



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the Lao People's Democratic Republic

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5 July 2012

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EXECUTIVE SUMMARY

1. In August 2010 and February 2011, the OIG undertook an audit of all the Global Fund grants to the Lao People's Democratic Republic, to assess whether the Global Fund's grants had been used wisely to save lives in the Lao PDR; and to make recommendations where appropriate to strengthen the management and control of the grants.

2. This audit covered all 11 Global Funds grants to the Lao PDR from Rounds 1 to 8 which totalled US\$ 80 million, of which US\$ 64 million had been disbursed at the time of the audit i.e. August 2010. The Ministry of Health (MOH) has been the single PR since the inception of the Global Fund supported-program.

Achievements and Strengths

3. **Malaria program** - With Global Fund support, major accomplishments have been:

- Speed and extent of decentralization of malaria diagnosis and treatment down to the village level.
- Development of malaria risk stratification enabling more efficient and effective targeting of high risk areas.
- Notable national malaria program results, with two indicators in 2009 exceeding the MDG target for 2015: 1) Malaria mortality rate per 100,000 population; and 2) Proportion of population in malaria risk areas protected by impregnated bed-nets.

4. **TB program** - Steady improvement in treatment success rate, from 76% in 2002, to 90% in 2005, to 93% for the 2008 cohort of smear positive cases taken into treatment. Also, within the treatment success rate, the proportion of cases cured has increased from 65% in 2002 to over 90% in 2009.

5. **HIV program** – HIV prevalence has remained low at close to 0.2% among 15 to 49 year olds.

Good Practices

6. For the Malaria program, there was a readiness to undertake complex studies, involving experts from neighbouring countries, as well as experimental pilot projects, which have yielded benefits such as the malaria stratification strategy and the public-private mix in malaria diagnosis and treatment.

7. Strong peer guidance and follow-up of patients on ARV. PLHIV are part of the voluntary counselling and testing (VCT) in the main treatment centres and patients not showing up for their appointment are routinely traced by home visit or phone call.

Challenges

8. **Malaria program** - Despite large investments in malaria control and prevention, intense transmission was reported in about 25% of villages sampled in an impact study conducted by PSI in an area inhabited by ethnic minorities.

9. **TB program** - Convincing gains in treatment success have not been matched by sustained improvement in case detection. The case detection rate (CDR) of new smear positive TB cases has levelled off since 2005 at approximately 75%.

10. **HIV program** – The discrepancy between high STI prevalence and low HIV prevalence among sex workers is not well understood. As highlighted by UNAIDS in its 2010 UNGASS report, the Lao PDR is landlocked by countries which report double digit prevalence for their most at risk populations and the Lao PDR's recent economic expansion has increased tourism and mobility across borders. This fact, coupled with the existing sex worker-client vulnerabilities and several emerging high-risk groups, places the Lao PDR on the verge of a new HIV threat.

11. Additionally, late presentation to seek testing and health care is a concern. A cohort study of HIV patients from 2003 showed that nearly three quarters of patients presented for the first time with CD4 cell counts of less than 200 while over half had CD4 cell counts below 50. Late presentation indicates that HIV awareness is still insufficient even though HIV prevention has consistently been a main budget component.

12. **IEC activities** - A substantial part of the budgets for all three diseases has been allocated to IEC activities. The success of these activities is, however, hard to measure. Proxy measures have been adopted, such as 'people trained', 'attendance' or 'messages having been received', but these measures do not provide useful data to inform program direction. The absence of indicators at the outcome level has meant that the effectiveness of the IEC approaches has not been assessed.

13. Different IEC approaches, such as BCC, PE and IPC, have been adopted by the SRs; however, the OIG found no evidence of the sharing or comparing of approaches or lessons by the SRs. Furthermore, the IEC activities of the MOH SRs (CMPE, CHAS, NTC, FDD, HCD, and MPSC) have bypassed the MOH's own Centre for Information and Education for Health. The lack of coordination of IEC activities, points to a missed opportunity for the professionalizing of IEC and also for institutional strengthening of the MOH.

Finance and Administration

14. **Non-reporting of program income** - The OIG noted program income of US\$ 1,154,385 generated by the CMPE from the sale of bed nets and over US\$ 722,000 generated by PSI from the sale of nets, condoms, and STI kits, etc. This income was not reported to the Global Fund or credited to the grant program. In responding to the draft report (detail in Annex 3), as of October 2011, the PR Office has reported that the funds arising from this income are now within the MOH at central level awaiting instructions from the Secretariat on the use to which it should be put. PSI income from social marketing has been reported to the Global Fund secretariat and is now under review.

15. **Non-compliance with Grant Agreement** – Examples were noted of non-timely submission of external audit reports to the Global Fund, as well as delays in the submission of Progress Updates/Disbursements Requests.

16. **Need to improve budget management** – The OIG noted cases where budgets were revised prior to receiving approval from the Global Fund or the CCM, or approval from the PR in the case of SRs. There were also inconsistencies noted in the formats of the work plans and budgets for the different grants. Budget overruns for four budget categories totaling US\$169,915 or 24% were noted, as was unbudgeted expenditure totalling USD\$ 98,586.

17. **Other areas for improvement in financial control** – The OIG noted inconsistency in the charging of indirect costs or overheads to the grants; lack of segregation of duties in the PR Finance Department; and long delays in settling advances at SR level.

Procurement and Supply Management

18. **Delays in procurement** - The length of time between the publication of a tender and the confirmation of the order has ranged from three to eight months. There have been a number of reasons for delays. Bureaucratic procedures increased the time taken for clarification of needs between the different stakeholders involved in the procurement process.

19. **No system for post-shipment quality assurance** - No samples were taken on arrival in Lao PDR, and no quality checks were performed at intermediate warehouse level or dispensing level. The Lao PDR does not have a quality control laboratory that is WHO pre-qualified. The Global Fund Secretariat related that under Round 6 Malaria, the MOH's Food and Drug Department received support to strengthen its quality control of antimalarial drugs and antibiotics.

20. **Poor stock monitoring and stock-outs** - Minimum stock levels, re-order levels and lead time were not defined for critical health products. The OIG noted stock-outs of ACT, OI drugs and HIV test kits at provincial and district health facilities.

21. **Quantification tools need improvement** - For the HIV and malaria programs, input from a number of different consultants led to the development of multiple spreadsheet tools that are inconsistent and confusing for staff. Furthermore, the OIG noted numerous inconsistencies and mistakes in the information included in these spreadsheets, and, in some cases, these spreadsheets did not take in account existing stock levels, planned buffer stocks, or expiry dates.

22. **Poor quality of data** - A major constraint to quantifying drug requirements is the poor quality of data on consumption, stock levels and drug expiry at the health facility level. The SRs each had their own model for stock cards, which were found not to include all essential information, and they maintained their stock records on spreadsheets. No integrated health management information system is yet in place and there was a poor quality of consolidated records at the central level.

23. **Expired stock** - Records collected from the PR indicated expired RDT, ACT and HIV reagents worth US\$ 946,209 for the period 2007 to 2010. In particular, substantial quantities of RDTs and ACTs expired in 2009 and 2010 at provincial and district stores due in part in shortcomings in forecasting. Districts with very low malaria incidence were supplied with inappropriately large amounts of malaria tests and medicines.

24. **Ministerial Decree** - The MPSC is responsible for implementation of a 2009 Ministerial Decree to unify the reception, warehousing and distribution of all health products. This decree had not yet been fully implemented and the storage of health products was still mainly managed by the SRs, with distribution largely sub-contracted to the private sector. Physical infrastructure was gradually being strengthened under Round 8, but the inventory management remained weak and there was a lack of a functioning cold chain.

Oversight

25. The OIG noted the need for improvement in CCM oversight with regard to proposal development, PR and SR selection, and program monitoring; and also noted the need for improvement of the LFA's financial reviews, given that the LFA does not perform a risk analysis in order to ensure a risk-focus for the PU/DR review work it carries out. Furthermore, the PU/DR reviews the LFA has conducted did not include verification work to ensure that the expenditure reported was properly supported and value for money was achieved. The Global Fund Secretariat informed the OIG that this verification work has now been included in the LFA's TOR since the end of 2010.

Conclusion

26. There have been good program achievements in the Lao PDR. The programs supported by the Global Fund have generally achieved targets and have been well managed. Internal control, however, requires considerable strengthening. Taken overall, the OIG was able to give reasonable assurance that oversight arrangements ensured that grant funds had been used for the purpose intended and that value for money had been secured. Key areas for improvement are highlighted above, with further detail provided in the body of the report. Following the country's comments to the draft report, the OIG is pleased to acknowledge the prompt actions taken to address the recommendations made in this report.

Audit of Global Fund Grants to Laos

MESSAGE FROM THE GENERAL MANAGER



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19 June 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the audit of the Global Fund grants in the Lao People's Republic.

The audit was conducted in August 2010 and February 2011 and covered all 11 grants made, totalling \$80 million, of which \$64 million had been disbursed at the time the audit began in August 2010.

The audit found significant accomplishments in malaria treatment and prevention, steady improvement in treatment success rates for tuberculosis while HIV prevalence in the country remained low throughout the period under review.

It identified some challenges e.g. malaria transmission is reported to be high in an area inhabited by ethnic minorities while TB case detection rates lag behind significant gains in treatment. Late presentation by patients to seek HIV testing also suggests HIV awareness is still insufficient.

The audit also highlighted the need to improve budget management and noted that external audit reports to the Global Fund were not being submitted in a timely fashion. Poor monitoring of stocks of drugs and HIV test kits also needs to be addressed. Further, the audit identified previously unreported program income of USD 1.9 million and the Secretariat is working with the principal recipient to determine what use these funds have been, and should be, put.

The audit contains a list of 50 recommendations by the Office of the Inspector General to improve grant management and action is already being taken.

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

Yours sincerely

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MESSAGE FROM THE COUNTRY COORDINATING MECHANISM



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Unity Democracy Prosperity

Ministry of Health
CCM Secretariat, GFATM

008

No...../CCM.SEC.GFATM

03 MAY 2012
Vientiane,

To: Mr. John Parsons
Inspector General, Global Fund
Chemin de Blandonet 8
1214, vernier
Geneva, Switzerland.

Subject: the CCM Lao-PDR Final Overall Comments on OIG country audit ReportGF-OIG-10-012.

Dear Mr. Parson,

The Country Coordination Mechanism in Lao PDR would like to thank the Office of the Inspector General for the constructive recommendations provided by the audit team.

Enclosed please find the CCM's final comments on the OIG country audit report. The formulation of these comments has been a collective effort involving all concerned parties, in this case the Ministry of Health (PR), the SRs, and a plenary meeting of the CCM for the final discussion and validation.

The CCM Lao PDR has taken the necessary actions to monitor the implementation of the agreed upon recommendations of the PR and CCM in related to the following areas:

- Finance and administration
- Procurement and Supply Management
- Service delivery and M&E
- Oversight

While acknowledging the OIG recommendations, the CCM Lao PDR respectfully requests the OIG to consider integrating the clarifications and justifications stated in Annex 6 into the final OIG report.

The CCM Lao PDR thanks the Office of the Inspector General for the completion of this report and is looking forward to a constructive dialogue on matters addressed in this report.

Cordially yours

Mr. Lytou Bouapao
Vice minister of Education
CCM chair
Cc:
MrBounsamack
Mr Tomas D'Agnes
Dr Nao Boutta
M. Annelise Hirschman

OVERVIEW

Health Context in Lao PDR

27. The health indicators of the Lao PDR compare unfavourably with those of neighbouring countries and indeed with regional averages. This applies not only to impact indicators such as life expectancy and under-five mortality, but also indicators signifying demand for and utilization of the services such as births attended by skilled health personnel, contraceptive prevalence and immunization rates. The figures also show remarkable differences in use of these services between urban and rural populations. For example, only 11% of rural births are attended by skilled health personnel vis-à-vis 68% of births in the urban population. For the same indicator the discrepancy between poor and wealthy women is even larger: 3% of the poorest vis-à-vis 81% of the wealthiest segments of the population have the benefit of skilled attendance during delivery.

28. The Lao PDR has stressed its intention to ‘graduate’, by 2020, from the list of Least Developed Countries. The country decision makers are acutely aware of the gaps, which are largely related to poverty. Given that health services are to a large extent self-supporting, notably through income from user fees and selling drugs, one could say that there is a vicious circle here, of under-performance and under-utilization, with poverty as an underlying cause. The gaps thus are both on the demand side and on the supply side. It is noteworthy that the indicators of MDG 6, the domain of concentrated Global Fund support, are ‘on track’ whereas achievements for other MDGs, notably MDG 5 (reduction of maternal mortality), have fallen behind.

29. Certain parts of Lao population are seriously disadvantaged in terms of access to services. This applies particularly to Lao-soung ('mountain dwellers'), a diverse group of over 60 ethnic minorities which represents some 9% of the population. Distinct languages in combination with remote and inaccessible habitats make this group a special concern group, also for the programs supported by the Global Fund. The National Malaria Control Program (CMPE) has thus included ‘distance to a health facility’ in its criteria for tailoring services according to need.

30. In the Lao PDR, provincial health offices report to local government and thereby have a high degree of autonomy vis à vis the central level Ministry. Ministry of Health staff includes regular staff, composed of civil servants with full rights and benefits with long-term contracts. In addition, the Ministry and the health offices can recruit contractual staff, which represents around 10% of most categories. The salaries of contractual workers are lower and their contracts give them fewer rights and benefits. The majority of provinces allocate limited resources to district level. Yet provinces that allocate more health workers to the district level - especially high- and mid-level medical staff - have better health indicators; these tend to be the provinces that are economically better-off.

31. While at the time of the early Global Fund Rounds the position of local NGOs was weak, a 2009 decree is expected to make a change for the better. The decree provides a legal framework for membership-based groups, in contrast with the ad hoc registration process of the past. It thus also benefits LNP+, the network of PLHIV, which, together with peer organizations in the region, put in a regional application for Round 10.

32. The Vientiane Declaration of November 2006 signifies Lao PDR commitment to the Paris Declaration. One result has been that senior staff is familiar with the principles of the need for alignment, national ownership, etc. With strong support of UN agencies, sector-wide coordination mechanisms have been initiated, including several technical working groups. A recognized challenge is to fit in existing Global Fund governance mechanisms in ways that are mutually beneficial and that avoid duplication.

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Grant Portfolio and Institutional Arrangements

33. The total approved funding to the Lao PDR amounted to US\$ 80 million with disbursements at the time of the audit amounting to US\$ 64 million (see details in the table below). The Round 9 HIV/AIDS grant was still under negotiation at the time of the audit¹.

Grant type	Round	Grant Agreement Amount US\$	Total Disbursed US\$	Status
HIV/AIDS	1	3,375,607	3,375,607	Closed
	4	7,747,873	7,155,138	Phase II
	6	3,243,046	3,243,046	Consolidated
	8	16,396,785	4,651,254	Phase I
Subtotal		30,763,311	18,425,045	
Malaria	1	12,709,087	12,709,087	Phase II
	4	14,502,222	14,081,342	Phase II
	6	3,633,039	2,066,938	Phase II
	7	6,740,783	6,032,757	Phase I
Subtotal		37,585,131	34,890,124	
Tuberculosis	2	3,530,391	3,439,395	Phase II
	4	3,617,781	3,477,997	Phase II
	7	4,368,246	3,534,407	Phase I
	Subtotal	11,516,418	10,451,799	
TOTAL		\$79,864,860.00	\$63,766,968.00	

Table 1: Source GF Web Site, June 2010

34. The MOH, as the single PR, has implemented grant activities through 14 SRs. The total disbursed to SRs was approximately US\$ 57 million as per June 2010 which represented 89% of the total disbursed by the Global Fund to the PR.

35. The MOH established the Project Management Unit (PMU) to act as the implementing body for the Global Fund-supported programs. The Deputy Director General of the Department of Hygiene and Prevention leads the PMU as the Director of the Global Fund Project. The role of the PMU is to:

- i. Sign the grant agreements with the Global Fund and to be accountable to the Global Fund for performance.
- ii. Manage day-to-day operations of the grant programs.
- iii. Keep the CCM regularly informed on the progress of program implementation.
- iv. Sign sub-grant agreements with the SRs, disburse funds to the SRs and ensure a good working system with the SRs.
- v. Prepare bi-annually financial and implementation progress reports.

¹ The HIV/AIDS Round 8 was consolidated with the HIV Round 4 RCC and signed as Single Stream of Funding for HIV on 22 February 2011 for US\$13.8 million

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- vi. Send copies of all plans, reports and requests to the CCM for endorsement and approval.
- vii. Develop an effective coordinating system with the LFA, the FPM, CCM Chair, and the CCM Secretariat.
- viii. Facilitate the assessment processes of the LFA.

36. The PMU Office's structure is comprised of five main units: Administration Unit, Monitoring and Evaluation Unit, Finance Unit, Procurement Unit, and Program Coordinator Team. The role of the Program Coordinator Team for three diseases is to liaise with the SR Directors, Provincial Directors and District Directors.

37. Technical Assistance (TA) that is funded by the Global Fund and by the WHO plays a significant role in supporting program implementation. The PR and most SRs have benefitted from this TA.

Background to Audit

38. The Office of Inspector General (OIG), as part of its 2010 work plan, carried out the audit of the Global Fund grants to the Lao People's Democratic Republic (Lao PDR).

Audit objectives

39. The objectives of this audit were to:

- i. Assess the adequacy and effectiveness of the management and implementation of grants.
- ii. Measure the soundness of systems in place to safeguard Global Fund resources.
- iii. Confirm compliance with Global Fund grant agreements, related policies and procedures, and the relevant laws and regulations.
- iv. Verify whether program funds are used economically, efficiently and effectively.
- v. Make recommendations to strengthen the management of the Global Fund grants.

Audit scope

40. The OIG audit covered all the active and closed grants since the inception of the Global Fund-supported programs in the Lao PDR. It covered all the entities involved in program implementation and oversight, i.e. Principal Recipient (PR), sub-recipient (SR), Country Coordinating Mechanism (CCM), and the Local Fund Agent (LFA); and also covered the following functional areas: (i) finance and administration; (ii) procurement and supply chain management; (iii) programmatic management and (iv) program oversight.

Audit methodology

41. Using a risk-based approach, the OIG evaluated the adequacy of the design of key internal controls and conducted extensive substantive testing of samples in order to conclude upon the correctness and validity of transactions, as well as obtain evidence regarding the effective and efficient operation of the internal controls. The OIG deployed a multi-skilled team comprising audit specialists, a procurement and supply management specialist and a public health specialist.

Prioritization of Audit Recommendations

42. The implementation of all audit recommendations is essential in mitigating risk and strengthening the internal control environment in which the programs operate. The recommendations have been prioritized so as 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 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.

Audit recommendations and the way forward

43. Based on comments and action plans prepared by the Country in response to the audit recommendations, the OIG is pleased to acknowledge the effort and commitment of the Country to address the audit recommendations. Some of the actions have already been completed and many more are on-going. Furthermore, according to the Country, some of the recommendations related to non-reporting of program income have already been implemented. The LFA and the Global Fund Secretariat should follow-up the implementation of the audit recommendations on a regular basis.

FINANCE AND ADMINISTRATION

44. Of the US\$ 64 million disbursed to the PR, US\$ 57 million of this amount had been disbursed to the 14 SRs implementing grant activities for the PR. Of these SRs, six were selected for review by the OIG. The total amount disbursed to the six SRs was US\$ 53 million i.e. 93% of the total grant money disbursed to the 14 SRs.

45. The six SRs audited were:

- Centre for the prevention of HIV/AIDS and STI (CHAS)
- National Tuberculosis Centre (NTC)
- Centre for Malaria, Parasitology and Entomology (CMPE)
- Food and Drug Department (FDD)
- National Blood and Transfusion Centre (NBTC)
- Population Services International (PSI)

Compliance with Grant Agreement

46. The OIG noted the following instances of non-compliance or possible non-compliance with the terms and conditions stipulated in the grant agreements:

- i. The Grant agreement requires the PR to keep Grant funds in a bank account which bears interest. However, the OIG observed that all of PR's and SRs' bank accounts are non-interest bearing current accounts.
- ii. The Grant agreement requires that the External auditor report must be submitted to the Global Fund within six months from the close of the financial year. The OIG noted 31 instances where auditors' reports were submitted later than deadlines required, of which 5 were submitted more than 100 days later than the stipulated 6 months.
- iii. There were few instances of late submission of PU/DRs to the Global Fund by the PR.
- iv. PSI should submit PU/DRs to the PR on a semi-annual basis; however, the OIG noted instances where PSI prepared PU/DRs for different periods, e.g. PU/DR was prepared for the whole year and another instance where the period is from Nov to Apr.

Recommendation 1 (Significant priority)

The PR should ensure that:

- (a) *PR and SRs establish codes of conduct.*
- (b) *PR and SRs maintain grant funds in an interest bearing account.*
- (c) *External auditors' reports are submitted to the Global Fund not later than 6 months from the close of the financial year of the grant.*
- (d) *PU/DRs are prepared by the PR and SRs in accordance with the requirements cited in the grant agreements and the guidelines issued by the Global Fund.*
- (e) *In coordination with the LFA, that PU/DRs are prepared and submitted to the Global Fund on a timely basis.*

FINANCIAL MANAGEMENT

Budgetary Control

Budget approval and preparation

47. Prior to 2009, the PR did not have formal procedure to obtain approval from Global Fund Secretariat when the budget needed to be revised. Though budget management has improved since 2009, the OIG noted:

- Instances where budgets were revised prior to receiving approval from the Global Fund, for example, TB Round 4, where revisions were made during 2009 but were not approved until May 2010.
- There was no mechanism to ensure that a final approved budget was established given that there was no distinction between proposed and approved budget.
- The PU/DR form only contains one line for analyzing total actual expenditure versus total budget.

48. A review of budget management by the SRs revealed the following:

- i. Written approval from the PR was not obtained for budget revision. For example:
 - Prior approval for budget reprogramming was not obtained for the reprogramming of R4 Malaria Phase II at PSI.
 - No approval for significant reallocations across budget lines in the detailed quarterly budget of Round 4, year 3 Malaria at CMPE.
- ii. There were some cases where there was no consistency in the formats of work plans and budgets between grants. For example:
 - At the CHAS, budgets for some Rounds did include management fees while others did not.
 - For Round 6, prior to 2008, general work plans were prepared separately from detailed budgets. However, for Round 4 in the same period, detailed, integrated work plans and budgets were prepared.
- iii. At PSI, the OIG noted instances where detailed assumptions and justifications were not prepared to support budgets. For example, there were no detailed supporting calculations for the cost of transporting condoms to the provinces and districts.

Recommendation 2 (Requires attention)

To improve budgetary control the Global Fund Secretariat should:

- (a) *Establish a mechanism to formalize the process of annual budget approval, for example by signing a final approved budget to be distinguished from a draft annual budget which may have been changed.*
- (b) *Improve the PU/DR form by adding more detailed analysis of actual expenditure versus budget, broken-down by objectives, activities and implementing entities.*

Recommendation 3 (Requires attention)

The PR should:

- (a) *Obtain written approval from the Global Fund for both original and revised budgets.*

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- (b) Establish procedures for SR budget preparation that ensure consistent use of the budget format and require detailed budget assumptions and justifications to be prepared to support budgets.

Recommendation 4 (Requires attention)

The SRs should obtain formal approval from the PR for original budgets and work plans, as well for revised budgets, prior to implementation.

Budget overruns

49. The OIG found instances where actual expenditures per budget line were overspent. For example, Malaria Round 7 accumulated expenditure to September 2009:

Categories	Expenditure US\$	Latest Budget US\$	Overspent US\$	Variance
Human Resources	329,469	289,851	39,618	14%
Infrastructure and Equipment	388,962	329,552	59,410	18%
Communication Materials	102,086	60,860	41,226	68%
Overheads	50,805	21,144	29,661	140%
Total	871,322	701,407	169,915	24%

Table 2

50. Two cases of procurement in excess of the budgeted price without obtaining approval from the Global Fund Secretariat were noted:

SR	Program	Round	Item	Quantity	Budgeted Price	Actual Price	Overspent US\$
CMPE	Malaria	4	LLINs	134400	5.20	5.49	38,976
HU	Malaria	7	Motorbike	6	800	995	1,170
Total							40,146

Table 3

Unbudgeted expenditure

51. The OIG noted the following instances of unbudgeted expenditure, without Global Fund approval, totalling US\$ 98,586:

- Travel to WHO and MOH conferences (US\$ 61,953 14-17 February 2007, 14-23 May 2007, 19-24 May 2008 and 3-8 August 2008)
- Travel to Manila, Philippines for 4 persons (US\$ 16,742 8-12 December 2008)
- Purchase by PR of a vehicle (US\$ 17,300 TB Round 7)
- Purchase of an extra notebook for the CHAS (US\$ 1,596)
- Purchase by PR of a motorbike for the MOH (US\$ 995)

52. The Country provided justification when commenting on the draft report which is summarized below (full text is reproduced in the Annex 3) :

- Non Global Fund related travel: All travel was related to improving the health system. The Global Fund is one of the main stakeholders with WHO in orientating national policy and, as such, WHO and Global Fund are interrelated. The PR also noted that the participation in these conferences and what the OIG now considers as “non GF related” did not either qualify the previous yearly external audit by international audit firms or appear in the Global Fund Secretariat recommendations following LFA regular program reviews.
- On the number of travellers above the number approved by Global Fund, according to the Country, in the absence of specific training guidelines from the Global Fund, the PR office, based on its understanding of the Lao systems, made judgments to ensure the most effective ownership of the program by all relevant authorities. Therefore, the PR supported senior officers of the MOH to attend Global Fund related international meetings. This included the World Health Assembly, WHO meetings, International AIDS Conference, and negotiations of grants in different locations.
- On an extra Laptop procurement, the Country informed that the grouping of procurement allowed them to have a better price and that they took the opportunity to add an extra laptop, and the 10 per cent budget rule was applied.
- On procurement of vehicles, the PR acknowledged that these items were not a part of approved TB R7 or Malaria R7 PR detailed budget, however, the Country procured based on available budget at the time of the payment and were reported adequately in the PUDR, EFR and fixed asses register.

Recommendation 5 (Significant priority)

The PR should:

- (a) *Ensure all expenditure is included in the approved grant budgets.*
- (b) *Obtain prior approval from the Global Fund for any deviation from the grant budget or detailed work plan approved by the Global Fund.*
- (c) *Ensure grant funds are solely used for budgeted program purposes. All ineligible expenses paid using Grant funds should be returned to program (refers to Annex 2).*

Non-reporting of program income

53. The OIG noted program income of US\$1,154,385 generated by the CMPE from the sale of bed nets and over US\$722,000 generated by PSI from the sale of nets, condoms, and STI kits, etc. The OIG's review of this income highlighted the following:

- i. This income was not reported in the Financial Statements or credited to the grant program.
- ii. Spending of this program income was not budgeted or planned. PSI used the funds to procure LLINs and condoms with PR approval. The CMPE, as at 30 June 2010, had spent US\$595,355 of the income generated, with this spending being solely decided by provinces where the income was generated without getting approval from either the CMPE or PR. The OIG noted one case at Savannakhet where some of the CPME generated income was used to provide an individual loan which now needs to be recovered. The non-reporting income of sale of bed nets was initially reported by the Global Fund Secretariat to the OIG prior to the audit.
- iii. The selling prices for condoms and nets were decided by PSI internally without PR involvement, and the OIG noted that the sales prices varied with the type of outlet. The OIG also noted that the price of bed nets sold by the CPME varied depending on the province.

54. According to country's comment on the Draft report (detail in the Annex 3), as of October 2011, the PR Office has reported the income and the money is now within the MOH at central level awaiting instructions from the Secretariat on the uses to which it should be put. PSI income from social marketing has been reported to the Global Fund secretariat and is now under review.

Recommendation 6 (High priority)

The PR should:

- (a) *Ensure that all Global Fund-supported program income is credited to the grant programs and reported regularly to the PR.*
- (b) *Ensure that there is a detailed annual budget and work plan for the use of program income which has PR and Global Fund approval.*
- (c) *Review and approve the selling prices of program products.*
- (d) *Prevent the misuse or personal use of program income, seeking recoveries as appropriate.*

55. The PR generates income from selling tender documents; however, this income was not credited to the grant program. The income generated was used for tender process expenses, such as tender advertisement costs and DSA for the tender committees. Total amount generated since 2007 was US\$18,000 while there was no record maintained for period before 2007.

Recommendation 7 (High priority)

Income generated from selling tender documents should be credited to the accounting system of the program and disbursements should be debited as an expense of the program as well. The PR should set up a budget for the disbursements officially approved by the Global Fund and other procedures to monitor this disbursement in accordance with the approved budget.

Charging of indirect costs to grants

56. The OIG reviewed the charging of indirect costs for the management and administration of Global Fund programs and calculated that the total cost charged to the grants was US\$5,123,399 or 12 to 20 % of total grant expenditures. The OIG noted:

- Failure to stipulate in grant agreements how indirect costs should be charged: only one grant agreement specifically mentioned how indirect costs should be charged. For the other grant agreements, each fund portfolio manager had a different approach to agreeing how indirect costs should be charged to the grant, which was normally based on a percentage of the grant funds.
- Absence of justification for share of allocation between PR and SRs: 70% of the total indirect costs charged to the grants were allocated to the PR and 30% to SRs. The PR explained that this sharing percentage was mainly based on discussion between PR and SRs. There was no written guideline to support this percentage of allocation or guidelines on what type of expenditure this allocation was supposed to cover.
- The OIG also observed that there was an inconsistency in the rate charged by SRs: PSI applied for 12% for general and 5% for procurement related activity; and governmental SRs and local NGOs applied for 5%, except the NBTC which applied based on a calculation of actual indirect costs incurred.

