Zambia health sector is not reflected in the results accruing to the average Zambian. The process of measuring performance against investment in the sector is still weak. There were no planned periodic sector reviews on finance linked to Program performance, which could be used by the CPs to assess progressive performance of the sector. The CPs could pool resources to commission oversight reviews such as evaluations, value for money audits, performance audits, tracking studies and specific/targeted performance reviews to ensure adequate information is obtained on the utilisation of funds.

409. The Global Fund has also not engaged well with the CPs in reaching a common position on the issue of sector allowances and incentives to harmonize the remuneration packages. This lack of harmonisation has continued to present program implementation challenges as noted at a CP meeting attended by the OIG. The Global Fund could also benefit from taking a more active role in the sector activities including the JARs; to engage the CPs better with a view to identifying how the Global Fund programs could be aligned better to the SWAp.

410. The CPs should also consider mechanisms to strengthen the CCM in its role as an oversight body over grant implementation. Areas of capacity building could

include creation of appropriate committees, improving on the scope and reporting of these committees etc. The CPs could also assist in creating dialogue at the CCM on how to support the ongoing process of alignment and harmonisation of the Global Fund Programs in Zambia.

411. The Office of the Auditor General currently receives some financial support from CPs to improve on its service delivery. The OIG's review of the OAG work revealed significant capacity gaps to meet the required audit coverage for performance based grants. The office has limited human resource, the audit systems are still manual, audit scope in most cases is limited to financial audit and the office has limited capacity to independently gather information on funding to all government entities for completeness. In the OIG's view the CPs should consider pooling resources to support the process of building capacity within the OAG.

412. The MOH is the leading implementer of health Programs in Zambia. The institution however faces serious capacity gaps specifically in financial management and procurement. The weaknesses stem from poor infrastructure, weak processes and a culture of non compliance with regulations. The PR's ability to continue as PR is questionable and CPs could work with the Ministry to identify and prioritise intervention areas. The CPs could also work with the MOH in creating harmonized arrangements for sector allowances, handling of common sector problems, and coordination of sector interventions especially in capacity building.

### The Global Fund Secretariat

413. The oversight work of the Global Fund Secretariat in-country is coordinated by the Fund Portfolio Manager. The FPM interacts with country structures including the CCM, the LFA, CPs and other sector players to facilitate smooth Program implementation. Since the Global Fund, by design, has no direct in-country presence, the FPM relies greatly on the work of the LFA and feedback from the other in-country stakeholders to make grant decisions.

414. The Secretariat in some cases did not provide timely communication to the LFA and PRs on issues submitted by the LFA and this affected progress on certain Program aspects. There were several cases of delayed communication from the GF on critical matters raised by the PRs and the LFA. Vehicle disposal arrangements for ZNAN, and Requests for No Objection on procurements raised in August 2009 by MOH remained un-responded to at the end of this audit in October 2009.

415. Some CPs felt that the written communications from the Secretariat were in some cases not clear enough on the actions expected from the country stakeholders and on the potential consequences in the event of inadequate action from in-country. A case cited was the recent suspension of disbursements to MOH following the fraud allegations at the Ministry. The letters from the Secretariat were noted by the CPs not to provide precise action required from the CCM to take the process forward. Sufficient guidance was, for example, not provided on whether the grants at the MOH had been suspended creating confusion on the nature of action to be taken by the in-country stakeholders. The Secretariat also did not adequately engage the sector partners after the notification of the

temporary delay in disbursing funds to the MOH. This created tension within the sector since none of other PRs were receiving any disbursements.

416. The government PRs noted that better engagement with the Global Fund Secretariat could have improved their ability to deliver on Programs. There was concern, at the MOH, over limited time that had been dedicated to the PRs by the Secretariat during FPM visits to discuss in detail the local context and how it affects Programs.

### ***Recommendation 66 [Significant]***

*The Secretariat should establish better communications to ensure that country issues are picked up in a timely fashion*

417. Disbursements to PRs were made late causing program implementation difficulties. At the time of the audit, PRs had not received disbursements since January 2009. This was partly caused by the delay in the submission of PUDRs.

418. The disbursement of funds in some cases presented implementation difficulties to the PRs, including creating opportunity for misuse especially in light of weak PR financial controls and oversight. The release of funds to MOH in December 2008 and January 2009 for grants that were closing in January and February 2009 respectively without acceptable acceleration plans created considerable absorption pressure for the PR in a short period of time. Most of the funds disbursed prior to the grant closure were sent to provinces and for which there was hardly any accountability at the time of the audit (over six months later). Other funds were used for the purchase of drugs and supplies. The OIG notes that indeed during the period December 2008 and May 2009 officials at the MOH undertook various activities that were non compliant with grant agreements and in many cases created the opportunity for the misuse of Global Fund resources. The disbursement of funds at the end of the grants should be undertaken with caution.

419. Release of funds to the MOFNP prior to confirmation of implementation arrangements exposed the grants to abuse. Over ZK 900 million (US\$ 195,652) was used on non-Global Fund activities between 2005 and 2007 because NAC did not have adequate guidance on the mode of implementation and specific work plans for the disbursement.

420. PRs are required to complete the PQR as one of the conditions for disbursements. The OIG noted that Zambia has not completed the PQR as required. This was not picked up by the LFA and it was not also picked up as part of the disbursement process at the Global Fund Secretariat.

### Appendix I: Global Fund Secretariat comments and responses

#### Global Fund Secretariat comments and response to the Report of the Audit of the Global Fund Grants in Zambia issued by the Office of the Inspector General (OIG)

#### Country Audit of Global Fund Grants to Zambia

The Secretariat would like to thank the Office of the Inspector General (OIG) for the collaborative efforts during the Audit of the Global Fund Grants in Zambia. This letter and the accompanying documents represent the Secretariat's response to the OIG's findings.

This response to OIG Zambia Audit Report is a result of combined efforts from the CCM, PRs, LFA and a dedicated team of experts within the Secretariat. This letter provides a brief contextual background to the Global Fund program in Zambia, and proceeds to highlight specific actions the Secretariat will take to address high risk scenarios in the portfolio. Also attached please find:

- A detailed action plan to address the various risks and weaknesses; and
- A discussion on general management comments, highlights on facts presented and any inaccuracies noted.

#### A. Contextual background

The overall context of the situation in Zambia should be considered when reviewing this letter and all attached documents. In particular, the Secretariat wishes to point out that:

1. Zambia's grants are implemented within a challenging environment that includes lack of human resources, weak infrastructure and poor access to health facilities.
2. Global Fund has made a huge investment in Zambia. To date, Global Fund has contracted 4 PRs with a portfolio of 23 grants and a financial commitment of US\$477,576,251. This investment has contributed to achieve significant results. For instance, Zambia is well on its way to achieving Universal Coverage with key life saving interventions:
  - By close of December 2009, an estimated 245,000 people were on antiretroviral therapy in Zambia, meeting over 60% of national need;
  - Tuberculosis treatment success rate is over 85%; and
  - About 70% of households have at least one insecticide treated bed net.
3. The Secretariat was alerted to fraud taking place at the MOH in May 2009. An investigation by the Zambia Anti-Corruption Commission found alleged fraud involving the government's own resources, as well as the resources of the Global Fund and other Country Partners. The Secretariat brought this to the attention of the OIG prior to the audit. The immediate actions taken by the Secretariat included:

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- Immediately delaying disbursements to MOH, except for life-saving health products that are procured through the Global Fund's Voluntary Pooled Procurement initiative.
- Putting in place control measures to monitor MOH expenditure of funds already disbursed; and
- Consulting with several in-country partners to provide a unified approach to engaging with the Government of Zambia.

These immediate measures were targeted to safeguard assets and resources already disbursed to the country and prevent any further loss and risk exposure.

As a result of ongoing efforts to address emerging challenges, the Country Coordinating Mechanism (CCM) decided to change the PR from MOH to the United Nations Development Program (UNDP). The Secretariat has requested UNDP to become the PR and aims to complete this process by the end of September 2010.

4. In addition, the Government of Zambia put in place several measures to address the fraud in the Global Fund grants. These measures were in place at the time of the audit and included the development of a governance action plan, removal of several key senior staff members implicated in the fraud and the commencement of criminal prosecutions of those implicated in the fraud. These measures were the very least which the Global Fund would have expected to have been put in place.

The Secretariat notes with concern the instances of alleged fraud raised in the OIG report. In addition, the Secretariat also notes IG's concern that he has received little support from the Zambian authorities in following up on these fraud cases leading to the conclusion that the local authorities have not fully co-operated in the investigations to date. This matter is critical and will be followed up by the Secretariat. The Secretariat will work closely with the OIG's office to ensure timely support, follow up and conclusion of the investigations and recovery of funds/assets lost as a result of fraud.

### B. Summary of key risks identified and actions to be taken by the Secretariat

The following is a summary of the Secretariat's comments to key risks identified.

#### 1. LFA

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks
LFA was inadequately resourced, failed to deliver quality and late submission of deliverables. Subsequent conclusion by the OIG	The Secretariat has worked with PricewaterhouseCoopers (PWC) as the LFA in Zambia since 2003. The detailed review by OIG revealed weaknesses that have raised questions about the LFA's professional capacity, objectivity and ability to identify and flag issues to the Secretariat in a timely

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Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks
<p>that the current LFA should not be retained.</p>	<p>manner. Specifically, the OIG among other weaknesses noted the LFA:</p> <ul style="list-style-type: none"> <li>• failed to scale up the team to meet the rising demands of a growing portfolio in Zambia;</li> <li>• didn't book staff as per agreed work orders;</li> <li>• At times engaged low calibre and inexperienced staff to carry out Global Fund work; and</li> <li>• Submitted deliverables late.</li> </ul> <p>Based on an internal review, the Secretariat recognised the unique challenges and risks facing the Zambia program. The Secretariat has therefore decided to significantly revise the terms of reference for LFA work in Zambia. This will result in a retender of the LFA work in Zambia.</p> <p>The timelines to effect the retender will be as follows:</p> <ol style="list-style-type: none"> <li>1. Prepare revised terms of reference by 31 October 2010.</li> <li>2. Publish new ToRs and re-tender documents by 1 November 2010.</li> <li>3. LFA applicants submit proposals by 30<sup>th</sup> November 2010</li> <li>4. Proposals reviewed and decision made on the new LFA by 31 December 2010.</li> </ol> <p>The current LFA will provide services until a new LFA is brought on board. However, the Secretariat will tightly monitor deliverable going forward to ensure that they meet required standards.</p>

### 2. Secretariat

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>The late disbursement and risks associated with the ending of grants.</p>	<p>The Secretariat has taken note of the concerns raised by the OIG, particularly the heightened risks associated with a disbursement effected close to grant end date. In this particular case, the failure of the PR to develop adequate acceleration plans led to a high level of risk.</p> <p>The Secretariat is committed to ensuring proper financial oversight of grants and will continue to act swiftly in the event of corruption or misuse of Global Fund resources. The Secretariat will be decisive in its actions to protect its assets and will take the necessary measures to recover resources where there is evidence of misuse. In the case of Zambia, the Secretariat will require the MOH to:</p>

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
	<ul style="list-style-type: none"> <li>• immediately refund all unspent balances as of the closing dates of the grant agreements;</li> <li>• Prepare a full account of expenditure for the use of the US\$ 15.7 million disbursed close to grant end date. The Grant Closure process will place more emphasis on these disbursements. On provision of the financial accounts by MOH, the Secretariat will engage an independent auditor to carry out an audit.</li> </ul> <p>To facilitate closure to this matter, the Secretariat seeks to use all information the OIG has already acquired during the audit.</p> <p>In view of concerns raised over late disbursements in general, the Secretariat is undertaking a study into the risks presented by grant closure and late disbursements. The review will focus on lessons learned from late disbursements and establish if late disbursement needs special attention and/or guidelines.</p>

### 3. Ministry of Health (MOH)

The Secretariat recognizes that MOH has functioned well programmatically and has an obligation to meet demand for ART treatment services within the scaled up national program. However, as noted by the OIG, there are key challenges that continue to impede effective and efficient implementation of the MOH grants in Zambia. These include weak financial and procurement systems and controls which, as noted by the OIG, have led to claims of fraud; US\$1.7 million in unaccounted for imprests and a further US\$2.6 million in unsupported and ineligible costs. The CCM, recognizes these weaknesses and proposed in November 2009 a transfer of PR role from MOH to UNDP.

The table below covers key risks identified by the OIG audit and the Secretariat’s comments against each of the measures adopted or proposed to mitigate these risks going forward.

Challenges and key risks noted by OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>1. Poor governance and program oversight, weak financial systems, controls and procurement.</p>	<p>The Secretariat agrees with the OIG’s findings that a weak financial control environment is a threat to the safeguarding of assets and resources managed by MOH. Action is already underway to address the OIG’s conclusion that MOH “requires substantial capacity development in the areas of governance, financial management and procurement.” The following are key actions taken and proposed to address the risks going forward:</p> <ul style="list-style-type: none"> <li>• The CCM has already decided to nominate UNDP as the</li> </ul>

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Challenges and key risks noted by OIG	Secretariat comments, measures to address the identified risks and any residual risk.
	<p>new PR. Under the new PR, the Secretariat will seek to ensure enhanced program oversight and that adequate procurement and financial systems are in place prior to signing the grant agreement.</p> <ul style="list-style-type: none"> <li>• On notification of possible fraud, the Secretariat delayed disbursements to MOH in August 2009 except for life saving drugs currently procured through VPP.</li> <li>• UNDP, in collaboration with other development partners including the Global Fund, is developing a capacity enhancement plan for MOH, due mid September 2010. This plan will be carefully reviewed by the LFA and the Secretariat prior to the signing of grants with UNDP. Though no longer a PR, the Secretariat recognizes that MOH will continue to be a key player within Zambia's health sector and the Global Fund will seek to enhance its capacity going forward. Key items already identified for inclusion in this plan include the need to strengthen governance, procurement and financial management systems.</li> <li>• In addition, the Secretariat will work closely with UNDP to ensure that OIG's recommendations that relate to MOH are addressed. After 18 months, the Secretariat will assess MOH to establish whether it has gained sufficient capacity to re-take the role of PR.</li> </ul>
<p>2. MOH lacks procurement and supply management capacity, the PTWG and MTC are not fully operational. The PTWG should work to address the obstacles to PSM e.g. capacity, delays, internal control etc..</p>	<p>The OIG has highlighted the PR's lack of effective procurement and supply management especially in relation to two key entities, namely the Procurement Technical Working Group (PTWG) and the Ministerial Tender Committee (MTC). Going forward, all procurement will be carried out by a new PR: UNDP.</p> <p>The Secretariat, alongside UNDP and other development partners, will support MOH to build capacity within procurement and supply management functions. This will effectively address any residual risk that remains within MOH procurement. Specifically, UNDP will ensure that both PTWG and MTC are fully operational and have appropriate ToRs to carry out their mandate.</p> <p>The Secretariat will work with UNDP to ensure that:</p> <ul style="list-style-type: none"> <li>• Regulations on the Code of Conduct are finalized by MOH and all staff are held accountable for their actions;</li> <li>• PTWG and MTC are working as expected;</li> <li>• The Code of Conduct being developed is aligned with the Global Fund's Code of Conduct for Suppliers and is included in contracts for procurement staff; and</li> <li>• A standard Declaration of Interest and Confidentiality form is drawn up and used in evaluation committees by</li> </ul>

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Challenges and key risks noted by OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>3. US\$ 1.7 million unaccounted for imprests ,US\$ 2.6 million unsupported expenditure and US\$1.3 ineligible costs</p>	<p>the MOH.</p> <p>The Secretariat has taken note of the OIG’s comments on unsupported or ineligible expenditure for MOH. To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR) should refund monies. In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA scope of work will be agreed jointly by the Secretariat and the OIG. The Secretariat requests a meeting with the OIG to agree on the final figures to be recovered and to explore the most efficient approach to the recovery of these funds. Going forward, the Secretariat will work with UNDP and all the other PRs to ensure improvements are made in imprest management. This will involve:</p> <ul style="list-style-type: none"> <li>• Setting up an imprest register and ensuring imprest is monitored and aged over time; and</li> <li>• Ensuring that there is a system where all outstanding and unaccounted for advances beyond a specified period are recovered.</li> </ul> <p>The Secretariat will follow-up through the LFA and determine the most recent status on outstanding imprests especially with government PRs. Overall, the Secretariat is tightening up its procedures in the whole area of expenditure validation through clearer definition of LFA Scope of Work and risk-focus in relation to verification of program expenditures, greater reporting on SR expenditures at the time of PU/DR, improved quality and timeliness of enhanced financial reporting, improved review (LFA and Secretariat) and adherence to independent annual audit requirements.</p>

### 4. Ministry of Finance and National Planning (MOFNP)

The Secretariat takes note of the OIG’s findings and especially the conclusion that: “the structures, systems and processes within the MOFNP are inadequate to safeguard program funds. MOFNP as PR requires substantial capacity development in the areas of governance, financial management, grant management and procurement to effectively continue its role as PR” ... and that ....“the CCM should consider identifying another institution with the requisite capacity to manage the grants.”

