



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Diagnostic Review of Global Fund Grants to the People's Republic of China

Report

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Executive Summary

1. This diagnostic review of the Global Fund grants to the People's Republic of China (China) sought to identify and share good practices, identify in close collaboration with the PR, key risks to which grant programs were exposed, and make recommendations for risk mitigation where shortcomings and gaps were found in the current risk response.
2. The review covered all 13¹ active grants to China, totaling USD 826 million of which USD 546 million had been disbursed at the time of the review. One Principal Recipient (PR) – Chinese Centre for Disease Control and Prevention (China CDC) implemented grants in China.
3. The actions needed to help the PR address the key risks identified included:
 - a) The OIG provided specific guidance to the PR on how to solve the outstanding issues which can significantly delay or threaten financial or program implementation such as review of cash balances of original round-based of grants; the bank reconciliation process and how to strengthen the SRs/SSRs/SSSRs monitoring process;
 - b) Initial discussions with the China National Audit Office, CCM Chair and the PR to explore the possibility of calling on the China National Audit Office to strengthen oversight of the Global Fund grant supported program, by taking on the role of external auditor;
 - c) The entire PR internal audit team participated in all the OIG's work at provincial level. This initiative was of great mutual benefit; and at the end of the review process, in collaboration with the LFA, the OIG held a one day knowledge sharing session with the PR's staff. This covered areas such as how to address specific internal control deficiencies, fraud prevention and the internal audit unit's risk assessment process.
4. There was evidence of successful national responses to HIV, tuberculosis and malaria in China. Some good practices were observed by the team during the course of the diagnostic review. Notwithstanding this, a number of risks were identified that may potentially impede the program unless they are mitigated. Action plans in response to the report recommendations have been prepared by the PR and the Global Fund Secretariat and are included as Annex F.

Key Areas for Strengthening

5. There is scope for improvement particularly in the following areas:
 - Ensuring good financial management. In particular, the PR should put in place appropriate budget monitoring at activity level. The PR should oversee SR financial management practices and ensure compliance to sub-grant agreements.
 - Ensuring that procurement is in line with good practice. In particular, the PR should provide co-ordination and oversight of PSM activities. The SRs, SSRs and SSSRs should consistently practice competitive selection and the CCM and PR should ensure quality assurance in line with Global Fund requirements.
 - Ensuring that data for decision-making are accurate. In particular, the CCM and PR should ensure the M&E data collected on the three diseases is analyzed and used in the planning process for future activities.
 - Strengthening external audit arrangements by taking forward the initial discussions held by requesting the China National Audit Office to undertake the external audit of the Global Fund grant programs.

¹ The review did not include one Malaria grant CHN-102-G02-M-00 totalling USD 6.2 million which had closed as at the time of the review.

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- Ensuring that the LFA has the required capacity and adequately monitors the grants.

Actions Subsequent to the Diagnostic Review

6. The Diagnostic Review fieldwork was completed in December 2011. As at the time of finalizing this report in August 2012, the OIG was informed by the Secretariat of recent developments of relevance to the findings noted in this report. Such developments, including some actions already taken to implement some of the recommendations made have not been validated by the OIG. These include:

- As a follow-up to discussions initiated by the OIG during the audit, in April 2012, the Secretariat met with the China National Audit Office (CNAO) to discuss and formalize the involvement of the CNAO in auditing the Global Fund grants in China. This was followed by exchange of letters in May 2012. However, in June 2012, the CNAO indicated to the Secretariat that it will not be able to perform the audit for the Global Fund grants in 2012 and also probably in 2013 because of the workload involved.
- In May 2012, China amended parts of its intellectual property regulations². The amended text enables compulsory licensing to eligible companies to produce or import versions of patented drugs during state emergencies, or unusual circumstances, or in the interests of the public.
- On May 29, 2012, China amended its treatment guidelines to introduce TDF as part of its first-line ARV regimen³.
- On 8 May 2012, the Secretariat approved a budget of USD 18.1 million to support CBO funding in China through the Association of STD & AIDS Prevention and Control.

² The revised version of Measures for the Compulsory Licensing for Patent Implementation came into effect from 1 May 2012.