Recommendation 8 (Significant priority)

The Global Fund Secretariat should, for all new grants and grant extensions, include in the grant agreement details of how indirect costs can be charged to the grant, as well as describing which types of indirect costs are allowable. The OIG recommends adherence to the principles included in recent Global Fund guidance², which, in particular, state: ‘National entities may not charge percentage based overhead fees, but should be able to directly charge any support provided by HQ

² OPN on Headquarters Support Costs/Indirect Cost Recovery Policy for International NGO implementers

using a reasonable basis of apportionment. These costs should be included in the budget and the subsequent expenditure would be subject to verification by the PR and the LFA'.

Controls over payment process

57. The OIG observed the following practices that weaken the payment process:
- i. In some instances, the Director of the PR signed blank cheques in advance prior to travel;
 - ii. The cheques were not crossed: "not negotiable /transferable" or were cash cheques;
 - iii. There was a lack of segregation of duties in the Finance Unit as one accountant was responsible for performing the following incompatible duties:
 - keeping custody of blank cheques
 - preparation of cheques
 - preparation of the payroll
 - making salary payments
 - recording of expenses and payment transactions
 - preparing bank reconciliation
 - iv. The PR requires each SR to obtain approval from the PR before any payments over US\$200 are made. With this mechanism, 8 layers of approval were required, 4 at SR level and 4 at PR level. If this process is applied properly, it will increase scrutiny of the payment process; however, an excessive level of approval could also pose a risk of dilution of responsibility and accountability.

Recommendation 9 (High priority)

To achieve an acceptable level of internal control of payment process, the PR should:

- (a) *Ensure that the PR Director does not sign blank cheques prior to going on mission. This can be done by adding another bank signatory panel and issuing a proper delegation of authority whenever it is required.*
- (b) *Ensure cheques are crossed "NOT NEGOTIABLE/TRANSFERRABLE", to make sure the person/supplier named in cheques is the actual and final beneficiary.*
- (c) *Ensure adequate segregation of duties in the Finance Unit by reassigning incompatible roles and responsibilities.*
- (d) *Review the payment process, shorten certifying and approving process, and remove redundant controls for greater effectiveness in terms of time and efforts.*

Controls over advances

58. Regarding payments to UNICEF and WHO for products procured through these organizations, there is a requirement to pay in advance an estimated amount to cover transportation costs and foreign exchange rate fluctuation. The balance of this amount is to be recovered once the products have been delivered. Due to the number of transactions with UNICEF and WHO, there is a need to regularly monitor the correct liquidation of the amounts paid in advance in order to avoid overpayment. However, the PR did not have a mechanism in place to monitor these transactions, which resulted in a non-reconciled advance payments totalling US\$566,000 based on OIG estimation.

59. The OIG noted some instances where there was a long delay in settling advances to SRs beyond the time stipulated in the PR accounting manual. In addition, there were some cases where

advances were made before the prior advances had been cleared. For example at PSI, the voucher No. KC 100201 involved an advance granted on 11 February 2010 while the previous one (dated 18 January 2010) was not cleared until 24 March 2010.

Recommendation 10 (High priority)

To achieve an acceptable level of control over advance payments, the PR should:

- (a) *For advances made to WHO and UNICEF:*
 - Perform a reconciliation between the Procurement and Accounting Units to ensure that the accounting records correctly reflect actual procurement activity.
 - Regularly reconcile transactions with WHO and UNICEF and agree balances;
- (b) *Ensure that the PR and SRs strengthen their monitoring controls over program advances by regularly reviewing that all advances are settled by the due date and before the disbursement of subsequent advances*

Per diems and training costs

60. Payment of per diems and allowances in excess of norms – though the payment of per diems and allowances was largely found to be within the norms, the OIG noted instances where:

- PR paid per diems and allowances that were in excess of the amounts stipulated in the PRs policies, for example for travel, stationery, refreshments and nutritional support.
- The PR paid for lunches and dinners during events (meetings, conferences or training) but participants also received full per diem.
- The PR also paid daily subsistence allowance to the PR and SR personnel involved in the tender committees even though this task is part of their daily work.
- The PR and SR personnel received more than one per diem/allowance for attending a training course.
- The PR and SR personnel attended more than one event on one day and received a full day's per diem/allowance for each event.

61. Opportunity for greater economy with regard to training costs – the OIG noted instances where:

- Meetings were arranged outside the capital for the PR and SR personnel who were all based in the capital resulting in a need to pay significant sums for per diems for travel.
- SR staff attended the same training courses twice in the same year.

Recommendation 11 (Requires attention)

- (a) *The PR and SRs should ensure the compliance with cost norms/standards when making payments, and, in particular, should ensure that:*
 - i. *Per diems and allowances are not paid in excess of the amounts stipulated in PR and SR policies.*
 - ii. *Lunches and dinners during events (meetings, conferences or training) are not paid for where participants are receiving full per diem.*
 - iii. *The PR and SR personnel involved in tender committees are not paid daily subsistence allowance given that this type of task is part of their daily work.*
 - iv. *The PR and SR personnel do not receive more than one per diem/allowance for attending a training course.*

- v. The PR and SR personnel attending more than one event on one day do not receive a per diem/allowance for each event.
- (b) The LFA should periodically verify the value for money and proper justification of training conducted by the PR.

Flood damage to PSI supporting documentation for expenditure

62. PSI was not able to provide the OIG with the supporting documents for US\$1,358,346 of expenditure incurred in Round 1 and Round 4 as these were destroyed in a flood. The OIG selected a sample of this expenditure totalling to US\$666,116 for testing by obtaining supporting documentation directly from suppliers, verifying receipt of goods and services, etc. The OIG was able to obtain evidence of the validity of these expenditures, with the exception of a total of US\$40,696 for which no evidence was available.

Recommendation 12 (Significant Priority)

PSI should reimburse the amount of US\$40,696 to the program.

Commingling of grant funds by PSI

63. The OIG noted that PSI transferred all funds received (except Round 8) in Global Fund specific bank accounts to another PSI bank account and made disbursements from that bank account.

Recommendation 13 (Significant priority)

PSI should maintain the Global Fund grant funds in a separate bank account, with all disbursements being made directly from that account.

SR monitoring of expenditure at provincial sites

64. The OIG review of the monitoring and control processes of the government SRs over the expenditure activity conducted at their provincial sites highlighted a lack of consistency in guidelines and practices. For some SRs there was no checking of supporting documents kept in the provinces, whilst others performed checks to verify these supporting documents or even required these supporting documents to be maintained centrally.

Recommendation 14 (Significant priority)

The PR should establish clear guidelines and processes for government SRs for the monitoring and control over expenditure activity at their provincial sites. Capacity assessments for provincial sites should be standardized and performed in order to confirm the decision to delegate authority for expenditure and maintenance of supporting documents.

Other opportunities for improvement of financial management

65. Other opportunities for improvement noted by the OIG were:

- i. There were no surprise cash counts conducted by the PR and SRs.
- ii. There was no established method to allocate the expenditures common to different Global Fund grants, such as personnel costs or general administration costs. The OIG observed that shared costs had historically been charged to grants which had budgets available and not on the basis of a fair distribution.
- iii. The PR and SRs all used different accounting software, and Excel in some cases. Also, the PR used different accounting software packages for different grants. As a result, the

consolidation of financial statements was a particularly laborious, manual process for the PR.

- iv. The PR made regular back-ups of its financial information which were kept at two locations, the PR Office and at a PR staff member's home.

Recommendation 15 (Requires attention)

To improve financial management, the PR should:

- (a) *Ensure that the physical verification of cash is conducted regularly. Cash count minutes should be prepared and maintained as evidence of actual work performed.*
- (b) *Establish a written guideline on how to allocate shared costs among the existing grants. This method should be applied consistently.*
- (c) *Consider the costs and benefits of the continued use of various different accounting software. To achieve greater efficiency, applying consistent accounting software between grants and SRs is recommended.*
- (d) *Ensure one copy of the backup of financial information is kept in a secure place outside the PR office, but not at a personal residence.*

Fixed Asset Management

66. A review of the fixed asset management process followed by the PR and SRs highlighted the following weaknesses:

- PR's vehicle logbook format lacks information on purpose of travel, name of user and persons who reviewed and approved. Also, for some SRs, no vehicle logbooks were available for review.
- Inadequate tracking of fuel consumption and vehicle maintenance costs.
- For some SRs assets at provincial sites were not periodically physically verified.
- There was no process for the disposal of obsolete and non-usable assets.

Recommendation 16 (Requires attention)

To improve fixed asset management, the PR should ensure that PR and SRs:

- (a) *Include minimum information in the vehicle logbooks, such as purpose of travel, names of users, reviewers and approvers.*
- (b) *Conduct regular physical verification of assets.*
- (c) *The manual procedures for the disposal of obsolete and non-usable assets.*

Human Resources

67. A review of the human resources and payroll processes highlighted the following

- The PR did not perform a reconciliation of current month's payroll to previous month's payroll to verify the accuracy of the payroll processing.
- The income tax (PIT) calculation was sometimes not correct, causing overpayment to the tax authority. Furthermore, PIT from 2003 to 2008 was not declared.

- Most SRs did not have guidelines for fuel, phone allowances and bonuses for staff and did not maintain adequate records of staff leave.

68. The OIG also noted that technical assistance advisors for the PR Finance Unit were in-charge of routine tasks, such as preparation of quarterly and annual fund forecasts for the Malaria program, and for drafting periodic financial reports to be submitted to the Global Fund and CCM.

Recommendation 17 (Significant priority)

The PR should:

- (a) *Perform a reconciliation of the current month's payroll to previous month's payroll to verify the accuracy of the payroll processing.*
- (b) *Comply with all PIT requirements.*
- (c) *Ensure the SRs document guidelines for fuel, phone allowances and bonuses for staff, and maintain adequate records of staff leave.*
- (d) *Ensure that technical advisors are not asked to undertake detailed daily work but focus on solving technical queries and gradually transferring knowledge to other finance staff Their TORs should be reviewed and revised accordingly.*

Internal Audit Function

69. The OIG noted that the PR did not have an internal audit function, and also that the MOH's Department of Inspection was not including the Global Fund grant-funded programs in its scope of work.

Recommendation 18 (Requires attention)

The MOH should explore the possibility that its Department of Inspection includes the Global Fund grant-funded programs in its scope of work. The audit work conducted at the PR by the Department of Inspection should be designed to complement the work of the LFA and the auditors of the annual financial statements. This work could in particular include audit of the activities undertaken by the SRs. Alternatively, the PR could consider establishing an internal audit function in the PMU.

PROCUREMENT AND SUPPLY MANAGEMENT

Procurement and Supply Management Policies and Procedures

70. The PR has comprehensive manuals for procurement and logistics. The Procurement Manual conforms to government regulations and to Global Fund and WHO standards and guidelines. This manual needs to be updated to reflect recently released Global Fund and WHO standards.

71. The procurement manual includes a chapter on fraud and corruption. It does not, however, refer to the two principal anti-corruption instruments in the Lao PDR, the 2005 Law on Anti-Corruption and the 2007 Law on State Inspection. It also does not include a procedure to report corruption or suspected corruption nor a provision for whistle blowing or protection of confidentiality, and does not require the Procurement Committee members or Technical Evaluation Committee members to submit a 'No Conflict of Interest' declaration.

72. The manual does not include specific requirements for a minimum shelf-life of drugs at arrival in Lao PDR for suppliers to adhere to.

73. The PR procurement manual states that goods may be purchased directly from UN agencies or other international procurement agencies and mentions VPP, GDF/GTZ, and IDA. In practice, the PR has been procuring via VPP, WHO, IAPSO, UNDP and has placed direct emergency orders also with MSF, Mitra, Fujirebio Inverness and IM Hong Kong (with no objection from the Secretariat). The manual does not differentiate between 'commercial' procurement agents and the UN agencies nor does it elaborate on how to identify, select and pre-qualify procurement agents.

74. The Medical Products Supply Centre (MPSC) of the Food and Drug Department (FDD) has developed in collaboration with the PR a quality assurance model for pharmaceuticals, which will be implemented in 2011. The procurement manual and the logistics manual do not include a chapter on quality assurance and quality control, or a reference to WHO quality assurance guidelines.

75. All medicines entering the Lao PDR must be registered with the FDD. Under the MPSC quality assurance model the PR is responsible for the registration of the imported medicines financed through Global Fund grants, however VPP procured health products are not registered as the PR does not always receive all the required documentation.

76. The Global Fund's price and quality reporting (PQR) mechanism has not been used consistently to report the price and quality of certain pharmaceutical products procured, for example, Unigold test kits procured under HIV Round 6 Year 2 were not reported on PQR.

77. There was no documented evidence of monitoring and periodic evaluation of the performance of suppliers with respect to the quality of the goods and services they supply.

Recommendation 19 (Significant priority)

The PR should:

- (a) *Ensure the procurement and logistics manuals are updated regularly to reflect changes in national legislation, Global Fund requirements and international standards. In particular these manuals should be updated to reflect recent updates to the WHO list of prequalified suppliers, and also recent Global Fund requirements for: VPP, code of conduct for suppliers, Information letter for suppliers, sanctions procedures for suppliers, guide to the Global Fund policies on procurement and supply management.*

- (b) *Update the procurement and logistics manuals to include:*
 - i. *Revision of the chapter on fraud and corruption including: a reference to national anti-corruption instruments; procedures for whistle-blowing and reporting fraud; and a requirement for the Procurement Committee members and Technical Evaluation Committee members to submit a 'No Conflict of Interest' declaration.*
 - ii. *Rules on minimum remaining shelf-life of drugs and other products arriving in Lao PDR.*
 - iii. *Revision on the section describing the use of procurement agencies to differentiate between 'commercial' procurement agents and the UN agencies, and to elaborate on how to identify, select and pre-qualify procurement agents.*
 - iv. *Chapter on quality assurance with reference to the quality assurance model adopted by the FDD for monitoring of medicine quality in the supply chain.*
- (c) *Ensure that all medicines financed through Global Fund grants that enter Lao PDR are registered with the FDD, including VPP procured medicines.*
- (d) *Ensure regularly reporting on the Global Fund website, the price and quality of the applicable health products procured under the Global Fund Grants as well as use this information to review estimated unit prices for future procurements and budgeting.*
- (e) *Implement a system for monitoring the performance of suppliers with respect to product and supply chain quality, which includes provision of information to the Global Fund on supplier performance as defined by the Global Fund.*

Product Selection and Quantification

78. Pharmaceuticals procured under Global Fund grants are included in the Essential Drug List of the MOH issued by the FDD.

Quantification tools need improvement

79. Quantification of drugs for TB was based on the standard GDF tools, however, for the HIV and malaria programs input from a number of different consultants (GDF, CHAI, CDC, USAID, PHASUMA, and MSF) led to the development of multiple tools which are inconsistent and confusing for staff to use.

80. For the national quantification of ARV drugs, a large number of spreadsheets were used in the quantification exercise. The OIG identified numerous inconsistencies and mistakes in the information included in these spreadsheets. For the malaria program, an improved spreadsheet for quantification was introduced in 2008. This spreadsheet, however, is too general in that it does not take in account the existing stock levels or the planned buffer stocks for the different levels of the supply chain, nor does it record expiry dates to calculate how long actual stock will last on average. According to Global Fund Secretariat, there has been a significant improvement in quantification since 2008, at the time of the audit, consumption data was still lacking, and however, in 2010 for Round 7 Phase 2 signing, the program has included in its calculations the stock and consumption data.

81. There was a lack of protection of spreadsheet tools, which gives rise to the risk that formulas could be accidentally changed or deleted.

Poor quality of data

82. A major constraint to quantifying drug requirements is the poor quality of data on consumption, stock levels and drug expiry at the health facility level. Stock data are not reliable due to missing or inaccurate quantities issued or recorded, poor control over batch numbers and expiry dates, and late and incomplete reporting to the central level. The MLC has a computerized stock control system, however, the SRs work with multiple Excel spreadsheets. No integrated health management information system is yet in place and there is a poor quality of consolidated records at the central level.

83. As recognized by the Malaria Program, there are uncertainties and inconsistencies in the baseline data used for forecasting the need for anti-malarial drugs. Tables provided by the Malaria Information System show significant differences in the reported malaria case load in 2008 between survey reports (25,376 cases) and reports from the Health Management Information System (16,587 cases).

Recommendation 20 (High priority)

The MPSC in coordination with the CHAS, the CMPE and the NTC should improve the collection of consumption and stock level data and improve the quantification and forecasting tools in order to avoid the risk of stock-outs or overstocking and expiry of health products. In order to do this:

- (a) *The quantification tools for ARV and malaria drugs should be improved by including information such as past and current number of patients, expected growth in number of patients, shelf life, and required buffer stock based on estimated lead time and stock in hand.*
- (b) *All spreadsheet quantification tools should be standardized and protected to prevent changes to the formulas. These tools should be validated by an independent organization and approved by the MOH.*
- (c) *MPSC should make progress towards the integration of inventory management across the warehouses and stores in provinces.*

Recommendation 21 (Significant priority)

In order to improve the consistency of the baseline data used for forecasting the need for anti-malarial drugs, the CPME should investigate the reasons for the differences in the reported malaria case load data in tables provided by the Malaria Information System between survey reports and reports from the Health Management Information System.

Weaknesses in technical specifications

84. There are no standardized technical specifications for medical equipment.

85. All SRs are building experience in developing technical specifications for tenders. There is, however, a history of problems related to inadequate technical specifications for the procurement of laboratory reagents, medical supplies and medical equipment. One problematic item can delay an entire order when different product groups or several SR procurement requests are pooled.

Recommendation 22 (Significant priority)

The MOH should:

- (a) *Develop technical specifications for the selection and procurement of medical equipment, taking into consideration the equipment currently installed in public health facilities.*

- (b) *Ensure that the capacity is strengthened of those responsible for framing the technical specifications for health products in the purchase requests from the SRs to make sure these are well drafted and procurement process delays are avoided.*

Procurement

86. Procurement processes in the Lao PDR have been slow. The length of time between the publication of a tender and the confirmation of the order has ranged from three to eight months. There have been a number of reasons for delays, such as bureaucratic procedures, time taken for clarification needs between the different stakeholders involved in the procurement process, or having to restart the procurement process when quotations are rejected due to higher than budgeted costs.

87. The PR extensively uses international Procurement Agents like WHO, IAPSO and VPP for the procurement of health and non-health products. No documented rationale was available for the selection of the Procurement Agents used or to show why competitive bidding was not used. The OIG noted other similar procurements by the PR where competitive bidding was used. The delivery time was found to be shorter when the procurement process was directly managed by the PR, and on occasions the PR was able to get a better price than the Procurement Agent. However, for the PR to be able to capitalize on these advantages a suitably experienced and dynamic procurement team will need to be maintained.

88. Until introduction of the revised procurement guidelines in November 2009, unreasonably high thresholds of 5,000,000,000 Kip (approximately US\$600,000) for International Competitive Bidding (ICB) restricted competitiveness in procurement. The OIG noted an instance where the a bid for US\$128,000 was done through national competitive bidding due to the unreasonably high threshold for ICB, i.e. procurement for a pick-up and minibus in July 2007.

89. Approval for appointment of the Technical Evaluation Committee (TEC) and documentary evidence of its technical competency not available. In the absence of such documentation, the OIG was not able to ascertain the competence of the TEC for various procurements.

90. The membership of the TEC and the Procurement Committee for each procurement decision ranged between 12-18 persons each. Having a large number of committee members increases the cost of decision making due to per diem payments, and could result in delays and reduced committee effectiveness.

91. A lock box system was not used to deposit sealed bids received from bidders.

92. The OIG review of 25 procurement transactions highlighted the following:

- i. Late delivery charges totalling US\$9,303 were not levied for two cases despite significant delays in delivery (Purchase Orders (PO) number 16 dated 7 January 2009, number 19 dated 9 January 2009 and number 813, dated 19 December 2008).
- ii. Technical specifications of a motorcycle were changed to exactly match the specifications of a particular model produced by a company in Lao PDR. Also, the warranty period was reduced from 24 months to 18 months, and the requirement to provide basic spare parts for one year was removed (PO number 813 dated 19 December 2008).
- iii. Time taken for vendor selection (post receipt of bids) ranged from 40 to 70 days in 7 out of 13 cases of competitive bidding reviewed.

- iv. Incomplete tender and purchase order terms: in 2 cases the tender/PO for bed nets did not require the supplier to provide pre-shipment quality certificate (PO dated 11 November 2008) ; in 1 case of purchase of RDT the PO did not specify the minimum remaining life of the product upon arrival in the country (PO dated 19 June 2007); and in 3 cases the PO did not specify the delivery schedule or expected date of delivery e.g. PO 11 June 2007.
- v. Three cases where the PR procured vehicles (three Toyota Prados, one Mitsubishi L200 and one Nissan S/Wagon Luxury) which were comparatively more expensive than the pick-up vehicles procured in the same year , foregoing potential savings of US\$21,600 (February 2007).

Recommendation 23 (Significant priority)

The PR should establish a PSM Steering Committee comprised of members from the PR and the SRs, including Technical Assistants, and led by the Chief of the Procurement Unit at the PR. The Steering Committee should meet at least quarterly to provide assistance on PSM issues for the Global Fund-supported programs. The PSM Steering Committee should have the following roles and responsibilities:

- (a) *To provide support and guidance to the PR and SR staff on problems faced during procurement and supply management for the Global Fund grants.*
- (b) *To identify problems, propose action plans, and fix timelines and responsibilities for implementation of the proposed actions.*
- (c) *To provide technical expertise, wherever required, for implementation of the proposed action plan.*
- (d) *To monitor performance and evaluate results of the agreed actions.*
- (e) *To ensure that standard procurement and supply management practices are being followed at the PR and the SRs.*
- (f) *To submit quarterly progress reports to the CCM through the Oversight Committee.*

Recommendation 24 (Significant priority)

In order to ensure that value for money is achieved in every purchase made using grant funds, the PR should:

- (a) *Carry out competitive selection of the procurement agents where PAs are used on particular procurements. Consider the use of competitive bidding instead of PAs, particularly for less complex procurements such as non-health products and health equipment like vehicles, microscopes, etc.*
- (b) *Consider further assessment of the appropriateness of present threshold of US\$120,000 for International Competitive Bidding.*
- (c) *Document the approval of appointment of the Technical Evaluation Committee as well as evidence of its technical competency.*
- (d) *Consider assessing the number of Procurement Committee and Technical Evaluation Committee members from the current 12-18 members per meeting to reduce per diem payments and ensure quick and effective decision-making.*
- (e) *Ensure a lock box system is used to deposit sealed bids received from bidders.*
- (f) *Monitor adherence to tender terms by the selected vendor and ensure late delivery charges are enforced.*

- (g) *Avoid drafting technical specifications that exactly match the specifications of a product produced by only one source. Do not remove conditions that protect the interest of the purchaser.*
- (h) *Reduce the time taken for vendor selection (post receipt of the bids).*
- (i) *Ensure that the tender and purchase order require the supplier to provide a pre-shipment quality certificate. Also, the purchase order should specify the delivery schedule or expected date of delivery, as well as the minimum remaining life of the product upon arrival in the country.*
- (j) *Ensure that funds are used cost-effectively by avoiding the procurement of luxury vehicle models.*

Quality Assurance

93. Pre-shipment quality assurance for pharmaceuticals is well organized, but there was no system for post-shipment quality assurance. No samples were taken on arrival in Lao PDR, and no quality checks were done at intermediate warehouse or dispensing level. The Lao PDR does not have a quality control laboratory that is WHO pre-qualified. The FDD is negotiating with regional WHO-pre-qualified laboratories in Hanoi and Singapore, but an agreement had not been reached at the time of the audit. Additionally, no batch number tracking system had been implemented.

94. The OIG noted instances where manufacturer's quality certificate was not obtained for bed nets and RDT kits procured under the Global Fund grants.

95. Internationally procured health products that are labelled in English or French are relabelled locally in the Lao PDR. The FDD is not involved in the relabeling process and there is no control on the quality and adequacy of the translation.

96. PSI has published internal technical guidance for condoms which specifies a maximum shelf life under tropical conditions of three years. However, condoms procured by PSI Lao with GFATM funds between 2006 and 2008 had shelf life at arrival date ranging from 43 and 56 months depending on the shipment.

Recommendation 25 (High priority)

The PR should:

- (a) *Ensure compliance with post-shipment quality controls, by conducting post-shipment random testing and independent quality testing for drugs at different levels of the supply chain.*
- (b) *Establish a batch number tracking system.*
- (c) *Ensure quality certificates are duly obtained from suppliers.*
- (d) *Complete the process of selecting a WHO-pre-qualified laboratory for testing.*
- (e) *Ensure that the FDD is involved in the process of relabeling internationally procured health products in order to control the quality and adequacy of the translations.*

Recommendation 26 (Significant priority)

PSI should comply with its internal technical guidance on condom shelf life when procuring condoms under Global fund grants.

Audit of Global Fund Grants to Laos

Inventory Management

Poor stock monitoring and stock-outs

97. Minimum stock levels, re-order levels and lead time were not defined for critical health products. Also, standards were not defined for stocks issued for consumption at provincial hospitals. The OIG reviewed the stock of five ARV drugs issued for consumption at Champasak Provincial Hospital and noted that the stock levels varied from 25 days to 2.5 months requirement.

98. The OIG noted stock-outs of ACT, OI drugs and HIV test kits at provincial and district health facilities. At the Champasak Malaria Station, for example, there were ACT stock-outs during the 2009 and 2010 malaria seasons.

Inadequate record keeping

99. The CHAS, the NTC and the CMPE each have their own model for stock cards and essential information was found to be missing from these stock cards such as batch numbers, expiry dates and technical specification details. As a result of incorrect or missing records of expiry dates on stock cards, the OIG noted that the First Expiry – First Out (FEFO) principle of dispensing was not always respected. During the field visit to Luang Prabang, the OIG noted that the CMPE dispatched new shipments of Paracheck malaria RDTs to health facilities while older stock with a shorter shelf life remained in the warehouse.

100. During visit to the Provincial Hospitals at Champasak and Savannakhet, the OIG noted 10 cases where the expiry dates of HIV drugs were captured incorrectly in the monthly stock report for July 2010 submitted to CHAS. The difference in actual expiry date and the reported expiry date ranged up to 37 months.

Expired stock

101. Records collected from the PR indicated expired RDT, ACT and HIV reagents worth US\$ 946,209 for the period 2007 to 2010. Over-stocking and expiry of large quantities of items has primarily been a problem of the malaria program. Substantial quantities of RDT and ACT expired in 2009 and 2010 at Provincial and District stores. This was in part related to inappropriate quantification and forecasting for period prior the audit e.g. before 2010. Districts with very low malaria incidence were supplied with inappropriately large amounts of malaria test kits and medicines and there was no system to re-distribute supplies between provinces. This situation is expected to improve under the new strategy based on stratification of malaria risk throughout the country.

Summary of expired drugs during 2007-10, as per PR records									
Item	UOM	Until 2008		2009		2010		Total	
		Qty	Amount	Qty	Amount	Qty	Amount	Qty	Amount
ACTs	Blisters	188,957	304,146	170,706	174,297			359,663	478,443
Paracheck	Box of 25 tests	10,557	145,164	6,444	86,046	5565	73742.08	22,567	304,951
Antisunate Injectable	Vial	17,774	49,767	25,157	14,088	13,071	7319.76	56,002	71,175
Antisunate Supp	Blister of 6 Supp	23,663	80,454					23,663	80,454
HIV test kits (Determine)	Tests	4,016	2,610	1,783	1,159			5,799	3,769
HIV test kits (Unigold)	Tests	4,501	7,202	134	214			4,635	7,416
Total			589,344			275,804		81,062	
946,209									

Table 4

102. Health Facilities report expired drugs to provincial level and provincial level to national level. Although this is a reasonable reporting procedure, health facilities keep the items until all disposal procedures are finished. As a consequence, the expired health products can remain at the health facility for six months or more. In some cases OIG found that expired items were not separated from current stock.

Lack of physical verification of inventory

103. There was no process in place for periodic physical verification of inventory at the central, regional, provincial or district level stores. During the OIG's physical count of stock on a sample basis, The OIG noted 4 instances where physical stock count did not match with the stock cards.

Recommendation 27 (High priority)

The PR, in coordination with the disease centres, should:

- (a) *Conduct a causal analysis of previous instances of expired drugs and stock outs, and identify key action points for future forecasting.*
- (b) *Define minimum stock levels, re-order levels and lead time for all critical health products and ensure close monitoring in order to avoid stock outs.*
- (c) *Define standards for stocks issued for consumption at hospitals. Improve the completeness and accuracy of stock records and reporting by:*
 - i. *Introducing standardized stock cards and reporting in health facilities, including batch numbers and expiry dates.*
 - ii. *Issuing clear guidelines on data recording and reporting, and educating staff at all levels.*
 - iii. *Introducing a process for the review and validation of data at the provincial and central level.*

Recommendation 28 (High priority)

The MLC should:

- (a) *Provide the necessary training and supervision to ensure that the FEFO principle of stock management is implemented at all levels of the supply chain.*
- (b) *Introduce a process for conducting periodic physical verification of inventory*

Recommendation 29 (High priority)

The CMPE should complete the implementation of the new risk-zone based malaria strategy, so as to ensure a more rational distribution of ACT and RDT, and avoid overstocking and expiry of malaria drugs and tests in zones with low malaria risk.