Although the OIG’s recommendation to the CCM is persuasive, the Secretariat has assessed the controls which might be put in place to manage the risks which the

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OIG has identified. In the judgment of the Secretariat, the MOFNP can still be asked to deliver grants provided that tighter controls are put in place to help the PR to address the serious shortcomings in the areas of program structure and management, lack of technical capacity in finance, procurement and weak SR oversight. The Secretariat's proposals are set out in the table below:

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>1. Unclear structures PMU/NAC/MOFNP, weak financial and procurement systems and processes inadequate program oversight</p>	<p>The Secretariat agrees with the OIG assessment that the MOFNPs systems and processes are weak. The Secretariat has made attempts to assist the PR to strengthen its capacity in order to safeguard Global Fund investments in the past. It is of major concern that, despite these efforts and having been a PR since 2005, the MOFNP has been unable to improve sufficiently.</p> <p>Following the OIG audit, the MOFNP (with the endorsement of the CCM) has proposed various structural changes. Key among these are to:</p> <ul style="list-style-type: none"> <li>• Relocate the PMU from NAC and take full oversight responsibilities over the PMU; and</li> <li>• Develop an action plan to address the capacity gaps noted.</li> </ul> <p>The Secretariat has assessed the suggested changes and, although the proposals are welcomed as an initial step, the Secretariat has determined that the proposals do not explicitly address the risks identified within the MOFNP program. It is not clear, for instance, how the Ministry will enhance PMU's capacity in financial, procurement and program management and oversight. In the absence of such a plan, the level of improvement that is likely to emerge from the new structural change cannot be assessed.</p> <p>The Secretariat therefore proposes that the MOFNP as PR is placed under a 1 year probationary period. This will afford sufficient time for the MOFNP to operationalise its proposed structural changes and for the perceived benefits to take effect. On expiry of this probationary period, the Secretariat will review progress and give guidance to the CCM and PR on the way forward.</p> <p>To address the key risks around weak financial systems and procurement, during the proposed probationary period, the PR will be required to appoint a competent Third Party Procurement Agent to mitigate the risks of weak procurement capacity. As part of developing the action plan, the PR is also advised to strengthen the finance function managing Global Fund grants. In this regard, the Secretariat recommends that the finance role be assigned to dedicated staff within MOFNP. In addition, the Secretariat will tighten review of expenditures and disbursements. Key measures will include:</p>

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Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
	<ul style="list-style-type: none"> <li>• A detailed LFA review of expenditure forecast prior to disbursing and agree with the PR on the budget for the forthcoming implementation period;</li> <li>• Clear instructions to the PR restricting all expenditure outside budget unless pre-approved by the Secretariat;</li> <li>• LFA verification of all material expenditure as determined by the Secretariat;</li> <li>• Financial audits conducted as per the Grant Agreement.</li> </ul>
<p>2. MOF - the OIG report notes ineligible and unsupported expenditures of USD2.3 million which should be recovered</p>	<p>The Secretariat has taken note of the OIG's comments on unsupported or ineligible expenditure for MOFNP.</p> <p>To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR ) should refund monies. In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA Scope of Work will be agreed jointly by the Secretariat and the OIG.</p> <p>Further, the Secretariat requests a meeting with the OIG to agree on the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>Overall, the Secretariat is tightening up on its procedures in the whole area of expenditure validation through clearer definition of LFA Scope of Work and risk-focus in relation to verification of program expenditures, greater reporting on SR expenditures at the time of PU/DR, improved quality and timeliness of enhanced financial reporting, improved review (LFA and Secretariat) and adherence to independent annual audit requirements.</p>

### 5. Zambia National AIDS Network (ZANAN)

The Secretariat recognizes ZANAN as a functioning PR with a program that serves hard-to reach geographical areas. However, the Secretariat has taken note of weaknesses highlighted in the OIG audit and comments on 3 key items as follows:

1. High salaries and allowances paid to staff;
2. Weak external and internal audit arrangements; and
3. US\$1.6 million in ineligible or unsupported expenditures.

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>1. High salaries and allowances paid</p>	<p>The Secretariat notes the OIG comments and the country response. The Secretariat agrees that ZANAN's salaries</p>

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Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
to staff	<p>appear to be on the high side particularly when compared to public sector salaries. In the past, this has been explained as a chosen strategy to hire and retain high quality staff in a competitive market.</p> <p>The issue of high salaries has been raised in previous discussions with the LFA who has given assurances that the salary levels are reasonable.</p> <p>The Secretariat also welcomes the OIG to review and comment on the justifications provided by PR on this issue. To address this challenge within the wider portfolio, the Secretariat is developing policy guidelines on the whole approach to budgeting for HR costs.</p> <p>Specific to ZNAN, the Secretariat will require an independent review (not LFA) of current salary levels in the context of the new guidance and/or a salary survey. Further discussions with the PR about performance-based pay systems will be held on the premise that high pay cannot be taken for granted and can only be justified if performance is also proportionately higher.</p>
2. Weak external and internal audit arrangements	<p>The Secretariat has taken note of key weaknesses identified around both internal and external audit arrangements.</p> <p>In respect of the external audit, the Secretariat notes that ZNAN's management has moved to taking action on the OIG's recommendation and a new auditor, Grant Thornton, has been engaged.</p> <p>The Secretariat, through the revised PR and SR Financial Audit Guidelines will ensure that the LFA reviews performance of the appointed auditor going forward. The Secretariat will also stress the importance of the Audit Committee's role in reviewing the external auditor's performance and will take note of the PR's actions on this in the future. The Secretariat agrees that the Internal Auditor function should report functionally to the Audit Committee rather than executive management and will take this issue up with the PR.</p> <p>As part of the follow up to the OIG recommendations, the Secretariat will support ZNAN to strengthen the role and scope of the Internal Audit function.</p>
3. US\$1.6 million in ineligible or unsupported expenditures	<p>The Secretariat has taken note of the OIG's comments on unsupported or ineligible expenditure by ZNAN.</p> <p>To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR ) should refund monies. In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a</p>

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
	<p>consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA Scope of Work will be agreed jointly by the Secretariat and the OIG. The Secretariat requests a meeting with the OIG to agree on the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>Overall, the Secretariat is tightening up its procedures in the whole area of expenditure validation through clearer definition of LFA Scope of Work and risk-focus in relation to verification of program expenditures, greater reporting on SR expenditures at the time of PU/DR, improved quality and timeliness of enhanced financial reporting, improved review (LFA and Secretariat) and adherence to independent annual audit requirements.</p>

### **6. Churches Health Association of Zambia (CHAZ)**

The Secretariat has worked with CHAZ since 2003 and recognizes its significant contribution towards the Zambia program. It is commendable that CHAZ has been undergoing restructuring to enhance its approach to program management, internal audit arrangements and human resources. The Secretariat notes that CHAZ hopes to finalize the changes and that these will considerably strengthen the organization and management thus enabling it to deliver Global Fund programs better.

The Secretariat also recognizes that CHAZ has also faced certain challenges in running the Global Fund programs. The OIG audit has raised issues relating to:

- governance and the need to ensure that the CHAZ Board is involved in critical decisions;
- the restructuring process which has been drawn-out and has not had adequate professional input;
- the failure in its ability to fully comply with provisions in the grant agreement; and
- the need to strengthen its capacity, particularly in connection with procurement.
- high salaries and allowances paid to staff.

CHAZ will be required to implement the recommendations of the OIG, particularly relating to high salaries and allowances paid to staff and the need for CHAZ to justify administration fees charged to the Global Fund. The table below provides the Secretariat’s input on these key issues and specific actions necessary to address the underlying risks and ensure that Global Fund resources are used appropriately:

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Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks and any residual risk.
<p>1. High salaries and allowances paid to staff.</p>	<p>As noted earlier under ZNAN, the OIG has also raised the issue of high salaries and allowances for CHAZ. As in the previous case for ZNAN, the Secretariat agrees that CHAZ's salaries appear to be high, particularly when compared to public sector salaries. In the past, this has been explained as a chosen strategy to hire and retain high quality staff in a competitive market.</p> <p>The Secretariat notes that the issue of high salaries has been raised in previous discussions with the LFA who has given assurances that the salary levels are reasonable. The Secretariat also welcomes the OIG to review and comment on the justifications provided by the PR on this issue.</p> <p>To address this challenge within the wider portfolio, the Secretariat is developing policy guidelines on the whole approach to budgeting for HR costs.</p> <p>Specific to CHAZ, the Secretariat will require an independent review (not LFA) of current salary levels in the context of the new guidance and/or a salary survey. Further discussions with the PR about performance-based pay systems will be held on the premise that high pay cannot be taken for granted and can only be justified if performance is also proportionately higher.</p>
<p>2. Need to justify administration fees charged to Global Fund.</p>	<p>The Secretariat takes note of OIG findings that administration costs charged by CHAZ need to be justified. In the recent past, the Secretariat has worked with the PR to reduce admin costs over time. The 10% administrative charge is not applied to procurements and therefore the effective administrative charge on the total grant amount is around 6% (Rd 4 HIV phase 2).</p> <p>Going forward, the Secretariat is in the process of finalizing the policy guidelines on administrative cost for PRs. Based on this new policy, the Secretariat will review CHAZ's administration fees and ensure that they are in line with our requirements.</p>

Appendix 2: Recommendations and Action Plan

Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
Ministry of Health	1	<p><b>Recommendation 1 (High)</b></p> <p>(a) Senior management oversight over the utilization of Global Fund grants should be strengthened. As part of its oversight role, senior management should review grant performance, ensure that there are proper controls to safeguard Program assets, ensure compliance with the grant agreement and laid down procedures, that targets are met and that impediments to implementation are addressed timeously.</p>	<p><b>Country Response:</b></p> <p>To further strengthen its oversight over the Global Fund, the ministry has planned to strengthen the Global Fund Steering Committee. This Committee will be dedicated to reviewing Global Fund Programme implementation, ensure compliance with grant agreements and ensure the programmes achieve their objectives. The TOR will be reviewed to look at financial management, procurement as well as programmes. This Committee will be chaired by the PS and attended by all the directors and programme officers. This committee will meet once a month and will report to senior management once a month.</p> <p>The Ministry has established a finance and budget committee where all directorates are represented which meets regularly. One of its main objectives is to review and discuss resource mobilisation and disbursements. Senior Management has now prioritised financial management issues and these are extensively discussed in senior management meetings. The Directors are informed of all financial transactions concerning their departments and these are reviewed weekly. Reconciliation are now done twice weekly as part of control measures. MoH will now</p>	Permanent Secretary	July 2010	

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			<p>be providing monthly reconciliation reports with balances, variances and commitments. Procurement commitments will also be verified and approved in relation with funds availability. Programme updates are also provided which give opportunity for discussions on the technical aspects of programme implementation.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country's Response.</p> <p>The Secretariat will request from MOH the updated Terms of Reference (TORs) and plan for the Global Fund Steering Committee. The Global Fund and UNDP will provide input into the TORs to ensure effective functioning of the Steering Committee.</p> <p>The Secretariat will work with UNDP, which is expected to takeover PRship of MOH grants late 2010, to build the capacity of the MOH at different levels, including senior management. Improved Senior Management oversight over the GF grant portfolio will be one of the results expected of the Capacity Building Plan that UNDP will put in place to improve governance capacity at MOH.</p> <p>The Secretariat will follow up with the LFA to ensure implementation by the stated completion date.</p>			

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Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
Ministry of Health	1	(b)A finance unit should be elevated to directorate level to allow it to implement its mandate of checks and balances with adequate authority. The DP&P's resource mobilization should be divorced from resource utilization, control and reporting in order to ensure proper segregation of duties and strengthening of the internal control environment.	<p><b>Country Response:</b> The accounts structure of the line ministries is determined by Cabinet Office in liaison with the Ministry of Finance and National Planning. This structure is the same across all line ministries. Though the accounts unit falls under the department of human resource, the Chief Accountant reports directly to the Controlling Officer and all financial matters are completely handled by the Chief Accountant. The Chief Accountant sits as part of senior management and also sits in procurement meetings. The Chief Accountant has the authority to raise all issues of financial importance with the controlling officer.</p> <p>The MOH will take up this matter and write to Cabinet office and MOFNP to further discuss this.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response, and recognizes that changes in government structures is a lengthy process which requires amendments to the overall government regulatory framework. The Secretariat and will follow-up with UNDP and the LFA to determine progress on this issue between MOH, the Cabinet Office and MOFNP by the stated completion date.</p> <p>The Global Fund and UNDP will also review the membership of Steering Committee, and will ensure the inclusion</p>	Permanent Secretary	July 2010	

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			of the Chief Accountant to ensure proper financial oversight of GF resources.			
Ministry of Health	2	<p><b>Recommendation 2 (High)</b> Internal audit and OAG staff should not perform pre audits at MOH so that their objectivity and independence are maintained. Management should prioritize and implement audit recommendations if the systems at MOH are to improve. The senior management team should ensure that an action plan is developed to address how recommendations will be implemented, a timeline set for this and it should identify people that will be responsible for the implementation.</p>	<p><b>Country Response:</b></p> <p>The function of the OAG has not changed as per article 121 of the Constitution of the Republic of Zambia. The positioning of OAG staff in the ministry was a response to recommendations arising out of the Joint Governance Action Plan as a temporary measure to safeguard resources while building capacity in the Ministry.</p> <p>The MOH has formed an internal committee whose role is to review OAG audit queries, recommendations, develop action plans for addressing recommendations and follow-up on implementation.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response, and will work with UNDP build capacity of the MOH regarding the internal audit function. The goals will be to 1) ensure that the independence and objectivity of the internal audit committee is not compromised and 2) ensure that the MOH's internal audit committee meets regularly, is effective, reviews OAG audit queries, recommendations, develop action plans for addressing recommendations and follow-up on implementation. The Secretariat will follow-up with the LFA to monitor and ensure implementation.</p>	Permanent Secretary/ Internal Audit	Ongoing	

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Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
Ministry of Health	3	<p><b>Recommendation 3 (High)</b></p> <p>MOH should ensure compliance with the Global Fund grant agreements. The conditions set out in the grant agreements are meant to safeguard Global Fund assets and reduce the risks that the Global Fund grants are exposed to. Failure by the PR to comply with the conditions in the grant agreement leaves the grants exposed to the risk of financial loss.</p>	<p><b>Country Response:</b> The Ministry plans to conduct orientation workshops for all senior management staff to ensure they are conversant with Global Fund grant agreements, procedures and regulations. This orientation will include Provincial Medical Officers. Support for this activity will be required from GF. This will be part of capacity building. This orientation will later be cascaded to districts. The MoH will develop procedures that will be integrated into existing monitoring system to address compliance with GF grant agreement conditions.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country's Response and will follow-up with the LFA to determine orientation workshops with senior management staff by the stated completion date. UNDP Staff and the LFA will be asked to attend these workshops to monitor quality. GF staff will also attend as time permits.</p> <p>The Secretariat will work with UNDP(which will take over as PR of MOH grants) in developing a capacity building plan, to ensure that capacity is built at all levels of MOH (central, provincial and district) to ensure compliance with Global Fund grant agreements. The Capacity Building plan will be in place by the time grants are signed with UNDP, currently expected mid September 2010.</p>	Grants Manager	August 2010	

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			The Secretariat will continue to identify, through its regular review of the PR's Progress Updates, instances of non-compliance with grant agreements. The Secretariat will continue to address instances of non-compliance through formal Management Letters send to the PR. In the Management Letter, the Secretariat will recommend steps and timelines for remedying all instances of non-compliance with grant agreements.			
Ministry of Health	4	<p><b>Recommendation 4 (High)</b></p> <p>a) The MOH finance manual should be updated to ensure it guides the capturing, recording and reporting of financial transactions in a timely manner. MOH should obtain a computerised accounting system that can maintain and reconcile records for the multiple programs in MOH.</p>	<p><b>Country Response:</b> The Accounting manual for GRZ is under review and this is the responsibility of Ministry of Finance envisaged to be operational by June 2010. The NAVISION computerized accounting system is being procured. It has limited number of users. More users including GF are to be included.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response, and will work with UNDP build capacity of the MOH in financial management. UNDP's capacity building plan for MOH will include updating, as necessary, the MOH finance manual. The Secretariat will follow-up with the LFA to monitor and ensure implementation.</p> <p>The Secretariat will work with the UNDP to determine a timeline for the</p>	Chief Accountant	June 2010	

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			procurement of the NAVISION computerized accounting system with MOH and implementation of the same. The Secretariat will request UNDP to review and appraise the Secretariat on the suitability and implementation of the system. An independent assessment may be requested.			
Ministry of Health	4	(b)The Permanent Secretary should review and approve payment requisitions only after they have been reviewed and cleared by the Accounts unit. The verification by the Accounts unit will provide assurance to the Permanent Secretary that the transaction is within the budget and has adequate support.	<p><b>Country Response:</b></p> <p>This will be discussed in senior management meetings with the purpose of instituting the appropriate changes in line with the recommendation within the next three months.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country Response, and will work with UNDP build capacity of the MOH in financial management. The Secretariat will follow-up with the LFA to ensure that necessary changes are implemented within the stated timeline. The issue will be further followed-up with UNDP to confirm that proper controls continue to be in place.</p>	Chief Accountant	July 2010	

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Ministry of Health	4	c) The panels of signatories should be decreased to two individuals per panel and these signatories restricted to specific accounts which they are responsible for.	<p><b>Country Response:</b> The current set up is standard in all line ministries. The MOH currently has two panels of signatories of four signatories each as a way of ensuring checks and balances. The number cannot be reduced to the recommended two by GF as this will disrupt and delay the implementation of the program. Restricting the number to two will entail that if the two are not available no payment can be made in their absence.</p> <p><b>Secretariat Response:</b> The Secretariat notes the risks raised in the OIG's report and also notes the practical concerns raised in the country response. The Secretariat will work with UNDP as the new PR to discuss the best solution in resolving this issue.</p>	Chief Accountant	Ongoing	Maintaining several signatories for each bank account presents high risk to the grants. The response given is not satisfactory to mitigate the identified risk.
Ministry of Health	5	<b>Recommendation 5 (Significant)</b>  a) Staff should account for imprests in accordance with the financial regulation in place. The retired imprests should be reviewed by a senior official and initialed as evidence of review. MOH management should enforce the financial guideline that requires staff with outstanding advances not to receive additional advances. MOH management should pursue the retirement of imprests and	<p><b>Country Response:</b> The Ministry has put in place new measures to ensure that staff retire their imprests in accordance with regulations. Each directorate in the Ministry has been given a limit to the amount of funds that it can access as imprest. Beyond this fixed amount the directorate cannot access funding until the imprest is accounted for. The directors and unit heads are also responsible for unaccounted for imprest held by individuals. For persons who have not accounted for imprest, the Ministry has instituted measures to recover the</p>	Chief Accountant	Ongoing	

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		submit cases of delays to the Permanent Secretary to institute disciplinary action as recommended in the Financial Regulation.	<p>funds including deducting funds from individual's salaries, and or terminal benefits (this includes persons on forced leave or suspension).</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat will work with the UNDP to improve financial management capacity, including accounting for, and retirement of, imprests. UNDP will be requested to monitor the issue of outstanding imprests closely.</p> <p>The Secretariat will follow-up with the LFA to ensure that the stated changes are being implemented with regard to controls over imprests.</p> <p>The Secretariat will request the LFA to follow up with the PR on the most recent status of outstanding imprests. The Secretariat will recommend and strongly encourage the MOH to account for all outstanding imprests within four months of the annual audit report. The Secretariat will request UNDP to implement a policy of refund of any imprest amounts not accounted for by that date.</p>			
Ministry of Health	5	b) MOH should not advance grant funds to organisations outside its Program implementation network	<p><b>Country Response:</b></p> <p>MoH will no longer advance grants to</p>	Chief Accountant	Ongoing	

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		of PHOs, DHMTs and health institutions. Where MOH requires specialist services from an organisation outside its network, the selection should be done through the procurement process. MOU should refund the total amounts involved i.e. USD 394,932 to the Global Fund	<p>institutions outside its network. Health Institutions at lower level will go through an orientation and training programme to enable them follow and understand Global Fund policies, rules, regulations and procedures. MoH will comply with the grant agreements. Further, specialist services not usually provided by MoH will be procured through the GRZ procurement processes.</p> <p>Funds advanced to Mututa Memorial day care centre will be refunded.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work UNDP and the LFA to ensure that MOH does not advance grants to institutions outside its network, and that the MOH follows proper procurement processes to select specialist services in accordance with the Global Fund's Code of Conduct for Suppliers. The Secretariat will request UNDP to include this specific issue in its grant agreements with MoH.</p> <p>The Secretariat will send a formal letter to the PR requesting a refund of funds advanced to Mututa Memorial Day Care Center. The letter will request a direct payment of US\$ 394,932 to the World Bank Trustee account.</p>			

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Ministry of Health	6	<p><b>Recommendation 6 (High)</b></p> <p>(a) Management should not pay allowances for ordinary office work to employees. Where compensation is required for long hours worked, the arrangement should comply with the applicable government regulations and the amounts incorporated into the MOH budget. Management should also avoid excessive expenditure, for example, holding tender evaluations off the office premises. Payment of allowances should also be aligned to the practices of GRZ and other CPs in the health sector.</p>	<p><b>Country Response:</b></p> <p>MoH will follow the applicable government regulations and incorporate the amounts into the MoH budget. Evaluation committees are regarded as technical committees given tasks over and above their ordinary responsibilities. The guiding factor for payment of allowances to such committees is ability to pay. The Cabinet Circular of 2003, has indicated the rates to be paid. According to the agreement MoH will follow GRZ guidelines.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat will work with UNDP and the LFA to ensure that allowances arrangements comply with GRZ regulations and labor laws governing computation and payment of compensation. The Secretariat will seek to find ways to align arrangements with partners on payment of allowances.</p>	Chief Accountant	July 2010	
Ministry of Health	6	<p>(b) MOH Management should investigate the purpose of these DSA payments with a view to identify any cases of abuse. Should any cases of abuse be discovered, the individuals should refund the money and disciplinary/criminal action be instituted against them.</p>	<p><b>Country Response:</b></p> <p>MoH is already working to review the issue of DSA payments to ensure that this does not recur. The MoH will analyse these cases and where necessary the monies will be refunded. MoH sought clarification on the issue of payment of allowances for long hours worked. Cabinet Office</p>	Chief Accountant	July 2010	

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			<p>guidance was that this is at the discretion of the Permanent Secretary (Letter from Cabinet Office dated 23 October 2009).</p> <p><b>Secretariat Response:</b></p> <p>On 15 March 2010, the Secretariat sent the MOH a letter, formally requesting a response to irregularities in the payment of Daily Subsistence Allowances (DSA) to MOH staff. The Secretariat is awaiting a response from the MOH. The Secretariat also commissioned a LFA review in July 2009, which also raised irregularities in payment of DSA along with a number of other questionable expenditures by MOH. This report has been shared with the OIG. The Secretariat responded by stopping disbursements in August 2009, except for life saving products via direct procurement.</p> <p>The Secretariat will work with MOH and LFA to seek a resolution to this issue by the stated completion date. If cases of abuse are found, the Secretariat will send a formal letter to the MOH requiring direct payment of the amount to be refunded to the World Bank Trustee Account, in the absence of which the amounts in question will be deducted as ineligible expenditures in future disbursement requests. A copy of such letter will also be addressed to the Ministry of Finance and National Planning</p>			

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			<p>in its capacity as the representing institution on financial matters for the Republic of Zambia.</p> <p>The Secretariat will work with the LFA to ensure that DSA payments are appropriately managed, and that DSA is not paid as compensation for overtime or long working hours.</p>			
Ministry of Health	7	<p><b>Recommendation 7 (High)</b></p> <p>a)The MOH should use internal and external assessments undertaken within the Ministry as part of monitoring [e.g. the JARs] to identify the entities that have weak capacity and should benefit from closer supervision and capacity building. While it may not be reasonable to have MoUs with these entities receiving funds, MOH should issue guidelines to PHOs and DHMTs on how the funds should be utilised.</p>	<p><b>Country Response:</b></p> <p>The MoH uses internal and external reviews such as the Performance assessment (PA) and the JAR. The Performance Assessments are carried out every quarter to review district and province finances and programme performance using a standardised tool. The results are reviewed to help design capacity strengthening activities for the districts and provinces. Recommendations from PA and JAR assessments are incorporated into the MoH annual plans. The HMIS is also used to identify the weakly performing districts and design interventions to assist them improve.</p> <p>Guidelines will be provided to districts and provinces on how the GF funds should be utilised.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country's</p>	Director Planning/ Grant Manager	August 2010	

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			<p>Response. While the Secretariat acknowledges that the PR uses external and internal assessments to identify districts and provinces that have weak capacity, the Secretariat feels that both the assessment process as well as the resulting capacity strengthening activities could be strengthened.</p> <p>With a view towards strengthening capacity, the Secretariat will work with UNDP in developing a capacity building plan, to ensure that capacity is built at all levels of MOH (central, provincial and district) to ensure compliance with Global Fund grant agreements. The Capacity Building plan will be in place by the time grants are signed with UNDP, currently expected mid-September 2010.</p> <p>The Secretariat will work with the LFA to monitor implementation, and to ensure that guidelines on utilization of Global Fund resources are provided to districts by the stated completion date.</p>			
Ministry of Health	7	b) MOH should document the criteria that will be used in determining the amounts to be disbursed to the respective SRs. Documented criteria will ensure that there is consistency in disbursement making and also increase transparency with which funding decisions are made.	<p><b>Country Response:</b></p> <p>Ministry has a documented process to support its allocations to the districts which is transparent and consistent. Future disbursements will be accompanied by a detailed workplan on the activities to be implemented.</p>	Director Planning/ Grant Manager	May 2010	

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		Disbursements to the SRs should be accompanied by detailed work plans on the activities to be implemented in order to ensure that the grants are utilized for the purpose they were advanced.	<p><b>Secretariat Response:</b>            The Secretariat notes the Ministry of Health has well documented criteria for determining disbursement levels to districts, as per Country Response to paragraph 118. This was agreed during the annual planning process in which there was buy-in by all stakeholders who participated. However, the Secretariat also notes that these criteria are broad-based, and that detailed workplans and budgets are needed from districts to ensure funds are properly utilized; implementation of detailed workplans will further improve accountability. The Secretariat will alert UNDP to the issue of monitoring disbursements to districts, ensuring that disbursements are consistent with these guidelines and are accompanied by detailed workplans and budgets. The LFA will have a role in monitoring this aspect.</p>			
Ministry of Health	7	c) Guidance should be given to the SRs on the use of the Global Fund grants, defining the obligations expected in order to strengthen the controls over funds utilised. A reporting template should be provided to SRs to enable standard reports and therefore faster review of accountability reports.	<p><b>Country Response:</b>            District and provinces will be provided with guidelines on how the funding is expected to be used and a series of orientation workshops will be conducted starting with MoH HQ staff, provinces and then districts. The HMIS has been improved to provide standardized programmatic data and MoH is also in the process to improve the Navision tool to report on the financial information. In the interim a standardized reporting template</p>	Director Planning/ Grant Manager	October 2010	

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			<p>would be developed and provided to PFOs and DHMTs.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country's Response.</p> <p>The Secretariat will work with UNDP in developing a capacity building plan to ensure that capacity is built at all levels of MOH (central, provincial and district) to ensure compliance with Global Fund grant agreements. The Capacity Building plan will be in place by the time grants are signed with UNDP, currently expected mid-September 2010.</p> <p>The Secretariat is working with the PR and the Health Metrics Network (seated at WHO) to ensure standardized reporting at the district level.</p> <p>The Secretariat will work with the LFA to monitor that capacity building is provided to districts, including standardized reporting templates, by the stated completion date.</p>			
Ministry of Health	7	d) Accountabilities from SRs should be followed up and where there are unusually long delays, disbursements should be tied to submission of accountabilities. Regular review of the accountability reports from the SRs should highlight such issues	<p><b>Country Response:</b></p> <p>The MoH has been following up districts and provinces not accounting for funds. However, it will intensify supervision and will ensure that disbursements are tied to submission of accountability report. The ministry has decided to conduct monthly</p>	Director Planning/ Grant Manager	October 2010	

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		and constructive feedback should be provided to them. Where there is a need, capacity building should be provided to the SRs by the accounting team at MOH in charge of Global Fund grants. The MOH Accounts unit may also opt to use the PHOs as the first point of review for all DHMT reports.	<p>reviews of districts and province reports to identify issues and provide feedback. Where there are continued delays in reporting, capacity building will be provided to the districts by the accounting team at MoH in charge of Global Fund grants. PHO will also be trained to provide supportive supervision.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response.</p> <p>The Secretariat will work with UNDP in developing a capacity building plan, to ensure that capacity is built at all levels of MOH (central, provincial and district), including accountabilities of funds at the SR level. The Capacity Building plan is to be in place by the time grants are signed with UNDP, currently expected mid-September 2010.</p> <p>The Secretariat will work with the LFA to monitor MOH tracking and follow-up of SR accounting of Global Fund resources through tools such as the Spot Check audit.</p>			
Ministry of Health	7	e) MOH Senior Management should establish a link between the grant amount utilised and the results achieved so that efficiency in utilisation of funds can be monitored. Program Officers should be trained in	<p><b>Country Response:</b> The ministry plans to conduct orientation workshops for senior management and programme staff including audit staff in GF agreements, regulations and procedures and reporting. The orientation will include basic accounting for</p>	Director Planning/ Grant Manager	October 2010	

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		<p>basic financial management for non-finance managers so that they can understand and appreciate the financial reports regarding their programs. The Accounts team should be granted access to all information required for them to prepare analysis of the Programs.</p>	<p>programme managers as well as training in finance for non-finance managers. The Accounts team will be given full access to all information required for them to prepare analysis of the Programs.</p> <p><b>Secretariat Response:</b> The Secretariat will work with UNDP in developing a capacity building plan to ensure that capacity is built at all levels of MOH (central, provincial and district) to ensure compliance with Global Fund grant agreements. Capacity building will include establishing links between grant amounts utilized and results achieved. Global Fund program Managers will be trained in financial management.</p> <p>The Capacity Building plan is to be in place by the time the grants are signed with UNDP, current expected signature - mid September 2010.</p> <p>The Secretariat will request UNDP to work with the MOH to incorporate the suggested orientation workshops into the capacity building plan. The LFA will monitor these workshops to ensure they are of appropriate quality and are completed by the stated completion date. UNDP Staff and the LFA will be asked to attend these workshops to monitor quality. GF staff will also attend as time permits.</p>			

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Ministry of Health	8	<p><b>Recommendation 8 (Significant)</b>            The PTWG and MTC should be fully operationalised to provide oversight over the PSM processes in the health sector. The PTWG should work to address the obstacles to PSM e.g. capacity, delays, internal control etc. All MTC and procurement staff and evaluation committee members should sign a declaration of no conflict of interest and confidentiality agreements. The procurement code of ethics should be added to the contracts for all procurement staff. The job descriptions for the Senior Procurement Specialists and the Procurement specialists should be reviewed in line with their roles and responsibilities and reporting structure.</p>	<p><b>Country Response:</b>            Both the PTWG and MTC are fully operational with ToRs, with the PTWG meeting every fortnight on Thursdays, while the MTC meet weekly on Wednesdays. The Public Procurement Act provides for regulations on the Code of Conduct. The regulations are now being formulated and once formulated, the Code of Conduct will be drawn and the Code will be included in the contracts for all procurement staff. A standard Declaration of Interest and Confidentiality form is being drawn up and will be introduced for evaluation and procurement committees. All GF procurement staff job descriptions are being reviewed in consultation with manpower development Division at Cabinet Office so as to address the observations from the audit report and operations of the department.</p> <p><b>Secretariat Response:</b>            The OIG has highlighted the PR's lack of effective procurement and supply management especially in relation to two key entities, namely the Procurement Technical Working Group (PTWG) and the Ministerial Tender Committee (MTC).</p> <p>Going forward all procurement will be carried out by a new PR - UNDP. The Secretariat alongside UNDP and other</p>	Head, Procurement Unit	October 2010 (provided that the MoFNP issues the statutory instrument on the procurement regulation)	

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			<p>development partners will support MOH to build capacity within procurement and supply management functions. This will effectively address any residual risk that remains within as MOH procures.</p> <p>Specifically UNDP will ensure that both PTWG and MTC are fully operational and have appropriate ToRs to carry out their mandate.</p> <p>The Secretariat will work with UNDP to ensure that:</p> <ul style="list-style-type: none"> <li>• Regulations on the Code of Conduct are finalized by MOH and all staff are held accountable for their actions;</li> <li>• PTWG and MTC are working as expected;</li> <li>• The Code of Conduct being developed is aligned with the Global Fund's Code of Conduct for Suppliers and is included in contracts for procurement staff; and</li> <li>• A standard Declaration of Interest and Confidentiality form is drawn up and used in evaluation committees by the MOH.</li> </ul>			
Ministry of Health	9	<p><b>Recommendation 9 (significant)</b></p> <p>All tender evaluations should be held at MOH premises. To make the process more effective, the PSU staff should carry out bid examinations and preliminary evaluation before the evaluation committee meets. The</p>	<p><b>Country Response:</b></p> <p>ZPPA as per their letter dated 10th November, 2009 did advise that evaluation meetings are required to be held outside MOH premises so as to avoid unnecessary disturbances and to ensure that the exercise concludes in good time. Bids that require to be evaluated away from the office premises are ordinarily</p>	Head, Procurement Unit	April 2010	The response does not address the audit finding of excessive expenditure of grant funds on the several meetings held

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		evaluation process should be strengthened by nominating appropriate members to the committees and ensuring that the number is restricted to the recommended number of 8 as per regulation.	<p>those which are above the thresholds for simplified bidding.</p> <p>Bid examinations and preliminary evaluations are considered as an integral part of the evaluation and to be binding on members of the evaluation committee, this should be considered by the full evaluation committee as per ZPPA guidance in the letter dated 22nd November, 2009. Measures have already been put in place to ensure appropriate membership of the evaluation committee and as guided by ZPPA, membership is being restricted to a maximum of 8.</p> <p><b>Secretariat Response:</b> The Secretariat concurs with the Country Response.</p>			outside the MOH premises. There was no evidence that meetings held outside the MOH premises resulted in the processes being “concluded in good time”. OIG noted that MOH had adequate meeting rooms to facilitate this process. OIG notes the commitment to ensure appropriate membership on the Evaluation Committees
Ministry of Health	10	<p><b>Recommendation 10 (high)</b></p> <p>a) Refunds should be provided for all procurements that were (i) outside the approved work plan and budget; and (ii) related to the cancelled Kahekam contract.</p>	<p><b>Country Response:</b></p> <p>The procurements outside the approved workplan related to Mwachisompola, Blood Bank and the TB wards in UTH. The time that lapsed between budget preparations and the disbursement of funds from GF were such that the foreign exchange rate had changed and prices of goods had gone up drastically. This resulted in the over-expenditure. The</p>	Permanent Secretary/ Grants Manager	April 2010	Schedules of questioned costs, that were shared with the PRs, shall be provided to the Secretariat.

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			<p>Ministry has thus included the completion of the three projects under the GRZ infrastructure budget of 2010. (ii) The Ministry cannot comment on the Kahekam Contract as this matter is before the courts of law.</p> <p><b>Secretariat Response:</b> The Secretariat has taken note of the OIG's comments on unsupported or ineligible expenditure for MOH.</p> <p>Regarding expenditure of items outside approved workplans: The Secretariat agrees with that the strict interpretation of what constitutes an ineligible cost but the commonly accepted approach since the commencement of the Global Fund has been to allow PR's the flexibility to fund activities outside the agreed budget and workplan PROVIDED they are not of material value, are within the scope of the program objectives and are justifiable in all other ways. Where any such change is material the PR is expected to seek prior approval before spending The Secretariat. The Secretariat has drafted a clear guideline on this issue which is expected to be issued in July 2010.</p> <p>To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that should refund monies.</p>			

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			<p>In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. The Secretariat will share with the OIG the Scope of Work of the LFA audit prior to it taking place.</p> <p>The Secretariat will request a meeting with the OIG to agree to the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>Regarding Mwachisompola, Blood Bank and the TB wards in UTH, the LFA review will evaluate the claim of the PR that foreign exchange rates had gone up significantly from the time of budget preparations to the time of disbursement of funds from the Global Fund.</p> <p>Regarding the Kahekam contract, the Secretariat believes there is credible and substantive evidence that proper procurement procedures were not followed in awarding this contract even though the matter is still before the courts. Therefore, The Secretariat will require a refund of grant funds under the Kahekam contract.</p>			

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Ministry of Health	10	b) MOH should comply with laid down policies and regulations in order to strengthen the internal control environment in which procurements take place. The PQRM should be completed in accordance with Global Fund requirements. MOH should designate secure and appropriate bidding documents storage area, with a defined filing system. The system should specify the period of storage before disposal of bidding documents.	<p><b>Country Response:</b></p> <p>Measures have been put in place to ensure compliance with GF guidelines, public procurement Act and departmental operating manual. The Procurement Unit will ensure that the PQRM is submitted in accordance with the requirements of the Global Fund and this shall be implemented with immediate effect. Secure storage space for used documents has been established in the department by converting one of the stores into a document storage area. Records shall be maintained for 7 years as per the Public Procurement Act.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat and UNDP will call upon the MOH to explain instances of non-compliances with both their own policies and regulations as well as Global Fund policies and regulations. The MOH will be asked to respond in detail as to 1) why it procured outside the Global Fund workplans and budgets, 2) Why it did not comply with the requirement to have no-objections from the LFA prior to expending funds already disbursed by the Global Fund, including procuring health products outside third party procurement agents. The Secretariat will require full and complete responses from MOH within four months of publishing the final audit report, which will be reviewed by the LFA.</p>	Permanent Secretary/ Grant Manager	April 2010	

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			<p>The Secretariat notes that procurement of health products for the MOH are currently being conducted through the Global Fund's Voluntary Pooled Procurement (VPP) initiative. Under VPP, the VPP procurement agent is required to complete the PQR. Once MOH grants are transferred to UNDP, UNDP will use its own procurement agent to procure health products (procurement of health products will not be conducted by MOH.) UNDP will be required to ensure that the PQR is completed.</p>			
Ministry of Health	10	<p>c) A supplier contract management system should be put in place in the PSU. The system should define the contract management parameters, the tools for contract management, the responsible staff for contract management, procedures for reporting and tracking supplier performance, procedures for enforcing penalties for non performance or non-compliance and the record to be maintained for supplier performance management. Contract management of TPPAs should also be strengthened.</p>	<p><b>Country Response:</b></p> <p>A Contract Management System exists as described in the departmental operating manual and will be implemented. The Ministry is now reinforcing the guidelines on the matter. Reports are being prepared on Contract status on a weekly basis and these reports are presented in both the Management meetings on Tuesdays and the departmental meetings on Thursdays.</p> <p>Enforcements of Penalty Clauses are at the moment being undertaken by ensuring that Performance Bonds are obtained for each Contract. A valid Performance Bond is one major tool that is required to address issues that may arise during the</p>	Permanent Secretary/ Head PSU	October 2010	