Recommendation 30 (Significant priority)

The MPSC should ensure that its efforts to integrate the distribution system include the development of a procedure for the efficient collection of expired health products for safe disposal.

Storage and Distribution

104. The MPSC is responsible for implementation of a 2009 Ministerial Decree to unify the reception, warehousing and distribution of all health products for the three Global Fund-supported programs as well as other donor health programs. This decree had not yet been fully implemented

and the storage of health products was still mainly managed by the SRs, with distribution mainly subcontracted to the private sector. Physical infrastructure was gradually being strengthened under R8, but the inventory management remained weak and there was a lack of a functioning cold chain.

Recommendation 31 (High priority)

The MPSC with the three disease programs (CHAS, NTC and CMPE) should develop and implement a hand-over plan to complete the process of handing over the responsibility for the reception, storage and distribution of pharmaceuticals, laboratory reagents and other program supplies to the MPSC. The MPSC should guarantee an appropriate warehousing service, a functional unified stock management and reporting system, and efficient and timely distribution of products.

Improvements needed to warehouse conditions

105. The OIG visited the MLC central warehouse and the regional warehouse of Luang Prabang and noted that there was:

- No cold chain.
- No temperature control system, except for a small section of the central warehouse.
- No fire safety equipment for the regional warehouse and inadequately installed fire safety equipment for the central warehouse.
- No insurance cover.

106. Similarly, for the PSI warehouse visited the OIG noted:

- No temperature control system.
- Insufficient fire safety equipment and no maintenance schedule.

Recommendation 32 (Significant priority)

The MLC and PSI should improve warehouse conditions for the storage of drugs, reagents and condoms. This should include: the improvement of temperature control systems; the improvement and regular maintenance of fire safety equipment; adequate insurance coverage; and installation of cold room facilities where needed.

Inequitable distribution of bed nets

107. The OIG reviewed data for the 2008 bed net distribution by the CMPE in 8 villages in the Champasak Province and noted the following inconsistencies in distribution:

- a. Non-rational distribution between villages – Instances were noted where some villages received bed nets in excess of their requirement considering the bed net distribution ratio of 1 bed net per 2.5 person. For example, in Phuoi village many families received more than 1 bed net per member whereas in Nonaxang village many families received only 1 bed net for 5 to 11 members.
- b. Non-rational distribution amongst families in the same village – Analysis of post distribution data indicated wide variance in bed net availability in the same village ranging from 1 bed net per 1.7 persons in one family to 1 bed net per 11 persons in another family.

Since the CMPE had sold bed nets at a concessional rate in all of these villages, the inconsistencies may be a result of different paying capacity of families. More generally, the OIG noted little involvement from CMPE, in terms of physical distribution and prices charged. There was no system in place at CMPE to ensure that bed nets had been distributed to the right families and at the right prices.

Recommendation 33 (Significant priority)

The CPME should:

- (a) *Avoid inconsistencies in the distribution of bed nets by carrying out a thorough needs assessment before procurement and distribution, and should reassess the need for selling bed nets versus free distribution.*
- (b) *Develop a system of control and monitoring to ensure that bed nets are distributed to the right families and at the right prices*

SERVICE DELIVERY AND M&E**The Three Diseases in Context**

108. Malaria, TB and HIV care and prevention are addressed at different levels, corresponding with the epidemiology of the disease. With Global Fund support, malaria diagnosis and treatment have been decentralized down to the village level. TB prevention and treatment is in the process of decentralization to health centres, and further down to village level. HIV/AIDS care is steadily expanding but is still limited to a small number of central and provincial hospitals. For all three diseases, national strategies and monitoring frameworks exist. Their alignment with Global Fund programs has varied. As stated in a recent article ‘The level of integration of the Global Fund with national disease programs is high (with the exception of M&E), but paradoxically this is partly because the Global Fund has become the main funder of these programs.’³

Malaria

The national malaria program has shown encouraging results. A major accomplishment has been the speed and extent of decentralization to the village level. In 2008, nearly 65% of Lao villages were reported to have ACT/RDT. Improved detection has been the main reason for the increase in recognized *Plasmodium falciparum* malaria cases. A positive trend has been the focused use of studies and pilot projects designed to further improve the program’s effectiveness. These lessons have, however, yet to translate in increased cost-effectiveness and efficiency. Also there still are exceptions, of villages where incidence increased despite receiving the full package of interventions. These ‘outliers’ are not well understood and deserve further study. ACT and RDT stock ruptures have been structural and long term, and have put program achievements at risk.

109. Since 2008, more than 90 percent of financing for malaria programs has come from the Global Fund. A few highlights, for a large part attributable to Global Fund support:

- Distribution of ITN/LLIN and full treatment coverage with ACT
- Focus on ethnic minorities in remote areas of the country

Indicator	Baseline (2001)	Achievement (2009)	MDG Target (2015)
Annual incidence of confirmed uncomplicated malaria per 1,000 population	9.1	3.7	2
Malaria mortality rate per 100,000 population	4.7	0.08	0.2
Proportion of population in malaria risk areas protected by impregnated bed-nets	33%	88%	70%

Table 4

110. The malaria program has benefited from a number of Global Fund supported studies and surveys, which were all designed to inform better practice and particularly to better tailor the program to needs. Originally, in the absence of a stratification model and a targeted intervention strategy, the

³ Mounier-Jack, S. et al (2010) Critical interactions between Global Fund supported programmes and health systems: a case study in Lao People’s Democratic Republic *Health Policy and Planning* 2010;25:i37–i42
http://heapol.oxfordjournals.org/content/25/suppl_1/i37.short

47 poorest districts were taken as the proxy for what were considered to be the areas of greatest need. With better data on the spatial distribution of malaria, a stratification was proposed on which areas should be more efficiently and effectively targeted and likewise in which areas control could be less intense. Table 5 illustrates that the large majority of the population lives in a low transmission zone (zone I, II). The zones are scattered across villages over the country. For approximately 6% of villages the risk is yet to be mapped.

Table 5: Distribution of population and districts, in ascending order of malaria transmission

Zone	Number of population	Proportion of population (%)	Number of districts	Proportion of District (%)
Zone I	982,627	17.30	15	10.64
Zone II	4,172,944	73.47	106	75.18
Zone III	260,694	4.59	9	6.38
Zone IV	263,461	4.64	11	7.80
Total	5,679,726	100	141	100

Source: Dr. Tran Quoc Tuy, Stratification of malaria zones Lao PDR - 2009

111. Better information has also helped to adjust targets. Impact indicators of reduced incidence and annual parasite index were originally set too high as became evident in better diagnosis. Targets were thus reduced for phase 2 of Round 7. The Round 7 phase 2 was also re-worked to better reflect the new malaria strategy 2011-2015, which is based on the above concept of stratification. The re-programming only went half way, however, which was a missed opportunity.

Recommendation 34 (Significant priority)

The Global Fund Secretariat should ensure that Global Fund rounds are aligned with new national strategies, particularly where a new national strategy is a reflection of improved insights, as has been the case in Lao PDR for malaria. A practical argument for alignment is that this will diminish transaction costs between Global Fund supported rounds and national programs.⁴

112. An emerging issue has been that, despite large investments in malaria control and prevention in the past five years, intense transmission was reported in about 25% of villages sampled in an impact study conducted by PSI. The study was small scale (28 villages, in an area inhabited by ethnic minorities) but points at the fact that more insight is needed to effectively control malaria and take local habits into account. An example is the need for single size bed nets, in addition to the usual family size net, for persons sleeping out in the forest.

Recommendation 35 (Significant priority)

The CMPE should ensure that further studies are conducted to investigate why in some areas transmission remains very high despite high reported ITN/LLIN coverage.

113. In the Lao PDR, the large majority of the population prefers to sleep under a bed net and there is in that sense not the concern of under-utilization⁵. This also means, however, that LLIN in any household become part of a range of nets – old and new, treated and untreated, LLIN and non-LLIN. Since the early days of introduction of bed nets (UNICEF, 1990s) an annual routine has been established in which Provinces and Districts made sure that insecticide reached the villages in time, well before the rainy season. The village health workers then organized for the entire village

⁴ OIG has been informed by the Secretariat that this recommendation has been implemented in the period between OIG's visit and final version of the OIG report.

⁵ CMPE (2010) Bed net baseline survey report;

idem (2009) Malaria baseline community survey of ethnic minority groups in five provinces of Lao PDR

population to bring in their nets, check them for holes, and get them dipped. The routine has been continued under Global Fund rounds. For example in Savannakhet Province in year 1 Round 7 over 4,600 litres of insecticide was distributed to over 700 villages. With the advent of long-lasting (insecticide treated) nets the risk is that this tradition of making malaria control a village issue, is lost. Also, receiving bed nets for free or far below market price has inadvertently raised expectations that more is to follow. Villagers in two villages visited by the OIG said that although their nets had holes in them they did not replace them as new nets might be coming, for free.

Recommendation 36 (Significant priority)

The CMPE should extend its RDT and ACT stratification strategy to also include a strategy for bed nets and their re-impregnation at village level, such that:

- (a) *Routine of households taking responsibility for malaria prevention is maintained.*
- (b) *Village health volunteers are reinforced in their duties of prevention and early diagnosis.*
- (c) *There is recognition that households may have all kinds of nets and that they need to avoid holes and repair them as soon as they occur.*

114. As expected challenges to optimize malaria control will remain. The key future challenges listed by CMPE are:

- Maintaining village based diagnosis and treatment in high risk areas with Combo RDT for diagnosis and radical treatment with Primaquine for Plasmodium vivax infections and other gametocytes (*Plasmodium falciparum*)
- Integration of surveillance and response activities within national surveillance systems
- Strengthening capacity of central, provincial and district staff in early detection and prompt response to outbreaks
- Adopting effective pro-active strategies for addressing external risk factors like deforestation, plantation, mining and hydro dam and road development projects

115. The OIG visited a district hospital (Nan District, Luang Prabang) where the last indigenous case of malaria was diagnosed over two years ago. This illustrates a key concern, of finding and maintaining a balance between the concept of scaling down in low risk strata whilst keeping up motivation, responsiveness and diagnostic competence. A pilot project integrating malaria surveillance in broader national surveillance systems is being implemented. One purpose is that of maintaining alertness, by treating every potential case as an emergency and making an all-out effort of tracing the source and securing vector control.

116. In Lao PDR, several hydro-dams have been constructed over the past years, exploiting the Mekong River and its tributaries. Importantly, many more dams are on the drawing board or are under construction. Although no outbreaks of malaria have officially been reported in connection with these or other large-scale development projects, senior CMPE staff emphasize it remains important to establish surveillance systems to detect outbreaks of malaria especially for projects located in, or near, malaria endemic areas. Entertaining links with large development projects is also seen as an important and challenging task at provincial level. Monitoring the medium and long-term environmental impact of these projects on malaria transmission including changes in vector distribution and behaviour is equally important.

Recommendation 37 (Requires attention):

The CMPE should pilot and seek a best practice model of public-private partnership for malaria control in the context of large development projects such as hydro dams. The model should include the local population and the workforce and be derived from the national malaria strategy.

Tuberculosis

In TB control convincing gains in treatment success have not been matched by sustained improvement in case detection. Lack of progress in case detection is not well understood. Opportunities to further decentralize and accelerate detection should be consciously created and exploited.

117. In 2008, 95% of the funds for the national TB program came from the Global Fund. Highlights for TB control include the steady improvement in treatment success rate, from 76% in 2002, to 90% in 2005, to 93% for the 2008 cohort of smear positive cases taken into treatment. Also impressive is that within the treatment success rate the proportion of cases cured – that is: whose smear test converted - has increased from 65% in 2002 to over 90% in 2009 (2008 cohort). This is a convincing indication of treatment adherence. A factor that is likely to have contributed to this success is the transport allowance (Kip 50,000 i.e. around Euro 5/month) to which TB patients are entitled when they attend their DOTS treatment appointments.

118. However, the Case Detection Rate (CDR) of new smear positive TB cases has not matched improvements in treatment success. Coming from as low as 32-40% in 2001 the rate has since 2005 levelled off to an approximate 75% (latest figures March 2010)⁶. A factor that is likely to have hindered case detection is, quite simply, a low level of alertness both among the general public and also among health staff. Practicalities such as described in Box 1 continue to delay detection, with self-evident implications for continued transmission and new infections.

Box 1: Practicalities that hinder early detection

Excerpt*

'The health worker comes and confirms that the person is really a TB suspect. He then has to order sputum cups from the District, because there is usually no sputum cup at the health centres. The patient must then go to the health centre to get the sputum cups (or the health worker might go to the patient's house). And finally, the sputum cups are sent to the Districts for examination. This is thus a very long and complicated process. In these conditions, it is not surprising that many patients get discouraged and never get examined. Even for those who get examined, the process is very long, and if one of them turns out to be positive, there is an unacceptable delay due to the health services before diagnosis. Sputum pots should always be available in all the health centres.'

*Source: Visiting report staff member Damien Foundation, May 2009

119. The incidence of TB – that is: the rate of new cases per 100,000 population - has indeed for all forms of TB only slightly decreased, from 162 in the year 2000, to 149 in 2008. Smear positive cases constitute nearly half of all TB cases. As in other countries a weakness has been that the 'true' incidence was not known and therefore has been an estimate based on past surveys. Changes in the assumed incidence (WHO 2009) did affect the reported effectiveness. At the time of the OIG visit, a new TB prevalence survey was underway. The results, which are expected at the end of 2011, will be helpful to explain declining notification rates.

120. The OIG got conflicting information on the extent and seriousness of MDR-TB. While the coordinator of the national program stated that the 'first confirmed MDR cases occurred in 2010', the WHO estimate is 3.5% MDR-TB among all new TB cases. The reality is that data at the time of the OIG visit were not really known. Facilities are scheduled under Round 7 Objective 2: to adapt DOTS to respond to MDR-TB and TB-HIV and other vulnerable groups. The indicator 'Number and proportion of all retreated TB cases who receive culture and drug sensitivity testing' was likewise yet

⁶ The Secretariat's Country Team asserts that "There is an increasing emphasis on achieving universal access to health care, which implies detecting and treating well in excess of 70% of cases."

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to be reported on at the time of the OIG visit. The PR was not able to achieve these targets because it is still in the process of upgrading the National Reference Laboratory and the two regional laboratories.

121. The 2011-2015 National TB Strategy lists as main interventions:

- Training and re-training on TB of 200 TB staff doctors and nurses each year
- Training/retraining of health centres
- Rehabilitation of health centres, transportation (in HSS)
- Regular supervision to all DOTS health centres by District TB Manager
- Training/retraining on TB control of Village Health Volunteers (VHV)

122. Training of doctors and nurses of public sector (in central, province, district hospitals) and private practitioners on identification and referral of TB suspects, contact tracing and follow-up of TB patients using International Standard of TB Care

123. The Global Fund round 7 has been in line with the above and as a consequence, there has been a strong focus on training. The recommendations of the 2011-2015 Global Plan to Stop TB to change certain indicators will be adopted in phase 2 of this round.

HIV/AIDS

The national HIV/AIDS program (CHAS) is aptly characterized by its Director as 'learning as we are doing', with gradual expansion of the services. The program builds on lessons and routines from former projects and programs (MSF; FHI). CHAS is firmly in the driving seat, with consistent support from UN agencies. At the time of the OIG visit progress was hampered by lack of HIV test kits – affecting extension to PMTCT; TB/HIV. A strong feature is the high level of involvement of PLHIV.

124. Since 2008 over 40% of funding of the national HIV/AIDS program has come from the Global Fund and less than 2% from Government resources. The main goal of the program is 'to maintain low zero-prevalence through preventing localized epidemics'. Key data are listed below:

Impact indicator Round 4	Baseline (2001)	Data (2008)	Target (2009)
Low zero-prevalence in generalized population	0.06%	0.2%	<1%
Low zero-prevalence among sex workers	0.9%	0.4%	<5%
STI prevalence among sex workers			
• Gonorrhoea	25%	6.5%	6%
• Chlamydia	42%	17.5%	11%

Table 6

125. HIV prevalence has indeed remained low - close to 0.2% among 15 to 49 year olds; an estimated 8000 People are Living with HIV (2009). The discrepancy between high STI prevalence and low HIV zero-prevalence among sex workers is not well understood, but has served as an alert for preparedness. As UNAIDS has phrased it in its 2010 UNGASS report:

'Despite its seeming imperviousness to the HIV levels of its neighbouring countries, Lao PDR is continuously vulnerable to an expanding epidemic. It is landlocked by countries which report double digit prevalence for their most at risk populations, with three of these countries only'

recently moving out of a generalized epidemic. Lao PDR's recent economic expansion has increased tourism and mobility across borders. This increased access and movement, coupled with the existing sex worker-client vulnerabilities and the several emerging high-risk groups, places Lao PDR on the verge of a new HIV threat.'

126. The national program rightly focuses on prevention among high-risk groups. Insight in who these groups are, is improving, which insight, however, has not necessarily made it easier to reach these diverse groups. Originally introduced by FHI, drop-in centres for high-risk groups have been an important instrument since 2004. However, the largest proportion of reported cases are migrant workers (19%) and housewives (18%)⁷.

127. ART provision is gradually expanding but is still limited to major central and provincial level centres reputedly covering over 90% of the needs; at the latest count some 1526 people were receiving ART from Global Fund financed programs.⁸ As in the TB program, patients are supported by allowances. PLHIV are part of the VCT teams in the main treatment centres. However, late presentation to seek health care is a concern and was also observed by the OIG team.⁹ A cohort study of HIV patients from 2003 showed that nearly three quarter of patients presented for the first time with CD4 cell counts of less than 200 while over half even had CD4 cell counts below 50.¹⁰ Late presentation indicates that HIV awareness is still insufficient even though HIV prevention has consistently been a main budget component.

Recommendation 38 (Significant priority)

The CHAS, with the guidance of UNAIDS, should commission a study that documents and monitors trends in (self) referrals, differentiated for men and women, as an indication both of decreasing taboo and of improved access to services. The most practical way to do this would be through patients' CD4 cell count at first reporting.

128. A general observation is that HIV/AIDS rounds have got increasingly complex, especially with Health Systems Strengthening added. This is apparent also in the increase in objectives, from 11 in Round 1 and Round 4, to 22 in Round 8, each with a number of indicators. At the time of the OIG visit, in August 2010, efforts were underway to consolidate rounds. The LFA already in its Round 6 PR assessment and again in its Phase 2 assessment of Round 4 flagged overlap, especially for training components. Though consolidation will not solve the problem of complexity, it will address overlap and will also more readily demonstrate complementarity with other donor programmes. Another LFA observation was lack of acknowledgement of the role and inputs of other donors.

129. Although one could say there is national ownership in the sense that prevention programs are executed under NGO guidance by Government staff, this is not really so. The OIG witnessed in two provinces that salaried Government staff stopped project activities of working with sex workers when project incentives were discontinued, even though these activities were in line with staff's regular job description. For example, in Luang Prabang Government salaried staff were in their offices but no longer visited FSW guest houses since the project (Round 4 HIV/AIDS) had stopped.

Recommendation 39 (Significant priority)

The CHAS should ensure that an evaluation of the entire HIV program is undertaken with particular attention for Paris Declaration principles, sustainability and cost-effectiveness. This could take the form of a Joint Review or of a Periodic Review.

⁷ Lao PDR National Committee for the Control of AIDS: UNGASS Country Progress Report 2010

⁸ Lao Portfolio, Global Fund, October 2010

⁹ http://data.unaids.org/pub/Report/2010/Lao_PDR_2010_country_progress_report_en.pdf

¹⁰ Savannakhet HIV Adult Cohort Study, Ministry of Health and Center for HIV/AIDS/STI, 2008.

Programmatic Risks and Concerns: Emerging Issues

130. Below a number of risks, concerns and emerging issues are listed.

IEC a major concern in all three disease programs

In IEC, a number of weaknesses combine and together form a risk, of lack of relevance of Global Fund supported efforts. This is a serious issue, which deserves attention. A main weakness is lack of imagination coupled with repetitiveness – suggesting that imparting knowledge suffices to halt undesirable behaviour. IEC methods should be reviewed and redesigned to include the potential of horizontal ('peer to peer') learning – from one district to another, and from one village to another. (And, for that matter: from one SR to another.) It is this role, of IEC catalyst, which Health Unlimited (HU) was meant to play in the malaria program, but which it failed to take up.

131. A substantial part of the work plans and budgets for all three diseases in Rounds 1, 2, 4, 6, 7, 8 is allocated to activities categorized as Information, Education and Communication (IEC), Behaviour Change Communication (BCC) and peer education, often budgeted under 'human resources' and 'training'. The success of the activities is hard to measure. Therefore proxy measures are adopted, of 'people trained', or of 'attendance' or of 'having received certain messages'.

132. Although in other domains there have been surveys, which have resulted in fundamental programmatic changes (for example: the malaria prevalence survey, the bed net survey), this has not been the case for the above awareness raising activities.¹¹ Partly because indicators at the outcome level are lacking these 'soft' activities have not been subject to open criticism or to comparative assessments. A follow up of the 2010 KAP survey is set for 2013 and can be expected to make up for some of these shortcomings. However, for obvious reasons its results will have no bearing on current activities. Some specific issues, within the IEC domain:

Empty phrases. Example: 'target village' (TB; malaria)

133. For TB, the concept of having 'target villages' seems ill-conceived as there is no connection with the epidemiology of the disease. In the various TB rounds it simply has meant that some villages are selected for more intensive IEC and that other villages remain uncovered. The merit of repeating messages for certain villages while not giving any messages in other villages is dubious. For malaria the practice of selecting an arbitrarily set number of villages in high priority districts does not guarantee that all needy villages are reached. It is in fact unclear to what extent the national strategy of giving due attention to all zone 3 villages is carried through in IEC targeting.

Terminology that needs to be contextualized. Example: sex workers

134. The term 'sex worker' or 'service woman' is broadly used for persons selling sex. Further useful distinctions are 'open' versus 'hidden'; 'old' versus 'new'; and 'high frequency' versus 'low frequency'. These distinctions try to capture different aspects of the phenomenon of sex work. Although the number of female sex workers seems to be fairly constant, at 13000 to 17000, there is a continuous flux of people moving in and out of the profession. For example, in Luang Prabang of 45 Peer Educators trained by PSI in three batches during 2008-2010 only 10 were still active in 2010; none of the Peer Educators trained in 2008 were still around.

135. Sex workers are mostly young, illiterate, poor and from rural areas. Evidence is that sex work is a temporary and often part-time source of income to make ends meet. Not surprisingly sex workers

¹¹ There has been an evaluation of the IEC communication materials, in May 2009, by Pricha Petlueng. This evaluation was geared to materials but not to the IEC approach proper. (It is noteworthy that most staff interviewed by OIG equalled IEC with IEC materials.)

state they are housewives, which may well be the case. In a study by FHI among service women sampled only 61% had sold sex for money in the past 12 months. The majority of the service women reported no more than 5 partners per year. Condom use was strongly related to the regularity, or lack of it, of the relationship with the sexual partner¹².

136. IEC approaches thus need to be geared to individual needs – which is not the case in any of the IEC approaches scrutinized by the OIG, with the exception of the FHI approach (not Global Fund supported). Also, given the high turnover of sex workers and the fluidity of this occupation, it is important to find extension approaches that are self-perpetuating and so become less dependent on continued efforts of projects and their staff. The same applies to extension work with other high-risk groups, such as MSM, which the OIG found to be equally labour-intensive and therefore unsustainable.

Lack of shared learning and coordination. Example: malaria IEC

137. CMPE, PEDA and HU currently all have an IEC agenda with ethnic minority groups (Round 7). However, there is no evidence of sharing or comparing approaches or lessons from earlier rounds, even when working in the same province. PSI has a lot to offer in terms of lessons learned during Round 4 and also has been strong in seeking explanations for ‘outlying data’. Yet PSI has kept these lessons to itself.

IEC approaches that are mutually exclusive. Example: malaria IEC

138. There are three different approaches, abbreviated as BCC, PE and IPC. The approaches are implemented by different organizations. IPC – Inter Personal Communication – is the CMPE approach. It is based on a preceding project and involves traditional institutions, such as village leaders, the Lao women’s Union and so on.

139. A special case is PEDA, which has embraced PE (peer educators) as a one-for-all modality for its awareness raising programs - regardless of the illness, the round or the topic. PEDA PE approach comes with two-step monitoring at output level – of peer educators trained and of persons reached by the peer educators. The fixation on one and the same approach has prevented interaction and shared learning. It has also come with a standard monitoring format, which is incompatible with other approaches.

Lack of ownership

140. Provincial supervisors of Global Fund supported HIV programs did not question the soundness of the IEC approaches chosen. They did sign off on the monitoring forms handed in by their staff but stated that they only checked if the numbers matched the targets, which as they emphasized, were not set by them. The same applied to senior staff’s role as supervisors of the NGO activities of staff members serving under them. The OIG concluded that although on paper there is ownership there is little intellectual and institutional ownership.

Recommendation 40 (High priority)

The CCM should ensure that the PR and SRs, with support from development partners:

- (a) *Within the three domains, of HIV/AIDS, TB and Malaria, seek ways for comparing IEC results at the outcome level, by joint evaluations and self-assessment, for example by having SRs judge each other’s approaches and the outcomes of these approaches*

¹² Source: FHI Behavioural Surveillance Survey, Lao PDR 2000-2001

- (b) Feed lessons of all studies and surveys into IEC programs and in doing this, also draw in PSI on this particular strength
- (c) Use wherever possible existing traditional and lasting structures as also promoted by CMPE
- (d) Within the three domains, identify indicators at the outcome level, plus affordable ways to measure these
- (e) Do (a), (b), (c) and (d) such that the actual programs get new inspiration, of lessons learned, with a view to generate cost-effective approaches that will retain their effectiveness over time, and will be replicated with minimum external input
- (f) Measure success in terms of spontaneous replication without the need to keep up extension efforts. For example, among female sex workers, to assess protected sex as a result of lessons learned by fellow sex workers ('horizontal learning').

PSI a special case

141. PSI is a special case as its ambitions and resources differ from those of local NGOs. In all HIV rounds – Round 1, Round 4, Round 6 and Round 8 – PSI has been engaged in IEC (BCC; peer education). It is only natural that expectations vis à vis PSI are raised. Yet the OIG found that most of the criticisms on IEC approaches voiced above equally apply to PSI. Taking the case of PSI work with sex workers, there is the same repetitive mode of ticking off (repetitive) messages, at the individual level of sex workers and peer educators. Yet PSI mission statement: 'making markets work for the poor and vulnerable in a sustainable way' begs the question if an institutionalized alternative is possible.

Recommendation 41 (Significant priority):

In line with its reputation of evidence based innovation, PSI should set the standards for alternative approaches to IEC. Notably, in its work with sex workers (service women) in so-called guest houses PSI should consider how to operationalize its mission statement of 'making markets work for the poor and vulnerable in a sustainable way'. And thus see sex work and its institutions as markets that would benefit from culturally sensitive 'branding' and in particular:

- (a) Promote 'branding' of guest houses and their owners ('mamasang') building on the strong cultural concepts of 'protection' and 'cleanliness', for both clients and sex workers
- (b) Make approaches evidence based
- (c) Seek lessons from other public-private partnerships (such as PPM)
- (d) Share lessons learned with other NGOs
- (e) Develop meaningful indicators

142. PSI has been entrepreneurial and innovative in its initiative of 'one stop STI kits' targeting men. The kit contains two condoms and two common STI drugs. These kits were sold at private pharmacies and were reputedly very popular. The Ministry (FDD) eventually put a halt to the initiative because of the risk of inducing resistance (the kits contained antibiotics). As the Director of CHAS phrased it 'we still need that drug but not for social marketing'. The case illustrates that what can work for one disease – PPM in malaria control - is not necessarily replicable for other diseases. Additionally, the external package did not indicate the batch numbers nor the expiry dates of the different elements.

Recommendation 42 (Significant priority)

PSI should ensure:

- (a) *Timely consultation with the Ministry of Health regarding new social marketing endeavours. This applies not only to Global Fund supported disease programs such as TB but also to other PSI initiatives as in sexual and reproductive health. Expert public health advice is needed in order to avoid the risk of promoting oversimplified solutions to complex issues.¹³*
- (b) *Medicines marketed for use in Lao PDR comply with FDD regulations for registration and marketing.*

Selective institutional strengthening with winners and losers; the case of IEC

143. In Lao PDR, Global Fund rounds have had one and the same strong PR, which operates as a project unit of the Ministry of Health. SRs likewise have largely been Ministry of Health departments. This is a perfect arrangement for institutional strengthening of the Ministry. Yet not all departments have been supported in their institutional task. Notably in IEC SRs of the Ministry (CMPE, CHAS, NTC, FDD, HCD, and MPSC) still all ‘do their own thing’ and by-pass the Ministry’s own Centre for Information and Education for Health. As Global Fund support has been substantial this is an example of a Global Fund-created divide between the ‘haves’ and ‘have-nots’ within one and the same ministry. Given the weaknesses in IEC it also is a missed opportunity, of professionalizing IEC.