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			<p>performance of a Contract. The strengthening of contract management of TPPAs will be addressed by ensuring that existing and new MOUs/Contracts with Procuring Agents are reviewed taking into considerations findings that have been highlighted in the audit report. One specific item for consideration is the request for Performance Bonds that can be used to address issues of poor performance on delivery and quality. Taking into account the challenges in ensuring effective management of TPPA contracts, the PSU has resolved to review all existing MOUs with the view of including clauses that will ensure effective management of the MOUs and contracts.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to monitor that a quality contract management system, including regular review of contracts and MOUs (including those between TPPAs), is in place and is being effectively utilized by the stated completion date.</p>			
Ministry of Health	11	<p><b>Recommendation 11 (significant)</b></p> <p>MOFNP and MOH should finalize the management contract with Crown Agents. MSL should</p>	<p><b>Country Response:</b></p> <p>The management contract with Crown Agents has been signed for 3 years. (a) MOH has installed an update version of the supply chain manager software that</p>	Director Logistics MSL	In Process	

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		provide for the handling of emergency orders, to enable service centers get supplies in cases of emergency situations. PSU and MSL should establish a report sharing mechanism that will inform LSU of the stock status and a trigger for procurement. The MOH should re-enforce the use of the FEFO rule for storage and issuing of stocks at service levels.	<p>offers more visibility of the stock position at facility level. This provides a mechanism for close monitoring to flag out low inventory levels and prevents facilities getting into emergency state.</p> <p>(b) Communication with the facilities is strengthened through close follow up of non reporting facilities in collaboration with the DHOs and PHOs</p> <p>(c) The MSL Order System provides for the emergency orders. Facilities are being sensitized so that they ensure an emergency order is clearly labelled should a need for such arise.</p> <p>(d) The LMU Supply Chain Manager software has functionality for providing feedback reports to MoH and partners on consumption, distributed quantities and inventory levels at facilities. These are provided to MoH and will extend to PSU</p> <p>(e) By using the MSL Warehouse Management software generated analyzed stock status reports will continue to be provided monthly to MoH and PSU and weekly discussion at the Clinical care and Diagnostic Services Directorate weekly meetings on drug/medical supplies utilization, status and procurement.</p> <p><b>Secretariat Response:</b> The Secretariat will confirm with the LFA that the management contract with Crown Agents has been finalized and is currently in force, and will request for a copy of this contract for its records. The Secretariat notes the other aspects of</p>			

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			the Country Response, and will work with the LFA to monitor MOH processes for 1) placing emergency orders, 2) monitoring issuing of stocks (compliance with FEFO rule) and 3) monitoring stock status to provide feedback throughout the supply chain to ensure there are no stock-outs.			
Ministry of Health	12	<p><b>Recommendation 12 (significant)</b></p> <p>MOH should use the services of WHO prequalified laboratories for QA of pharmaceuticals procured until PRA has built capacity to enable it to carry out the required QA tests.</p>	<p><b>Country Response:</b></p> <p>MoH now uses and will continue to use the services of WHO prequalified laboratories for QA of pharmaceutical products such as vaccines, ARV drugs and ACT's. PRA long term plan is to build its capacity to carry out the necessary QA tests. PRA is mobilising resources to this end.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country Response and will work with the LFA to monitor MoH use of WHO prequalified laboratories for QA of pharmaceutical products. The Secretariat also notes that according to Global Fund policies, PRs can also use laboratories accredited in accordance with ISO17025 for QA of pharmaceutical products in addition to WHO prequalified laboratories.</p>	PRA	Ongoing	
Ministry of Health	13	<p><b>Recommendations 13 (Significant)</b></p> <p>(a) There should be one data aggregation tool at facility level which is the HMIS. All partners</p>	<p><b>Country Response:</b></p> <p>The MoH draft policy on information has provided for HMIS as the data aggregation tool at each health facility. The HMIS is being updated with the view to resolving these problems identified during data</p>	Deputy Director M&E	October 2010	

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		<p>who need information should be encouraged to use the existing information from the HMIS instead of setting up parallel systems which are costly and detrimental to the national system. MOH should dialogue with partners to find ways of strengthening the national system. Payment of incentives for data collection should also be discouraged since this will undermine any efforts made to strengthen the national system which is unable to pay such incentives.</p>	<p>review meetings and with the view of making aggregated data available to programme managers. The Ministry has already began training programme staff in the use of the new HMIS. MoH is in discussion with partners to strengthen the hospital and community Components. MoH encourages partners to support the revision of the HMIS in order for them to use it for extra indicators for their reporting purposes. This is an ongoing process and discussions are continuing.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat is working with the PR, Country Partners and the Health Metrics Network (seated at WHO) to improve HMIS to the point that it is the sole Monitoring and Evaluation system at the MOH. The Secretariat will review budgets and workplans proposed by UNDP for grant signature to address resourcing needs for HMIS. Country Partner contributions to HMIS will be considered.</p> <p>The Secretariat will work with in country partners, through UNDP (expected to take over PRship of MOH grants) as a means of harmonizing data collection between all partners through the HMIS.</p> <p>Once the HMIS is in place and functional (expected October 2010, around the time of grant signing with UNDP), program managers will have full access to data at</p>			

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			their workplaces and will no longer need to travel to obtain data. Therefore, payment of incentives linked to data collection is expected to be much reduced. The Secretariat will work with the LFA to monitor incentive payments in MOH budgets accordingly.			
Ministry of Health	13	b) All program managers should get quarterly standard reports of key indicators in their programs which are extracted from the HMIS by the data managers. Written recommendations should follow each of the data verification workshops at each level.	<p><b>Country Response:</b> All programme managers are now able to get key indicators in their programmes through the HMIS. The first training for MoH HQ staff has already been held. A training plan is being developed to orient programme staff in the new HMIS and how to access data. HMIS will also start generating standard reports for programme managers.</p> <p><b>Secretariat Response:</b> The Secretariat will continue to work with the Health Metrics Network and the PR, as well as the LFA to ensure that HMIS is running, and program managers are trained in HMIS use and data management by the stated completion date.</p> <p>The Secretariat will work with the LFA to monitor that data verification workshops have written recommendations, and that these recommendations are acted upon; these verifications will be included in regular Progress Updates.</p>	Deputy Director M&E	October 2010	

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Ministry of Health	14	<p><b>Recommendation 14 (Significant)</b></p> <p>(a) Given its undoubted potential SmartCare deserves a clear scale-up plan with clear milestones and associated costs. The ART component should be fully completed before further modules are rolled-out. The MOH should ensure that all facilities rendering ART services go onto the latest SmartCare system as soon as possible. An individual facility by facility plan should be developed to ensure that the system is installed and that data collection is made up to date and kept up to date. This will include the need to review the human resources requirements, the back-up of data requirements, the power supply requirements and hardware maintenance. A standard cohort analysis report should be included as part of the suite of reports available. This information should be used for decision making. Regular quarterly feedback on performance needs to be given from one level of the Smartcare system to the next.</p>	<p><b>Country Response:</b> A costed and comprehensive scale up plan for Smartcare has been drafted. It is to be discussed with programme managers before final approval and will be ready within the next three months. The ART component in this has been completed. All facilities providing ART will be oriented and trained in the new version of Smartcare, and the software deployed. Cohort analysis tools are still in specification mode - will be deployed in SmartCare by the fourth quarter of 2010.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat will work with the LFA to ensure that there is a clear scale-up plan for Smart Care by the stated completion date, and that all new facilities have access to SmartCare as soon as possible. The Secretariat will review budgets and workplans proposed by UNDP for grant signature to address resourcing needs for SmartCare. Country Partner contributions will be considered.</p> <p>The Secretariat will work with the LFA on monitoring use of data from SmartCare, including cohort analysis reports, and the use of data decision making and performance feedback. This will be included in regular Process Updates.</p>	ICT	December 2010	
Ministry of Health	14	b) An independent evaluation on the full scale-up, feasibility and sustainability of SmartCare in the	<p><b>Country Response:</b> An independent evaluation of the system</p>	ICT	December 2010	

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		Zambian context should be carried out.	<p>under PEPFAR supported institutions was conducted and is available online. See last year's Gates consultation comparative evaluation of SC at:  <a href="http://www.vitalwaveresearch.com/healthit/images/stories/public/VWC_HIS_Analysis_27-5-2009.pdf">http://www.vitalwaveresearch.com/healthit/images/stories/public/VWC_HIS_Analysis_27-5-2009.pdf</a> Additional aspects of SmartCare are scheduled for evaluation during 2010, including operations, costs and alternative costing. The most important and timely system evaluations are indeed those that, in the future, as HR capacity develops, will be done continuously, by MOH data-using staff, at each level of the system.</p> <p><b>Secretariat Response:</b>                      The Secretariat will review the stated evaluation, and will work with the LFA to monitor the status of the additional evaluations by the stated due date.</p>			
Ministry of Health	15	<p><b>Recommendation 15 (High)</b></p> <p>(a) The ART program needs a strategic plan covering the anticipated scale-up over the next 3-5 years. This should be developed in consultation with the cooperating partners.</p>	<p><b>Country Response:</b>                      The Ministry, in consultation with partners has developed a costed ART scale-up plan which is currently being reviewed.</p> <p><b>Secretariat Response:</b>                      The Secretariat will work with the LFA to monitor the development of the costed ART plan by the stated completion date.</p>	ART Coordinator	September 2010	
Ministry of Health	15	(b) The number of patients seen at an individual facility (on a facility by facility basis) should be capped and alternative access provided. Consideration should be given to follow the model	<p><b>Country Response:</b>                      Currently the MOH strategy is not to cap but expand service provision to more health facilities so as to decongest the over burdened ART clinics. MoH is also introducing mobile HIV services. More HR</p>	ART Coordinator	Ongoing	

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		used by the TB program where patients are commenced treatment at central level facility and then followed up at lower levels of the system.	<p>is being deployed into the over burdened ART clinics at all levels.</p> <p>The option of commencing treatment at central facility with follow up at lower levels is also being practiced and will be more widely implemented.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat accepts the approach of providing alternative access, and will work with MOH and In Country Partners to expand access to HIV services, and strengthen the health system. The Secretariat encourages the PR to apply for Global Fund HIV and Health Systems Strengthening grants, with a view to expanding access to treatment.</p>			
Ministry of Health	15	(c) CD4 capacity needs to be urgently increased. The long term strategy is to increase CD4 capacity to cope with the need. In the short term consideration should be given to changing the guidelines about how many times people currently on ART require to be tested for CD4 count. This would free up capacity for those patients who need testing urgently.	<p><b>Country Response:</b> CD4 capacity will be increased to cope with the need. MoH will consider reviewing the guidelines about how many times people currently on ART require to be tested for CD4 count.</p> <p><b>Secretariat Response:</b> The Secretariat will work with the MOH, the LFA, and in country partners to determine the quantity of CD4 machines needed in country, and the funding for these machines, and the timelines for procurement.</p>	ART Coordinator	Ongoing	

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		(d) Formal guidelines for the management of HIV patients for TB need to be produced, disseminated throughout the health system with associated training	<p><b>Country Response:</b> Formal guidelines for managing patients such as intensified case finding are currently being developed with support from CDC. Most of the required tools have been developed and implementation will be effected as soon as resources for implementation are made available.</p> <p><b>Secretariat Response:</b> The Secretariat will work with the PR, LFA and in-country partners to define the timelines for the production and dissemination of these guidelines and tools.</p>	ART Coordinator	Ongoing	
Ministry of Health	16	<p><b>Recommendation 16 (Significant)</b></p> <p>The MOH should ensure that all facilities move to dual therapy treatment for PMTCT. As already recommended, CD4 capacity should be strengthened to ensure that women that should be on HAART are identified early enough and put on the relevant treatment. Innovative ways are required to either get more women to deliver at health facilities or else followed up at community level. Consideration should be given to the scaling up of incentive schemes. There are examples of international best practice that could be reviewed (e.g. Incentive schemes in rural</p>	<p><b>Country Response:</b> Dual therapy is currently the recommended PMTCT approach in Zambia, and it is being scaled up in a phased manner. The country has steadily increased the proportion of dual therapy. CD4 capacity will be increased to cope with the need. The incentive scheme based on other countries practices is to encourage facility based delivery, is elaborated in the provision of mother -baby packs containing soap, napkins, safety pins, shawl and mothers wrapper. The scale up plan for the incentive scheme is being developed.</p> <p><b>Secretariat Response:</b> The Secretariat will work with the LFA to monitor the use of dual therapy for PMTCT, as well as the scale-up for the</p>	PMTCT Coordinator	December 2010	

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		areas in India).	incentive scheme.			
Ministry of Health	17	<b>Recommendation 17 (Significant)</b> It is likely that the messaging on behavior change is not being sufficiently well-targeted or is not being sufficiently well done and as prevention is the key to the long term success of HIV, there should be accelerated efforts in this area.	<p><b>Country Response:</b> The Ministry HIV programme is now paying closer attention to the area of prevention. Zambia hosted an International Convention on HIV prevention. The resolutions from the convention have been included in the National HIV Prevention Strategy and adopted as part of the new National HIV and AIDS Strategy. The new HIV strategic plan will take into account the new evidence such as the Sexual Behavioral Survey.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and congratulates Zambia on its new HIV prevention strategy. The Secretariat also notes that the Round 8 HIV grants are focused on prevention. The Secretariat will work the LFA to monitor the effect of behavior change activities on preventing HIV.</p>	Health Promotion Specialist	July 2010	
Ministry of Health	18	<b>Recommendation 18 (Significant)</b>  Greater attention should be given to MDR-TB and clear protocols and guidelines for diagnosis and management should be given to staff at facility level. Greater emphasis needs also to be placed on follow up of contacts and use of	<p><b>Country Response:</b> The Ministry has adopted the Stop TB strategy whose components include TB/HIV and MDR-TB. The Ministry has produced and distributed the Tuberculosis and TB/HIV Manual (attached). The manual provides clear protocols for the management of MDR-TB and these are available for review. The ministry plans to procure microscopes for rural Health centre.</p>	TB Programme Manager	Ongoing	

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		community health workers should be considered. Diagnostic capacity for TB needs to be increased and should parallel the increase in diagnostic capacity and testing for HIV.	<p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat also notes that the MOH Round 1/Round 7 grant includes a MDR-TB component. The MOH will need approval from the Green Light Committee prior to implementing MDR Treatment. The Secretariat also notes that microscopes are included in the Round 1/Round 7 grant, which should help increase diagnostic capacity.</p> <p>The Secretariat will work with the Green Light Committee in WHO, LFA and in Country partners to monitor the status of MDR-TB guidelines, following up of contacts, as well as general diagnostic capacity for TB.</p>			
Ministry of Health	19	<p><b>Recommendation 19 (Significant)</b></p> <p>The PSM chain for malaria drugs and accessories viz RDTs needs to be reviewed and improved to prevent both systemic and intermittent (facility level) stock-outs. The distribution plan for LLINs needs to be communicated to districts so that they can plan for distribution at the local level.</p>	<p><b>Country Response:</b> The Ministry will review and improve the PSM chain for malaria drugs and accessories to prevent stock out at facility level. The ministry has planned to provide more training on supply chain management. The distribution plan for LLIN after review of districts will be communicated to each district. Districts use an assessment tool to assess community needs for ITN. This tool includes warehousing, and transport needs. Therefore well before the nets are distributed the Districts have sufficient time to mobilise resources, transport, and</p>	NMCC Coordinator- Deputy Director	September 2010	

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			<p>storage with the support of their partners.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat will work with the LFA to monitor the PSM chain for malaria drugs and products, and the status of communication to districts on LLIN distribution plans.</p>			
Ministry of Finance and National Planning	20	<p><b>Recommendation 20 (High)</b></p> <p>(a) An agreement or MoU should be prepared and signed by both the PR and the NAC clearly defining the oversight responsibilities passed on by the PR to the NAC over the PMU and the responsibilities retained by the PR. The PR should clearly define the responsibilities of all the PMU staff and ensure that all aspects of program management are covered by the available program personnel. E.g. the Program coordinator to act as grants manager and exercise oversight over MOH procurements and the M&amp;E staff to evaluate the technical quality of the trainings implemented by the line ministries.</p>	<p><b>Country Response:</b> The PMU is being relocated from NAC to the PR premises and therefore will not enter into an MOU with NAC defining the oversight responsibilities. The PR will take full oversight responsibility over the PMU. NAC being the HIV National coordinating body, the PR will continue to collaborate with the institution. Responsibilities of PMU staff are clearly defined in the employment contract. The contracts are available for review.</p> <p><b>Secretariat Response:</b> The Secretariat acknowledges that the PR has put in place initiatives to address the issue of clear management roles and responsibilities between the PMU and NAC. Although there may be clear TOR as reflected in staff contracts, the PR must continue to ensure that adequate staffing is available to ensure the</p>	Project coordinator	June 2010	

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			<p>implementation of GF grants.</p> <p>The Secretariat will request the PR, through the CCM, to provide an action plan which would strengthen the PMU, taking into account program oversight, procurement and financial management.</p>			
		<p>(b) Senior Management at the PR should be actively involved in the progress and developments related to Program activities. This could be through regular review of progress reports or meetings to review program activities.</p>	<p><b>Country Response:</b> Senior Management is already involved and will continue to be actively involved in oversight of all programme activities.</p> <p><b>Secretariat Response:</b> The Secretariat concurs with the recommendation that there should be more active involvement and oversight of GF grants by Senior Management.</p> <p>The Secretariat will request the PR, through the CCM, to provide an action plan which would strengthen the PMU. The action plan is expected to make explicit the crucial involvement of Senior Management in program oversight.</p>	Project Coordinator	April 2010	
Ministry of Finance and National Planning	21	<p><b>Recommendation 21 (significant)</b></p> <p>(a) The PR should ensure</p>	<p><b>Country Response:</b> During the SR selection, the PR will continue to review the work plans and budget submitted by SRs to ensure that</p>	Project coordinator	Ongoing	

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		that all work plans/budgets extended to the SRs for implementation agree to the approved work plan/budget. As part of the quarterly reporting done by the SRs, the PMU staff should check to ensure that all activities reported are in line with the approved budget with the Global Fund. All expenditure outside the approved budget should be refunded.	<p>they are in line with the original proposal. During implementation of activities, the audit assistants will ensure that all the reported activities by the SRs are in line with the approved work plans and budget. Refunds will be made on expenditure outside the approved budget. Their scope of work will also include checking that there is value for money in the SR submissions.</p> <p><b>Secretariat Response:</b> The Secretariat notes the country response and will monitor the implementation of new procedures with the LFA. The Secretariat is encouraged to note the intention to assess value-for-money in SR spending.</p> <p>The Secretariat has taken note of the OIG's comments on unsupported or ineligible expenditure for MOFNP.</p> <p>Regarding expenditure of items outside approved workplans: The Secretariat agrees with that the strict interpretation of what constitutes an ineligible cost but the commonly accepted approach since the commencement of the Global Fund has been to allow PR's the flexibility to fund activities outside the agreed budget</p>	LFA		