Recommendation 43 (Significant priority)

The PR should ensure that the MOH’s own Centre for Information and Education for Health is the legitimate institution heading IEC efforts, including coordination of the IEC efforts of NGOs. This will ensure that intra-institutional divides are avoided and that capacity is supported where it belongs, for future rounds and for the re-programming of current rounds.¹⁴

Training as an incentive for unsalaried staff

144. There is an understandable tendency to reward unsalaried staff and volunteers with incentives. Training is one such incentive as it comes with perks of allowances. The risk is that training becomes a purpose in itself and is offered as a one-for-all package. For example, the OIG queries the rationale of training and retraining thousands of Village Health Volunteers (VHV) on community DOTS (8341 VHV by 2015) unless this is taken as an opportunity to also address early detection of TB cases (current data suggest that VHV have not been effective in speeding up TB detection.¹⁵ It is furthermore dubious if VHV should be trained in DOTS as an overall strategy unless there is a specific indication, for example of a dispersed population.

145. A related issue is that training is portrayed as a “cure all” solution. For example, a Round 6 malaria indicator 5 reads: ‘Number of public providers trained on how to fight counterfeits and rational drug use (anti-malarial and antibiotic), including village health workers, district and provincial health staff.’ It is unlikely that ‘training’ will in itself serve the desired purpose. The LFA in

¹³ In its comments on this recommendation PSI reported that “since the OIG’s visit and after a concentrated and long-term advocacy campaign from PSI, CHAS has approved the STI kits for social marketing purposes”.

¹⁴ The Secretariat’s Country Team noted regarding this recommendation that: PR and National Programs invited the MOH’s Center to lead the National IEC strategy development as well as to help strengthening the coordination of IEC efforts for HIV, TB and Malaria programs. The national framework for IEC was developed and approved by the Ministry of Health in July 2011.

¹⁵ Also see Etienne Declercq, Damien Foundation: Report of visit to Lao PDR from 11 to 20 May 2009.

its OSDV of July 2009 moreover noted that staff that had participated found it difficult to remember the main training messages.

Recommendation 44 (Significant priority)

Though training may be used as an incentive, the PR should ensure that training fulfils a clear need based on a sound strategy, which preferably is evidence-based. In particular:

- *Given the conditions in Lao PDR, training should be tailored to health needs, which differ across the country.*
- *Opportunities to address prevention and especially early detection in innovative ways should be exploited. Plans of the PR that demonstrate such ‘out of the box thinking and planning’ should be profiled as good practices.*
- *A specific out of the box example would be to use results of the current TB prevalence study (% of people aware that coughing which persists for more than 2 weeks could be a sign of TB) to train health staff.*

Health Systems Strengthening Opportunities

‘We work vertically because there is no horizontal part to link within the system’ – as several senior staff remarked. The OIG has also seen the reverse, of opportunities for health systems strengthening that were overlooked in the sense that potential horizontal linkages were not exploited. In terms of efficiency these would offer more value for money and would be more ‘natural matches’ with already existing Global Fund support than entirely unrelated HSS programs that have to be built up from scratch.

146. In current best practice proposals for Health Systems Strengthening (HSS) are developed based on the analysis of gaps. Another criterion naturally is a match with declared priorities, including alignment with health sector reform. A criterion which is less explicit but which seems to play a role is the possibility to build on or extend a preceding project. An example is the concept of ‘10 minimum requirements’ which originated from a preceding JICA-supported program and which forms the basis for the Round 8 HSS program. This program was yet to start at the time of the OIG visit. In Lao PDR there would be other criteria conceivable as well, of ‘utilizing existing opportunities’. Some examples are given below; a longer list would not be difficult to draw.

Example 1: Blood availability that goes together with blood security

147. In Lao PDR ‘blood security’ has benefited from multiple Global Fund HIV rounds and has also been included in the HSS part of the Round 10 proposal. Although labelled as blood security the most notable feature has been decentralization and thus: improved access to (safe) blood. With Global Fund support the number of blood centres has expanded to include all provincial hospitals and storage units have been established in (some) districts. The number of blood units collected has also steadily increased and in 2009 was twice as high (over 22,000) as in 2005. However, at the time of the OIG visit there was a severe shortage of blood in two provinces visited (Champasak and Savannakhet) and reputedly also in all other provinces. In Champasak there were only 2 blood units (of 500cc) in stock, for the four provinces depending on this centre. This was said to be a regular occurrence in holidays although in 2010 the situation was worse due to the large number of dengue cases needing transfusion.

148. The implications for the health system at large are huge. The OIG saw, for example, that anaemic patients admitted with AIDS remained in a life threatening condition while waiting for a

relative willing to donate blood. Surgical operations were likewise stalled, while haemorrhagic deliveries posed serious risks for mother and child. Ironically, the Global Fund indicator of blood security continued to show outstanding performance.

Example 2: Rational drug use that follows from proper diagnosis

149. In all three disease programs supported by the Global Fund, there is implicit and explicit emphasis on rational drug use in the sense that all treatment is preceded by proper diagnosis and that treatment is both effective and with minimum side effects.¹⁶ Taking the case of malaria: prescription of ACT is linked to a positive malaria diagnosis, by RDT and/or microscopy. This has led to a significant reduction of malaria cases as non-proven cases are no longer booked as malaria. Making specific treatment dependent on a specific diagnosis is desirable in a country where poly-pharmacy (prescription of more drugs than is necessary) is rampant. The OIG witnessed at all levels that poly-pharmacy is routine, which is not surprising as patients expect it and the health system requires it, as from the provincial level down to district and health centre level drugs are the system's main source of income. Poly-pharmacy is also risky, particularly where antibiotics appear to be a routine part of the package and where there is no Quality Assessment of locally produced drugs in place.

Example 3: Utilize the presence of trained village health volunteers

150. The implications of stratification of malaria include scaling down of village-level resources in areas of low risk. Village health volunteers trained in Early Detection and Treatment of malaria who are in low malaria transmission zones are set to lose some of their tasks and tools. This should be exploited as an opportunity: expanding VHV scope of work to other diseases – such as acute respiratory infection and diarrheal disease – would be a typical example of health systems strengthening that is opportune given the new circumstances. As it concerns large numbers, the selection of VHV should be strategic.

151. The OIG recognizes there are important challenges and needs in Lao PDR health systems. Health systems strengthening (HSS) with Global Fund support in the view of the OIG risks to become a wish list of all kinds of needs, with too little complementarity with Global Fund main agenda, of strengthening vertical disease programs.

Recommendation 45 (Significant priority)

The PR should ensure that opportunities offered within existing (vertical) disease control programs are utilized such that potential (horizontal) linkages with mainstream programs are laid. Such opportunities include:

- (a) *Good practices such as rational drug prescription that follows from proper diagnosis and that avoids polypharmacy. This could be a natural extension of Round 6 Malaria which focuses on counterfeit drugs. It would also be a natural link with the PPM project (malaria) which aims to instil a 'rational' professional attitude in private clinics.*
- (b) *Improved access and reliability as in the case of (secure) blood. This would require, amongst other things, an accelerated and sustained increase in voluntary (non-remunerated) blood donors.*
- (c) *Utilizing existing VHVs and thereby maintain their motivation.*

¹⁶ Rational use of medicines requires that "patients receive medications appropriate to their clinical needs, in doses that meet their own individual requirements, for an adequate period of time, and at the lowest cost to them and their community".

Although the result could be a patchwork and thus not a coherent HSS program in itself it would increase coherence of existing rounds. Since these would be extensions of existing efforts this add-on approach should also offer value for money.

Recommendation 46 (Significant priority)

The CCM should develop criteria which HSS applications should fulfil. A general criterion should be ‘efficiency’, to be argued from the principle of ‘added value’, such as through extensions of existing efforts that start off from existing rounds, practices, trained staff, etc. (principle of marginal returns).

Recommendation 47 (Significant priority)

The CMPE should support the MOH in its commitment to maintaining the competence and motivation of trained village health volunteers. In areas of low malaria risk, trained VHV’s scope of work could be expanded to other diseases, such as acute respiratory infection and diarrheal disease.

The PR-SR Relationship in the Three Programs

152. The OIG found evidence that the Global Fund support can on occasions encourage division between the SRs at the detriment of the unity of the Ministry of Health as a whole. An example has been the bypassing in BCC and IEC activities of the Ministry’s own Centre for Information and Education for Health. There also was no evidence of sharing of good practices.

Recommendation 48 (Significant priority)

The PR should ensure that the SRs share good practices and should use successful pilot studies to share experience between departments (SRs) and identify cross-linkages for replication. For example, the concept of Public-Private Mixes piloted by CMPE would be a good case to discuss with other SRs, notably all MOH departments dealing with drugs such as FDD, MPSC, but also with an NGO SR such as PSI. Preferably such a discussion would take place in the context of a drive by the Ministry of Health to bring of bringing SRs together in a series of thematic meetings with an explicit purpose of learning from each other to the benefit of the health system at large.

Data Collection, Monitoring and Reporting

153. A general observation brought out in the malaria prevalence study is under-reporting: 35% of cases recorded by health care providers in 2008 were not reported to the Health Management Information System; in 2007 this figure was 26%.

154. Flaws in target setting and indicator phrasing often only come out with real time experience. The LFA has done a good job in spotting problems and suggesting improvements, notably in their On Site Data Verifications (OSDV) and in Phase 2 assessments.

Monitoring and reporting: target setting

Unrealistic targets (too high)

155. TB Round 7: Targets set in the original proposal for new smear positive TB cases detected had to be adjusted from 84% to 70% for Year 3 and from 85% to 70% for Years 4 and 5¹⁷. Malaria targets in incidence reduction were also set too high as became evident with better detection.

156. An underlying problem causing unrealistic targets has been that the denominator ('true' incidence or prevalence) is not known so that targets are set in a vacuum. A main implication is that when incidence estimates change results and especially trends are no longer self-evident.¹⁸ A special case is:

Targets set in the absence of knowledge on true incidence

157. Here the target can only be set as an arbitrary number or in an inappropriate proportion. An example in Round 6 malaria is 'Number of substandard anti-malarial and antibiotic confirmed by the FDQCC of the total number of anti-malarial samples collected by a mystery patient survey, regular inspections and random inspection'.

Un-ambitious targets (too low)

158. HIV: The cut-off points in terms of 'acceptable HIV prevalence' among at-risk groups were set high. The concept of maintaining a low prevalence is difficult to translate in targets.

159. NBTC: The targets for blood security have been routinely achieved without Global Fund support.

160. An undesirable effect of setting un-ambitious targets has been that achievement has little meaning in terms of disease control and program success. Such targets make programs complacent.

Recommendation 49 (Significant priority)

The PR should look for feasible but challenging indicators for all domains that have 'a future dimension'. That is: their achievement will secure sustained results, but is not easy to achieve and requires continued effort. Preferably the indicator also stands for popular appeal and commitment. A good example is 'the proportion of repeat donors among all blood donors' - an indicator monitored by the Lao Red Cross for its own reports (the indicator is not reported to the Global Fund). Steadily rising (to 40% in 2009) the indicator is telling in terms of what Lao Red Cross is struggling to achieve: a reliable pool of committed voluntary blood donors.

Monitoring and reporting: indicators

161. Other problems arise from the phrasing or the interpretation of the indicator. Some examples and their implications:

- *Indicator interpretation leading to misleading results*

Example HIV/AIDS Round 4/6: 'In addition, the LFA would like to highlight that in the PU/DR the PR is not reporting at all on the numbers of condoms distributed for free or sold in the private sector as it would be requested by this indicator, but reports on the number of condoms distributed for free to public sector entities, such as to all the PHD and to other organizations such as CHAS, LYAP, PEDA, and NCA. This number could be verified by the

¹⁷ As also pointed out by the Secretariat's Country Team: in accordance with WHO guidance, in the Round 7 phase 2 performance framework the CDR indicator was replaced by Case notification rate (New SS+ and all forms) and more realistic targets have been set.

¹⁸ As noted in PU/DR Round 7 TB June 2009 by the LFA. The problem of not knowing "true incidence" is one of the reasons why in Stop TB's latest Global Plan (2011-2015) indicators have been slightly changed.

LFA and it is reported correctly, however, it is not the number required by the indicator.¹⁹ (Source OSDV June 2009).

- *Indicator phrasing leading to under-reporting of results*

Example HIV/AIDS Round 4/6: ‘It has to be highlighted that at Mahosot Central hospital many more TB patients are actually counselled and tested for HIV than reported in the PU/DR. However, because the indicator refers to “number of registered TB patients...”, only the TB patients who are registered at Mahosot Central hospital, are reported. Not all TB patients which are transferred to districts and HC for TB treatment are reported with this indicator. The difference is significant: out of 107 tested TB patients, only 39 were reported for the period to verify.’ (Source OSDV December 2009).

The OIG notes that the LFA has played a positive role in identifying these and similar problems and has generally been able to come up with practical solutions.

Good Practices

162. The OIG saw several examples of good practices. A selection is listed below.

Role of predecessor projects: a form of harmonization

163. For several Global Fund supported programs, there have been important predecessor programs laying the foundation. Examples are:

- The JICA supported concept of ‘Minimum Requirements’ which was adopted for health systems strengthening in Round 8
- The SIDA support for drug quality assurance which inspired Round 6 malaria
- The MSF ART program in Savannaketh Provincial Hospital; which set the standards for VCT and ARV treatment and as such, gave opportunity for state-of-the art learning of staff of other provincial centres that were to follow.

164. In some cases programs adjusted their role to one of complimentary with Global Fund inputs. Examples are:

- The continuing support of the Japanese Red Cross for NBTC blood security in all HIV rounds
- The Damien Foundation, which since 1995 has supported the National TB Control program, but has consistently sought to fill in gaps remaining.

Readiness to undertake complex studies whilst taking advice of peer institutions in neighbouring countries

165. Readiness to undertake complex studies has already been noted for the malaria program. Examples are surveys on use of bed nets; LLIN acceptance and bioassay; and the ethnic minority baseline study.

166. Noteworthy has been the involvement of experts of neighbouring countries when study designs could be expected to benefit from prior experience, as for the malaria prevalence survey. (This survey led to the fore-mentioned stratification strategy.) Details of the study were published in a peer-reviewed journal.¹⁹ The 2010 TB prevalence survey has likewise been designed in close cooperation

¹⁹ Jorgensen et al. Malaria Journal 2010, 9:59 (<http://www.malariajournal.com/content/9/1/59>)

with experts from Korea and WHO as here as well the importance of hands-on experience was recognized.

Pilot studies for practical experiments

167. The malaria program has adopted a useful habit of ‘experience based planning’, by small-scale experimental pilot studies, which if successful, are proposed for wider implementation. Examples are:
168.

- Institutionalizing surveillance

This pilot project seeks to determine the feasibility of using an existing national institution for malaria surveillance. This is relevant firstly because surveillance risks a void in low prevalence areas, but also because these areas qualify for what is called ‘pre-elimination’, which in itself requires a heightened level of alertness. The idea is thus to integrate malaria surveillance and response activities within the existing national surveillance system. It concerns the Centre of Laboratory and Epidemiology of the Ministry of Health.

- Public Private Mix (PPM) in malaria diagnosis and treatment

PPM has been a carefully crafted pilot project that has aimed to involve the private sector in a way that ‘would sell itself’, both to the public and to the owners of private pharmacies as well as to persons inside and outside the Ministry of Health, some of whom were critical, initially, of this close connection with the private sector. Commencing as a pilot in 4 provinces (8 districts) in September 2008 the objectives were to, through and by the private sector:

- 1) Increase access to diagnostics and treatment for the population
- 2) Increase quality of service, especially regarding adherence to Standard Treatment Guidelines
- 3) Enhance quality of malaria case reporting and data

Results of the first year have been encouraging: 15,814 persons got themselves tested 2,026 (13%) of whom tested positive for *Plasmodium falciparum*. Spin-offs that are yet to be capitalized on are, firstly, the notion of quality assurance of drugs and secondly, the notion of rational use of drugs (that is: after diagnosis is confirmed). Private pharmacists interviewed by the OIG team stated the project benefited their business and gave them status; most were wearing their white coat with the PPM badge.

Strong peer guidance and follow up of patients on ARV

169. As mentioned before PLHIV are part of the VCT in the main treatment centres. Another strong feature is that patients not showing up for their appointment are routinely traced by home visit or phone call. This was the case in all three centres visited by the OIG.

OVERSIGHT

170. As part of the Global Fund grant architecture, the Global Fund programs are overseen by a Country Coordinating Mechanism (CCM). A Local Fund Agent (LFA) provides assurance on grant program implementation to the Global Fund Secretariat. These fiduciary arrangements depend on effective oversight measures.

Country Coordinating Mechanism

171. The CCM is a country-level public-private partnership that:

- a. Coordinates the development of grant proposals based on priority needs at the national level.
- b. Selects one or more appropriate organizations to act as the PR for the Global Fund grant.
- c. Monitors the implementation of activities under Global Fund approved programs, including approving major changes in implementation plans as necessary.
- d. Evaluates the performance of these programs, including that of PR in implementing a program, and submits a request for continued funding prior to the end of the two years of initially approved financing from the Global Fund.
- e. Ensures linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities.

172. The OIG observed good governance practices for the CCM, such as:

- Recent establishment of an oversight committee and update of the CCM TOR.
- Strong commitment and support from development partners to enhance the CCM oversight roles.
- CCM composition is in line with Global Fund requirements.
- Link with the Health Sector Working Group and Vientiane Declaration Country Action Plan.

173. However, the following observations highlight areas where there is scope for improvement in CCM oversight:

- i. The OIG observed that proposal development was conducted in a transparent manner. However, given that the PR and most of the SRs were actively involved in the proposal writing process, they should not therefore have been involved in the proposal selection process.
- ii. The current PR has continuously been reselected by the CCM; however, no formal evaluations of PR performance were conducted before each reselection.
- iii. The SRs were selected by the CCM following an extensive process. The PR, however, was not involved in this selection process, and just undertook the capacity assessments of the selected SRs before signing the sub-grant agreements. The OIG also noted that:
 - There was no formal selection criteria used for SR selection.
 - There were no written guidelines for the capacity assessment for SRs, and the SR capacity assessments were not adequately documented.
- iv. The OIG observed that the Oversight Committee was mainly involved in reviewing the reports of the PR and SRs and providing suggestions on issues faced by the PR and SRs. This Oversight Committee involvement was mostly on an ad hoc basis and lacked

formalization within the governance structure of the CCM. Furthermore, there was no evidence that the CCM had undertaken the field visits to program sites.

- v. Given the demanding nature of the role of CCM Secretariat, there is scope for the CCM Secretariat to strengthen its capacity in providing support to the CCM and the Oversight Committee.

Recommendation 50 (High priority)

The CCM should:

- (a) *Reduce the risk of conflict of interest by ensuring that proposal writers, particularly those who are the candidate PR and SRs, do not participate in the process of selection of grant proposals.*
- (b) *Evaluate overall PR performance based on set criteria before re-electing the PR.*
- (c) *For SR selection:*
 - i. *Ensure the PR is involved in the process of selecting SRs. In particular, ensuring greater PR responsibility for the selection of SRs will reinforce overall PR accountability for program performance and finances.*
 - ii. *Develop formal criteria for SR selection.*
 - iii. *Establish written guidelines for the capacity assessment for SRs, and ensure the SR capacity assessments are adequately documented.*
- (d) *Program oversight:*
 - i. *Develop and implement a CCM oversight work plan.*
 - ii. *Undertake periodic field visits to program sites. For this, the OIG also recommends the enhancement of civil society involvement with oversight. In particular, key affected populations can play an important role in field visits given their closeness to the issues being addressed by the program.*
 - iii. *Consider introducing a grant dashboard, for which tools and guidance are available on the Global Fund website.*
- (e) *Implement the CCM decision to obtain international technical assistance to strengthen the CCM Secretariat capacity to facilitate the work of CCM and the Oversight Committee.*

Role of Development Partners

174. The OIG noted that various development partners displayed considerable good will towards the Global Fund-supported programs and were committed to working with stakeholders to ensure the Global Fund achieved its goals. Some development partners were willing to provide input or collaboration especially through the provision of technical support. The Secretariat should continue to nurture this good relationship.

Annex 1: Abbreviations

ACT	Artemisinin -based Combination Therapy
AIDS	Acquired Immunodeficiency Syndrome
ART	Anti-Retroviral Therapy
ARV	Anti-Retroviral
BCC	Behaviour Change Communication
CCM	Country Coordinating Mechanism
CD	Cluster of Differentiation
CDR	Case Detection Rate
CHAS	Centre for the prevention of HIV/AIDS and STI
CMPE	Centre for Malaria, Parasitology and Entomology
DOTS	Directly Observed Treatment Short Course
DSA	Daily Subsistence Allowance
FDD	Food and Drug Department
FDQCC	Food and Drug Quality Control Centre
FEFO	First Expiry – First Out
FHI	Family Health International
FPM	Fund Portfolio Manager
FSW	Female Sex Workers
GDF	Global Drug Facility
GFATM	Global Fund to fight against AIDS, Tuberculosis and Malaria
GTZ	German Technical Cooperation
HIV	Human Immunodeficiency Virus
HSS	Health Systems Strengthening
IAPSO	Inter-Agency Procurement Services Organization
IDA	International Dispensary Association
IEC	Information, Education and Communication
IPC	Interpersonal Communication
ITN	Insecticide-Treated Net
Lao PDR	Lao People's Democratic Republic
LFA	Local Fund Agent
LLINs	Long Lasting Insecticide-treated Nets
LNP+	Lao National Network of People Living with HIV/AIDS
MDG	Millennium Development Goals
MLC	Medical Logistic Centre
MOH	Ministry of Health
MPSC	Medical Products Supply Centre
MSF ART	Médecins sans Frontières Anti-Retroviral Therapy
NBTC	National Blood and Transfusion Centre
NTC	National Tuberculosis Centre

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OI	Opportunistic infection
OIG	Office of the Inspector General
OSDV	On-Site Data Verification
PA	Procurement Agent
PE	Peer Educator
PEDA	Promotion for Education and Development Association
PHASUMA	Pharmaceutical Supply Management
PIT	Personal Income Tax
PLHIV	People Living with HIV
PMTCT	Prevention of Mother-to-Child Transmission
PMU	Project Management Unit
PO	Purchase Order
PPM	Public Private Mix
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Management
PU/DR	Progress Update and Disbursement Request
RDT	Rapid Diagnostic Test
SIDA	Swedish International Development Cooperation Agency
SR	Sub-Recipient
STI	Sexual Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TOR	Term of Reference
TRP	Technical Review Panel
UNDP	United Nation Development Programme
UNICEF	United Nations Children Fund
USAID	United States Agency for International Development
VCT	Voluntary Counselling and Testing
VHV	Village Health Volunteers
VPP	Voluntary Pooled Procurement
WHO	World Health Organization

Annex 2: Breakdown of Unsupported and Ineligible Expenditure and Non-Reporting of Program Income²⁰

Exception Category	Ineligible/N on reporting Income	Unsupported	Reference to the draft report
	US\$	US\$	
Unbudgeted expenditure:			
- Travel- Non-GF related	61,953		Para 51
- Travel-numbers of travellers above the numbers approved by GF	16,742		Para 51
- Purchases of Vehicles by PR	17,300		Para 51
- Purchases of extra notebook by CHAS	1,596		Para 51
- Purchases of motorbike by MOH	995		Para 51
Unsupported/missing supporting documents PSI		40,696	Para 62
Non-reporting of program Income:²¹			
- Income from selling Bed nets income-CMPE	1,154,385		Para 53
- Income from sale of nets, condoms, etc by PSI	722,000		Para 53
Total	1,974,971	40,696	

²⁰ www.oanda.com, 27 August 2010 (US\$ 1 equivalent to Lao Kip 8,399.90). This rate is applied to the whole of the report.

²¹ According to Country comment to draft report (detail in the Annex 3), as of October 2011, the PR Office has reported the income and the money is now within the MOH at central level. PSI income form social marketing has been reported to the Global Fund secretariat and is now under review.

First of all, we, the CCM and the PR, appreciate the work of the OIG for recommending actions to further strengthen the programmatic, financial, and procurement management of the Global fund program in Lao PDR, noting that these recommendations came out more than one year after the OIG visit. During this year, on their own initiative or with the CT guidance, the PR and SR offices have worked to address most of the issues raised by the OIG.

The period assessed by the OIG covered from the beginning 2003 until mid-2010, nearly 8 years of activities. When starting in 2003, GF was very new and few people or countries were aware or familiar with how to implement the program effectively. Guidelines, standards, and SOPs were not yet available for implementing countries. All stakeholders were new for the program including recipient countries (MOH, CCM), LFA, as well as Fund Portfolio Managers.

However, through regional workshops and meetings, countries, Fund Portfolio Managers, and LFAs have learned from each other and shared experiences, practices, and have improved program management. We all noticed that the implementation of The GF programs has greatly improved within the complexity of the evolving health system in Lao PDR. Participants also received a lot of advice and detailed guidelines on financial management for each period and for each of the components of the program.

Bearing in mind that it takes time for complex systems such as the GF to develop within a country, when assessing the performance we should consider the context of each period. 2004 and 2010 are very different periods of expertise in GF management. Concepts, teams, programs, knowledge, and understanding grew in parallel with GF maturity. Considering this, the OIG assessments should be put in that perspective.

Considering the audit findings are based on the current international standards, updated tools, and lessons learned from implementation since the beginning of the program. It would have been more appropriate if the assessments had been carried out for each of the implementation periods.

Unbudgeted expenditures

Non GF -Related Travel

It is important to note that all conferences or workshops attended were related to improving the health system. The GF is one of the main partners of the MOH in developing and strengthening its capacity. GF is also one of the main stakeholders with WHO in orientating national policy and, as such, WHO and GF are interrelated. At the field level, 2 WHO technical assistance is strongly supported and funded by GF for the three diseases and for the HSS component. The travel to WHO Geneva that is considered by the OIG as “non GF related” should be seen with this perspective.

We also note that the participation in these conferences and what the OIG now considers as “non GF related” were not reported as unacceptable in previous years external audit by international audit firms nor did they appear in the GF secretariat recommendations following LFA regular program reviews.

Travel – number of travellers above the number approved by GF

In Lao PDR, as in many countries, the involvement of local authorities, decision makers, and communities is essential for the success and sustainability of any new health program. High level involvement allows for a broad understanding of new systems that must align with current

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conditions in the country; therefore, it was important to facilitate the involvement of key influential persons to attend international conferences. At these conferences, these representatives also voiced their support for GF programs in the country. Additionally, in the absence of specific training guidelines from the GF, the PR office, based on its experience and lessons learned from other health programs, made judgments to ensure the most effective ownership of the program by all relevant authorities. Therefore, PR supported senior officers of the MOH to attend GF related international meetings. This included the World Health Assembly, WHO meetings, International AIDS Conference, and negotiations of grants in different locations.

The previous financial management system authorized PR office to make budget changes up to 10% within a line-item as clearly communicated in an email with the then current GF FPM (in 2004), the 10% rule for budgeting flexibility was applied during these years. Additionally, in the absence of specific training/workshop guidelines from the GF, the PR office made decisions on what was needed to be done to ensure the most effective ownership of the program by all relevant authorities.

Through the trainings, the GF has greatly contributed to the overall capacity of the country's healthcare system. Through exposure to global standards of implementation and management, the skills, abilities, and breadth of coverage of health personnel resulted in improvements in the health status of the population.

Laptop

This procurement was made under Round 1 Year 5, the budget set up in quarter 1 was 3 notebooks and 5 desktop computers etc. (May to July 2007). The procurement was a package bidding process with several SRs including CHAS, CMPE, NTBC, and NGO partners. This group procurement allowed us to have a better price and we added value to the program by adding an extra laptop. The 10% budget change rule was applied here. This 3 extra laptop was allocated to the GF finance team – CHAS, based on their need. All four notebook computers were registered as fixed assets of the project.

Purchase of Vehicle by PR and MOH

In Aug 2009, a Ford Ranger pickup was purchased by the PR using the PR budget in the TB R7 P1 and a Honda motorbike was purchased using PR budget in the MAL R7 P1. We acknowledge that these items were not a part of the approved TB R7 or MAL R7- PR detailed budget. But we do believe that the following information should be considered:

- Until TB R7 P1 or MAL R7 P1, the PR budget was not detailed and was included in the grant as a percentage (for instance, PR budget for TB R4 = 7%). Therefore, at the time of the TB R7 P1 and MAL R7 P1 implementation, we had a PR budget funded by a percentage from some grants and by a detailed budget from TB and MAL - R7P1.
- The PR budget is supported by various grants; disbursements are received according to each grant calendar. Commonly, due to a number of reasons, the PR planned budget per grant is not disbursed by GF secretariat at the time the funding is required; this forces the PR to use any funds available to pay for its expenses in order to avoid delays in implementation.
- The two vehicles were included in the total PR detailed budget and are used for PR office activities.
 - o Pickup: M&E field supervision visit,
 - o Motorbike: MOH cabinet in charge of signing the grant agreement, sending to SR disbursement cheques.
- These purchases of vehicles were clearly indicated respectively in the TB R7 PUDR and the MAL R7 PUDR along with the following note: "Due to delay of funds for other grants, the actual expenditure is charged to the grant that has available funds." The GF secretariat's management letter, in response to the PUDR, did not mention the purchase of these vehicles as non-eligible.

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Taking into account these additional explanations, we consider that the procurement of the two vehicles was planned in the overall budget of the PR, and that they were procured using the available budget at the time of the payment, and were reported adequately in the PUDR, EFR, and fixed asset register. This borrowing of funds between grants was a common occurrence at that time. The PR did not receive any official objection to this practice.

Unsupported Missing Documents (PSI)

Refer to recommendation # 12 response from PSI Country Director: "PSI is confident that the policies and procedures regarding documentation of all expenditures are strong, transparent, and include multiple levels of checks to ensure funds are properly expended. However, PSI acknowledges that - due to the exceptional circumstances of the 2008 flood - supporting documentation for expenditures totalling \$40,696 is not available." The CCM will ensure that PSI will work effectively with the Secretariat to bring resolution to this issue in 2012".

Non-reporting of Program Income

CMPE program income from the sale of bednet had as its framework a note from the Ministry. Provinces were authorized by the MOH to sell bednets respecting a specific price and to use the income. This initiative began before the GF program began and was a national policy with the aim to make bednet use a sustainable practice. At the time, this concept was encouraged by other donors. Provinces recorded and reported these movements outside GF system. As of today, the PR office has reported the income and the money is now within the MOH at central level. We are currently waiting for instructions from the CT in regard to the future of this income.

PSI income from social marketing has been reported to the Global Fund secretariat and is now under review.

In conclusion

The scores given to the three programs over the years (A or B) were given based on the achievement of indicators and reflected the overall good management, technical capacity, and health system strengths that supported the programs.

With these considerations and clarifications, and with the understanding that the expenses now classified as ineligible by OIG team were done in good faith for the benefit of the program. We hope that the OIG office will be able to put this into perspective and reconsider some of the findings. Of course, there are things that the PR and SRs need to change in order to improve the system to become more and more effective. We believe that for the past few years, the PR has showed its commitment to adjust its way of working. We hope that these efforts are seen as part of our continual evolution toward a model of effective and efficient work. We, the CCM and PR, will continue to actively engage with the CT to develop procedures and guidelines to give us an improved framework over time.

Annex 4: CCM's Response to the Recommendations and Management Action Plan

Prioritization of recommendations

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.

c. Requires attention: There is a minor control weakness or noncompliance within systems and proportional 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 organization's benefit.

Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>Recommendation 1 (Significant priority)</p> <p>The PR should ensure:</p> <ul style="list-style-type: none"> (a) PR and SRs that establish codes of conduct. (b) PR and SRs maintain grant funds in an interest bearing account. (c) External auditors' reports are submitted to the Global Fund not later than 6 months from the close of the financial year of the grant. (d) PU/DRs are prepared by the PR and SRs in accordance with the requirements cited in the grant 	<p>In its Repeat PR assessment for SSF TB, the LFA recommended that similar to all staff contracted by the PR, employment contracts for PR finance staff should stipulate that they should not be engaged in other paid employment. Lao CT will reflect this recommendation in the GA for Round 10 TB and expand it to a broader concept of the code of conduct.</p> <p>(b) The PR has recently been allowed by the Ministry of Health to negotiate a certain interest on its current bank account at the National Bank for Foreign Trade. Lao CT will ensure that this requirement is channelled down to all the SRs in the</p>	<p>(a) There are several categories of SRs including: 1) iNGOs which have their own HR Manuals and codes of Conduct and 2) Those with only rules and procedures to guide their personnel actions. PR will work together with the SRs after PR receives feedback on the submission of the HR Manual it has submitted to GF for a second review on 12 August 2011 and then on 2 September 2011. Codes of conduct have been entered into that Human Resources Manual which has been circulated to SR and PR Managers.</p> <p>It should be noted that HR Manuals were not requested of SRs during their visit.</p> <p>The PR has included in their HR Manual a Job Description format and it has been reviewed and distributed and is now being piloted by the PR office for all staff paid by Global Fund grants. A draft Performance Appraisal format has also been distributed to PR Management Team and submitted</p>	<p>(a) PR held a meeting with SR staff to explain the direction of this initiative. We will begin implementation after we review additional comments from CT and receive final approval. We anticipate the date of implementation to be in 2012.</p> <p>RO: SR & PR Directors</p>	<p>(e) The OIG sees the need to establish mechanism to monitor the timely submission of PU/DRs within the PR Office</p>

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>agreements and the guidelines issued by the Global Fund.</p> <p>(e) In coordination with the LFA, that PU/DRs are prepared and submitted to the Global Fund on a timely basis.</p>	<p>portfolio.</p> <p>(c) Lao CT is working with PR and SRs on implementation of this recommendation</p> <p>(d) New Financial Guidelines (approved in August 2011) provide better guidance on the requirements for PU/DRs. LFA and Lao CT has already noticed some improvement in the quality of the PU/DRs from Laos.</p> <p>(e) Idem</p>	<p>to GFATM.. .</p> <p>(b) To carry out this recommendation, "to the extent practicable", as defined in Article 11, depends on the bank services available in the country. This is the first time we were told this was necessary by GF/LFA and external auditors. After the OIG debriefing in country in August 2010, we have explored with our existing bank named BANQUE POUR LE COMMERCE EXTERIEUR LAO (BCEL) whether this was now practical for the funds. Now, since June 2011, PR and SR bank accounts bear interest at the reasonable commercial rate. Interest has been reported in the PUDR.</p> <p>(c) This will be re-discussed with the selected audit firm for this issue as it says in the TOR. 1. The audit firm selection will be improved to be more timely. 2. PR will emphasize to the SRs the importance of being ready for the audit ASAP after the year end-closing. 3. PR will emphasize the importance of the due date in the contract and discuss with selected audit firms about the potential penalties involved in delays in submission of the audit report. 4. The country is currently somewhat limited in finding local auditors that meet the Global Fund standards. PR will also explore alternate channels for recruiting audit firms from outside the country, perhaps through international recruitment channels, to increase the competition for firms if current local firms continue to fail to recognize that timelines is an essential term of the contracts.</p> <p>(d) Agreed. We will continue to strengthen and encourage our SRs to submit accurate reports to PR on time and to strengthen and encourage their Implementation Sites to submit reports to SRs on time as described in the new Financial Guidelines approved in August 2011. A dissemination workshop to all SRs and ISs will be arranged soon. Monthly SR meetings have been implemented at the PR</p>	<p>[HR Guidelines]</p> <p>(b) Completed. RO: Head of Finance Unit</p> <p>(c) 2012 when the next auditors are recruited. RO: Head of Finance Unit</p> <p>(d) Monthly meetings currently on-going. Dissemination workshop planned for October/Nov 2011. RO: Head of Finance Unit</p> <p>(e) PO: PR Management Team</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
		office; these meetings cover all elements of grant implementation that have been noticed either lacking or progressing in an exemplary way during the past month. (e) Agree		
Recommendation 2 (Requires attention) To improve budget any control the Global Fund Secretariat should: (a) Establish a mechanism to formalize the process of annual budget approval, for example by signing a final approved budget to be distinguished from a draft annual budget which may have been changed. (b) Improve the PU/DR form by adding more detailed analysis of actual expenditure versus budget, broken-down by objectives, activities and implementing entities.	Secretariat Response: (a) Regarding the Lao portfolio, the process of annual budget approval was strengthened through the revision of the PR Financial Management Guidelines in 2010 and is currently going through a formal review by CCM, LFA and GF Secretariat (Regional Team) with approval of annual updated budgets through emails. For all grants any updates and revisions to the budgets should be documented and formally approved by the GF Secretariat; and we also note that this approval mechanism is described in the updated Global Fund budget guidelines. (b) The generally understood LFA approach on the review of expenditures at the time of PU/DR is twofold: Based on the level of risk: (1) to verify a sample of individual transactions, (2) to review the budget variance analysis provided by the PR's accounting system. After considering the benefits (of better variance information) compared with the costs of providing it, the Secretariat has currently determined that the	N/A	See column B	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
	EFR report (which considers expenditures at the three levels - cost category, SDA, implementing entities) be reviewed annually as part of the disbursement process and not for each disbursement. Also the PR has the option (or the Global Fund can insist on) to complete the SR Financials Annex providing more details on SRs expenditures & cash balances. The approach to disbursements and budget controls are areas being strengthened as part of the consolidated transformation plan.			
Recommendation 3 (Requires attention) The PR should: (a) Obtain written approval from the Global Fund for both original and revised budgets. (b) Establish procedures for SR budget preparation that ensure consistent use of the budget format and require detailed budget assumptions and justifications to be prepared to support budgets.	This has been a regular practice since September 2010 when a new approach to reprogramming of savings (once per year for each grant) was introduced for Lao portfolio. The new financial guidelines clearly describe this new approach. (b) Work in progress. Lao CT does not approve budget lines without clear justification and assumptions.	(a) Agree with CT comments. Also, we must obtain a formal, written authorization and approval from the GF in addition to the email or phone call so that we are very clear on the details of the approved documents and can share these details with the SRs. (b) We follow the GF proposal development guidelines for preparation of budgets and workplan as well as revisions. PR also has a manual with these written guidelines for use by the SR on what details are required for budget preparation. These guidelines have been revised and approved in August 2011.	(a) Completed and in place since 2010 by email. RO: PR Head of Finance (b) Completed and in place since 2010. RO: PR Head of Finance	
Recommendation 4 (Requires attention) The SRs should obtain formal approval from the PR for original budgets and work plans, as well for revised budgets,	All SRs will be trained on the new Financial Guidelines which should ensure that the SRs are followed the same processes and	Original budgets and workplans- Once a budget and workplan (initial or revised) is signed by the GF, a formal workplan and budget will be sent by the PR	To be implemented for the next budget revision grant	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
prior to implementation.	procedures as the PR.	to the SR.	agreement (TB SSF) RO: PR Management Team & Head of Finance Unit	
<p>Recommendation 5 (Significant priority)</p> <p>The PR should:</p> <ul style="list-style-type: none"> (a) Ensure all expenditure is included in the approved grant budgets. (b) Obtain prior approval from the Global Fund for any deviation from the grant budget or detailed work plan approved by the Global Fund. (c) Ensure grant funds are solely used for budgeted program purposes. All ineligible expenses paid using Grant funds should be returned to program (see Annex 2). 	<p>This message has been reinforced in the new Financial Guidelines.</p> <p>(b) This message has been reinforced in the new Financial Guidelines.</p> <p>Lao CT will provide detailed comments on the list after the Country has reviewed and commented on the identified ineligible expenses.</p>	<p>(a) PR started in August 2011 controlling more systematically the SRs supporting documents (ex post control) especially paying attention to the training cost and the audit findings. 2. PR has established a new certifying and approval process for its own expenses. In addition, with the set up of the new accounting package, PR is doing a monthly follow up budget.</p> <p>(b) PR agrees with CT comments. Refer to recommendation 3. A dissemination workshop on new approved Financial Guideline to all SRs will be arranged soon.</p> <p>(c) detailed explanation of these expenses is provided in separate response to Attachment 1[Attachment 2 for Final Report]</p>	<p>(a) Started in Aug 2011. RO: PR Management Team and Finance Unit</p> <p>(b) Nov. 2011 RO: PR Management Team & Head of Finance Unit</p> <p>(c) RO: PR Management Team, CCM</p>	<p>The OIG acknowledges the country detailed comment in Annex 3 and 6</p> <p>OIG, therefore, suggests that the Global Fund Secretariat should continue to discuss with the Country how best to address this recommendation</p>

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>Recommendation 6 (High priority)</p> <p>The PR should:</p> <ul style="list-style-type: none"> (a) Ensure that all Global Fund-supported program income should be credited to the grant programs and reported regularly to the PR. (b) Ensure that there is a detailed annual budget and work plan for the use of program income which has PR and Global Fund approval. (c) Review and approve the selling prices of program products. (d) Prevent the misuse or personal use of program income, seeking recoveries as appropriate. 	<p>The CT has already reinforced the PI reporting procedures and requested the PR to reflect these in the revised Financial Guidelines. The new Financial Guidelines as well as the new PU/DR format will provide better oversight over the accumulated PI.</p> <p>(b) We have already agreed with the PR that similar to the reprogramming requests the PR should send its request for the use of PI through CCM to GF once a year.</p> <p>(c) Lao CT will request the PR to follow on this with PSI. We also note that from 2010 the bed-nets in public sector (CMPE) in Laos are distributed for free (MOH directive).</p> <p>(d) Lao CT will ensure that this recommendation is addressed.</p>	<p>(a) PR already implemented these recommendations in the latest PUDRs June 2011.</p> <p>(b) Agree. The current revised manual states that in the 6 month PUDR, PI are to be reported and their future use proposed to GF sec for review and approval as per CT recommendation. The PR will update the financial guidelines and follow the exact recommendation of the OIG (CCM endorsement of the yearly budget and workplan, for use of the PI)</p> <p>(c) In the past, for the selling of bednet, the price policy was based on Ministry notes. Currently, PSI's primary means of price control is derived from MAP (Measuring Access and Performance) and/or TRaC (Tracking Results Continuously) behavioral research studies with consumers of our products. Regarding condoms, prices were based on surveys. The selling prices of condoms and STI drug kits should also be discussed and approved by the National AIDS Program and FDD/MOH.</p> <p>This process - approving price policy by the PR- will be documented in the future SR management manual as a requirement.</p> <p>(d) PI is now reported when it occurs (in the monthly accounting report) using a specific template (refer to the financial guidelines) and supported by documents. PR finance team with the support of the procurement team will include the review of the PI as priority in its field reviews of SRs accounting supporting documents. In addition the HR manual includes a statement against personal gain.</p>	<p>(a) Complete - in place since June 2011 RO: Head of Finance the F gl will be sub CCM</p> <p>(b) Complete- in place since June 2011 Guidelines to be updated in Dec 11 RO: Head of PR & SR Finance</p> <p>(c) SR manual due to be complete, approved, and implemented in June 2012 RO: PR Management Team</p> <p>(d) To begin Nov 2011 RO: PR Management Team and Finance team</p>	<p>Following country comment in annex 6, the OIG suggests that the Global Fund Secretariat continue to discuss with the Country how to address this recommendation</p>
<p>Recommendation 7 (High priority)</p> <p>Income generated from selling tender documents should be credited to the accounting system of the program and</p>	<p>Has already been done. The LFA and Lao CT will verify the compliance with this during</p>	<p>PR already implemented this recommendation in the latest PUDRs covering the first semester of 2011. Incomes were accounted for procurement activities.</p>	<p>In place since June 2011 RO: Head of PR</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
disbursements should be debited as an expense of the program as well. The PR should set up a budget for the disbursement officially approved by the Global Fund and other procedures to monitor this disbursement in accordance with the approved budget.	the review of the recently submitted PU/DRs.		Finance	
Recommendation 8 (Significant priority) The Global Fund Secretariat should, for all new grants and grant extensions, include in the grant agreement details of how indirect costs can be charged to the grant, as well as describing which types of indirect costs are allowable. The OIG recommends adherence to the principles included in recent Global Fund guidance , which, in particular, state: 'National entities may not charge percentage based overhead fees, but should be able to directly charge any support provided by HQ using a reasonable basis of apportionment. These costs should be included in the budget and the subsequent expenditure would be subject to verification by the PR and the LFA'.	Lao CT has already implemented this. The CT has ensured that all the recently signed grants (Round 7 TB, Round 7 Malaria and SSF HIV) do not have percentage based overhead fees for National entities.	GF Secretariat Response.	Complete - in place since HIV SSF - Nov 10 RO: Head of Finance	
Recommendation 9 (High priority) To achieve an acceptable level of internal control of payment process, the PR should: (a) Ensure that the PR Director does not sign blank cheques prior to going on mission. This can be done by adding another bank signatory panel and issuing a proper delegation of	We have checked the new revised Lao Financial Guidelines and found that: a) The issue of blank checks is not directly addressed. Section 7.2 covers the use of checks, and in there it says: cheques shall never be made out to a third party or to a non-defined payees. Normally we would	(a) Agreed and implemented. Any cheques need two PR signatories. However the Finance manual will be revised by Dec 2011 and will include 2 primary signatories and 2 secondary signatories (b) PR explored this option with the bank and we will implement it starting in 2012. The financial manual will be revised accordingly in Dec 2011 (c) PR's Finance Guidelines, used across the {R and SRs, outline the segregation of duties in the chapter,	(a) Dec 2011 RO: PR Director and Head of Finance (b) Dec 2011 RO: PR Director and Head of Finance	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>authority whenever it is required.</p> <p>(b) Ensure cheques are crossed "NOT NEGOTIABLE/TRANSFERRABLE", to make sure the person/supplier named in cheques is the actual and final beneficiary.</p> <p>(c) Ensure adequate segregation of duties in the Finance Unit by reassigning incompatible roles and responsibilities.</p> <p>(d) Review the payment process, shorten certifying and approving process, and remove redundant controls for greater effectiveness in terms of time and efforts.</p>	<p>interpret this to mean that no cheques to "Cash" or "Bearer" or the Lao equivalent of it, can be issued. You could stretch non-defined payees to blank cheques, but it's easy enough to request the PR to clearly define the issue. As far as signatures, the panel of available signatory authorities over the account are Dr. Bounlay Phommasack, Director of PR; Dr. Chanmy Sramany, PR Manager; Dr. Rattanaxay Phetsouvanh, Deputy PR Manager; Dr. Khamseng Bannarath, Deputy PR Manager. Only two signatures are needed. There is no contingency measure indicated in the guidelines for when all four people are away at the same time (i.e. no delegation of authority process is indicated).</p> <p>b) The Non Negotiable/ Transferable procedure for signed checks is not elaborated in the guidelines;</p> <p>c) Segregation of duties is addressed in section 13.1 of the new Financial Guidelines, but could be improved.</p> <p>d) There is some evidence of processes having been shortened and/or improved from the reading of the current version of the manual. We also know from the LFA feedback that a SOP is being drafted to describe the current practice of ex-post verification of Sub-recipients' activities as opposed to the previous pre-approval of implementation required by the PR that used to slow implementation a lot.</p> <p>Based on the above and considering the fact</p>	<p>"Internal Control."</p> <p>(d) The process reviewed during the OIG visit consisted of PR pre approval of the SR expenses and PR co signature of the SR cheques. This system has been suppressed for 11 out of the 14 SRs (The 3 SRs retaining this system are considered weak in terms of financial capacity). For the others, there is no more pre approval . Instead, PR finance team is now conducting field visit to the SRs to review the supporting documents (ex post control)</p>	<p>(c) Completed in May 2011 RO: Head of Finance and iTA Finance</p> <p>(d) November 2010 RO: Head of Finance and iTA Finance</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
	that the LFA in its repeat PR assessment for Round 10 TB has identified additional weaknesses in the PR's FMS arrangements, the CT will the PR to update its Financial Guidelines with our (and OIG) recommendations by June 2012 (CP in the PGA for Round 10 TB).			
<p>Recommendation 10 (High priority)</p> <p>To achieve an acceptable level of control over advance payments, the PR should:</p> <p>(a) For advances made to WHO and UNICEF:</p> <ul style="list-style-type: none"> - Perform a reconciliation between the Procurement and Accounting Units to ensure that the accounting records correctly reflect actual procurement activity. - Regularly reconcile transactions with WHO and UNICEF and agree balances; <p>(b) Ensure that the PR and SRs strengthen their monitoring controls over program advances by regularly reviewing that all advances are settled by the due date and before the disbursement of subsequent advances</p>	<p>a) The CT is following up on this with the PR in light of the current procurement of health products through WHO and UNICEF.</p> <p>b) Lao CT will ensure that this recommendation is addressed.</p>	<p>(a) Advances made to WHO and UNICEF are recorded in our accounting system. However, due to the delay in WHO and UNICEF processes, the final invoices are communicated a few months to more than a year late. The balance between the advance and the final invoice has to then be claimed to WHO/UNICEF through a specific process. Today the Procurement and Finance units have improved the exchanges of information related to payment of suppliers by revising the roles of each unit related to this process (SoP developed). In addition the issue of payment of advance/buffer will be considered in the Procurement Agent selection.</p> <p>Advances are mostly paid by SRs. Follow up of the advances are now included in the monthly accounting report - advance statements. The financial guidelines mention that we apply the accounting delivery principle when preparing the year end closure. (Goods that have been delivered but without final invoice should be recorded in the accounting for their estimated value)</p> <p>(b) Currently , advance statements and outstanding advance statements are compulsory documents for the accounting report. We stressed in the financial guidelines that any long standing advance should be reported to management.</p>	<p>In place since May 2011 RO: Head of Finance and Head of Procurement currently in place RO: Head of Finance and Head of Procurement</p> <p>(b) currently in place RO: Head of Finance</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>Recommendation 11 (Requires attention)</p> <p>(a) The PR and SRs should ensure the compliance with cost norms/standards when making payments, and, in particular, should ensure that:</p> <ul style="list-style-type: none"> i. Per diems and allowances are not paid in excess of the amounts stipulated in PR and SR policies. ii. Lunches and dinners during events (meetings, conferences or training) are not paid for where participants are receiving full per diem. iii. The PR and SR personnel involved in tender committees are not paid daily subsistence allowance given that this type of task is part of their daily work. iv. The PR and SR personnel do not receive more than one per diem/allowance for attending a training course. v. The PR and SR personnel attending more than one event on one day do not receive a per diem/allowance for each event. <p>(b) The LFA should periodically verify the value for money and proper justification of training conducted by the PR.</p>	<p>(a) Lao CT will follow up on this recommendation through LFA feedback from quarterly LFA training verification exercises.</p> <p>(b) Training plans for 2011 were reviewed by LFA and approved by the Global Fund in May 2011. LFA will conduct its first verification exercise in June 2011, during which it will also look at the various aspects including VfM.</p> <p>LFA comment:</p> <p>The LFA developed a tool verification of training events and established a LoE of 5 working days per month for spot check visits of training events, which are based on regular updated training plans (detailed unit costs) which the Global Fund requested the PR to submit with each PUDR submission. This allows the LFA to realize ad hoc spot check visits.</p>	<p>(a) New Standardised rates and policy are part of the financial manual. This new rates and policy were implemented in the latest approved grants and are strictly followed by PR and SRs. Rates in the approved budget may change between locations. The revision of accounting supporting documents is focused on training expenditures.</p> <p>(i) Idem</p> <p>(ii) Lunches and dinners are not provided for trainings or any other meetings unless specifically allowed under the guideline.</p> <p>(iii) Per diem is not paid to committee members that are paid or receive any incentive by GF.</p> <p>(iv) Idem</p> <p>(v) Idem</p> <p>(b) LFA</p>	<p>(a) In place since Nov. 2010 RO: RO: Head of Finance</p> <p>(i) In place since Nov. 2010 RO: Head of Finance</p> <p>(ii) In place since Nov. 2010 RO: Head of Finance</p> <p>(iii) In place since Nov. 2010 RO: Head of Finance</p> <p>(iv) In place since Nov. 2010 RO: Head of Finance</p> <p>(v) In place since Nov. 2010 RO: Head of Finance</p> <p>(b) LFA</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
Recommendation 12 (Significant Priority) PSI should reimburse the amount of US\$40,696 to the program.	Once the OIG report has been finalized, Lao CT will ensure that this recommendation in its final language is addressed.	PSI is confident that the policies and procedures regarding documentation of all expenditures are strong, transparent, and include multiple levels of checks to ensure funds are properly expended. However, PSI acknowledges that - due to the exceptional circumstances of the 2008 flood - supporting documentation for expenditures totalling \$40,696 are not available.	PSI looks forward to working with the Secretariat to bring resolution to this issue in 2012 RO: PSI Country Director	Global Fund Secretariat, LFA and PSI to discuss with PSI
Recommendation 13 (Significant priority) PSI should maintain the Global Fund grant funds in a separate bank account, with all disbursements being made directly from that account.	Lao CT will ensure that this recommendation is addressed.	PSI currently maintains Global Fund grant funds in a separate bank account, from which disbursements are made.	See column B and C	
Recommendation 14 (Significant priority) The PR should establish clear guidelines and processes for government SRs for the monitoring and control over expenditure activity at their provincial sites. Capacity assessments for provincial sites should be standardized and performed in order to confirm the decision to delegate authority for expenditure and maintenance of supporting documents.	Lao CT will ensure that this recommendation is addressed.	PR will develop an SR manual that will include a chapter on SSR and provincial sites management (CP TB SSF - June 2012). The financial manual describes what should be the content of the monthly finance reporting from the SSR and sites.	Will be completed by June 2012 RO: PR Management Team	
Recommendation 15 (Requires attention) To improve financial management, the PR should: (a) Ensure that the physical verification of cash is conducted	(a) Lao CT will ensure that this recommendation is addressed. (b) Lao CT will ensure that this recommendation is addressed.	(a) PR is currently doing monthly cash count (cash on hand is between 1 to 200 USD maximum). In reference to the finance manual, PR will plan to do more surprise cash counts. (b) PR started developing an allocation table using several criteria such as budget, % procurement, number of SR, SSRs, autonomy of the SRs. The	(a) Nov 2011 RO: Head of Finance (b) Sept 2012 RO: Head of Finance	

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<p>regularly. Cash count minutes should be prepared and maintained as evidence of actual work performed.</p> <p>(b) Establish a written guideline on how to allocate shared costs among the existing grants. This method should be applied consistently.</p> <p>(c) Consider the costs and benefits of the continued use of various different accounting software. To achieve greater efficiency, applying consistent accounting software between grants and SRs is recommended.</p> <p>(d) Ensure one copy of the backup of financial information is kept in a secure place outside the PR office, but not at a personal residence.</p>	<p>(c) Since October-November 2010, the PR and Government SRs are using QuickBooks as their standard accounting software.</p> <p>(d) A new network-based system for backing up financial data was rolled out in April 2011. The back-up is done on tapes that need to be rotated in order to have incremental records of changes to the documents.</p>	<p>launch of the R11 will be a good time to begin this new system. PR, however, would support that the PR budget be not linked to any approved budget. This would facilitate its management, overview and revision.</p> <p>(c) PR and SRs (government and private) who did not have their own accounting software were equipped with ACCPAC for replacement of the Lao software called MANILAO. This software has been implemented following all new grant signatures, or any grant signature ... SRs who have their own accounting packages (mainly the INGOs) are authorised to use it for the GF project conditional to being able to provide similar information as the ACCPAC (General ledger, trial balance, financial statements, using PR accounting chart)</p> <p>(d) This system is not only backed up the accounting data but also M&E, Procurement, Admin data. The tapes are currently kept in a personal residence due to the absence of data management professional services or rent of bank safe for this purpose. PR will explore the storage of the tapes within other buildings in Lao.</p>	<p>(c) Has been implemented with each new grant signature. RO: Head of Finance</p> <p>(d) 2012 RO: Head of Finance</p>	
<p>Recommendation 16 (Requires attention)</p> <p>To improve fixed asset management, the PR should ensure that PR and SRs:</p> <p>(a) Include minimum information in the vehicle logbooks, such as purpose of travel, names of users, reviewers and approvers.</p> <p>(b) Conduct regular physical verification of assets.</p>	<p>Lao CT will ensure that this recommendation is addressed.</p>	<p>(a) In fact, PR-SRs manage a logbook for all vehicles supported by GF (refer to LMIS draft). But we agree that it is not yet systematically implemented. Since the OIG audit, we have improved and followed the guideline. Only recently, the TF LMIS decided to separate the FA part out of the LMIS guideline. This logbook has been well managed at the central level and Vehicle logbooks are available with respective drivers (and are reviewed at new fuel request). But at the provincial level, SRs will conduct training on how to manage fixed assets and logbook. SR logicians will be informed accordingly.</p>	<p>(a) By June 2012. PR PU & MPSC revise FA separate section into LMIS guideline and train SR for FA training in provinces. RO: Head of Finance and Head of Procurement.</p> <p>(b) The fixed asset list is revised</p>	

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(c) The manual procedures for the disposal of obsolete and non-useable assets.		<p>(b) The finance manual states that physical inventory should be conducted every 6 months and explains the process of how to do this. PR will discuss this with the SRs to include the required systems and standard forms to ensure that it is done correctly at the provincial level every six months. PR office currently has a plan to do monitoring and supervision of 2 provinces per year.</p> <p>(c) The revised financial manual includes a chapter on the disposal/trade/transfer of asset. It will also be part of the revised LMIS. Currently, we write off from the list, or e.g. donate to school. Damaged goods go in to general waste.</p>	<p>every six months. RO: Head of PR Finance and PR PU & SR PU staff.</p> <p>(c) LMIS revision is ongoing. RO: Logistics staff in PR and SR</p>	
<p>Recommendation 17 (Significant priority)</p> <p>The PR should:</p> <p>(a) Perform a reconciliation of the current month's payroll to previous month's payroll to verify the accuracy of the payroll processing.</p> <p>(b) Comply with all PIT requirements.</p> <p>(c) Ensure the SRs document guidelines for fuel, phone allowances and bonuses for staff, and maintain adequate records of staff leave.</p> <p>(d) Ensure that technical advisors are not asked to undertake detailed daily work but focus on solving technical queries and gradually transferring knowledge to other finance staff Their TORs should be reviewed and revised accordingly.</p>	<p>(a) Lao CT will follow up on this recommendation</p> <p>(b) Lao CT will follow up on this recommendation</p> <p>(c) Lao CT will follow up on this recommendation</p> <p>(d) Lao CT has already requested the PR to update the TORs for International Technical Advisors along with clear skill transfer plans for SSF TB grant signing. An appropriate condition will be included in the PGA for SSF TB.</p>	<p>(a) Today our system is as follows: the Admin unit prepares the payroll list based on employment contract. This list is verified by the Finance officer in charge of the PR budget and then certified by the head of Finance and then payment is approved by the PR manager.</p> <p>(b) Following the re organisation of the finance team. The person in charge of preparing the salary is also the same person preparing the PIT. The Payment of the two (by the treasurer) is done at the same time. The revised financial guidelines mention clearly the deadlines for the payment. As a recurrent finding from the audit report, PR will pay attention to it during the SRs supporting document review.</p> <p>(c) This will be part of the SR Management manual; some details are currently included in the HR Manual.</p> <p>(d) <u>Finance</u>: ToR of the Finance TA has been revised to reflect the main responsibilities which are stated as being "Train and/or accompany and/or advise the PR finance team and/or partners on the development of financial policies and procedures, or on the development and implementation of the</p>	<p>(a) in place RO: Head of Admin & Head of Finance</p> <p>(b) on going. RO: Head of Finance</p> <p>(c) June 2012 RO: Head of Finance</p> <p>(d) on going. RO: Head of each Unit</p>	<p>GF Secretariat to review the plan for TA Transfer of skills submitted by the PR.</p>