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			<p>and workplan PROVIDED they are not of material value, are within the scope of the program objectives and are justifiable in all other ways. Where any such change is material the PR is expected to seek prior approval before spending The Secretariat. The Secretariat has drafted a clear guideline on this issue which is expected to be issued in July 2010.</p> <p>To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR) should refund monies.</p> <p>In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA scope of work will be agreed jointly by the Secretariat and the OIG.</p> <p>The Secretariat will request a meeting with the OIG to agree to the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>Going forward, the PR's Action Plan is</p>			

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			expected to include means to ensure that all activities, including those at the SR level, remain within workplan and budget.			
		b) The PR should ensure that audit arrangements for the program are communicated to the OAG on time. Adequate preparation should be made for timely submission of audit reports to the Global Fund in accordance with the grant agreement.	<p><b>Country Response:</b> The PR will ensure timely communication of audit arrangements to the OAG and timely submission of audit report to the GF.</p> <p><b>Secretariat Response:</b> The Secretariat notes the country response. The first compliant audit report is expected in 2010 and the LFA will be requested to review it in detail.</p>	Project coordinator	Ongoing	
Ministry of Finance and National Planning	22	<p><b>Recommendation 22 (Significant)</b></p> <p>a) The PR should ensure that SRs maintain records of all Program activities. The PR should refund, to the Global Fund, all funds that cannot be supported by the required documentation.</p>	<p><b>Country Response:</b> The PR will orient SRs on proper record keeping and will provide supportive supervision. The PR has retrieved supporting documentation for expenditures totalling over ZMK6.4 billion and these are available for review. The process of retrieving more documents is continuing.</p> <p><b>Secretariat Response:</b> To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR) should refund monies.</p>	<p>Programme Coordinator</p> <p>LFA</p>	Ongoing	

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			<p>In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA scope of work will be agreed jointly by the Secretariat and the OIG.</p> <p>The Secretariat will request a meeting with the OIG to agree to the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>Going forward, the PR's Action Plan is expected to include means to ensure that all activities, including those at the SR level, remain within workplan and budget.</p>			
		<p>b) The PR should ensure compliance with the Global Fund agreement provisions of tax exemption on purchase of goods and services. Specifically, the PR (MOFNP) should ensure that implementing SRs obtain VAT exemption waivers for procurement of goods and services under the grant. For the VAT paid since inception of the</p>	<p><b>Country Response:</b> The PR is in the process of obtaining VAT exemption certificate and the same will be circulated to all SRs. The PR will liaise with the responsible Government institution (Zambia Revenue Authority) on the possibility of recovery of already paid VAT.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat will work with</p>	<p><b>Programme Accountant</b></p>	<p><b>June 2010</b></p>	

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		grants, the implementing SRs should compile a list of such payments and seek a refund through agreed arrangements with the responsible government authority.	the LFA to monitor VAT payments by the SRs in spot check audits. In cases of payment of VAT, the Secretariat will send a formal letter to the PR requesting the PR utilize these funds in accordance with the recommendations of the Secretariat.			
Ministry of Finance and National Planning	23	<p><b>Recommendation 23 (significant)</b></p> <p>(a) The PR should prepare bank reconciliations for all its accounts. The PR should also follow up SRs to ensure that reconciliations of cashbook amounts to bank statements are done on a regular basis. PR should only send disbursements to SRs with dedicated Global Fund Accounts and all expenses out of these accounts should be towards the approved activities.</p>	<p><b>Country Response:</b> Bank reconciliations and accounting records have since been updated and the PR will ensure that the records are kept updated on a monthly and quarterly basis. The PR will ensure that SRs have established separate Global Fund accounts before disbursement and that expenses charged to these accounts are in line with approved workplans and budgets.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will request the LFA to monitor that PR and SR reconciliations, cashbook, and all accounting records are adequately maintained. The PR's Action Plan is expected to include means to ensure bank reconciliations are handled properly, at both the PR and SR levels, and that all expenses remain within</p>	<p>Programme Accountant</p> <p>LFA</p>	Ongoing	

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			workplan and budget.			
		(b) The PR and SRs should maintain an imprest register which ages imprests issued. This should be reviewed by management on a regular basis (monthly or quarterly) and procedures e.g. recovery from staff member's salary taken to recover the un-retired amounts. Management should strengthen controls over accountability of imprests to ensure that additional imprests are not issued to staff with unaccounted for amounts.	<p><b>Country Response:</b> The PR has adopted an accruals basis of accounting. In addition the PR has produced guidelines that clearly spell out management of imprest. The programme and finance manuals are available for review. Senior management is already involved and will continue to be actively involved in oversight of all programme activities.</p> <p><b>Secretariat Response:</b> The Secretariat will recommend to the PR to include in its Action Plan measures to ensure that staff retire their imprests according to regulations. The Secretariat will recommend that unretired imprests to be recovered from staff salaries and benefits. The Secretariat will work with the LFA to monitor this issue.</p>	<p>Programme Accountant</p> <p>LFA</p>	Ongoing	
		c) The PR should maintain a comprehensive register of all the assets purchased with Global Fund grants. The Program Coordinator should check that all assets bought are being used for the approved purposes and that they are adequately labeled for	<p><b>Country Response:</b> A comprehensive fixed asset register is now in place.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The LFA will be requested to verify the fixed asset register is maintained, and that assets are properly</p>	<p>Programme Accountant</p> <p>LFA</p>	Ongoing	

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		identification e.g. motor vehicles should bear government plates as opposed to private number plates.	labeled, and that assets are allocated for their intended purposes.			
Ministry of Finance and National Planning	24	<p><b>Recommendation 24 (significant)</b></p> <p>(a) The PR should develop policies and procedures to guide SRs on how program funds should be managed. The policies and procedures should cover disbursement and accountability, programmatic and financial reporting (including formats), budget tracking and analysis, maintenance of accounting records monitoring and inspection of SR performance, guidance on internal and external auditing etc. The PR should periodically visit SRs and assess their performance against the guidance laid out in the manual.</p>	<p><b>Country Response:</b> The PR has developed programme and financial manual to help SRs achieve their objectives and since been submitted to the Global Fund for approval. Prior to this the PR had an M&amp;E manual that outlined the roles and responsibilities of SRs. The PR will periodically visit the SRs in accordance with the provisions of the manual.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. Although the monitoring tools exist, the PR should provide more oversight and guidance to the PMU. The Secretariat will request inclusion of this issue in the Action Plan.</p> <p>The LFA will be requested to monitor PR's oversight and guidance activities to determine that they are effective.</p>	Programme Coordinator	Ongoing	
		(b) Going forward to Round 8, the PR should use a well documented process for	<p><b>Country Response:</b> The PR has developed an SR assessment Tool under Round 8 grant to aid in</p>	Programme Coordinator	Ongoing	

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		identification of potential SRs. These should be assessed for both programmatic and financial management capacity in order to identify gaps that would affect program implementation. These assessments will provide useful information on the strength of the institutional, financial and management systems of the potential SR. Assessments also aid the PR in identifying capacity gaps and institutional weaknesses of the potential sub-recipient for effective and rational decision making.	<p>decision making regarding SR selection.</p> <p><b>Secretariat Response:</b> The Secretariat concurs with the Country Response. The SR Assessment tool is currently under review by the LFA, and will be completed 3<sup>rd</sup> quarter of 2010.</p>			
		(c) In order for the PR to accurately determine their funding needs, the PR should review all accountabilities received from the SRs and reconcile these to the disbursements made to the SRs. A record of bank balances at the SRs should be maintained at the PMU and used in analyzing amounts needed for future disbursements.	<p><b>Country Response:</b> The PR will review all accountabilities received from SRs and reconcile them with disbursements.</p> <p><b>Secretariat Response:</b> The Secretariat has noted the PR's commitment to ensure SRs account for funds received. In addition, the Secretariat will recommends that the PR include in its Action Plan measure to monitor balances held by SRs to ensure that disbursements are based on need and not availability of cash.</p>	Programme Coordinator	Ongoing	

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		(d) To enable the PR to achieve the goals agreed with Global Fund, the PR should check that the SR has used prior disbursements in line with the work plan and is on target to achieve the objectives of the grant. These checks also ensure that the SR's financial and program mechanisms are identified and strengthened in a timely basis. The PR should strive to match grant performance by SRs to the disbursements made to ensure compliance with the grant agreement.	<p><b>Country Response:</b> The PR will implement this as part of the quarterly assessment of the SRs.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country response, and will work request the PR to include in the Action Plan measure to ensure that 1) SRs are using disbursements in line with workplans, and 2) the PR is monitoring SR use of disbursements to ensure they are in line with workplans, that targets are being met, and grant objectives are being achieved. The LFA will be requested to verify compliance.</p>	Programme Coordinator	Ongoing	
Ministry of Finance and National Planning	25	<p><b>Recommendation 25 (High)</b></p> <p>The PR should follow the court case to ensure timely resolution of the case. The amounts involved should be refunded to The Global Fund.</p>	<p><b>Country Response:</b> The PR will keep track of the case.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The PR has been updating the Secretariat on the developments and has indicated that it is expecting a conclusion to the case in December 2010. It is anticipated that an amount equivalent to <b>US\$8,608</b> which has been identified by the LFA to be refunded to GF has not been addressed by the PR. The Secretariat will require a refund of this amount.</p>	Programme Coordinator	Ongoing	

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			Immediately after the conclusion of the Court case the Secretariat expects the PR any other sums identified.			
Ministry of Finance and National Planning	26	<p><b>Recommendation 26 (high)</b></p> <p>The MOH should refund all the money transferred to its basket fund account by the PMU. PMU should only pay for delivered, invoiced and accepted supplies. MOH should refund the money for the procurement of the ambulances that did not comply with the provided specifications.</p>	<p><b>Country Response:</b></p> <p>The PMU will follow up and pay for delivered, invoiced and accepted supplies. The ambulances in question were bought by the MoH on behalf of MOFNP. At the time of the purchase, the MoH analysed the cost and concluded that it was cheaper to procure ambulances which were locally converted. Procuring the already fully equipped ambulances proved costly. At the time of audit, ambulances were not fully equipped as the supplier was still waiting for the medical equipment from its suppliers so that they could install and fit them. The supplier was not paid at the time of audit as the MoH was awaiting for the full installation and fittings to be completed. The equipment has now been installed and fitted and meets the specifications and ready for handing over to the MoFNP</p> <p>Further, the price of the ambulances was determined by the Global Fund during the Phase 2 review. The PR had initially</p>	Programme Coordinator	June 2010	
				LFA		

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			<p>budgeted at US \$80,000 per ambulance but the Phase 2 panel revised the figure to US \$60,000.</p> <p><b>Secretariat Response:</b> The Secretariat will, in a formal letter, request MOH to provide a full and detailed accounting of \$1.05 million of money transferred to it by MOFNP. The Secretariat will require full and complete responses from MOH within four months of receipt of the letter. If the MOH fails to fulfill this commitment, the Secretariat will require a full refund of all unaccounted funds to MOFNP.</p> <p><b>Ambulances:</b> The Secretariat will request the LFA to conduct a analysis of the ambulance specifications, as well as the procurement processes used for the ambulances which are now ready for transfer to MoFNP. If the ambulances still do not meet the specifications provided then the Global Fund will write a formal letter to MOH, which will be required to refund MOFNP equivalent to <b>US\$577,010</b> for the cost of the ambulances.</p>			
Ministry of Finance and National Planning	27	<p><b>Recommendation 27 (high)</b></p> <p>PMU should sign an MOU with a Procurement Agent that has capacity to carry out</p>	<p><b>Country Response:</b></p> <p>The PR (MoFNP) will assess the feasibility and relevance of engaging a procurement agent. Following the relocation of the PMU from NAC to the PR premises, the PR</p>	Programme coordinator	End 2010	

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		procurements for the grant.	<p>will request for the reassessment for the MoFNP Procurement Unit's capacity to procure non health products. For health products, the PR will liaise with the other PRs with the possibility of engaging them to procure on its behalf.</p> <p><b>Secretariat Response:</b> To address the key risks around procurement, during the proposed probationary period of one year, the PR will be required to appoint a competent Third Party Procurement Agent to mitigate the risks of weak procurement capacity. The PR will be required to seek Secretariat approval of the proposed Procurement Agent prior to procuring items under the grant.</p>	LFA		
Zambia National AIDS Network	28	<p><b>Recommendation 28 (High)</b></p> <p>The Liaison Committee should be reconstituted to include more independent members drawn from the wider civil society and private sector organisations. This will provide it with sufficient balance, independence and experience in providing oversight and governance for ZNAN. The Committee should also develop comprehensive guidelines that define the various oversight activities that should be</p>	<p><b>Country Response:</b> The reconstitution of the ZNAN Liaison Committee would require an amendment of the Constitution and such a motion has to be tabled at the ZNAN Congress. This motion is noted and will be tabled at the next Congress in 2011. However, the current constitution has a provision for co-option of three (3) additional members on the committee.</p> <p>At the meeting of the Liaison Committee held on 19th March 2010, this option was exercised and the following were co-opted as members:</p>	Executive Director	2011 (Submission of the motion to review ZNAN constitution to Congress)	

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		performed by the committees formed to ensure its role is fully executed.	<p>i) Mr. Jonathan Muke, a Chartered Accountant and former Director of Financial Systems Supervision, and Registrar of Banks and Financial Institutions at the Bank of Zambia. He has been requested to set up and head the Audit Committee to which the Internal Audit function of ZNAN will report.</p> <p>ii) Mr. Joseph Mwamba Kaoma, a Civil Structural Engineer and former Managing Director of the Zambia National Housing Authority.</p> <p>iii) Bishop David Njovu, Diocesan Bishop of the Anglican Diocese of Lusaka.</p> <p>In addition, a Technical Review Panel (TRP) to review and approve proposals above USD 100,000 has been constituted. It is made up of seven members, four of whom are external to ZNAN, two members from ZNAN, whose duty is to provide information to the TRP, and the Grants Manager of ZNAN as an ex-official and acts as secretary to the TRP. The process of appointment of the TRP was in progress at the time of the audit but is now complete and the TRP is functional. The first meeting of the TRP took place on 25th March 2010 to review and approve proposals under Round 8.</p> <p><b>Secretariat Response:</b> The Secretariat will work with the LFA to</p>			

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			monitor the constitution of the liaison committee and the effectiveness of the committee in fulfilling its role.			
Zambia National AIDS Network	29	<p><b>Recommendation 29 (High)</b></p> <p>(a) Internal audit should not participate in the day to day running of the organisation. It should report to the Liaison Committee. Ideally, an audit committee, comprising of experienced and independent or non-executive members, should be established from Liaison Committee members. This committee would oversee the internal audit function and report to the full Liaison Committee. For example, the committee would approve the internal audit work plan, assess the performance of the Chief Internal auditor, review internal audit reports and hold management accountable for implementing IA recommendations.</p>	<p><b>Country Response:</b> The Audit Committee of the Liaison Committee has been formed and three new members, one with a financial background, have been co-opted.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to monitor ZNAN's auditing arrangements, the Audit Committee's terms of reference and its effectiveness in overseeing the quality of audits and audit reports.</p> <p>The Secretariat also notes the PR does not adequately address the issue of the internal audit function reporting independently and outside normal day to day operations. As part of the follow up to the OIG recommendations the Secretariat will support ZNAN to strengthen the role and scope of the Internal Audit function.</p>	Finance and Administration Manager	March 2010	
Zambia National AIDS Network		b) The external auditors should be changed.	<p><b>Country Response:</b> External auditors have been changed and Grant Thornton Associates has been appointed through a competitive</p>	Finance and Administration Manager	March 2010	

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			<p>tendering process as new auditors.</p> <p><b>Secretariat Response:</b> The Secretariat notes that ZNAN's management has moved to action the OIG's recommendation and a new auditor, Grant Thornton, has been engaged.</p> <p>The Secretariat through the revised PR and SR Financial Audit Guidelines will ensure that the LFA reviews performance of the appointed auditor going forward. The Secretariat will also stress the importance of the Audit Committee's role in reviewing the external auditor's performance and will take note of the PR's actions on this in the future.</p>			
Zambia National AIDS Network	30	<p><b>Recommendation 30 (High)</b> A policy requiring the management team and the Liaison Committee to declare conflicts of interest should be developed and adopted by ZNAN. This policy should, in part, require members to periodically declare any interests and abstain from decision making in areas where they are conflicted.</p>	<p><b>Country Response:</b> The ZNAN Conflict of Interest policy has been developed and was approved by the Liaison Committee at the meeting of 19th March 2010.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with closely with the PR to ensure the Conflict of Interest Policy is operational. The LFA will monitor the status of ZNAN's conflict of interest policy in respect of its implementation and effectiveness.</p>	Executive Director	March 2010	

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Zambia National AIDS Network	31	<p><b>Recommendation 31 (Significant)</b></p> <p>Revenues generated from Global Fund activities should be reported to the LFA/ CCM. Approvals should be sought by the PR on how these funds should be applied to Global Fund programs before the funds are used. ZNAN should report all income generated and seek approval for expenditure incurred from these resources.</p>	<p><b>Country Response:</b> Revenues generated as interest are consistently reported to the LFA/CCM through the PUs/DRs and are solely used for Global Fund program activities.</p> <p><b>Secretariat Response:</b> The Secretariat acknowledges that interest and revenue income is reported by ZNAN in PUDRs. The Secretariat is working with ZNAN and the LFA in finalizing an IGA plan which will detail planned expenditures for income generate from program activities. The IGA plan is expected to be finalized by July 2010. The Secretariat will work with the LFA to increase monitoring of revenues generated from Global Fund activities.</p> <p>The Secretariat notes that the PR has not responded to the issue of prior approval. The Secretariat believes that prior approval for relatively small amounts is not feasible. However the Secretariat will clarify with the PR as to what it considers an amount requiring prior approval. For lesser amounts the PR will be advised that they are required to notify the Secretariat of the amounts and how they have been spent, but this may be done after the fact. The LFA will be reminded of its duty to ensure that all revenues are 1)</p>	Financial and Administration Manager	Ongoing	

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			properly reported to the Global Fund and 2) Funds are used for activities in line with the grant agreement and the IGA plan.			
Zambia National AIDS Network	32	<b>Recommendation 32 (High)</b>  (a) The vehicles should be immediately returned to ZNAN by the respective staff. The vehicles should then be returned to the CCM for reallocation to where there is greatest need for transport to support program activities.	<b>Country Response:</b> All the vehicles are parked at ZNAN awaiting approval of Round 1 Grant Closure Plan which was approved by the CCM and submitted to the Global Fund through the LFA, which plan include disposal/utilization of Round 1 assets including the said vehicles.  <b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to monitor the situation of the stated vehicles. The Secretariat is working with ZNAN and the LFA to finalize Round 1 grant closure activities.	Executive Director	Ongoing	
Zambia National AIDS Network	32	b) Administrative costs at PR should be based on reasonable costs arising from activities related to the administration of grants. Appropriate cost allocation parameters should be developed based on the PR's history and pattern of administration costs to ensure reasonable allocation of overheads is done across all donor supported programs within	<b>Country Response:</b> All administration costs at the PR are appropriately allocated amongst all donor supported programmes.  <b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat is working on clear policy on this issue which will be available shortly. The Secretariat will review the PR's compliance with this	Executive Director	Ongoing	

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		ZNAN.	policy at that time.			
Zambia National AIDS Network	32	c) ZNAN should not commingle funds from different funding sources and grants since they are all meant for different activities and goals. ZNAN should reconcile all grant balances and all amounts used for the payment of other activities should be refunded to the program account.	<p><b>Country Response:</b> ZNAN is reconciling grant balances and amounts will be refunded to respective programme accounts where necessary.</p> <p><b>Secretariat Response:</b> Within three weeks of the publication of this audit report, the Secretariat will agree with the PR on a timeline to ensure that grant balance amounts are reconciled and that programme accounts are refunded as needed. The LFA will be requested to monitor compliance with this requirement.</p>	Executive Director	Ongoing	
Zambia National AIDS Network	33	<p><b>Recommendation 33 (Significant)</b></p> <p>(a) The salaries paid by the Global Fund should be in line with sector levels. The contribution to salaries from program funds should be revised to reflect this and release funds to fighting the three diseases.</p>	<p><b>Country Response:</b> ZNAN will continue to pay salaries in line with sector levels.</p> <p><b>Secretariat Response:</b> The Secretariat notes the OIG comments and the Country Response. The Secretariat agrees that ZNAN's salaries appear to be on the high side particularly when compared to public sector salaries. In the past this has been explained as a chosen strategy to hire and retain high quality staff in a competitive market. The Secretariat notes that the issue of high salaries has been raised in previously discussion with the LFA who have given assurance that the salary levels are reasonable.</p>	Executive Director	Ongoing	The Country's response to the audit finding lacks the commitment to address the issue of high salary scales.

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			<p>The Secretariat also welcomes the OIG to review and comment on the justifications provided by PR on this issue. To address this challenge within the wider portfolio, the Secretariat is developing policy guidelines on the whole approach to budgeting for HR costs.</p> <p>Specific to ZNAN, the Secretariat will require an independent review (not LFA) of current salary levels in the context of the new guidance and/or a salary survey. Further discussions with the PR about performance-based pay systems will be held on the premise that high pay cannot be taken for granted and can only be justified if performance is also proportionately higher.</p>			
Zambia National AIDS Network	33	b) Amounts spent on activities that are not in the approved work plan and budget constitute ineligible expenditure and should be refunded.	<p><b>Country Response:</b> ZNAN will further consult with OIG to determine which amounts to be refunded and necessary action will be taken.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat has taken note of the OIG's comments on unsupported or ineligible expenditure for ZNAN.</p> <p>The Secretariat agrees with that the strict interpretation of what constitutes an ineligible cost but the commonly accepted approach since the commencement of the Global Fund has been to allow PR's the</p>	N/A	N/A	Detailed schedules of questioned costs, shared with the PR, shall be provided to the Secretariat for further follow up.

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			<p>flexibility to fund activities outside the agreed budget and workplan PROVIDED they are not of material value, are within the scope of the program objectives and are justifiable in all other ways. Where any such change is material the PR is expected to seek prior approval before spending The Secretariat. The Secretariat has drafted a clear guideline on this issue which is expected to be issued in July 2010.</p> <p>To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR ) should refund monies.</p> <p>In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA scope of work will be agreed jointly by the Secretariat and the OIG.</p> <p>The Secretariat will request a meeting with the OIG to agree to the final figures and to explore the most efficient approach to the recovery of funds.</p>			

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Zambia National AIDS Network	34	<p><b>Recommendation 34 (High)</b></p> <p>ZNAN should comply with criteria set for sub-granting. The approvals process should be reviewed to improve its effectiveness. Approval thresholds should be set. The Liaison Committee should approve SR grants above a certain threshold e.g. \$50,000.</p>	<p><b>Country Response:</b> Approval thresholds have been set with the formation of the Technical Review Panel (TRP). ZNAN approves all applications up to USD 99,999 while the TRP approves grant applications of USD 100,000 and above. These approval thresholds are also reflected in the Revised Grants Manual (attached). The involvement of Liaison Committee members in the approval process poses a conflict of interest and contradicts the report as stated earlier.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will request the LFA to review the appropriateness of the new arrangements as well as to monitor ZNAN's compliance with the new criteria for sub-granting, including adherence to approval thresholds.</p>	Executive Director	Ongoing	The PR should effectively involve the governance organs in the approval process.
Zambia National AIDS Network	35	<p><b>Recommendation 35 (High)</b></p> <p>(a) ZNAN should ensure that SRs maintain proper records at all times. In addition, the organisation must ensure that SRs implement work plans that they have committed to. ZNAN should always disburse funds to organizations it has contractual obligations with. This will enable</p>	<p><b>Country Response:</b> ZNAN will continue to provide capacity building to SRs in maintenance of proper records, ensures that contracts are signed with all SRs before any disbursement and will rectify the situation with NZP+. Documents relating to the unsupported expenditure continue to be recovered and will be made available for review. The amount related to the NZP+ will be refunded to the Global Fund; the amount</p>	Grants Manager	Ongoing	

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		ZNAN to enforce terms and conditions that safeguard the Global Fund resources. All the funds noted above as ineligible or unsupported i.e. ZMK 7,253,185,369 should be refunded by ZNAN to the Global Fund.	<p>relating to Zambia Tuberculosis and Leprosy Trust has been refunded to the ZNAN GF account. Any amount not accounted for will be recovered from the concerned SRs and refunded to the Global Fund.</p> <p><b>Secretariat Response:</b> To facilitate the follow up and recovery of funds, the Secretariat requests the OIG to provide a detailed list of all items and the entities that (i.e. PR/SR ) should refund monies.</p> <p>In addition, the Secretariat will engage the LFA to carry out a review of all disputed items or where the auditee has since recovered supporting documents so that a consolidated list of funds to be recovered can be established. To ensure proper guidance, the LFA scope of work will be agreed jointly by the Secretariat and the OIG.</p> <p>The Secretariat will request a meeting with the OIG to agree to the final figures and to explore the most efficient approach to the recovery of funds.</p> <p>The Secretariat notes that as part of a Condition Precedent to the Round 8 grant, ZNAN is tasked with Capacity Building of SRs. The Secretariat will work with the LFA to monitor capacity building activities are taking place, and their results. The</p>			

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			<p>LFA will also be asked to review disbursements made by ZNAN and ensure that that disbursements are backed by existing SR contracts, and that SRs are implementing agreed-upon workplans.</p> <p>Finally, the Secretariat notes that received communication on 26 June 2010 that one SR, NZP, has refunded ZNAN the amount in question (37,630,000 ZMK). The Secretariat congratulates NZP and ZNAN for their active engagement in resolving this issue and looks forward to timely resolution of the remaining issues.</p>			
Zambia National AIDS Network	35	b) ZNAN should revisit its funding model. It is not feasible given the capacity at ZNAN for it to have 900 quality disbursements. For example, ZNAN should work through Lead Agencies to reduce the work load at the head office.	<p><b>Country Response:</b> The funding model under Round 8 has been streamlined to nine (9) provincial lead agencies, three (3) for key affected communities, and one (1) for capacity building. Under the Round 1 Grant closure plan, when approved, a comprehensive review of the SRs will be conducted by Internal Audit unit.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to monitor the quality of ZNAN's disbursements. The Secretariat is working with the ZNAN and the LFA to finalize Round 1 grant closure activities. Finalization is expected by July 2010.</p>	Grants Manager	Ongoing	

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Zambia National AIDS Network	36	<p><b>Recommendation 36 (Significant)</b></p> <p>(a) ZNAN should analyse its administrative costs and identify ways in which they can be brought into a reasonable range acceptable by the Global Fund i.e. 15% of grant resources. The practice of charging 15% of all grants to administration should stop. SRs and SSRs should be encouraged to charge their actual costs. This is in line with the grant agreement that states that grant funds should only be used to meet program activities.</p>	<p><b>Country Response:</b> It is not allowed to charge more than 15% administration cost on all grants as per donor guidelines. The 15% administration cost is budgeted for fully by both the PR and SRs and relates to actual costs. This 15% Administration cost given to SRs is actually not always adequate. This has even led to some organisation declining to take up the roles of Lead Agencies in the Round 8 programme.</p> <p><b>Secretariat Response:</b> The Secretariat is surprised to note this finding and requests from the OIG additional information on this issue. The review by the Secretariat of the Phase 2 budget for ZAM-405-G11-H, for instance, showed admin costs, including mostly direct costs, amounted to only 13%. Under close guidance the Secretariat will commission an LFA review of administrative costs incurred by ZNAN at the PR and SR levels to assess reasonableness. This will coincide with the Secretariat issuing clear policy guidance on the issue of percentage-based admin costs. If administration costs are considered to have been excessive, and particularly if they were found to be outside of budget, the Secretariat will send a formal letter to</p>	Grants Manager /Finance and Administration Manager	Ongoing	Examples of 15% Admin costs charged to programs shall be provided to the Secretariat for follow up.

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			the PR requesting a refund of funds. The letter will request a direct payment to the World Bank Trustee Account within a reasonable timeframe.			
		(b) ZNAN should work with SRs to centralize procurements as much as possible so as to avoid using Global Fund monies to pay taxes. In addition, ZNAN should, through the CCM, discuss with the Ministry of Finance and National Planning on ways to improve compliance in respect of tax payments.	<p><b>Country Response:</b> The need for ZNAN to centralise the purchasing of all supplies for all SRs would pose huge financial and logistical challenges such that any savings in terms VAT not paid would far exceed the cost of warehousing and distributing these supplies throughout Zambia. ZNAN will inform SRs to obtain VAT exemption from the Ministry of Finance and National Planning.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country response, and concurs that centralizing procurements for all of ZNAN's many SRs is impractical. The Secretariat will work with the LFA to monitor VAT payments by the SRs in spot check audits. In cases of payment of VAT, the Secretariat will send a formal letter to the PR requesting the PR utilize these funds in accordance with the recommendation of the Secretariat.</p>	Grants Manager /Finance and Administration Manager	Ongoing	The recommendation is intended to control loss of funds through payment of VAT. OIG is not satisfied with the Country response to the finding regarding payment of VAT on procurements undertaken by SR/SSRs. Simply "informing" the SRs/SSRs to obtain exemption may not yield the required results. The PR should make a commitment to facilitate

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						the process to obtain the required exemptions from the relevant authorities.
		(c) ZNAN should ensure that SRs possess sufficient financial management capacity before disbursing funds. This includes but is not limited to; (i) having qualified staff; (ii) Mechanism for recording financial transactions e.g. accounting software; and (iii) Demonstrated ability to report financial transactions on a periodic basis	<p><b>Country Response:</b> ZNAN does strive to ensure that SRs have financial systems in place before disbursement but it should be borne in mind that ZNAN deals with a wide range of SRs from support groups to international NGOs. It should be expected therefore that the skills levels in these organizations will range from simple systems in support groups to very complex systems in international NGOs.</p> <p><b>Secretariat Response:</b> The Secretariat notes that as part of a Condition Precedent to the Round 8 grant, ZNAN is tasked with Capacity Building of SRs, including financial capacity. The Secretariat will work with the LFA to monitor capacity building activities are taking place, and their results.</p>	Grants Manager /Finance and Administration Manager	Ongoing	
		(d) The ability of an organisation to maintain financial records must be placed at the heart of the appraisal process. Organisations that demonstrate weak financial management should not be given	<p><b>Country Response:</b> ZNAN places organizations' ability to conform to sound financial systems at the heart of sub-granting and this is part of the appraisal process. The organizations that are subgranted to are assessed on their financial management capacity and are required to submit audited financial</p>	Grants Manager /Finance and Administration Manager	Ongoing	

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		sub grants. In addition, ZNAN should consider contracting auditors to perform audits of SRs receiving funds above a certain threshold. This will give assurance over the results reported by SRs.	<p>statements and they do actually submit these. ZNAN also commissions external audits for SRs above a certain threshold including Lead Agencies.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to conduct annual ‘spot-check’ audits of SRs to determine, among other things, quality of financial records. The Secretariat will instruct ZNAN not to disburse funds to organizations that demonstrate weak financial management capability.</p> <p>The Secretariat will work with the LFA to monitor the audit status of SRs which are disbursed above a certain threshold amount. The Secretariat expects the LFA to review internal audit reports and work with the Country auditor on the review of risk controls.</p> <p>The Secretariat also notes that as part of a Condition Precedent to the Round 8 grant, ZNAN is tasked with Capacity Building of SRs, including financial capacity. The Secretariat will work with the LFA to monitor capacity building activities are taking place, and their results.</p>			
Zambia National AIDS Network	37	<p><b>Recommendation 37 (Requires attention)</b></p> <p>ZNAN should strengthen its</p>	<p><b>Country Response:</b> ZNAN is formulating a policy that will guide the implementation of IGA activities. This policy will incorporate the</p>	Grants Manager	July 2010	

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		structures to manage IGAs. Organisations to be funded for IGAs should be assessed for capacity to operate as such and be closely supervised in order to achieve greater success. Alternatively, ZNAN could partner with microfinance organisations that are not-for-profit and channel funds for IGAs through them.	findings from a study being undertaken on IGA management. This study will inform ZNAN on its future involvement in IGAs.  <b>Secretariat Response:</b> The Secretariat notes the Country and LFA Responses. The Secretariat is working with ZNAN and the LFA in finalizing an IGA plan which includes items such as IGA capacity assessments and supervision structures. The IGA plan is expected to be finalized by July 2010.			
Zambia National AIDS Network	38	<b>Recommendation 38 (Significant)</b>	<b>Country Response:</b>	Grants Manager	July 2010	
		a) ZNAN should develop a basis for the allocation of assets. Such a policy would ensure that assets are distributed to those organisations that need them most where they will be best utilized and safeguarded	The policy on the distribution of vehicles and assets is guided by the workplan and budgets submitted to and approved by the Global Fund. Allocation of vehicles is based on the SR needs and scope of activities.  <b>Secretariat Response:</b> Noted.			
		b) ZNAN should concentrate on	<b>Country Response:</b>	Grants Manager	July 2010	

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		<p>funding only civil society and private sector organisations. This will ensure that resources set aside for the civil society organisations and the private sector are effectively utilized. In addition, the risk of duplication of funding and funding ineligible activities will be reduced.</p>	<p>ZNAN will continue to concentrate on funding only civil society and private sector organisations.</p> <p><b>Secretariat Response:</b> The Secretariat will work with the LFA to monitor ZNAN disbursements, including ensuring funds are disbursed primarily to civil society and private sector organizations.</p>			
Zambia National AIDS Network	39	<p><b>Recommendation 39 (Requires attention)</b></p> <p>The CCM should guide the development of a national policy and guidelines on training volunteers of all kinds (including adherence supporters), their selection, deployment, remuneration, incentives and expectations at community and national levels as well as career development.</p>	<p><b>Country Response:</b> The issues raised will be followed up through the government systems. Currently, Zambia is developing the Sixth National Development Plan (SNDP), the National AIDS Strategic framework and the Health Strategic Plan for the period 2011 to 2015 which will address the concerns.</p> <p><b>Secretariat Response:</b> Noted.</p>	CCM Administrator	June 2010	
Zambia National AIDS Network	40	<p><b>Recommendation 40 (Requires attention)</b></p> <p>Training materials and curricula need to be updated at least every two years to ensure that these materials remain up to</p>	<p><b>Country Response:</b></p> <p>The manuals are regularly updated by the NAC/MOH in collaboration with all stakeholders. ZNAN will ensure the availability of revised manuals and guidelines to all implementing SRs.</p>	HIV/AIDS/TB Specialist	On going	

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		date and relevant. Standardised pre- and post-training assessment tools should be developed by MOH and used by ZNAN to assess the knowledge and skill levels of the trainees.	<b>Secretariat Response:</b> Noted.			
Zambia National AIDS Network	41	<b>Recommendation 41 (Significant)</b>  The Global Fund Secretariat should ensure that its funding is used uniformly among PRs to ensure that there is one overarching policy guiding the health sector in Zambia and that this is in line with PSC recommendations. ZNAN should conform to policies of MOH.	<b>Country Response:</b>  ZNAN as a Civil Society Organisation does conform to the MOH guidelines such as those on ART. Further, all NGO health facilities implementing health programmes in Zambia under ZNAN are required to be accredited and certified by Medical Council of Zambia in line with existing legislation. ZNAN does not fall under the Public Service Commission (PSC) as it is an independent NGO.  <b>Secretariat Response:</b> The Secretariat will work with its partners and stakeholders in Country to seek to ensure uniformity of funding.	HIV/AIDS/TB Specialist	On going	
Zambia National AIDS Network	42	<b>Recommendation 42 (Requires attention)</b>  All educational material, especially printed posters, should be in an appropriate language and have suitable content to	<b>Country Response:</b>  ZNAN does not produce IEC materials but funds the reprinting and distribution of these materials and the SRs who have local knowledge of the areas they operate in choose the appropriate materials they	Communications Officer	On going	

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		make them accessible for the communities targeted. Appropriate guidance and standards should be provided for all radio broadcasts.	need for their programming activities.  <b>Secretariat Response:</b> The Secretariat notes the Country Response but expects the PR to consider providing appropriate guidance and standards to the SRs as the OIG suggests.			
Zambia National AIDS Network	43	<b>Recommendation 43 (Significant)</b>  ZNAN funded institutions should not sell ARV drugs which is contrary to the program requirements. ZNAN should also review the storage and distribution capacity of the institutions supported and work with the facilities to make improvements.	<b>Country Response:</b>  ZNAN funded institutions do not sale ARV drugs. The drugs sold at Lusaka Trust Hospital as observed by the OIG are not supplied by ZNAN. The 20 clients who bought the drugs are those that refuse to take generic ARVs and instead requested the hospital to buy brand name ARVs for them. ZNAN, through CHAZ, does not provide brand name ARVS. Lusaka Trust Hospital, therefore, buys the brand name ARVs and charges the requesting clients for these drugs.  ZNAN will review the storage and distribution capacity of the supported institutions and work with them to make improvements.  <b>Secretariat Response:</b> The Secretariat notes the Country	HIV/AIDS/TB Specialist	Ongoing	