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		<p>Global fund rules. Guarantee the technical financial framework and contribute towards capitalisation". In addition, the re-organisation of the finance team with an appointed finance professional as head of the unit makes the role and responsibility of each more clear. Regarding the transfer of skills of all TAs, a plan was submitted in 2010 to the CT but there has been no comment back on specifics.</p> <p>Currently, PR plans that, with the yearly review and renewal of each TA contract, an action plan for the capacity development of the units will be developed with the head of unit. Additionally, assessment of PR needs is done on yearly basis and this rec will be shared with CCM for their further advice.</p>		
<p>Recommendation 18 (Requires attention)</p> <p>The MOH should explore the possibility that its Department of Inspection includes the Global Fund grant-funded programs in its scope of work. The audit work conducted at the PR by the Department of Inspection should be designed to complement the work of the LFA and the auditors of the annual financial statements. This work could in particular include audit of the activities undertaken by the SRs. Alternatively, the PR could consider establishing an internal audit function in the PMU.</p>	<p>Lao CT included a special condition on establishing an internal audit function in the GAs of the recently signed grants (due date July 2011).</p>	<p>The PR met with the MOH inspection department in May 2011. However, considering the current scope of work and skills of this department, the PR chose to hire external person to work as external auditor. A ToR was developed and approved by the CT. This ToR states that the internal auditors will work and develop the capacity of the MOH inspection department.</p> <p>In country advertisement for this position received only 4 responses, and none seem to be highly qualified for the work in the way it is needed. Unfortunately, there is no Internationally qualified auditor curriculum at any Lao University.</p>	<p>RO: PR Head of Finance and PR Director</p>	<p>GF Secretariat to further consider the possibilities regarding how to strengthen the oversight functions at the PR and SRs, including the role of internal audit.</p>

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<p>Recommendation 19 (Significant priority)</p> <p>The PR should:</p> <p>(a) Ensure the procurement and logistics manuals are updated regularly to reflect changes in national legislation, Global Fund requirements and international standards. In particular these manuals should be updated to reflect recent updates to the WHO list of prequalified suppliers, and also recent Global Fund requirements for: VPP, code of conduct for suppliers, Information letter for suppliers, sanctions procedures for suppliers, guide to the Global Fund policies on procurement and supply management</p>	<p>(a) Lao CT will follow up on this recommendation</p>	<p>(a) Since the OIG audit procurement of health products (pre-qualification etc) is strictly under VPP/UN (or for TB under GDF/GLC). If any change in future, the QA aspects will be addressed in PA pre-qualification and LTA contract referring to the <i>current</i> GF guidelines/policies.</p> <p>For non-health products we refer to general terms and conditions of standard bidding documents which will be kept up to date on a regular basis</p>	<p>a) Done. SOP revision routine every 2 years. RO: Head of PR PU & iTA and nTA</p>	

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<p>(b) Update the procurement and logistics manuals to include:</p> <ul style="list-style-type: none"> i. Revision of the chapter on fraud and corruption including: a reference to national anti-corruption instruments; procedures for whistleblowing and reporting fraud; and a requirement for the Procurement Committee members and Technical Evaluation Committee members to submit a 'No Conflict of Interest' declaration. ii. Rules on minimum remaining shelf-life of drugs and other products arriving in Lao PDR. iii. Revision on the section describing the use of procurement agencies to differentiate between 'commercial' procurement agents and the UN agencies, and to elaborate on how to identify, select and pre-qualify procurement agents. iv. Chapter on quality assurance with reference to the quality assurance model adopted by the FDD for monitoring of medicine quality in the supply chain. (c) Ensure that all medicines financed through Global Fund grants that enter Lao PDR are registered with the FDD, including VPP procured medicines. (d) Ensure regularly reporting on 	<ul style="list-style-type: none"> (b) <ul style="list-style-type: none"> i. Lao CT will include relevant condition in the PGA for Round 10 TB ii. Idem iii. The PR has developed a number of SOPs, as annexes to the Procurement Manual, one of which is on selection and management of PAs. iv. QA/QC protocol was recommended for use in November 2010. (c) Lao CT is following up on this in Round 10 negotiations. (d) Work in progress (e) Lao CT will include relevant condition in the PGA for Round 10 TB 	<p>(b-i) The procurement committee is appointed by the Ministry of Health and consists of seven staff from MOH including Deputy Director General of Health Department. We will develop and introduce a COI form to Procurement Committee to sign.</p> <p>(b-ii) See note on VPP and UN. Minimum 80% remaining shelf life is standard rule in PO issued since 2011 but sometimes due to short term/emergency planning, we had to accept the shorter shelf life, and Lao orders (e.g. ARV) are not very large because of minimum qyt order so we need to negotiate 'aging' stock with supplier (e.g. VPP).</p> <p>(b-iii) SOP draft for selection, and -prequalification of (commercial) agent is available with LFA for endorsement</p> <p>(b-iv) A working group - FDD, MPSC, FDDQA and PR, a sampling and testing SOP was created and was agreed upon by several parties including LFA, and performed sampling in random sampling in 3 parts of country. Since the OIG audit, the approved versions of applicable SOP, MOU and test service agreements are available (with LFA). Sampling and testing done in July-October 2011. The list of product samples, batch numbers, sample location, and test protocols agreed with NIDQC (Nat Drug Qual Control) in Hanoi are available. First test results from Lab NIDQC in Hanoi were received in October 2011 (from samples taken in July/August). For next round of sampling in 2012 more targeted training of FDD in SOP is required to make a more efficient process. Periodic sampling for QC should become routine practice for FDUs in provinces/districts and the FDQCC should be the center to coordinate testing with NIDQC and review results (as per MOU with PR and FDD).</p>	<p>(b-i) PR PU will provide a COI draft in December 2011. The Manual will include this in 2012. Proc Committee signatures on COI will be completed by the due date in R10 TB PGA.</p> <p>(b-ii) RO: PR PU; on-going to improve this by good planning and pooling of small volumes of drugs and other products to be one order instead of several small orders.</p> <p>(b-iii) Done. In 2011 PRPU put all SOPs together to complement (or replace) the Procurement Manual Edition 2009. RO: Head of PU and iTA PU</p> <p>(b-iv) Periodic sampling for QC will become routine practice</p>	

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<p>the Global Fund website, the price and quality of the applicable health products procured under the Global Fund Grants as well as use this information to review estimated unit prices for future procurements and budgeting.</p> <p>(e) Implement a system for monitoring the performance of suppliers with respect to product and supply chain quality, which includes provision of information to the Global Fund on supplier performance as defined by the Global Fund.</p>		<p>(c) The typical non-commercial agents like VPP/UN and GDF are not in principle willing/cooperative to engage. These agents usually count on FDD waivers for importation of goods. There are official regulations available in Lao which OIG may not have seen. But there are also (informal) regulatory barriers (non-tariff) to be acknowledged. Since March 2011 the PR PU works closely with FDD to get TB drugs, ACT and ARV -pre-registered for GF program use only (See form in PHPM Country profile 2011). The second line TB drugs have been submitted to FDD, data for first line drugs have been requested from GDF since 8th July 2011 (request forwarded by GDF to GIZ in August etc). We are already requesting VPP for ARV and ACT for the 2012 annual orders.</p> <p>Refer to the ministerial regulation No 1441/MOH regarding drug registration and the Notice No. 1189/FDD regarding the importation of drugs under donated or funded projects. Fast track registration will be applied under R11 proposal.</p> <p>(d) Since 2009 we have procured core products through VPP and VPP entered the PQR. In 2010/2011 for emergency supplies, the PRPU procured medicines through alternative source (e.g. UNICEF, IDA). PRPU didn't have experience to enter PQR data online but this is has improved since August 2011 PQR database log in following the applicable guidance from the GF/QA website. All invoices (hard copy) are kept archived for LFA review</p> <p>(e) Health product procurement is outsourced by PRPU; suppliers monitored by agents (VPP etc). In the draft SOP, this part is attached to selection and qualification / contracting of (commercial) Procurement Agent in future. For Non-health product and services: PU will develop the monitoring for supplier form and evaluate once per year.</p>	<p>for FDUs in provinces & districts by 2012 This chapter will be added in the revised Proc Manual in 2012.. RO: Head of FDD, Head of PRPU</p> <p>(c) Head of FDD by December 2011.</p> <p>(d) Done correctly since Aug 2011 RO: PR PU staff</p> <p>(e) Health product form developed as soon as SOP PA is in place (Dec 2011) and PR will monitor once per year to evaluate the supplier. For Non Health products the PRPU will issue SOP Oct 2011 RO: nTA PR PU)</p>	

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<p>Recommendation 20 (High priority)</p> <p>The MPSC in coordination with the CHAS, the CMPE and the NTC should improve the collection of consumption and stock level data and improve the quantification and forecasting tools in order to avoid the risk of stock-outs or overstocking and expiry of health products. In order to do this:</p> <p>(a) The quantification tools for ARV and malaria drugs should be improved by including information such as past and current number of patients, expected growth in number of patients, shelf life, and required buffer stock based on estimated lead time and stock in hand.</p> <p>(b) All spreadsheet quantification tools should be standardized and protected to prevent changes to the formulas. These tools should be validated by an independent organization and approved by the MOH.</p> <p>(c) MPSC should make progress towards the integration of inventory management across the warehouses and stores in provinces.</p>	<p>(a) The CT identified this issue during the grant negotiations for Round 7 Phase 2s and SSF HIV grants and included relevant CP in the PGAs requiring the PR and National programs to improve the quantification tools for TB, ARV/OI and malaria drugs.</p> <p>(b) Lao CT will follow up on this recommendation</p> <p>(c) Lao CT will follow up on this recommendation</p>	<p>Currently each SR reports separately (stocks & distributions) through their own system. Recently, PU and MPSC have issued updated forms for LMIS and have talked to CMPE about how best to start reporting quarterly consumption data in addition to distribution data.</p> <p>(a) The tools in CHAS and NTC (GDF) have been developed in detail with external parties (they were available at the time of OIG audit). CHAS also collaborates with CHAI for quantification of ARV. But actual patient numbers do fluctuate and clinicians can change treatment regimens. Multiple spreadsheets and tables including patients treated etc. are available for drugs (and rapid tests) from CHAS and TB Center. For Malaria, the seasonal epidemiology is not always predictable. For the ACT drugs and RDT looking back to the use of past years, the forecasting has improved over the years and seasons as more historical data is becoming available and more accurate. PRPU updates the product list and forecasting yearly in consideration of unexpected numbers of patients and changing treatment regimens or adaptation to revised ARV treatment guideline.</p> <p>MPSC with CHAS, CMPE, NTC and MCHC have developed the standard forms used for stock control and report. Those forms are now implementing in the pilot area (4 south provinces).</p> <p>(b) Agreed, based on daily practice, spreadsheets are personal tools of the officer in charge of this. However even if the TB and CHAS centres collaborate with organisations like GDF and CHAI using their standard spreadsheet tools, protection of sheets is possible only on a personal level. The PR and SR will seek formal validation from WHO.</p> <p>(c) Agreed, the Ministerial decree on storage of drugs at the central level for vertical programs is</p>	<p>PR will revise LMIS manual by November 2011, then conduct training for all SRs and SSRs on how to use the forms and improve the stock report and data consumption.</p> <p>(a) The first report will be in November 2011 and the result from this pilot will be elaborated and implemented for the whole country in 2012.</p> <p>RO: CMPE, CHAS..</p> <p>(b) PRPU will work with WHO to implement the validation system in 2012.</p> <p>RO: PRPU</p> <p>(c) This will be addressed by LMIS Task force in place between MPSC and PR/SR. Will aim for acceleration of activities under R11. HSS proposal</p>	

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		dated 2009. The first step of implementation is currently on going with CHAS and CMPE. It will be completed with TB in 2012. Additional funding to improve this system at the national level is needed and will be identified through a reprogramming or through the R11 application.	for funding of e.g. computerization is planned. RO: MPSC Director & PR Management Team	
Recommendation 21 (Significant priority) In order to improve the consistency of the baseline data used for forecasting the need for anti-malarial drugs, the CPME should investigate the reasons for the differences in the reported malaria case load data in tables provided by the Malaria Information System between survey reports and reports from the Health Management Information System.	(a) Please refer to the comments in the Secretariat response	Quarterly reports of the consumption for anti-malarial drugs based on the monthly data from its Epidemiology Unit. These have been updated since 2010 but will be reassessed again in 2012 based on this recommendation to assure accuracy and consistency between the records.	RO: CMPE Epidemiology and PR M&E Head	
Recommendation 22 (Significant priority) The MOH should: (a) Develop technical specifications for the selection and procurement of medical equipment, taking into consideration the equipment currently installed in public health facilities. (b) Ensure that the capacity is strengthened of those responsible for framing the technical specifications for health products in the purchase requests from the SRs to make sure these are well drafted and procurement	(a) Lao CT will follow up on this recommendation (b) Lao CT will follow up on this recommendation	(a) MPSC with the support from WHO and the project Lao-Luxo17 is currently revising the Medical Equipment Policy and also developing the standards for health facility and equipment. The Medical Equipment Center and national policy (MPSC and Lux) has trained in-house technicians for maintenance/repair of medical equipment (at the Provincial hospitals) Existing in MPSC/Lux Development. MEC/MPSC has guidelines on what the equipment maintenance system is and what they train staff on. (b) PR does not always have the technical expertise available or the English skills to draft /write up the product lists (or review of these) as the basis for orders. PR will encourage the International TA in each disease centre to work closely with SR on specification on health products. And SR will	(a) MPSC: the revised policy and guideline to guide selection will be finished in 2012. RO: Head of PU and MPSC (b) For each grant, the capacity will be strengthened) and it is planned to be smoothly implemented within the next two years.	

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process delays are avoided.		improve their knowledge and skill on procurement of goods through skills transfer.		
<p>Recommendation 23 (Significant priority)</p> <p>The PR should establish a PSM Steering Committee comprised of members from the PR and the SRs, including Technical Assistants, and led by the Chief of the Procurement Unit at the PR. The Steering Committee should meet at least quarterly to provide assistance on PSM issues for the Global Fund-supported programs. The PSM Steering Committee should have the following roles and responsibilities:</p> <ul style="list-style-type: none"> (a) To provide support and guidance to the PR and SR staff on problems faced during procurement and supply management for the Global Fund grants. (b) To identify problems, propose action plans, and fix timelines and responsibilities for implementation of the proposed actions. (c) To provide technical expertise, wherever required, for implementation of the proposed action plan. (d) To monitor performance and evaluate results of the agreed actions. (e) To ensure that standard procurement and supply management practices are being followed at the PR 	<p>Lao CT will follow up on this recommendation</p>	<p>We agree that this is a good plan and we will work to meet the challenges. The PSM Steering Com will provide technical expertise and will be comprised of the Head of PRPU, the TAs, and representatives from the SRs involved, and the CCM members or UN representative, details will be determined at a later date.</p> <p>(a) see above (b) see above (c) see above (d) see above (e) see above (f) see above</p>	<p>PR Management Team will discuss this issue with our FPM. In 2012. we will set up the committee.</p>	

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<p>and the SRs.</p> <p>(f) To submit quarterly progress reports to the CCM through the Oversight Committee.</p>				
<p>Recommendation 24 (Significant priority)</p> <p>In order to ensure that value for money is achieved in every purchase made using grant funds, the PR should:</p> <p>(a) Carry out competitive selection of the procurement agents where PAs are used on particular procurements. Consider the use of competitive bidding instead of PAs, particularly for less complex procurements such as non-health products and health equipment like vehicles, microscopes, etc.</p> <p>(b) Consider further assessment in the present threshold of US\$120,000 for International Competitive Bidding.</p> <p>(c) Document the approval of appointment of the Technical Evaluation Committee as well as evidence of its technical competency.</p> <p>(d) Consider to assess the number of Procurement Committee and Technical Evaluation Committee members from the current 12-18 members per meeting to reduce per diem payments and ensure quick and effective decision-making.</p>	<p>(a) The PR is in the process of selection of a qualified PA. Non-health procurement is conducted by the PR. As for non-complex health procurement, we will consider to authorize the PR to carry out such procurement by themselves.</p> <p>(b) Please refer to comments in the Secretariat response</p> <p>(c) Lao CT will follow up on this recommendation</p> <p>(d) Lao CT will follow up on this recommendation</p> <p>(e) Lao CT will follow up on this recommendation</p> <p>(f) Starting from the beginning of 2010, Lao CT has been following up on this through quarterly LFA procurement reviews.</p> <p>(g) Starting from the beginning of 2010, Lao CT has been following up on this through quarterly LFA procurement reviews.</p> <p>(h) Lao CT will follow up on this recommendation</p> <p>(i) This has already been done. PR has not procured any luxury vehicles since 2009.</p>	<p>(a) See draft SOP. The SOP for the PA selection has been drafted and sent to LFA review, comment, and approval by the CT. Competitive bidding is an ongoing process.</p> <p>(b) PRPU will consider this threshold according to the GF Secretariat recommendations, and discuss how to lower this threshold.</p> <p>(c) The MOH Minister has appointed the Secretariat Committee and Technical Committees at the ministerial level since June 17, 2010. PR will review the qualifications of the technical committee members and consider modifying the list of members. The Procurement Guidelines (see p. 33) list the qualifications of members of the teams that review the various procurements, which depend on the type of procurement they will be involved in deciding on. These criteria and adherence to the PR's guidelines will be reviewed along with the Procurement Guidelines.</p> <p>(d) The PR PU strictly follows the procurement guideline issued in November 2009 and the financial guideline in order to reduce per diem payment, as recommended. The new system of paying only per diem to non-GF-supported staff was instituted at the end of 2010 (see attachment, letter to SRs). Although there were sometimes more than 12 members, the PR PU has paid per diem only to committee members who have not received any incentive and PR found that the payment of bid opening or decision meeting was very little compared to past years. For the number of bid/select committee of each bid will remain as</p>	<p>(a) We will implement as soon as we receive approval. We expect to complete the review by the end of 2011. RO: Head of PRPU (attach the SOP)</p> <p>(b) PRPU will review this issue and revise the guidelines in 2012. RO: Head of PRPU and PR MT</p> <p>(c) Review of the Procurement Guidelines is scheduled for 2012 RO: Head PRPU</p> <p>(d) This has been addressed in 2010 RO: Head of PR PU.</p> <p>(e) Completed in November 2011.</p>	

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<p>(e) Ensure a lock box system is used to deposit sealed bids received from bidders.</p> <p>(f) Monitor adherence to tender terms by the selected vendor and ensure late delivery charges are enforced.</p> <p>(g) Avoid drafting technical specifications that exactly match the specifications of a product produced by only one source. Do not remove conditions that protect the interest of the purchaser.</p> <p>(h) Reduce the time taken for vendor selection (post receipt of the bids).</p> <p>(i) Ensure that the tender and purchase order require the supplier to provide a pre-shipment quality certificate. Also, the purchase order should specify the delivery schedule or expected date of delivery, as well as the minimum remaining life of the product upon arrival in the country.</p> <p>(j) Ensure that funds are used cost-effectively by avoiding the procurement of more luxurious vehicle models.</p>		<p>identified in the procurement guideline.</p> <p>(e) PR will procure the steel box and keep with Adm.PRPY will hold the key.</p> <p>(f) The PR PU has done the contract management strictly and the PR PU has fined the company for late delivery. For instance, the PR PU fined CBF company nearly 15% of the total contract price.</p> <p>(g) Certain health products need to be brand/model specific (e.g. Terumo blood bags, lab kits) b/c training, standardized instruments, etc and any deviation would cause challenges in using this around the country. But in general (and for all non-health product) generic/minimal criteria are used.</p> <p>(h) The PR PU has added this to the revision of the SOPs for receiving and handling the bids to modify the process to be shorter.</p> <p>(i) Agree.</p>	<p>(f) Applied with CBF supplier in Aug 2011.</p> <p>(g) Completed. RO: PRPU Order requests reviewed by nTA</p> <p>(h) Completed. PRPU SOP (as part of the 4 SOPs drafted with GMS input) approved and signed. RO: PRPU Head</p> <p>(i) Completed</p> <p>(j) Completed</p>	
<p>Recommendation 25 (High priority)</p> <p>The PR should:</p> <p>(a) Ensure compliance with post-shipment quality controls, by conducting post-shipment random</p>	<p>(a) Post-shipment QC has already been introduced by the PR. The first round of sampling of drugs was done in June 2011. The selected samples are now being tested by WHO-prequalified Drug Quality Control</p>	<p>(a) Agreed and implemented. NIDQC service contracted, first analytical results received in October, but full report is not yet completed and there are 50% of the samples not yet tested. Hanoi lab will send full report as soon as they have completed the full sample set.</p>	<p>(a) Summary report will be sent to CT as soon as the Hanoi lab completes the full sampling.</p>	

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<p>testing and independent quality testing for drugs at different levels of the supply chain.</p> <p>(b) Establish a batch number tracking system.</p> <p>(c) Ensure quality certificates are duly obtained from suppliers.</p> <p>(d) Complete the process of selecting a WHO-pre-qualified laboratory for testing.</p> <p>(e) Ensure that the FDD is involved in the process of relabeling internationally procured health products in order to control the quality and adequacy of the translations.</p>	<p>Laboratory in Hanoi.</p> <p>(b) Lao CT will follow up on this recommendation</p> <p>(c) Done</p> <p>(d) Lao CT will follow up on this recommendation</p>	<p>(b) It is primarily a FDD mandate to ensure recall effectiveness. Implementation via its importation database (BFDI, batch numbers entering) and its Medical store (inventories tracking) and across the MOH in the stores and national disease programs (BFDI Inspectors). But FDD is still developing this, there is no formal inspection of the supply chain as yet. Adding batch # on manual stock records is done now with e.g. NTC and other centers. Inevitably to take this further effectively with computerization of inventory management as soon as MPSC is ready to have one central system/able to develop this as a strategy in e.g. R11 HSS or other funds.</p> <p>(c) On going to enter all invoices for PQR (only for core products) and all certificates (for QA sample model) in PRPU office.</p> <p>(d) Lab selected - NIDQC (Hanoi closest to Laos on GF list of labs)</p> <p>(e) Agree, valid point as labelling is a manufacturing step but it is too early to be feasible for actual implementation of GMP in the disease centers for the short term. All artwork could e.g. be provided to FDD to get 'involved' but there is no system to receive formal feedback (as part of product registration see above) or to ensure GMP in adding labels to the packages or change control over the printing etc.</p> <p>During registration process for imported drugs, FDD requires the packaging insert or leaflet to be in Lao language to be able to provide drug information to consumers. We do not require relabeling of the packaging. It is the task of import companies/applicants to fulfil such a requirement. FDD has to control when the registered products enter Laos whether there is information on the drug in Lao language or not. For the internationally</p>	<p>RO: Head PRPU</p> <p>(b) Planned inclusion for R11 HSS- 2014</p> <p>RO: FDD Director</p> <p>(c) Done</p> <p>(d) Done</p> <p>(e) Will plan for R11 HSS</p> <p>RO: FDD Director, PRPU Unit Head</p>	

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		procured health products through GF, there is no representative drug company in Laos, so it's difficult to do this. We suggest it should be the manufacturer to do the labelling and PI in Lao for the special lot to be sent to Laos.		
Recommendation 26 (Significant priority) PSI should comply with its internal technical guidance on condom shelf life when procuring condoms under Global fund grants.	Lao CT will follow up on this recommendation	PSI: As stated in the PSI HQ Technical Guidance referred to by the OIG report, "recommendations are not intended to replace any country-specific recommendations or requirements." In cases where there is a difference between a country's product regulations (including specifications such as expiry date) and regulations from PSI's HQ internal technical guidance, PSI follows the country's guidance. In Lao, the MOH's official product guidelines do not recommend limiting condom shelf life to three years. Therefore, PSI has chosen to follow the MOH's regulations and distributes condoms with five-year shelf life. PSI would be more than willing to work with the MOH to explore the appropriateness of reducing recommended shelf life for condoms entering Laos. But for the period of the OIG report, PSI confirms that it closely followed all relevant Lao national guidelines.	PSI and MOH and Laos CT will discuss the solution to this in early 2012.	
Recommendation 27 (High priority) The PR, in coordination with the disease centres, should: (a) Conduct a causal analysis of previous instances of expired drugs and stock outs, and identify key action points for future forecasting. (b) Define minimum stock levels, re-order levels and lead time for all critical health products and ensure close monitoring in order to avoid	Lao CT will follow up on this recommendation	(a) A first internal pre analysis has been conducted by the PR office at the end of 2010. MPSC will recruit a TA to assist with this update and report on key action points by end of 2011. PR will include this topic (how to analyse this problem of stock-outs and forecasting) in the monthly SR meetings. Currently, each national Center staff is doing this with assistance of the WHO TAs. (b) MPSC is currently doing the training in 4 pilot provinces on these topics. Programs make progress with such safeguards in	(a) It will be revised and updated by TA at MPSC and reported to CCM by June 2012. RO: MPSC and PRPU Head. (b) Center and provincial level complete by 2012 RO: FDD/MPSC with SR in MOUs	

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<p>stock outs.</p> <p>(c) Define standards for stocks issued for consumption at hospitals. Improve the completeness and accuracy of stock records and reporting by:</p> <ul style="list-style-type: none"> i. Introducing standardized stock cards and reporting in health facilities, including batch numbers and expiry dates. ii. Issuing clear guidelines on data recording and reporting, and educating staff at all levels. iii. Introducing a process for the review and validation of data at the provincial and central level. 		<p>practice</p> <p>(c-i) MPSC has developed stocks cards (in Lao) for hospitals and province stores, annexed to updated LMIS Manual</p> <p>(c-ii) This will be further developed for the training on stock management after the pilot is complete. It is currently being tested in four provinces.</p> <p>(c-iii) FDU units have already this validation function. But the MPSC/FDD, the FDU systems and the three disease programs are not completely aligned yet (or the programs aren't mainstreamed into the MOH/FDD systems). This will be prioritized in the coming year</p>	<p>(See recommendation #20)</p> <p>(c-i) 2012 RO: FDD/MPSC with provinces and LMIS Task force</p> <p>(c-ii) Training hospitals/provinces planned 2011/2012 FDD/MPSC with provinces</p> <p>(c-iii) 2012 RO: FDD & MPSC Directors</p>	
<p>Recommendation 28 (High priority)</p> <p>The MLC should:</p> <ul style="list-style-type: none"> (a) Provide the necessary training and supervision to ensure that the FEFO principle of stock management is implemented at all levels of the supply chain. (b) Introduce a process for conducting periodic physical verification of inventory 	<p>Lao CT will follow up on this recommendation</p>	<p>(a) The training for using the standard form to manage stock is currently being implemented in the 4 south provinces. This training curriculum is included in the mentioned principle.</p> <p>(b) MLC inventories are daily physically checked, there is not much flowing yet through the prov/district stores to do same.</p>	<p>(a) training and supervision planned for 2011/2012 RO: FDD & MPSC Directors</p> <p>(b) 2012 RO: FDD & MPSC Directors</p>	
<p>Recommendation 29 (High priority)</p> <p>The CMPE should complete the implementation of the new risk-zone based malaria strategy, so as to ensure a more rational distribution of ACT and</p>	<p>CNM completed re-stratification exercise in 2010. The Phase 2 of Round 7 Malaria grant was developed in line with the revised National Malaria strategy which uses the re-</p>	<p>This is included in the NSP for malaria and is currently underway and implemented by CMPE</p>	<p>RO: CMPE Director</p>	

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RDT, and avoid overstocking and expiry of malaria drugs and tests in zones with low malaria risk.	stratification to define areas of no or low, mid and high risk.			
Recommendation 30 (Significant priority) The MPSC should ensure that its efforts to integrate the distribution system include the development of a procedure for the efficient collection of expired health products for safe disposal.	Lao CT will follow up on this recommendation	The integration is on-going; at the central level MPSC has signed the MOU with MCHC, CHAS and will be soon with CMPE and NTC. Some provinces such as Vientiane prov., Xiengkhouang, Oudomxay, Saravane are also implemented. Interim system is currently proposed in PHPM country profile	RO: PR / MPSC (LMIS Task force)	
Recommendation 31 (High priority) The MPSC with the three disease programs (CHAS, NTC and CMPE) should develop and implement a hand-over plan to complete the process of handing over the responsibility for the reception, storage and distribution of pharmaceuticals, laboratory reagents and other program supplies to the MPSC. The MPSC should guarantee an appropriate warehousing service, a functional unified stock management and reporting system, and efficient and timely distribution of products.	Lao CT is following up on this in Round 10 negotiations.	MOU in place with CHAS, CMPE (MCH).MoU with NTC is planned for 2012. Training for stock reporting has already started between MPSC warehouse staff by PR PU.. Warehouse improvements are a CP in the HIV SSF grant and is ongoing; this includes maintenance, storage, & security. Also see Rec #32.	RO: MPSC Director, PRPU	
Recommendation 32 (Significant priority) The MLC and PSI should improve warehouse conditions for the storage of drugs, reagents and condoms. This should include: the improvement of temperature control systems; the improvement and regular maintenance of fire safety equipment; adequate	Lao CT is following up on this in Round 10 negotiations.	For MLC: The cooling system has been improved by repairing & having maintenance two times per year. Security and fire systems will also be improved,. The temperature control system has been monitored by installing a temperature gauge and by recording the temperature hour by hour. In the past year since the initial OIG visit, PSI has	Planned and budgeted for 2012. RO: MPSC, SRs	

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insurance coverage; and installation of cold room facilities where needed.		completed improvements in warehousing systems, including improving systems to check and record temperatures, installing proper fire safety equipment, ensuring warehouse staff are aware of how to use equipment, confirming insurance coverage for warehoused products, as well as increasing our utilization of high-quality warehousing available from reputable companies such as Diethelm, which include full temperature controls and cold storage.		
<p>Recommendation 33 (Significant priority)</p> <p>The CPME should:</p> <p>(a) Avoid inconsistencies in the distribution of bed nets by carrying out a thorough needs assessment before procurement and distribution, and should reassess the need for selling bed nets versus free distribution.</p> <p>(b) Develop a system of control and monitoring to ensure that bed nets are distributed to the right families and at the right prices</p>	<p>(a) From 2010, bed nets in public sector are distributed for free.</p> <p>(b) Lao CT will follow up on this recommendation</p>	<p>(a) CMPE has already announced to all provinces the free distribution of bed nets according to the strategy outlined in the NSP.</p> <p>(b) Before the IBN yearly campaign to all provinces, CMPE does training on using the forms to record this - for Village Health Volunteers and Village Malaria Workers. Nets have been distributed for free as of recent.</p>	RO: CMPE Director	
<p>Recommendation 34 (Significant priority)</p> <p>The Global Fund Secretariat should ensure that Global Fund rounds are aligned with new national strategies, particularly where a new national strategy is a reflection of improved insights, as has been the case in Lao PDR for malaria. A practical argument for alignment is that this will diminish</p>		At the present time all 3 diseases components do have their national strategies (TB for 2010-15; HIV for 2011-2015, it was finalized after the OIG visit) and therefore the objectives and activities are in line with NSP by disease component. Additionally, an IEC NSP & policy connects the NSPs for each disease. For Malaria, the new NSP advised the Phase 2 activities and strategy but the review by the TRP	This recommendation has been addressed more than one year ago, since R7. RO: PR Director and Managers	The Footnote is inserted in the report to reflect this comment

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transaction costs between Global Fund supported rounds and national programs.		and Global Fund resulted in a ten month delay in funding. So, while following this recommendation, we found ourselves at a disadvantage in starting the new activities for Malaria.		
Recommendation 35 (Significant priority) The CMPE should ensure that further studies are conducted to investigate why in some areas transmission remains very high despite high reported ITN/LLIN coverage.	Lao CT will follow up on this recommendation	The next Malaria re-stratification is planned for the next year. Now CMPE is moving towards this recommendation by hiring a statistician to analyse the re-stratification surveys and an entomologist to investigate this phenomena; drug monitoring studies are planned, as well. According to Malaria NSP 2011-2015; CMPE plans to focus attention on areas where transmission remains very high and will include this in its priority areas of investigation.	Studies will be completed in 2012 and analysis may take several more months into 2013. RO: CMPE Director and epidemiology staff.	
Recommendation 36 (Significant priority) The CMPE should extend its RDT and ACT stratification strategy to also include a strategy for bed nets and their re-impregnation at village level, such that: (a) Routine of households taking responsibility for malaria prevention is maintained. (b) Village health volunteers are reinforced in their duties of prevention and early diagnosis. (c) There is recognition that households may have all kinds of nets and that they need to avoid holes and repair them as soon as they occur.	Please see our comments in the Secretariat response	The NSP-outlined Stratification strategy clearly outlines the methods used for each stratified level of villages. (a) IEC components are included in the NSP and are covered by the Village Malaria Workers' jobs. These messages are communicated through those staff. Outcomes were captured in CMPEs' KAP Surveys and will be monitored by further KAP surveys and analysed by the national CIEH. There are specific strategies in the NSP for this. CMPE, Provinces, Districts, Health Centers and VHVs advocate on household malaria prevention through the IEC. (b) see above. Note addition of Village Malaria Workers in malaria endemic villages. CMPE provides yearly training for them. (c) This repair of bednet advice is a part of the IEC message content, the IEC material (brochures, flip charts, pamphlets, etc) contain these messages. It is also a part of the strategy that older bednets (over 3 years old) should be replaced with LLIN's, acc to	RO: CMPE Director and PR M&E Head (a) Currently underway. RO: CMPE Director (b) Currently underway. RO: CMPE Director (c) Currently underway. RO: CMPE Director	

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		WHO recs and NSP.		
Recommendation 37 (Requires attention): The CMPE should pilot and seek a best practice model of public-private partnership for malaria control in the context of large development projects such as hydro dams. The model should include the local population and the workforce and be derived from the national malaria strategy.	Lao CT will follow up on this recommendation	The Public Private Partnership strategies have been included in the 2011-2015 NSP and are being implemented. There is a performance Indicator that includes development of relationships with private employers and one focus is on large development projects. (started in July 2011). Now CMPE is meeting with all target development projects to discuss malaria prevention and control in their area of responsibility and with key public sectors, such as department of industry and mining, department of forestry, agriculture and irrigation etc... The objectives are to streamline all input into malaria control in the same direction and thus ensure better coordination and effective use of the resources available.	Currently underway. RO: CMPE Director	
Recommendation 38 (Significant priority) The CHAS, with the guidance of UNAIDS, should commission a study that documents and monitors trends in (self) referrals, differentiated for men and women, as an indication both of decreasing taboo and of improved access to services. The most practical way to do this would be through patients' CD4 cell count at first reporting.	Lao CT will follow up on this recommendation	CHAS will make a plan and look for budget for this study.	First quarter of 2012 RO: CHAS Director	
Recommendation 39 (Significant priority) The CHAS should ensure that an evaluation of the entire HIV program is undertaken with particular attention for Paris Declaration principles,	Lao CT will follow up on this recommendation	A program evaluation will take place at the periodic review in 2012. CHAS will make more efforts to reinforce the National AIDS Program to pay attention to Paris	RO: CHAS Director, PR Managers	

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sustainability and cost-effectiveness. This could take the form of a Joint Review or of a Periodic Review.		Declaration principles.		
Recommendation 40 (High priority) The CCM should ensure that the PR and SRs, with support from development partners: (a) Within the three domains, of HIV/AIDS, TB and Malaria, seek ways for comparing IEC results at the outcome level, by joint evaluations and self-assessment, for example by having SRs judge each other's approaches and the outcomes of these approaches (b) Feed lessons of all studies and surveys into IEC programs and in doing this, also draw in PSI on this particular strength (c) Use wherever possible existing traditional and lasting structures as also promoted by CMPE (d) Within the three domains, identify indicators at the outcome level, plus affordable ways to measure these (e) Do (a), (b), (c) and (d) such that the actual programs get new inspiration, of lessons learned, with a view to generate cost-effective approaches that will retain their effectiveness over time, and will be replicated with minimum external input (f) Measure success in terms of	The CT has already started to address the issue of IEC streamlining through relevant conditions in the GA of the recently signed grants.	<p>The CCM has already requested to PR and concerned SRs to work in a national policy, strategy and action plan for IEC, such documents must include all the issues [(a) to (f)] raised by OIG team. This topic has been updated during the CCM meeting of 7th October and CCM has committed to follow up at ministerial level.</p> <p>(a) At present all SRs have contributed to the development of the IEC Policy. A joint technical review of the IEC policy will take place; the committee responsible is comprised of the Ministry of Education, Ministry of Information and Culture, and development partners (ADB, WB, GF, UN etc.) After the review, the policy will come into force. Through this committee, the SRs have the opportunity to judge the current tools and outcomes and agree on the best practices. Malaria has evaluated the impact of IEC activities on the desired outcomes and has revised the tools. BCC tools for HIV also have evaluated the impact of their activities and strategies. CIEH and SR partners will include this topic in their meetings & workshops, as is a part of their policy, to share successes and try to streamline the types of activities that are used in different target groups.</p> <p>(b) PSI , as well as other SRs who have been involved in the IEC Policy development, and are recognized as having strong program elements and experience, will share best practices with the other SRs in IEC campaigns.</p> <p>(c) Agree. This will be encouraged.</p> <p>(d) These will be further identified at the R11</p>	ongoing, CCM/OC chair responsible (a) Summary of Progress of IEC Policy/NSP/Work plan The IEC policy is drafted and waiting for final approval by PM office. for the moment all stakeholders (CIEH,CHAS, CMPE,Min.of Edu, Min.of Info, Min.of justice and others) are still working on the national IEC strategies, The latter is very close to finalization and it can be endorsed by MOH. Once it's done, then an IEC NSP with workplan and budget and performance indicators would be developed. At the moment all of the IEC activities + budgets are located in each	

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spontaneous replication without the need to keep up extension efforts. For example, among female sex workers, to assess protected sex as a result of lessons learned by fellow sex workers ('horizontal learning').		<p>proposal development.</p> <p>(e) After the national IEC Policy has been approved, government counterparts can contribute to the dissemination of effective IEC materials at little or no cost (Lao Women's Union, newspapers, radio, TV, etc). Ministry of Education and Ministry of Information & Culture cooperates with CIEH. The joint review panel will endorse messages and products to be disseminated at low cost to a broad audience. This review panel will meet once a month to review and approve products.</p> <p>(f) Peer education (child to child, friend to friend, school to community, etc.) are on-going and included in the IEC strategies. In the Drop in Centres the main activity is information sharing, building trust.</p>	disease, such as malaria, TB, HIV etc...and GF-secretariat has approved implementation of IEC activities based on the progress made already and still being developed. OC/CCM chairs responsible for follow up. (c) on going (d) on going (e) on going (f) on going	
<p>Recommendation 41 (Significant priority):</p> <p>In line with its reputation of evidence based innovation, PSI should set the standards for alternative approaches to IEC. Notably, in its work with sex workers (service women) in so-called guest houses PSI should consider how to operationalize its mission statement of 'making markets work for the poor and vulnerable in a sustainable way'. And thus see sex work and its institutions as markets that would benefit from culturally sensitive 'branding' and in particular:</p> <p>(a) Promote 'branding' of guest</p>	<p>Lao CT will follow up on this recommendation</p>	<p>PSI Laos recognizes the spirit of the OIG's recommendation, and looks forward to building on its current effective IEC approaches by working closely with the CCM, PR, and other SRs to develop alternative and innovative IEC approaches. However, PSI strongly disagrees with the implication of this recommendation: that PSI has not already been setting the standard on approaches to IEC among GF partners in Laos. PSI requests that the OIG team refer to the extensive documentation provided during the initial OIG visit, which demonstrates strong evidence-based findings for PSI's interventions with MSM, SWs, and on Malaria. The documentation clearly shows that our IEC and BCC tools and methods have had significant and measurable impacts on improving the HIV and malaria prevention and treatment behaviours that we were tasked to achieve on our</p>	2012 RO: PSI GF Manager and PR MT (a) IEC Task Force will discuss this in the first half of 2012. RO: IEC Taskforce (b) To be reviewed again during IEC Task Force meetings RO: PR M&E Unit Head	The OIG has reviewed the extensive evidence presented by PSI during the visit (no need to re-send). The OIG comments and recommendations naturally are also based on field visits and on interviews with staff and assessments of data and data

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<p>houses and their owners ('mammasang') building on the strong cultural concepts of 'protection' and 'cleanliness', for both clients and sex workers</p> <p>(b) Make approaches evidence based</p> <p>(c) Seek lessons from other public-private partnerships (such as PPM)</p> <p>(d) Share lessons learned with other NGOs</p> <p>(e) Develop meaningful indicators</p>		<p>Global Fund-funded projects. PSI would be happy to re-send the documentation submitted to the OIG during that initial trip, including official research reports (completed in coordination with CHAS, CMPE and other stakeholders), showing how our IEC and BCC tools and methods resulted in significant and measurable increases in key target behaviours including: correct and consistent condom use among MSM and SWs; HIV testing among MSM and SWs; and net use (inside and outside the home) among villagers in the 3 most malarial provinces in southern Laos, as well as other important HIV and malaria prevention and treatment behaviours. In addition to that evidence of the effectiveness of IEC and behaviour change communications, PSI provided the OIG team with extensive, documented evidence, from a large-scale GF-funded research study conducted by CMPE and PSI, showing that PSI's malaria BCC and IEC activities helped result in a 35% and 50% drop in Malaria parasite prevalence in Sekong, Attapeu, and Salavan, two years in a row, in 2008-09 and 2009-10, respectively. PSI looks forward to working with the OIG team to ensure that this evidence, which was widely shared with CHAS, CMPE, the PR at the time of the research, and which was reviewed extensively with the OIG team during their time in Laos, is given full consideration before finalizing this section of the OIG report, and before finalizing the recommendation.</p> <p>(a) PR will work with all SRs to ensure that they follow the national IEC policy for this kind of recommendation. The IEC Policy taskforce will consider the appropriateness of this recommendation in terms of implications on the cultural and social situation and values in Lao.</p> <p>(b) PSI respectfully requests the OIG team to consider all the documentation provided by PSI for</p>	<p>(c) Will be applied in 2012. RO: PR M&E Head of Unit; PSI Manager</p> <p>(d) Currently implemented. RO: PSI Manager</p> <p>(e) Currently being discussed by IEC Task force, PSI and monitored by PR RO: PSI, IEC Taskforce, PR M&E Unit</p>	<p>collection tools in the field. As stated in the main text it is not unreasonable to expect a standard-setting role for PSI. For the work with sex-workers OIG has not found evidence that PSI has played such a standard-setting role (the OIG actually recollects to have shared these observations with senior PSI staff shortly after the debriefing). Please note that OIG has not criticised PSI's work in Sekong, Attapeu, and Salavan for the malaria program, which indeed appears to illustrate the standard-setting role one would expect from PSI. The OIG sees no reason to change the</p>

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		<p>its MSM, SW, and Malaria programs during the initial OIG visit. We are confident that, upon a review of the documentation, it will be clear that PSI's interventions were and are solidly based in evidence. Moreover, we are confident that such a review will show that PSI put in place M&E systems that generated strong, positive evidence that our BCC and IEC tools (for the MSM, FSW, and Malaria programs) were effective in improving important targeted behaviours and even, as noted above, measurably reducing disease levels, in the case of the PSI Malaria project funded by Global Fund.</p> <p>(c) We agree with the OIG recommendation to expand evidence-based PPM models in Laos. Since the OIG visit, PSI has already been working to do this, including work in 2010 and 2011 to successfully set up (through strong collaboration with the Lao National TB Center) an innovative PPM project (with funding from WHO) to mobilize private sector clinics in Laos to deliver TB DOTS and conduct TB case detection. That PPM project will be supported under the new GF R10 project, to start in late 2011.</p> <p>(d) Agree. PSI works with the PR and CHAS/CMPE to maximize opportunities to share lessons learned.</p> <p>(e) Agree that we need meaningful indicators for all of our Global Fund funded programs (HIV, TB, and Malaria) and we will continue to develop these indicators for future rounds. Please note that we have already developed many meaningful indicators. Those indicators were submitted in full to the OIG team, and are clearly outlined in PSI's relevant Marketing Plans for each target audience. We would be happy to resubmit all marketing plans (for oPSI's MSM, FSW, and Malaria programs funded by GF), where those indicators are clearly outlined. All of our GF projects have clear indicators, and in almost all cases, projects have achieved or exceeded targets for those indicators,</p>		recommendation.

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		especially regarding the most important behavioral and disease-level indicators.		
<p>Recommendation 42 (Significant priority)</p> <p>PSI should ensure:</p> <p>(a) Timely consultation with the Ministry of Health regarding new social marketing endeavours. This applies not only to Global Fund supported disease programs such as TB but also to other PSI initiatives as in sexual and reproductive health. Expert public health advice is needed in order to avoid the risk of promoting oversimplified solutions to complex issues.</p> <p>(b) Medicines marketed for use in Lao PDR comply with FDD regulations for registration and marketing.</p>	<p>Lao CT will follow up on this recommendation</p>	<p>(a) PR will work to ensure that PSI & National Centers and other SRs continue meaningful discussion to ensure that PSI communicates about its activities to partners and follows all the public health advice available in the country and suggested to them.</p> <p>PSI agrees on the importance of working closely with MOH on all social marketing initiatives, and will continue to do so. However, PSI does not agree that PSI has promoted "oversimplified solutions to complex issues," and asserts that the OIG's conclusion does not take into account all of the details related to the STI treatment kits initiative. Since the OIG's initial visit, CHAS has approved the kits for social marketing purposes, after a concentrated and long-term advocacy campaign from PSI.</p> <p>(b) Agree. PR will work closely with PSI to ensure that partners are informed about all product marketing and distribution methods and outcomes, to ensure MOH support for any GF-funded product distribution activities in country. PSI pledges to work closely with the FDD to ensure compliance with regulations for registering and marketing medicines.</p> <p>Improved communications with PSI from the beginning of any new initiative and about FDD</p>	<p>(a) Discussion will continue in 2012 through the development of program activities, including social marketing. RO: PR M&E Unit and MT, PSI and National Center staff</p> <p>(b) Ongoing. RO: PSI manager, PR PU Head, FDD</p>	<p>The OIG is pleased to learn that CHAS and PSI have joined forces on this issue, thereby reducing the risk noted by the OIG. The OIG has added a footnote in the main text acknowledging "that CHAS has approved the kits for social marketing purposes, after a concentrated and long-term advocacy campaign from PSI".</p>

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
		regulations & marketing will be undertaken.		
Recommendation 43 (Significant priority) The PR should ensure that the MOH's own Centre for Information and Education for Health is the legitimate institution heading IEC efforts, including coordination of the IEC efforts of NGOs. This will ensure that intra-institutional divides are avoided and also ensure that capacity is supported where it belongs for future rounds and the re-programming of current rounds.	PR and National Programs invited the MOH's Center to lead the National IEC strategy development as well as to help strengthening the coordination of IEC efforts for HIV, TB and Malaria programs. The national framework for IEC was developed and approved by the Ministry of Health in July 2011.	Agree and already underway. CIEH is the lead on the national IEC Policy and Strategy for Health. Strengthening the CIEH will further benefit this situation by avoiding or replicating IEC activities and materials and providing long term sustainability	Already being implemented. RO: PR and CIEH Managers	
Recommendation 44 (Significant priority) Though training may be used as an incentive, the PR should ensure that training fulfils a clear need based on a sound strategy, which preferably is evidence-based. In particular: (a) Given the conditions in Lao PDR, training should be tailored to health needs, which differ across the country. (b) Opportunities to address prevention and especially early detection in innovative ways should be exploited. Plans of the PR that demonstrate such 'out of the box thinking and planning' should be profiled as good practices. (c) A specific out of the box example would be to use results of the current TB prevalence study (% of people	Lao CT will follow up on this recommendation	PR respectfully objects to the wording of "training as an incentive" as we feel it under-estimates the needs and commitment of our government staff in addressing the health needs of the people of Lao PDR. We are grateful for the continuous support of the Global Fund in providing training opportunities for our health workforce and we do strive to make our trainings as relevant and evidenced-based as possible, incorporating the best of our staff's current knowledge and skills in implementing the training. The training plans are based on the WHO TA recommendations, the WPRO Strategies, and the measured and required skills of staff. (a) All training is now included in the Training Plan now and the objectives of the training are clear and have received approval. We are still working on tools for evaluation of training methods and for competency checklists for the staff training and supervised. (b) Agreed. We would greatly appreciate the opportunity to do this. A plan will be developed to acknowledge good practices and identify innovation	Ongoing. RO: PR M&E Dep Head (a) Training plans will be submitted for each PUDR period. Competency Checklist formats are being explored. RO: SR Managers in collaboration with PR staff (b) PR is willing to move forward with this after further consultation with CT. RO: PR Management	The OIG sees no reason to change the phrase, particularly where this has been carefully worded as "may be used" indicating that the OIG acknowledges this reality which was also brought up by respondents in interviews.

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
aware that coughing which persists for more than 2 weeks could be a sign of TB) to train health staff.		<p>and creative thinking among SRs. However, from our experience with the complexity of re-programming the Mal R7 Phase 2, including getting approval from CCM/OC then from TRP and then from GF, further encouragement of creative thinking in the SRs may take some time to realize. In this past experience, the country had to satisfy all the questions raised by TRP and then repetitive and often duplicative questions by the GF-secretariat before things were finalized. It was not encouraging to move forward in this way, considering the long delay - ten months - in finalization of the new activities, despite the dedication of professional, technical staff in country to respond to these delays. Therefore, when we do propose innovative ideas, there needs to be a better way at The GF to move forward with them in a more timely way than we have experienced.</p> <p>(c) This is already implemented by partners, but it is difficult to determine what is "out of the box" for Lao and within our program areas. This initiative would be achievable if flexibility in reprogramming is allowed.</p>	Team (c) Idem	
<p>Recommendation 45 (Significant priority)</p> <p>The PR should ensure that opportunities offered within existing (vertical) disease control programs are utilized such that potential (horizontal) linkages with mainstream programs are laid. Such opportunities include:</p>	Lao CT will follow up on this recommendation	<p>PR will consider these recommendations in the coming years with a focus on consideration of moving verticle programming to horizontal, within the country MOH programs.</p> <p>At the grassroots level in Lao there are horizontal linkages and partnerships already in existence. The partners include mass organizations: Lao Woman's Union, Lao Youth Union, Lao Trade Union, Lao Front, Community Committee for Health, Health Village Committee, etc. These address all health</p>	<p>Ongoing. RO: Minister of Health thru PR Director</p> <p>(a) Ongoing and will continue to seek support for additional progress on this</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>(a) Good practices such as rational drug prescription that follows from proper diagnosis and that avoids polypharmacy. This could be a natural extension of Round 6 Malaria which focuses on counterfeit drugs. It would also be a natural link with the PPM project (malaria) which aims to instil a 'rational' professional attitude in private clinics.</p> <p>(b) Improved access and reliability as in the case of (secure) blood. This would require, amongst other things, an accelerated and sustained increase in voluntary (non-remunerated) blood donors.</p> <p>(c) Utilizing existing VHV's and thereby maintain their motivation.</p> <p>Although the result could be a patchwork and thus not a coherent HSS program in itself it would increase coherence of existing rounds. Since these would be extensions of existing efforts this add-on approach should also offer value for money.</p>		<p>issues at the village level. There is a list of health issues that they address including: MCH Package, HIV/TB, Malaria, diarrhea, nutrition, vaccination, family planning, ARI, etc.</p> <p>(a) Good practice on rational drugs has been improved, especially at the central level as a result of Global Fund influence on the systems strengthening. With the improvement of lab diagnosis in the country as being demonstrated in many big hospitals rational drug prescription has been followed. However, outside the big facilities this could be done if simple and rapid diagnostic tests at affordable prices - like the one for malaria - could be made available for private sector and village health workers. Then automatically polypharmacy would be gradually reduced. However, there is still a long way to go to have RDT for diagnosis available and affordable at all levels. FDD will seek sharing of experiences on rational use of drug promotion in collaboration with Health Care Department, whose existing system has been placed at health facilities at central and provincial level. Technical and funding support of this activity will be required.</p> <p>(b) NBTC - Currently, Lao Red Cross is promoting "Give Blood Saves life" based voluntary blood donation. The main target groups are students. The situation of blood shortage is during school vacation (July, Aug, Sept). Lao Red Cross has planned to expand to the other targets (e.g., army, police, religious, factories....etc). Increasing awareness of blood donation among general public is an essential tool for recruiting & retaining blood donors. Lao Red Cross also has planned to increase blood donor recruiters/Youth Donor club members by conducting training in different organizations. Set up the number of blood collections for each provinces. Set up the mobile collection plan for whole year, with particular focus on shortage</p>	<p>RO: FDD Manager</p> <p>(b) Ongoing. RO: NBTC Director</p> <p>(c) Under development. RO: MOH Dept of Planning & Budgeting</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
		<p>periods. Accelerating procurement process of reagents & consumables, IEC materials and training also considered as important factors for blood program in general.</p> <p>(c) Agree. PR will explore the current role of the VHV to address a greater range of diseases and health issues in the villages. Each village has two VHVs in place. The current strategy of the MOH is that these two VHVs will address the entire package of health priorities. One is responsible for the village drug kit and drug revolving fund; they can receive some benefit from this drug sale. Maintaining the motivation is on the agenda of the MOH. Expansion of these concepts will be a part of the R11 HSS.</p>		
<p>Recommendation 46 (Significant priority)</p> <p>The CCM should develop criteria which HSS applications should fulfil. A general criterion should be 'efficiency', to be argued from the principle of 'added value', such as through extensions of existing efforts that start off from existing rounds, practices, trained staff, etc. (principle of marginal returns).</p>	<p>Agreed</p>	<p>The CCM has requested to the HSS task force to include these criterias for the screening of EOIs in R11.</p>	<p>Implementation by HSS task force is on-going, it will be formalized during next OC/CCM meetings December 2011. This guideline is to be used in next selection processes. CCM chair responsible</p>	
<p>Recommendation 47 (Significant priority)</p> <p>The CMPE should support the MOH in its commitment to maintaining the competence and motivation of trained village health volunteers. In areas of low malaria risk, trained VHVs' scope</p>	<p>Lao CT will follow up on this recommendation</p>	<p>Agree. However it would be very costly to village health volunteers where malaria is not a health problem anymore since their training and activities depend on resources allocation. Also please see comments above in #45 c</p>	<p>Under development. RO: MOH Dept of Planning & Budgeting. And CMPE Director RO: MOH Dept of Planning &</p>	<p>OIG acknowledges the comment. Also, the recommendation cannot be ensured by CMPE alone. OIG revised the</p>