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			<p>Response, and notes that in the ZNAN HIV OSDV report dated July 2009, the LFA noted that the hospital was charging patients a 'handling fee' to access ART. The OSDV report notes that "this charge is US \$10 for company staff and US \$8 for individuals, per month. Annually, this amounts to US\$120 and US\$96 per year respectively."</p> <p>The Secretariat will ask the LFA to investigate further in light of the country response. The LFA investigation will take place by September 2010.</p> <p>The Secretariat will also work with the LFA to review storage and distribution capacity of ZNAN supported institutions.</p>			
Zambia National AIDS Network	44	<p><b>Recommendation 44 (Significant)</b></p> <p>(a) There should be a commonly agreed national definition (including Ministries of Social Services, MOH, and NAC) of what constitutes an OVC and what constitutes an appropriate package of care for an OVC. The Global Fund Secretariat and CCM should ensure that there is consistency among all the PRs.</p>	<p><b>Country Response:</b></p> <p>CCM will collaborate with MOH, NAC, Ministry of Community Development and Social Services including other stakeholders to ensure guidelines are developed and circulated on the minimum standard package of OVC care.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country and LFA Responses and will work with the LFA to ensure that this is completed within the</p>	CCM Secretary	End 2010	

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			stated timeframe (December 2010)			
		(b) All formal health institutions should use the same data collection tools as the MOH in line with the HMIS. Civil society data collection tools should be designed to ensure that all users are able to use these. There also needs to be increased training on the use of these tools.	<p><b>Country Response:</b> All indicators and data collection requirements are clearly defined in the ZNAN M&amp;E Toolkit. The development of this document was done in consultation with its SRs and other stakeholders such as MoH and NAC. These tools were adapted from the National AIDs reporting framework (NARF). Training in data management is a continuous process; ZNAN also employs the quarterly verification visits to SRs to mentor these organisations in data management and reporting.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and acknowledges that ZNAN is in the process of developing a comprehensive Monitoring and Evaluation Plan, which includes data collection tools that are in-line with the HMIS. This is a Condition Precedent in the Round 8 agreement; it is expected that the plan will be finalized in time for the next disbursement (expected before 30 September 2010).</p> <p>The Secretariat will work with the LFA to monitor data collection at ZNAN supported facilities as a part of the OSDV process (scheduled this year for June 2010).</p>	M&E Specialist	Ongoing	

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Zambia National AIDS Network	45	<p><b>Recommendation 45 (Significant)</b></p> <p>ZNAN should revisit its MOU with CHAZ regarding procurement and distribution and undertake a cost benefits analysis of having a “middleman” in its TPPA arrangement. Matters to be addressed should include the distribution cost charged to ZNAN.</p>	<p><b>Country Response:</b></p> <p>ZNAN will revisit its MOU with CHAZ regarding procurement and distribution and undertake a cost benefits analysis of having a “middleman” in its TPPA arrangement</p> <p><b>Secretariat Response:</b> According to the LFA, “In Africa, very few organisations have managed to design systems where distribution costs are actually charged as real cost. When comparing the 10.5% charged by CHAZ with fees being paid in other countries (Tanzania, Uganda, Kenya, Ghana etc ) for procurement, storage and distribution, this percentage appears reasonable.”</p> <p>The Secretariat will ask the LFA to assess ZNAN’s MOU with CHAZ during the next PR assessment (expected to take place during the next grant signing opportunity).</p> <p>Apart from the issue of costs, the Secretariat recognizes the Secretariat recognizes that the down-sizing of Crown Agents could potentially affect procurement capacity, and grant performance, of not only CHAZ, but also of ZNAN.</p>	HIV and AIDS Specialist	December 2010	

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			The Secretariat will request the LFA to review the procurement capacity of both CHAZ and ZNAN with the down-sizing of Crown Agents. If the LFA determines that down-sizing has affected procurement capacity, and grant performance, of either PR, the PR will be asked to look into other options for procurement. A possibility is the use of Global Fund's Voluntary Pooled Procurement Mechanism.			
Zambia National AIDS Network	46	<p><b>Recommendation 46 (Significant)</b></p> <p>Procurement plans should be prepared for all current grants to define what and how services will be procured. This will also help management identify the capacity it will require to procure and ensure timely procurement of program inputs. ZNAN should obtain appropriate procurement capacity for its procurement of non health products to ensure that value for money is obtained on its purchases.</p>	<p><b>Country Response:</b></p> <p>The procurement plans are defined and guided by the work plan and budgets. Only day to day requisites required for running of the program, such as stationery, are done as and when the need arises. ZNAN will review the current procurement systems to include standard procurement practices.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country and LFA Responses and will work with the LFA to monitor ZNAN's procurement plans and procurement capacity. Specific assessments will be conducted by the during the next PR assessment (during the</p>	Finance and Administration Manager	Ongoing	

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			Phase 2 for the Round 7 grant expected to take place in September 2010, or during later grant signing opportunities).			
Zambia National AIDS Network	47	<p><b>Recommendation 47 (Requires attention)</b></p> <p>The current procurement manual should be reviewed for improvement to include the standard procurement practices. This would ensure ZNAN meets best practice and comply with the applicable requirements. ZNAN should ensure that tender documents used on similar procurements are consistent throughout to avoid ambiguity and improve transparency in the process of conducting procurements.</p>	<p><b>Country Response:</b> ZNAN will review the current procurement manual for improvement to include standard procurement practices.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to ensure the current procurement manual is reviewed and improvements are made to include standard procurement processes, and that tender documents are consistent for specific procurements. Specific assessments will be conducted by the during the next PR assessment (during the Phase 2 for the Round 7 grant expected to take place in September 2010, or during later grant signing opportunities).</p>	Finance and Administration Manager	December 2010	
Zambia National AIDS Network	48	<p><b>Recommendation 48 (Requires attention)</b></p> <p>ZNAN should require CHAZ to set up a supplier tracking system for tender contracts to ensure proper management of and</p>	<p><b>Country Response:</b></p> <p>ZNAN will engage CHAZ and work out more stringent supplier tracking systems.</p>	HIV and AIDS Specialist	December 2010	

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		closure of contract. Supplier compliance with terms of the contract should be of importance to ZNAN to improve program efficiency level in the delivery of inputs. Applicable penalties should be applied for late deliveries according to the contract agreement.	<p><b>Secretariat Response:</b></p> <p>The Secretariat will ask the LFA to assess ZNAN's MOU with CHAZ during the next PR assessment (during the Phase 2 for the Round 7 grant expected to take place in September 2010, or during later grant signing opportunities). A part of this assessment will include a review of current supplier tracking systems put in place by CHAZ, with a view of recommending improvements.</p>			
Churches Health Association of Zambia	49	<p><b>Recommendation 49 (High)</b></p> <p>The CHAZ Secretariat should ensure that all major decisions taken should be approved by the Board. The constitution should be amended to incorporate the role of the Executive Board. The Board should ensure that all decisions and approvals are made by legally recognised and established bodies. All decisions made by the Executive Board should be referred to the Board for ratification.</p>	<p><b>Country Response:</b></p> <p>The Executive of the Board includes the Chairperson of the Board, The Vice Chairperson and the Board Treasurer, not just any 'one other Board member.' The Board Treasurer is also the Chairperson of the Finance Advisory committee of the Board. The Executive of the Board is legally recognized and established under Article VIII, sub section 4 of the CHAZ constitution that states that 'The Board shall then elect from among their number the Executive that is, the Chairperson, the Vice chairperson and the Treasurer,' therefore, all decisions made by the Executive Board are legal. The OIG concerns on the roles and responsibilities of the Executive have been brought to the attention of the Board Chairperson.</p>	Executive Director	Done	

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			<p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will work with the LFA to verify that the Board Chairperson does address this issue of good governance by ensuring oversight of the Executive Board decisions by the full Board.</p>			
Churches Health Association of Zambia	50	<p><b>Recommendation 50 (requires attention)</b></p> <p>CHAZ should hasten the restructuring process while the approved changes are still relevant. The timely implementation of the restructuring will strengthen the organisation and enable management to ably manage the implementation of Global Fund programs. A full review of the Human Resources processes, policies and structure should be undertaken. A review of the salary structure and job descriptions should be undertaken which should result in an approved salary structure that is not subject to changes such as the general increase and the harmonisation. The payment of top up should be stopped. The</p>	<p><b>Country Response:</b> CHAZ already has a salary structure in place that was shared with OIG while the restructuring process was completed in December 2009 with the appointment of the Director of Programmes. Management guidelines are being reviewed by an independent consultancy firm and the internal audit department is already reporting to the Finance Advisory Committee of the Board but will continue to report to the Executive Director for administrative purposes.</p> <p>Top Up allowances under HIV Round 4 were paid in line with an approved Country Proposal and signed performance frameworks and approved budgets. These allowances were approved by GF and CHAZ is just implementing RD4 (ART Scale up) according to the approved budget lines in the Zambia CCM Round RD4 Proposal to the GF. The Country round 4-proposal sub section 4.4.2 stated;</p>	Executive Director	August 2010	

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		internal audit department should report to a committee of the Board, comprised of independent and experienced members.	<p>'The health sector is currently severely understaffed, and in order to deliver the scaled-up ART programme staff will be recruited and the existing personnel trained. The recruitment and retention strategy will include incentives to motivate staff and a budget to recruit more staff.'</p> <p>The ART round 4 Grant comes to an end in December 2010 and these top ups will not continue beyond this grant.</p> <p><b>Secretariat Response:</b> Noted.</p>			
Churches Health Association of Zambia	51	<p><b>Recommendation 51 (Significant)</b></p> <p>(c) The PR should comply with the grant agreements in order to ensure that the conditions put in place to safeguard Global Fund assets are operational and therefore reduce the risks that Global Fund money is exposed to.</p>	<p><b>Country Response:</b> CHAZ will continue to comply with the grant agreements in order to ensure that the conditions put in place to safeguard Global Fund assets are operational and therefore reduce the risks that Global Fund money is exposed to.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will formally advise the PR of instances of non-compliance with the grant agreement as part of the management letter attached with each disbursement notification (and more frequently if new and serious issues arise) and work with the LFA to monitor the PRs</p>	Executive Director	Ongoing	

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Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
			progress towards meeting grant conditions to safeguard Global Fund resources.			
		b) CHAZ should ensure that reporting timelines are properly communicated to staff, followed through and met. This will facilitate timely and informed decision making at the Global Fund.	<p><b>Country Response:</b> CHAZ will continue to ensure that reporting timelines are properly communicated to staff, followed through and met.</p> <p><b>Secretariat Response:</b> Secretariat will request the LFA to monitor the PRs progress towards communicating to staff the reporting timelines.</p>	Executive Director	Immediate	
Churches Health Association of Zambia	52	<p><b>Recommendation 52 (Significant)</b></p> <p>(c) The Finance Manual should be updated to include all the aspects above. By providing guidance on the minimum standards staff can employ in implementing the Global Fund programs, eliminating uncertainties and guarding against the risk of weak structures and systems, these manuals will also enhance the management of ZACH programs.</p>	<p><b>Country Response:</b> CHAZ will update the finance manual to include all the highlighted aspects. Further, "ZACH" should read as "CHAZ".</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. As indicated by the PR in the existing 'Job design and Allocation of Responsibilities document' covers all relevant financial management areas which are scheduled to be incorporated into the Finance Manual this year. The Secretariat will request the LFA to review the updated Finance Manual to ensure that all financial management aspects are covered to safeguard Global Fund resources.</p>	Executive Director	September 2010	
		b) CHAZ should ensure that all assets purchased are recorded in the assets register. Additionally,	<p><b>Country Response:</b> CHAZ will ensure that all assets purchased are recorded in the assets register and</p>	Executive Director	September 2010	

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Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
		CHAZ should ensure that all assets purchased using Global Fund grants are registered in the PR's names.	registered in the PR's name.  <b>Secretariat Response:</b> The Secretariat will request the LFA to verify that the asset register is properly maintained and that assets are tagged/registered with the PR's name.	LFA		
Churches Health Association of Zambia	53	<b>Recommendation 53 (significant)</b>  The PR should allocate expenses and salaries to the Cooperating Partners based on the time allocation to the particular grant. As part of the grant negotiation process, CHAZ should provide justification for its salary charges to the Global Fund account. All funds involving double claims should be refunded to the Global Fund.	<b>Country Response:</b> CHAZ has provided justification for all salaries charged to GF. During round 4, 7 and 8 negotiations, these justifications were provided. In addition, there have been no double claims as explained to the Audit team in country.  At the time of grant negotiation with all the donors including the GF, all the positions and salary charges are justified. Staff are paid salaries for directly working on their specific programmes based on the justification provided at the time the budgets are agreed with the different cooperating partners.  The specific reference to double claims between the GF and the CDC grant covering the period April 2009 to March 2010 is incorrect because CDC funds for this period were NOT accessed due to prolonged Grant negotiation. The negotiations were only concluded in March 2010 when funds were made available on a revised budget. The revised and final budget did not have the positions of	Executive Director	Ongoing	The LFA should be tasked to verify the explanations provided by the PR in respect of the double claims.

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			<p>Grants Manager, TB Program Officer and M&amp;E Officer. Therefore, during the period quoted above (April 2009 to March 2010) there was no double claim. The three positions (IT, LAB and TB Officers) that remained on the budget were completely new positions, and so the 100% contribution by CDC. These three employees have since been recruited in February 2010 to support the work on the programmes that greatly assists GF implementation.</p> <p><b>Secretariat Response:</b> The Secretariat notes the OIG comments and the Country Response. The Secretariat agrees that CHAZ’s salaries appear to be on the high side particularly when compared to public sector salaries. In the past this has been explained as a chosen strategy to hire and retain high quality staff in a competitive market.</p> <p>The Secretariat notes that the issue of high salaries has been raised in previously discussions with the LFA who have given assurance that the salary levels are reasonable. The Secretariat also welcomes the OIG to review and comment on the justifications provided by PR on this issue.</p> <p>To address this challenge within the wider portfolio, the Secretariat is developing policy guidelines on the whole approach to budgeting for HR costs.</p>	LFA		

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Content Section	Number	Paragraph/Recommendation	Response	Responsible Person	Completion Date	OIG Response
			Specific to CHAZ, the Secretariat will require an independent review (not LFA) of current salary levels in the context of the new guidance and/or a salary survey. Further discussions with the PR about performance-based pay systems will be held on the premise that high pay cannot be taken for granted and can only be justified if performance is also proportionately higher.			
Churches Health Association of Zambia	54	<p><b>Recommendation 54 (Significant)</b></p> <p>(a) CHAZ management should provide a justification for the administration cost charges to the Global Fund. This should include allocation of costs by donor. This should be reviewed by the LFA and recommendations made to the Global Fund about the reasonableness of charges.</p>	<p><b>Country Response:</b>            CHAZ charges indirect costs to all partners implementing programmes with CHAZ. CHAZ has been charging these costs to GF since the inception of the programmes in 2003 based on negotiation with and approvals from GF.</p> <p>The justification for Administration cost charges to the Global Fund was carried out in July 2009.</p> <p>The administration costs are indirect cost charged by CHAZ to partners who implement programmes with the Association. CHAZ has always negotiated the indirect cost budget line with its respective partners including the Global Fund. For example, 10% indirect cost was approved by Danish Church Aid (DANIDA) Program (1993-2003), and 33% indirect cost was approved by the USAID funded program (2000-2004) both programs were managed by CHAZ.</p>	Executive Director	Ongoing	

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			<p><b>Secretariat Response:</b> The Secretariat takes note of OIG findings that administration costs charged by CHAZ need to be justified.</p> <p>In the recent past the Secretariat has worked with the PR to reduce admin costs over time. The 10% admin charge is not applied on procurements and therefore the effective admin charge on the total grant amount is around 6% (Rd 4 HIV phase 2).</p> <p>Going forward, the Secretariat is in the process of finalizing the policy guidelines on administrative cost by PRs. Based on this new policy the Secretariat will review CHAZ's administration fees and ensure that they are in line with requirements.</p>			
		(b) The allocation of Global Fund resources to 'unrestricted funds' should stop. All costs incurred in the process of managing the project should be charged directly to the program account. The account to which the 2.2% is charged should be reconciled and verified periodically as part of the LFA verification on a quarterly basis.	<p><b>Country Response:</b> The terminology-unrestricted funds is a term used by the External Auditors to describe admin fees collected by CHAZ. All Programme costs in the budget are specific and work plans and budgets clearly show the 4.8% as an administrative charge that caters for expenses under the overall CHAZ administration. These funds/ indirect costs, from various partners, as can be seen and explained below are transferred into the pool account.</p> <p>ADMINISTRATION FEES</p>	Executive Director	Ongoing	

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			<p>The actual Administrative cost from the Global Fund monies is 4.8%. However, in relation to Round 4 Phase II procurement budget CHAZ recognized that it may not be reasonable to charge 10% (2,2%,3%,4,8%) admin on procurement as the increment in this budget line did not have a direct relation with increased administrative activities. In this regards, CHAZ proposed to revise its administration cost percentage from 10% (2.2%,3%,4,8%) to 2% <u>on the procurement budget line.</u> This 2% will be used for procurement specific administrative activities such as advertising, tender evaluations and tender preparation. Please note that CHAZ will continue to apply the 4.8% on other budget lines and global fund grants. Below is an illustration of projects currently hosted by CHAZ and their respective percentage charges for Administration fees. These administration fees are negotiated with the donors. In the case of the Global Fund, 4.8% was negotiated in the first grant that was signed in 2004.</p> <table border="1"> <thead> <tr> <th>Project Name</th> <th>Admi</th> </tr> </thead> <tbody> <tr> <td>Joint Financial Arrangement (JFA)for HIV/AIDS - Involving Netherlands Embassy, Irish Embassy and DanChurchAid</td> <td>7</td> </tr> <tr> <td>DanChurchAid - LCCB</td> <td>5</td> </tr> <tr> <td>DanChurchAid - FCCT</td> <td>10</td> </tr> <tr> <td>Development Cooperation of Ireland</td> <td>15</td> </tr> </tbody> </table>	Project Name	Admi	Joint Financial Arrangement (JFA)for HIV/AIDS - Involving Netherlands Embassy, Irish Embassy and DanChurchAid	7	DanChurchAid - LCCB	5	DanChurchAid - FCCT	10	Development Cooperation of Ireland	15			
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			<table border="1"> <tr> <td>IMA</td> <td>5</td> </tr> <tr> <td>DanChurchAid - Nutrition</td> <td>10</td> </tr> <tr> <td>Leprosy</td> <td>5</td> </tr> <tr> <td>CRS/AIDS Relief</td> <td>5</td> </tr> <tr> <td>Global Fund</td> <td>4.8</td> </tr> </table> <p>The 2.2% referred to is an Admin fee specific to GF programme expenditure as shown in the annex and does not move out of GF Programme accounts to any other account. These monies are always spent directly from the account for GF activities and are constantly verified by LFA.</p> <p><b>Secretariat Response:</b> The Secretariat will request LFA verification and reconciliation of the 'un-restricted' funds being raised by the OIG during their quarterly review process to ensure compliance with Global Fund policy, and to monitor reasonableness going forward.</p> <p>The Secretariat will revisit the whole issue of percentage based admin recoveries once the forthcoming policy is issued.</p>	IMA	5	DanChurchAid - Nutrition	10	Leprosy	5	CRS/AIDS Relief	5	Global Fund	4.8			
IMA	5															
DanChurchAid - Nutrition	10															
Leprosy	5															
CRS/AIDS Relief	5															
Global Fund	4.8															
Churches Health Association of Zambia	55	<p><b>Recommendation 55 (Significant)</b></p> <p>Management should endeavour to get value for money on the</p>	<p><b>Country Response:</b></p> <p>While CHAZ management commits to spend all funds economically, efficiently and effectively, it recognizes that the two officers exchange visit had direct benefit</p>	Executive Director	N/A											