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of work could be expanded to other diseases, such as acute respiratory infection and diarrheal disease.			Budgeting	recommendation accordingly.
Recommendation 48 (Significant priority) The PR should ensure that the SRs share good practices and should use successful pilot studies to share experience between departments (SRs) and identify cross-linkages for replication. For example, the concept of Public-Private Mixes piloted by CMPE would be a good case to discuss with other SRs, notably all MOH departments dealing with drugs such as FDD, MPSC, but also with an NGO SR such as PSI. Preferably such a discussion would take place in the context of a PR-organized drive, of bringing SRs together in a series of thematic meetings with an explicit purpose of learning from each other to the benefit of the health system at large.	Please refer to our comments in the Secretariat response	<p>The PR has organized review workshops for all SRs and provinces in the past for sharing of experiences between SRs/ There is currently no budget to do this but we will try to build it into R11.</p> <p>We agree with the PPM example being good experience to guide this. The PPM has been adopted in the other disease programs (TB, HIV) as a result of sharing of experiences through annual meetings. PSI has already begun sustained discussions with the MOH and other partners regarding expanding PPM work on all three disease areas (HIV, TB, Malaria), as well as on HSS.</p> <p>So far FDD has closely worked together with CMPE on the implementation of the PPM project since the early stages to allow private pharmacies in some pilot provinces involved in the project to do the RDT and distribution of ACT as well as to improve the Good Pharmacy practice, and now the project covers more provinces. FDD has been the main lecturer for the topic of GPP, and involved in the monitoring and evaluation of the PPM project. The centralization of procurement has been adopted by MOH, the MPSC is a public agency which has launched the implementation with 4 central hospitals; the success of implementation has been shared during last procurement to get an idea for improvement and to expand in country as a whole. The logistic system is also an issue that has been raised, which is required to be centralized to the system, it will benefit from the system including rational use of resources and time. Since the system</p>	Ongoing and can be expanded. Also will be considered for R11 funding. RO: PR Admin Head, SR Directors and all PR Unit heads	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
		<p>is starting to contract with other partners for logistic and distribution, this outcome can be shared and expanded to the private sector responsibility in order to benefit the health system in general.</p> <p>Every year, each National Center holds an annual review meeting for those involved in the disease area. The heads of the other national centers and the PR staff are also invited to these meetings. This is a good opportunity to share further experiences.</p>		
<p>Recommendation 49 (Significant priority)</p> <p>The PR should look for feasible but challenging indicators for all domains that have 'a future dimension'. That is: their achievement will secure sustained results, but is not easy to achieve and requires continued effort. Preferably the indicator also stands for popular appeal and commitment. A good example is 'the proportion of repeat donors among all blood donors' - an indicator monitored by the Lao Red Cross for its own reports (the indicator is not reported to the Global Fund). Steadily rising (to 40% in 2009) the indicator is telling in terms of what Lao Red Cross is struggling to achieve: a reliable pool of committed voluntary blood donors.</p>	<p>Lao CT will follow up on this recommendation</p>	<p>Agree. PR will work on this recommendation with national programs and international technical agencies and compare with the MOH national strategic 5-year plan.</p> <p>Lao Red Cross (NBTC) has set up own indicator for follow-up on the trend of repeat donors which is considered as an important way to improve services. PR will follow up on this and watch for similar opportunities for Indicators with "Future Dimension."</p>	<p>To be considered whenever PR is involved in reviewing and revising the Indicators. RO: Head of PR M&E Unit</p>	
<p>Recommendation 50 (High priority)</p> <p>The CCM should:</p> <p>(a) Reduce the risk of conflict of interest by ensuring that proposal writers, particularly those who are the</p>	<p>(a) Agreed (b) Agreed</p>	<p>(a) Concerning the R11 proposal development; the CCM has organized 3 ADHOC task forces in May 2011 , in this framework one article for the management of conflict of interest has been included (see Task Force's TOR in annexes). Furthermore, the CCM will start the review of the general TOR including those articles addressing</p>	<p>(a) From November to December 2011; the TF will draft the new policy to manage the conflict of interest</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>candidate PR and SRs, do not participate in the process of selection of grant proposals.</p> <p>(b) Evaluate overall PR performance based on set criteria before re-electing the PR.</p> <p>(c) For SR selection:</p> <ul style="list-style-type: none"> i. Ensure the PR is involved in the process of selecting SRs. In particular, ensuring greater PR responsibility for the selection of SRs will reinforce overall PR accountability for program performance and finances. ii. Develop formal criteria for SR selection. iii. Establish written guidelines for the capacity assessment for SRs, and ensure the SR capacity assessments are adequately documented. <p>(d) Program oversight:</p> <ul style="list-style-type: none"> i. Develop and implement a CCM oversight work plan. ii. Undertake periodic field visits to program sites. For this, the OIG also recommends the enhancement of civil society involvement with oversight. In particular, key affected populations can play an important role in field visits given their closeness to the issues being addressed by the program. iii. Consider introducing a grant 	<p>(c) Agreed</p> <p>(d) USG has recently approved a short-term TA to CCM to develop and implement an oversight dash-board. This consultancy will start in January 2012.</p>	<p>conflict of interest (see CCM TOR, 2010, article 60-60.6). The CCM chair will also ensure the enforcement of the new policy and procedures to all CCM members and functions not only during the meetings but in all phases of the grants. The CCM chair will ensure since now that candidates to PR aren't proposal writers and proposal writers aren't involved in selection processes for R11.</p> <p>(b) The CCM would like to clarify that LFA has conducted a PR assessment in 2010 (used in submission of R10). Notwithstanding the CCM has requested in several times we didn't yet receive the report. We propose to use this information to evaluate the current PR before re-electing for R11.</p> <p>(c-i) The PR in Laos is the MOH and has been involved in selection of SR since R1. Currently the SR selection for R11 is ongoing and the PR as one of the members of the Task Forces is involved in the final assessment and selection of SR (see TOR and composition of task forces R11 in annexes). However to avoid conflict of interest PR will not be involved in proposal writing.</p> <p>(c-ii) The CCM would like to clarify that some criteria for screening and selection of SRs has been used in the past (i.e. for RCC4) despite this such criteria were not formalized. In consequence for the development of R11 the criteria have been defined in June 2011 as follows: (1) To have adequate legal status (operations permit, MOU) (2) To have adequate Institutional capacity ensuring both managerial and financial accountability (3) To show adherence to gap analysis and national strategies.</p> <p>(c-iii) The criteria for screening EOIs in institutional capacity have been defined in September 2011 (see annexes) and this guideline was endorsed by CCM in meeting of 7th October.</p>	<p>and the CCM sec will ensure that this document includes clear procedures to reduce risks (non presence, nonvoting role). The new policy should be finalized and applied from January 2012. A signed statement of non-conflict of interest will be requested regularly to all CCM members.</p> <p>(b) In early November 2011 the CCM will send official letter to PFM requesting the PR performance assessment report and PR re-election decision will be conducted in early December 2011.</p> <p>(c-i) Is currently implemented , the CCM chair/sec ensure that PR members are attending the task forces meetings and are fully</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
<p>dashboard, for which tools and guidance are available on the Global Fund website.</p> <p>(e) Implement the CCM decision to obtain international technical assistance to strengthen the CCM Secretariat capacity to facilitate the work of CCM and the Oversight Committee.</p>		<p>(d) GMS consultancy planned to implement in January 2012.</p> <p>(d-i) The CCM sec will develop a detailed oversight plan in October/December 2011. The OP will be based in new CCM guidelines.</p> <p>(d-ii) The CCM has already started to involve key affected populations. As example the representative of PLWA was part of the team conducting site visit in February and July 2011 (see CCM PUDR year 1). The CCM will explore alternative and innovative ways to involve former TB patients or residents of malaria endemic zones in oversight and site visits.</p> <p>(d-iii) CCM will introduce a Dashboard in February 2012</p> <p>(e) International TA has been contracted since February 2011. Additional TA to support CCMs members and OC will be requested to French Government and other donors in coming months and according to needs. This action has been endorsed by CCM members in meeting of 7th October.</p>	<p>involved in the selection of SRs. This instruction will be included in the new policy of management of conflict of interest.</p> <p>(c-ii) For R11, the screening of EO's using the defined criteria has started in September 2011. The general process and preliminary results for malaria component were endorsed by CCM members in the meeting of 7th October. The third phase under task force responsibility and with PR involvement is ongoing and has been adapted to the new timelines for R11 (March 2012), criteria has not changed and all decisions are submitted to CCM for endorsement.</p> <p>(c-iii) By early 2012; the CCM sec</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
			<p>will establish an special file to include all endorsed and formalized guidelines/regulations/procedures that have been decided during CCM/OC meetings. CCM chair responsible</p> <p>(d) Dashboard should be implemented and operational from February 2012, GMS/CCMsec/ chair responsible</p> <p>(d-i) In October CCM sec to gather the related information from PR, in November to be discussed with OC and endorsed by CCM in next meeting (December 2011). To be completed in December 2011, CCM/OC chairs responsible</p> <p>(d-ii) This activities will be included in oversight plan and conducted</p>	

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Recommendation	Response and Action (From CT Team and LFA)	Response and Action (From the Country)	Completion Date and Responsible Official	OIG Comment Where Required
			from first quarter of 2012, CCM/OC chairs responsible. (d-iii) February 2012, CCM chair responsible (e) Conducted. CCMsec/OC chair responsible for drafting TOR and sending request	

Annex 5: Global Fund Secretariat overall comment on OIG Country Audit Report – Lao PDR

05 April 2012

John Parsons
Inspector General
Office of the Inspector General
The Global Fund
Chemin de Blandonnet 8
1214 Vernier
Switzerland

**Response from the Global Fund Secretariat to
Final Audit Report No: GF-OIG-10-012
Country Audit of the Global Fund Grants to the Lao People's Democratic Republic (Lao PDR)**

Dear Mr. Parsons,

The Global Fund Secretariat would like to thank the Office of the Inspector General (OIG) for having conducted a thorough audit of the Global Fund – supported programs in the Lao PDR. The Secretariat is pleased to note that the audit report acknowledges the positive aspects of the work done by relevant stakeholders and provides useful suggestions on areas that need to be strengthened in the management of the grants in the Lao PDR.

The OIG team undertook the full country audit in August 2010, and returned in February 2011 for a final SR-PSI review. A draft Report was issued in August 2011, with the Secretariat providing a response and feedback in September 2011. The final draft Report – to which this memo responds – was released in March 2012. This response encompasses feedback received from the Lao Country Team and other relevant teams within the Global Fund's Secretariat.

We note that the OIG recommendations relate to the Principal Recipient (Ministry of Health) and grant oversight mechanism (CCM, LFA and the Global Fund Secretariat). These recommendations were duly taken up by the Secretariat in further decision-making and actions with in-country stakeholders and technical partners.

Subsequent to the OIG's oral de-brief in the Lao PDR in September 2010, the Country Coordinating Mechanism (CCM), the Principal Recipient (PR) and the Local Fund Agent (LFA) in collaboration with national stakeholders, international partners and the Secretariat have already identified and begun to implement specific measures to address the findings and risks identified during this audit.

We would also like to acknowledge that all the comments brought to the OIG's attention by the Secretariat in our previous feedback were fully reflected in the final report. We are thankful for the thoughtful attention and time allocated to this task by the OIG team.

Following our review of the final Audit report, we would like to provide an update on the Secretariat's actions in response to the OIG recommendations. The update is organized in two sections, as follows:

- (1) Secretariat's actions taken to-date on recommendations provided by OIG; and
- (2) Secretariat's actions planned going forward.

Section 1: Secretariat's actions taken to-date on recommendations provided by OIG

The Secretariat is grateful for OIG's acknowledgement of the effort and commitment of the Country to address the audit recommendations. Some of the actions have already been completed while others are in progress. This letter presents a further update on the status of the implementation of the OIG recommendations, grouped per technical area:

- Finance and Administration (18 Recommendations, #1-18);
- PSM (15 Recommendations, #19-33);
- Service Delivery / M&E (16 Recommendations, #34-49);
- Oversight (2 Recommendations, #50-51).

The table below presents key actions taken by the Secretariat in response to the OIG findings and recommendations shared during the oral de-brief in September 2010 and following the draft report received in August 2011.

Key OIG Recommendations (abbreviated)	Secretariat comments and actions taken
Finance and Administration (#1-18)	
Recommendation 1 The PR should ensure that PR and SRs: (a) establish codes of conduct. (b) keep grant funds in interest bearing account. (c) External auditors' reports are submitted to the Global Fund not later than 6 months from the close of the financial year of the grant. (d) PU/DRs are prepared in accordance with the requirements cited in the grant agreements and the guidelines issued by Global Fund.	Partially completed, as follows: a) Planned for 2012; b) Completed; c) Planned for 2012, with the next audit reports due in June 2012; d) New Financial Guidelines (approved in August 2011) provide better guidance on the Global Fund requirements for PU/DRs. Some improvements in the quality of the PU/DRs were already noted, though further strengthening is needed. The Lao Country Team (CT) is working closely with the PR and LFA on this issue.
Recommendations 2, 3, 4 2. To improve budgetary controls the Global Fund Secretariat should: (a) Establish a mechanism to formalize the process of annual budget approval, for example by signing a final approved budget to be distinguished from a draft annual budget which may have been changed. 3. The PR should: (a) Obtain written approval from the Global Fund for both original and revised budgets. (b) Establish procedures for SR budget preparation ensuring consistent use of Global Fund format and require detailed budget assumptions to support budgets.	The CT has been working with the PR and LFA to put these measures in place. 2. a) Completed; the mechanism to formalize the process of annual budget approval was put in place through the revision of the PR FMS Guidelines in 2010. Currently, for all grants any budgetary updates and revisions are documented and formally approved by the Global Fund Secretariat. 3.a) Completed; this is a regular practice since September 2010. b) Completed; The CT requires clear justifications for approvals of budgetary changes.

<p>4. The SRs should obtain approval from PR for original budgets/work plans, and revised budgets, prior to implementation.</p> <p>5. The PR should:</p> <ul style="list-style-type: none"> (a) Ensure all expenditure is included in the approved grant budgets. (b) Obtain prior approval from Global Fund for any deviation from grant budget or detailed work plan approved by the Global Fund. 	<p>4. In-progress; after the Financial guidelines were approved by the Global Fund in November 2011, it was agreed that all SRs will be trained on the new Financial Guidelines in 2012. The CT is following up closely.</p> <p>5 a-b) Completed; this is implemented with close CCM and CT oversight.</p>
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Recovery of Ineligible and Unsupported Expenditures

<p>Recommendation 5</p> <p>The PR should:</p> <p>(c) Ensure grant funds are solely used for budgeted program purposes. All ineligible expenses paid using Grant funds should be returned to program (see Annex 2 of the Final Draft OIG report).</p> <p>Annex A:</p> <p><u>Unbudgeted Expenditures:</u></p> <ul style="list-style-type: none"> -Travel – Non-GF related: US 61,953; -Travel-Numbers of travellers above approved numbers by GF: US 16,742; -Purchase of 2 vehicles by PR: US 17,300; -Purchase of extra notebook by SR:CHAS:\$1,596; -Purchase of motorbike by MOH: \$995; <p>Unsupported/missing supported documents (PSI) – due to 2008 floods: \$ 40,696;</p> <p>Non-reporting of Program Income (PI):</p> <ul style="list-style-type: none"> -Income from selling Bed nets by SR:CMPE: \$1,154,385; -Income from sale of nets, condoms, etc by PSI: \$ 722,000. 	<p>The CT has reviewed the evidence presented by the CCM and PR on the expenditures listed in Annex 2 and has the following comments:</p> <p>a) Non Global Fund related travel (to the World health assembly) – there is no clear evidence that this travel benefited the program implementation, therefore Secretariat agrees that this remains an ineligible expense;</p> <p>b) Travel - numbers of travellers above the numbers approved by Global Fund; there is no clear evidence that additional travel benefited the program implementation, therefore the CT agrees that this remains an ineligible expense.</p> <p>c) Purchases of Vehicles and motorbike by PR, and extra notebook by SR: CHAS – it is noted that these commodities are used for the purpose of the grant implementation by the PR and SR. Furthermore, it is noted that these expenditures have been incorporated into the overall PR budgets, then properly reported in the PUDR, EFR and fixed asset register. With this evidence, the Secretariat is of the view that these expenditures could be considered as “eligible” and approved retroactively.</p> <p>The CT will follow up with PSI on this refund.</p> <p>Program Income has been reported as of October 2011; the funds from CMPE are now with the PR.</p>
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	The PSI's Program Income has now been reported and is currently under review.
Recommendation 6 The PR should: (a) Ensure that all Global Fund-supported program income (PI) should be credited to the grant programs and reported regularly to the PR. (b) Ensure that there is a detailed annual budget and work plan for the use of program income which has PR and Global Fund approval. (c) Review and approve the selling prices of program products. (d) Prevent misuse or personal use of program income, seeking recoveries as appropriate.	The CT has already reinforced the PI reporting procedures since June 2011. a) Completed; b) Completed; c) In progress; d) In progress.
Recommendations 7-11 7. Income generated from selling tender documents should be credited to the program; 8. Global Fund Secretariat should include the details of how indirect costs can be charged to the grant, and which costs are allowable; 9. The PR should strengthen: - the internal controls of its payment processes. 10.-the control over advance payments. 11.PR and SRs should ensure the compliance with cost norms/standards.	7. Completed; in place since June 2011; 8. Completed; in place since signing HIV SSF grant in Nov 2010; 9. Completed; in place since December 2011. 10. Completed; in place since May 2011. 11. Completed; in place since November 2010.
Recommendations 12-14 Management 12. PSI should reimburse the amount of US\$40,696 to the program. 13. PSI should maintain Global Fund grant funds in a separate bank account, with all disbursements being made directly from that account. 14. The PR should establish guidelines for government SRs; capacity assessment for provincial sites should be standardized.	12. In progress; the Secretariat will follow up with PSI on this refund 13. Completed; PSI Lao keeps Global Fund grant funds in a separate account. 14. In progress; PR will develop an SR manual that will include a chapter on SSR and provincial sites management (Condition Precedent TB SSF – June 2012);
Recommendations 15 To improve financial management, the PR should: a) Perform physical verification of cash; b) Establish written guidelines on allocating shared costs among the existing grants; c) Apply consistent accounting software between grants and SRs; d) Ensure backup of financial info to be kept in a secure place, outside PR office.	a) Completed; in place since November 2011; b) In progress; allocation guidelines are under development; c) Completed; implemented with each new grant signature; d) In progress.

<p>Recommendation 18 To strengthen financial oversight, PR to establish an internal audit function in the PMU.</p>	<p>In progress; the PR has been in process of recruiting an internal auditor; the CT is following-up closely.</p>
<p>Procurement and Supply Management (#19-33)</p>	
<p>Recommendation 19 PR to update procurement and logistic manuals to include: -chapter on preventing fraud and corruption; -rules on minimum remaining shelf-life of drugs; -chapter on quality assurance and registration; -reporting on the Global Fund website, and -implementing monitoring system for the performance of the suppliers.</p>	<p>In progress; these were incorporated as CPs into most recently signed SSF grants; they are followed up by the CT with each PU/DR; The SOPs and logistic manuals have been developed by the Principal Recipient, and are currently under Secretariat review; Country Team follows-up this issue closely, and in the meantime, the VPP is used;</p>
<p>Recommendation 20 PR together with the SRs to strengthen the monitoring of consumption/stock level data to improve the quantification and forecasting tools to avoid the risk of stock-outs or overstocking of the health products.</p>	<p>Both recommendations are in progress; the issues were included as CPs in different relevant grants signed in 2011; they are implemented in different stages; the CT is following up closely.</p>
<p>Recommendation 21 The PR should improve the consistency of the baseline data used for forecasting the need for anti-malarial drugs, the CPME should investigate the reasons for the differences in the reported malaria case load data in tables provided by the Malaria Information System between survey reports and reports from the Health Management Information System.</p>	
<p>Recommendations 22 & 23 The PR should develop technical specifications for the selection and procurement of medical equipment, taking into consideration the equipment currently installed in public health facilities. Ensure that the capacity is strengthened of those responsible for framing the technical specifications for health products in the purchase requests from the SRs to make sure these are well drafted and procurement process delays are avoided. The PR should establish a PSM Steering Committee comprised of members from the PR, SRs, and TA to meet on quarterly basis and provide assistance on PSM issues for GF-supported programs.</p>	<p>In progress; further follow-up planned for the next FPM/CT country visit</p>

Recommendation 24 To ensure that value for money is achieved in every purchase made using grant funds, the PR should: -Conduct competitive selection of procurement agents; - Develop and implement a clear set of SOPs governing the procurement processes	In progress; this was introduced as a CP and is followed-up by the CT with every PU/DR. The SOPs have been developed and are currently under review.
Recommendation 25 PR should ensure compliance with post-shipment quality controls by conducting random testing and independent quality testing for drugs at different levels of the supply chain.	Addressed; Lao PR has an agreement with WHO-prequalified Drug Quality Control Laboratory in Hanoi, Vietnam.
Recommendation 26 PSI should comply with its internal technical guidance on condom shelf life when procuring condoms under GF grants	Under discussion; the CT expects to have this fulfilled after assessment of the PSI HQs for their procurement capacity (later in 2012).
Recommendation 29 The Malaria program (CMPE) should complete the implementation of the new risk-zone based malaria strategy, to ensure a rational distribution of ACT and RDTs and avoid over-stocking and expiry of malaria commodities.	Completed; this was completed by CMPE in 2011.
Recommendations 27, 28, 30-33 -PR should analyse instances of expired drugs/ stock outs to identify key action points for future forecasting; -provide training to strengthen stock management; -ensure efficient collection of expired health products for safe disposal; -strengthen warehousing conditions; -strengthen distribution system of bed nets;	In progress; all of these recommendations are in different stages of implementation; the CT is closely following up on the progress made by the PR through monitoring of the relevant CPs.
Service Delivery / Monitoring and Evaluation (M&E) (#34-49)	
Recommendation 34 The Global Fund Secretariat should ensure that Global Fund rounds are aligned with new national strategies, especially where such strategy reflects improve insight, such as for malaria.	Implemented, with the signing of the Phase 2 agreement of the Round 7 Malaria grant (April 2011).
Recommendations 35, 37 - CMPE should investigate why in some areas transmission remain very high despite high ITN/LLIN coverage; -CMPE should pilot and seek a best practice model of public-private partnership for malaria	In progress; studies scheduled for 2012; for close follow-up by the CT.

control in the context of large development projects such as hydro dams.	
Recommendations 38, 39 -CHAS should ensure that an evaluation of the entire HIV program is undertaken with particular attention for Paris Declaration principles, sustainability and cost-effectiveness; -CHAS should commission a study that documents and monitors trends in (self) referrals, by gender, to assess improved access to services.	In progress; the TOR and budget for the national program review have been secured;
Recommendation 40 The CCM should ensure that the PR and SRs, with support of development partners, find a practical approach to streamline their IEC efforts, through national IEC strategies in all 3 diseases	In progress; these have been incorporated into relevant grant agreements as special conditions; the CT is closely following up on their implementation.
Recommendations 41, 42, 43 -PSI should set the standards for alternative approaches to IEC , using evidence-based approaches, promote branding, and seek lessons from other PPMs, etc; - PSI should ensure timely consultation with the MOH regarding new social marketing endeavours; -The PR should ensure that the MOH's Center for Information and Education for Health heads the national IEC efforts of NGOs	In progress; planned for further coordination in 2012 jointly with the National IEC Task Force; for further follow-up by the CT;
Recommendations 44-49 -The PR should ensure that the training fulfils clear needs based on a sound strategy; -The PR should ensure that good practices are shared horizontally throughout service delivery system, such as rational drug prescription practices, improved access to safe blood -CCM should develop criteria for the HSS grant application, including 'efficiency' and 'added value'; -The CMPE should support the MOH in maintaining the competence and motivation of trained VHV's; -The PR should ensure that the SRs share good practices and should use successful pilot studies to share experience between departments (SRs) and identify cross-linkages for replication; -The PR should look for feasible but challenging indicators for all domains that have 'a future dimension', such that their achievement will secure sustained results, with	-Completed; clear linkages were established with the introduction of training plans in 2011; -On-going; progress made on rational drug prescription, voluntary blood donations and others. The forum for sharing of good practices is under consideration, though best practices will be consolidated in the upcoming HIV Program Review and incorporated into the Phase 2 application; the CT is following up closely; -VHV retention strategy will be incorporated in the next funding request (Phase 2 HIV); -On-going; the PR organized review workshops for all SRs and additional forum for sharing of good practices is considered (as above); -This will be considered during the next review of the existing Performance Frameworks, or at the time of the new funding request.

continued effort.	
Oversight; (#50-51)	
<p>Recommendation 50</p> <p>The CCM should:</p> <ul style="list-style-type: none"> - reduce the risk of conflict of interest by ensuring that the proposal writers (especially the candidate PR and SRs), do not participate in the process of selection of grant proposals; -evaluate the overall PR performance based on set criteria before re-electing the PR; -strengthen the process of selecting SRs with formal criteria and ensure PR's involvement in the process to reinforce PR's accountability; -develop and implement CCM oversight work plan, including periodic field visits to program sites; -recruit international TA to strengthen the CCM Secretariat capacity to facilitate the work of CCM and the Oversight Committee. 	<p>Work in progress;</p> <p>The Lao CCM has undergone a series of reforms in 2011, with new governance documents formulated, complete with the Conflict of Interest policy, and with the Oversight Committee in place. The draft oversight plan has been developed and international TA based at the CCM Secretariat is actively supporting CCM functioning.</p> <p>TA (from GMS) is currently under-way and additional support has been secured from the French government (5% Initiative).</p> <p>The CT is following up closely.</p>
<p>Recommendation 51</p> <p>The LFA should:</p> <ul style="list-style-type: none"> -undertake an assessment of country and PR risk and develop a review plan that ensures coverage of the key risks identified; -improve quality of financial review by undertaking verification of the supporting documents for the expenditures reported in the PU/DRs. 	<p>The LFA has completed the country and PR risk assessments and strengthened the quality of its financial reviews. The CT has been following up with the new LFA team on the implementation of these recommendations.</p>

Section 2: Secretariat's actions planned going forward

The CT confirms that all of the OIG's Draft recommendations provided in the draft report have been thoroughly reviewed, acknowledged and addressed. Many concrete actions have been taken by the Principal Recipient and the CCM to implement them. While a number of minor recommendations have already been completed in 2011 as Management Actions, others represent more long-term, systemic improvements that require more time to ensure full implementation. The CT has incorporated many of them as conditions into the newly signed grant agreements and continues to follow-up on their implementation with every PU/DR.

Once the Final OIG report is released, the CT will follow-up with the implementing partners and will review the status of progress made against all recommendations to-date. Complementing this, an Action Plan will address outstanding issues. This Action Plan will be shared with the OIG.

Sincerely

Mark Eldon-Edington
Director, Country Programs Cluster

Annex 6: The CCM overall Comment on OIG Country Audit Report- Lao PDR

The CCM has discussed the OIG final report during the CCM plenary meeting of 27 March 2012, requesting further explanations from the Principal Recipient in order to proceed to draft the final comments as they are stated in the present annex. The PR has presented such clarifications during the Oversight Committee meetings in 11th and 25th April 2012. The clarifications as well as the OC advice and final comments were discussed and validated by the CCM assembly during the meeting on 30 April 2012.

First of all the CCM of Lao PDR would like to acknowledge the positive and instrumental role that the Global Fund to fight AIDS, TB and Malaria has had in improving the health status of the Lao population as well as in the overall strengthening of the Lao Health System. Furthermore we also recognize the direction supplied to us by GF country teams and portfolio managers to apply internationally-recognized interventions which have had a tremendous impact on reinventing our public health system. We also appreciate the work of the OIG in recommending further actions to improve the programmatic, financial and procurement management of the global fund programs in Lao PDR.

Since the inception of the GF support in Lao PDR and because of the importance of this partnership, the proper management of the funds has been extremely important for us and we took great honor in receiving good performance ratings (A1,A2, B1) for our programs during the previous years. Furthermore and since the early years of implementation we have assiduously followed the guidance of the country teams and Fund Portfolio Managers. The management of the grants provided by the GF to the Country has evolved and improved in a “learning by doing” approach over the last 10 years coincident with the evolution and refinement of GF’s own management and financial procedures. Consequently, some of the OIG recommendations referred to situations that occurred when GF guidelines and procedures weren’t fully developed or not yet available.

The situation described above applies to two OIG recommendations for which we would like to provide further information.

Recommendation number 5:

- I. The expenditures in question were duly reported and verified by external auditors (Price Waterhouse Coopers and Ernest Young) as well as by the LFA’s (KPMG and STPH) and also by the GF country teams. During these exercises those expenditures were not identified as out of compliance. Consequently we assumed that they were properly conducted.
- II. In this regard we would like to clarify that some of the expenditures identified as ineligible by the OIG, for example the vehicle, motorbike and laptops (as detailed in the annex 2), were all allocated to the GF programs and were properly reported in the relevant PUDR, EFR and fixed assets register. Although we acknowledge the final recommendation, the CCM considers that these expenditures have been solely used for the benefit of GF programs.
- III. Concerning the “non GF travels and the number of participants in these travels,” the CCM understand that, in the absence of specific guidelines from the GF, the PR has followed the allowed rule: “use of 10% of the budget without GF secretariat approval” to cover these expenditures. After review of this issue the CCM considered these travels as part of the necessary actions to improve the GF program implementation in our country.

Recommendation number 6:

IV. Regarding the Program income generated by the sale of the bed nets, we would like to inform the OIG that relevant clarifications and instructions were provided by Fund Portfolio Manager via email on 24th November 2010. In fact, and in accordance with the Ministerial Decree number 357, these funds were used to support malaria program improvements at provincial levels. These expenditures were properly justified during the OIG assessment and were accepted by the FPM on 24th November 2010. Since then the PR has followed the FPM instructions which stated as follows:

“While we note that the income from the sale of bed nets had been spent without approval of the Global Fund Secretariat, we decided not to require the program to return the unauthorized expenditures owing to the fact that the OIG team was able to confirm that the identified expenditures were made to support the Provincial Health Departments largely on seminars, workshops and monitoring.....”

Furthermore, from the OIG mission we learned that on 30.06.2010 the balance of program income for sale of bed nets was US\$ 559,029.36. In the same email on 24th November 2010 the FPM gave instructions as follows:

“However, we note that currently PSI has an outstanding claim under Round 1 Malaria grant of US\$ 142,978.40, while the PR has a cash balance of US\$ 23,285.18 and an outstanding receivable of US\$ 521.88. We, therefore, recommend that:

- The PR transfer its cash balance of US\$ 23,807.66 (including outstanding receivables) to PSI. This would reduce PSI’s remaining claim to US\$ 119,170.74
- PSI use the remaining balance of Program Income (US\$ 35,247) to fund part of its outstanding claim on the PR, which would reduce the PSI’s remaining claim to US\$ 83,923.74
- The PR closes the PSI’s remaining claim of US\$ 83,923.74 using the above-mentioned balance of program income under Round 1 and Round 4, which would reduce the program income balance to US\$475,105.62.”

As requested by FPM, the amount of US\$ 84,455.22 was transferred to PSI in 23 March 2011 and a remaining amount of US\$ 483,609.24 has been already returned to the Program.

Following the OIG final recommendations, the CCM would like to inform the OIG that new financial guidelines have been developed. These guidelines were reported in the PUDR of June 2011 and include proper measures to avoid repeating the identified non-standard procedures. The current revised financial guidelines state that any program income accrued during the 6 month PUDR period is to be reported, and their future use proposed, to the GF Secretariat for approval as per CT recommendation.

Therefore the CCM would like to request the GF to authorize the use of the balance of funds in the amount of US\$475,105.62 plus the accrued bank interest to support the upcoming activities of the malaria program. The specific annual action plan explaining how these funds will be used will be submitted by the PR to the CCM and to the GF secretariat for approval prior to use of the funds.

Audit of Global Fund Grants to Laos

Once again the CCM appreciates the constructive findings of the OIG report and confirms its commitment to implement these recommendations in order to further strengthen the program management. While acknowledging the OIG final report, the CCM would like to request the GF to accept our justifications related to recommendations 5 and 6 as contained in this document.