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		<p>program funds spent i.e. that to the extent possible, funds are spent economically, efficiently and effectively. Funds spent on the international trips noted above should be refunded.</p>	<p>on the programme and was within approved work plans and budgets. CHAZ is a learning organization and uses exchange visits and conference attendance to achieve this purpose and to avoid the mistakes others have made. In exchange, CHAZ has been host to myriad organizations in the region wanting to learn from its experience particularly in working with the Global Fund.</p> <p>CHAZ is a learning organization. The Ghana exchange visit was done with the intention of strengthening the capacities of both the Accountant and the human Resource Manager through the sharing and learning experience. Such exposure accord staff with experiences, opportunity to learn systems and processes that have worked well with other organizations in order to strengthen the systems at the Secretariat. Conferences offer learning experience and information on what has worked / not worked in other places and also gives information on resource mobilization or resources available by different donors to implement programs and CHAZ takes resource mobilization as a key activity of which Accounts staff play a major role. At the time the current Training Manager attended the AIDS conference in Senegal, he was actually an M&amp;E Officer under the HIV/AIDS programme.</p> <p><b>Secretariat Response:</b></p>	LFA		

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			<p>The Secretariat notes the Country Response and will request the LFA to cross-reference the objectives of these trips with the roles of the attendees. CHAZ will be required to refund any inappropriate trips, refunds will be made to the World Bank trustee account.</p> <p>Further the LFA will be instructed to review the budgets and expenditures with a greater emphasis on cost efficiency rather than just unit cost</p>			
Churches Health Association of Zambia	56	<p><b>Recommendation 56 (Significant)</b></p> <p>(d) SRs should be assessed for capacity to implement program activities. CHAZ should develop capacity building plans for those that are found to lack capacity.</p>	<p><b>Country Response:</b> CHAZ has finalized its SR capacity building strategy that will be used to build SRs capacity. The document will be shared with GF by June 2010.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. Under the Rd 8 grant there is a CP for disbursement to SR which is conditional upon an activity plan for selection of SRs, evidence to the GF of SR assessments, and a capacity building plan for all assessed SRs. The Secretariat will request the LFA to verify the SR capacity assessment for all grants.</p> <p>The Secretariat and the LFA will review the Capacity Building Strategy and provide feedback to CHAZ.</p>	Executive Director	Ongoing	
		<p>b) CHAZ should allocate targets in the work-plan to the various</p>	<p><b>Country Response:</b> CHAZ has already implemented the allocation of targets to SRs and funding is</p>	Executive Director	Ongoing	

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		SRs Disbursements should be based on these expectations. Any changes in the agreed work-plan should be communicated in sufficient time to enable the SRs to respond	<p>based on targets allocated. CHAZ will strengthen communication with SRs to ensure disbursement notifications are received on time.</p> <p><b>Secretariat Response:</b> Noted.</p>			
		c) SRs should maintain a record of all disbursements made and retirements effected. SRs with long outstanding advances should be followed up and they should not receive additional funding until such time that they have retired all monies advanced to them. CHAZ should strengthen its review of accountabilities received.	<p><b>Country Response:</b> Maintenance of records and accountabilities has been reemphasized in the Grant agreements and various capacity building activities. SRs with long outstanding advances will be followed up and they will not receive additional funds until such time that they have reasonably retired advances. The review of SRs accountabilities is expected to tremendously improve with the setting up of the Grants departments. In addition, the setting up of 4 provincial offices in Northern, Eastern, Copperbelt and Southern provinces will enhance SR management. The Provincial Grants officers will provide quarterly follow-ups and technical support to SRs to review financial reports.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will request the LFA to monitor the SR financial accounting process by the PR as part of its quarterly reviews.</p>	Executive Director	Ongoing	

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Churches Health Association of Zambia	57	<p><b>Recommendation 57 (high)</b></p> <p>The PR should ensure that all appropriate documentation is filed. The PR should consider reviewing the contract with the resident engineer and possibly consider retaining a different engineer who would perform a full review of the contractor's work. The substandard work should be corrected at the contractor's cost.</p>	<p><b>Country Response:</b> A team of engineers from the Lusaka City Council approved the designs and plans. In order to ensure compliance with the minimum standard in accordance with the Zambian Law, a Council engineer will be engaged to inspect the contractor's work and any substandard work will be corrected at the contractor's cost.</p> <p>During construction the engineers and contractors revisited the use of GI pipes for the waste pipes due to rust that accumulates with the GI pipes in the long run. The Engineer advised the contractors to use PVC pipes as these are the modern pipes being used for the waste. The supplier and the contractor tested the blocks in question. These reports are available for verification with the engineer who has been supervising the project through its lifetime. The building is <b>98% complete and will be handed over by end of May 2010.</b></p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response.</p>	Executive Director	N/A	
Churches Health Association of Zambia	58	<p><b>Recommendation 58 (Significant)</b></p> <p>(a) The CHAZ retention policy should be aligned to the</p>	<p><b>Country Response:</b> CHAZ does not have and is not implementing any retention policy for the health workers. CHAZ is simply implementing Top Up allowances under</p>	Executive Director	N/A	

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		<p>overarching policy guiding the health sector in Zambia which is in line with PSC recommendations. CHAZ should conform to policies of MOH.</p>	<p>HIV Round 4 in line with an approved Country Proposal and signed performance frameworks and approved budgets. These allowances were approved by GF and CHAZ is just implementing RD4 (ART Scale up) according to the approved budget lines in the Zambia CCM Round RD4 Proposal to the GF. The Country round 4-proposal sub section 4.4.2 stated; ‘The health sector is currently severely understaffed, and in order to deliver the scaled-up ART programme staff will be recruited and the existing personnel trained. The recruitment and retention strategy will include incentives to motivate staff and a budget to recruit more staff.’</p> <p>The ART round 4 Grant comes to an end in December 2010 and these top ups will not continue beyond this grant.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response. The Secretariat will require the PR to move towards alignment after discussions with Partners and other stakeholders.</p>			
		<p>b) CHAZ data collection tools should not duplicate the forms used for HMIS indicator but should be limited to additional</p>	<p><b>Country Response:</b> CHAZ collects data, which is specific to the Global Fund requirements. The forms, which are used to collect this specific data, are not duplicated. The CHIs on the</p>	<p>Executive Director</p>	<p>N/A</p>	<p>The OIG recommends that only additional indicators</p>

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		indicators required. Where the SmartCare system is operational the duplicate paper collection of data should be discontinued to reduce the time that staff spend on data collection	<p>other hand are required by MoH to collect and submit data, which is comprehensive for the HMIS indicators. The SmartCare paper form does not provide all the indicators that CHAZ reports to the Global Fund. SmartCare is a patient care and tracking tool and thus only captures patient information, which is relevant for the care and treatment of the patient. It does not capture such information as people receiving food supplements, health workers trained in ART management and so on; indicators, which are required by the Global Fund to be reported periodically.</p> <p><b>Secretariat Response:</b> The Secretariat concurs with the Country Response. Additionally, as highlighted by the LFA in the recent Progress Updates, the PR is encountering problems with data in relation to technical problems with the HMIS which the Secretariat will expect the PR to address.</p>			should be on the CHAZ forms.
Churches Health Association of Zambia	59	<p><b>Recommendation 59 (High)</b></p> <p>(a) A meeting should be organized with Crown Agents to discuss the way forward after the downsizing. After this discussion CHAZ should review whether it should continue with Crown Agents in 2010.</p>	<p><b>Country Response:</b> Management got formal assurance from Crown Agents that despite the downsizing they would still meet contractual obligations through their regional office in Nairobi. Management is closely monitoring the performance of Crown Agents as options for future procurements are being looked at.</p> <p><b>Secretariat Response:</b></p>	Executive Director	Immediate	

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			<p>The Secretariat notes the Country Response.</p> <p>As ZNAN is currently using CHAZ as a procurement agent, the Secretariat recognizes that the down-sizing of Crown Agents could potentially affect procurement capacity, and grant performance, of ZNAN.</p> <p>The Secretariat will request the LFA to review the procurement capacity of both CHAZ and ZNAN with the down-sizing of Crown Agents. If the LFA determines that down-sizing has affected procurement capacity, and grant performance, of either PR, the PR will be asked to look into other options for procurement. A possibility is the use of Global Fund’s Voluntary Pooled Procurement Mechanism.</p>			
		<p>b)CHAZ should strengthen its procurement and contract management especially in regard to delivery of program inputs. Penalties for late deliveries need to be applied according to the contract agreement. Modifications of tender quantities should only be done with approval from the evaluation committee.</p>	<p><b>Country Response:</b> The Evaluation committee can only recommend to the Management Tender Committee that has the mandate to approve tenders. The evaluation committee through their chairperson proposes to the MTC the variation of quantities. The MTC approves the recommendation and at this stage can either accept or decline variations.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country</p>	<p><b>Executive Director</b></p> <p><b>LFA</b></p>	<p><b>Ongoing</b></p>	

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			Response. The Secretariat will request the LFA to assess the above process and revert back to the Global Fund with recommendations.			
		c) The distribution fee charged to ZNAN should be costed and charged accordingly.	<p><b>Country Response:</b> The fee charged to ZNAN is already broken down to two components of storage and distribution and therefore costed accordingly.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response and will request the LFA to verify the cost charged to ZNAN for storage and distribution.</p>	Executive Director	N/A	The results from the LFA should be given a timeframe.
Oversight	60	<p><b>Recommendation 60 (Requires attention)</b></p> <p>The CCM should establish a committee that ensures parameters that feed into the proposals are well researched, verified, and approved for adoption prior to finalisation of proposals. There should be greater communication between partners about plans to extend services and support structures (e.g. sharing of provincial offices</p>	<p><b>Country Response:</b></p> <p>At proposal development stage, Zambia CCM always ensures the establishment of various Technical Committees with clearly defined terms of reference that validate all inputs into the proposals before finalisation of the same for submission. TORs are developed according to proposal components.</p> <p>CCM will look into creative ways of all partners using common services in the areas where they have a comparative advantage and activities distributed along</p>	CCM Chairperson	On going	

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		to avoid duplication). Creative ways of all partners using common services in the areas where they have a comparative advantage should be looked into and the activities distributed along those lines. There is a possibility of existing DHMTs assisting to supervise non MOH facilities such as those operated by ZNAN and MOF. In return ZNAN and CHAZ could help support these DHMTS both technically and financially.	<p>those lines. It should be noted however that all non MoH facilities are accredited to DHMTs in the areas they operate in as required by law.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country Response.</p>			
Oversight	61	<p><b>Recommendation 61 (significant)</b></p> <p>The process for selection of PRs should be more transparent and systematic. Proper evaluations should be carried out for all PRs that are to be retained. Procedures for change of PR should be developed and CCM Members should be adequately sensitized on them at least a week in advance of a CMM meeting.</p>	<p><b>Country Response:</b></p> <p>CCM will review existing guidelines to ensure that both the selection and retention criteria of PRs are adequately covered.</p> <p>CCM will take steps to ensure that these guidelines are strictly followed and adequate documentation would be prepared and widely disseminated to key stakeholders.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country Response.</p>	CCM Chairperson	On-going	

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Oversight	62	<p><b>Recommendation 62 (Significant)</b></p> <p>The CCM should develop a comprehensive oversight plan that is followed and monitored on a regular basis. The CCM should strengthen its follow up mechanism on actions arising from meetings. Adequate time should be provided to members for deliberation on issues at the CCM. The agenda for meetings should be circulated in time to ensure that emerging issues are well understood by members before the meeting. The Committees should be strengthened. Detailed reporting templates with clear areas of performance should be designed and followed when providing reports</p>	<p><b>Country Response:</b></p> <p>CCM has engaged Grant Management Solutions to assist with the development of tools including development of an oversight plan and dashboards for the CCM to effectively discharge its oversight role. The plan will include indicators to monitor oversight on a regular basis. GMS will also assist with a dashboard oversight tool, which will:</p> <ul style="list-style-type: none"> <li>(a) standardize reporting on grants and</li> <li>(b) standardize documenting and following up CCM’s recommended actions.</li> </ul> <p>The oversight plan will address strengthening capacity of CCM members and the oversight committees. As part of the planning process, CCM will consider and decide how best to oversee procurement and audits. The CCM will also work with Cooperating Partners to develop a comprehensive action plan for technical support needed to strengthen capacity.</p> <p>CCM Secretariat will put stringent measures in place to ensure that the agenda and relevant documents are circulated at least 5 days prior to the date of the meeting.</p> <p>The Chairperson will take steps to ensure that all agenda items are allocated adequate time for deliberations to the satisfaction of all CCM Members</p>	<p>CCM Administrator</p> <p>CCM Administrator</p> <p>CCM Administrator</p> <p>CCM Chairperson</p>	<p>July 2010</p> <p>On-going for minutes</p> <p>“</p> <p>“</p>	

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			<p><b>Secretariat Response:</b> The Secretariat notes the Country Response.</p>			
Oversight	63	<p><b>Recommendation 63 (Significant)</b></p> <p>(a) The MOH retention scheme should be endorsed by all partners. This process can be coordinated by the CCM since it is the only body that brings together the various stakeholders in the health sector. The Global Fund Secretariat should ensure that the allowances paid are in line with this scheme. All other top-ups and incentives should be transparently introduced after review by structures representing partners that should endorse these prior to implementation.</p>	<p><b>Country Response:</b> CCM will engage NAC and MOH to investigate other incentive (salary top-ups) schemes in place using Global Fund funding including other incentives paid by other partners and harmonise these for application by all partners participating in the National Response.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response.</p>	CCM Chairperson	End 2010	
		<p>(b) There should be standardised training based on clear objectives for different categories of staff and different target audiences should be developed (e.g. treatment supporters, teachers, and</p>	<p><b>Country Response:</b> CCM will engage NAC and MOH and avail the guidelines and/or manuals to the PRs.</p> <p><b>Secretariat Response:</b> The Secretariat notes the Country Response.</p>	CCM Secretary	End 2010	

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		learners).				
Oversight	64	<p><b>Recommendation 64 (Significant)</b></p> <p>The CCM Secretariat should be strengthened. A proper structure for running the Secretariat should be developed. The CCM should develop policies and guidelines for the Secretariat.</p>	<p><b>Country Response:</b></p> <p>CCM has already engaged partners to support the Secretariat strengthening exercise. Further, with the Global Fund CCM expanded funding policy, CCM will take advantage of this and re-organise the Secretariat. CCM will also develop policies and guidelines for the Secretariat.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat notes the Country Response and will work with the LFA to ensure that this Secretariat strengthening exercise is effective.</p>	CCM Chairperson	September 2010	
Local Fund Agent	65	<p><b>Recommendation 65 (High)</b></p> <p>The current LFA should not be retained. The recruited LFA should:</p> <p>(i) at all times, ensure that the quality of work delivered is closely monitored through appropriate quality assurance arrangements. Evidence of review of work should be well documented and retained for future reference.</p> <p>(ii) take a proactive role is</p>	<p><b>LFA Response:</b></p> <p>We request OIG to consider the contextual information provided in our responses to the issues above, the recent efforts which are yielding results and the need for the Global Fund to review the scope of the LFA in Zambia. We are committed to continuing to service the Global Fund. To this effect we propose that we agree with the Global Fund Secretariat set objectives with clear timelines against which our performance can be assessed for a short period of time e.g. 6 months to demonstrate that we have stepped up our service delivery and we are the right LFA to provide the Global Fund with the service required.</p>		Dec 2010	

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		<p>advising the GF on the country risk profile to ensure appropriate scope of work is developed through the Work Orders issued. Specifically the LFA should undertake progressive risk assessment of the grant operating environment and how they plan to respond to the assessed risks. This risks assessment report should be part of the deliverables to demonstrate the LFA's understanding and appreciation of the country context.</p> <p>(iii) take a proactive and risk based approach when mobilising resources on Global Fund work. Specifically, leadership of the team mobilised should be given special attention. Staffing should be driven by work load and the required expertise. The LFA should (i) ensure strong and effective leadership is maintained on the team; (ii) staffing arrangements do respond to the needs of the job; and (iii) appropriate training plans are developed and followed to ensure quality.</p>	<p>We therefore request the OIG to revisit the conclusion that we entirely provided poor quality service and the LFA needs to be changed.</p> <p><b>Secretariat Response:</b></p> <p>The Secretariat has worked with PricewaterhouseCoopers (PWC) as the LFA in Zambia since 2003. The detailed review by OIG revealed weaknesses that have raised questions about the LFA's professional capacity, objectivity and ability to identify and flag issues to the Secretariat in a timely manner. Specifically, the OIG among other weaknesses noted the LFA:</p> <ul style="list-style-type: none"> <li>failed to scale up the team to meet the rising demands of a growing portfolio in Zambia;</li> <li>didn't book staff as per agreed work orders;</li> <li>At times engaged low calibre and inexperienced staff to carry out Global Fund work; and</li> <li>Submitted deliverables late.</li> </ul> <p>Based on an internal review, the Secretariat recognized the unique challenges and risks facing the Zambia program. The Secretariat has therefore</p>			

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			<p>decided to significantly revise the terms of reference for LFA work in Zambia. This will result in a retender of the LFA work in Zambia.</p> <p>The timelines to effect the retender will be as follows:</p> <ol style="list-style-type: none"> <li>5. Prepare revised terms of reference by 31 October 2010.</li> <li>6. Publish new ToRs and re-tender documents by 1 November 2010.</li> <li>7. LFA applicants submit proposals by 30<sup>th</sup> November 2010</li> <li>8. Proposals reviewed and decision made on the new LFA by 31 December 2010.</li> </ol> <p>The current LFA will provide services until a new LFA is brought on board. However, the Secretariat will tightly monitor deliverable going forward to ensure that they meet required standards.</p>			
Global Fund Secretariat	66	<p><b>Recommendation 66 (significant)</b></p> <p>The Secretariat should establish better communications to ensure that country issues are picked up in a timely fashion.</p>	<p><b>Secretariat Response:</b></p> <p>The Secretariat notes the comments of the OIG and is continuing to improve communications with the country in a clear and timely manner. Recent improvements include</p> <ol style="list-style-type: none"> <li>1. Appointing two Program Officers in 2009 to work with the FPM</li> <li>2. Quarterly briefings to country stakeholders</li> </ol>	Regional Team	On-going	

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			3. Continuation of mission debriefs to partners and the CCM			