³ National Guideline on Free ARV Treatment (2012) (The third version):
<http://www.chinaids.org.cn/n16/n1133/n827769.files/n827768.pdf>

Comment from the General Manager of the Global Fund



10 YEARS
OF IMPACT

Gabriel Jaramillo, General Manager

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

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

Chemin de Blandonnet 8
1214 Vernier, Geneva
Switzerland

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MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough work on the Diagnostic Review of the Global Fund grants to the People's Republic of China. I would also like to thank China's Country Coordinating Mechanism for its leadership and understanding during the process of this review, and for its overall work to encourage partnerships among the stakeholders.

The diagnostic review field work in this report was conducted from 14 November to 16 December, 2011, and covered all 13 active grants to China, totalling US\$ 826 million - of which US\$ 546 million had been disbursed at the time of the review. All grants have the same principal recipient, the Chinese Centre for Disease Control and Prevention.

At the time of this review, China had already begun transitioning Global Fund grants toward closing its portfolio by the end of 2013, after ten years of highly successful partnerships. In 2011, China very generously agreed to forgo transitional funding for over \$250 million in HIV and malaria grants, which allowed other, less fortunate countries to receive additional funding.

We are now focused on transitioning the portfolio without creating programmatic and financial gaps. For example, we are reconfiguring our existing HIV grants to put more patients on ARV treatment and to increase funding to civil society organizations. We have also refocused our TB interventions on multi-drug-resistant tuberculosis, and are investing heavily to strengthen laboratory diagnostic capacities. The Global Fund consistently encourages all countries to seek the lowest possible prices for pharmaceuticals and health products, while at the same time insisting on strict adherence to intellectual property rights.

The review found evidence of strongly successful national responses to HIV, tuberculosis, and malaria. Between 2005 and 2010, the number of patients on antiretroviral therapy in China increased from 19,282 to 86,122, reaching 32% of those in need. In the same period, malaria also declined substantially, from 100,106 cases and 48 deaths to 7,855 cases and 19 deaths, with eradication of local transmission well within reach. By 2015, malaria should be eliminated from most areas of the country. The number of people on Methadone Maintenance Therapy increased from 1,029 patients in 2004 to 242,000 in 2009. The country has also contributed significantly to the Global Fund's overall performance in tuberculosis, accounting for over 30% of the global figures for Directly Observed Treatment, Short Course for Tuberculosis (DOTS).

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The review report highlights the strong commitment of the Chinese government, which has provided free access to first-line treatment for all three diseases and has quickly scaled up Methadone Maintenance Therapy, within a context of good infrastructure of health facilities and laboratory network, and a comprehensive national health information system.

The review identified some areas that might be considered for possible improvement in the future by Chinese officials, including budget monitoring at activity level, procurement, and ensuring accurate data for decision-making. The report presents a number of recommendations, which have already been shared with the country.

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

Yours sincerely



Comment from the Country Coordinating Mechanism

中国全球基金项目国家协调委员会秘书处 China Country Coordinating Mechanism for Global Fund Programs

Final CCM Comments:

The China Global Fund programs diagnostic review provides key findings about programs implementation and helpful insights for future national programs transition. It is an important, cooperative exercise done with the joint effort of multiple participating partners at a critical time of China Global Fund programs following national programs consolidation and major changes ushering in quickened programs graduation.

The diagnostic review team worked actively and constructively with in-country partners. Thorough consultation and close cooperation were throughout the process. The diagnostic review mission was both a review exercise and a meaningful mutual-learning experience that contributed to capacity building, partnership strengthening, and future cooperation.

China CCM appreciates the confirmation of successful national response efforts and the commitment by in-country partners to programs implementation. Also, China CCM recognizes the scope for strengthening programs implementation, especially on multiple fronts including financial management, assets management, capacity building, and overall programs management. More importantly, China CCM appreciates key insights on managing programs transitional risks and studying a future governance mechanism that carries on CCM's wide participation and strong oversight strengths for future national health responses.

China CCM appreciates the recommendations and action plan proposed in the diagnostic review report. China CCM is committed to working with PR, LFA, and Global Fund for successful implementation of on-going programs and looks towards continued cooperation beyond current programs. For detailed, specific recommendations targeting PR and LFA, China CCM remains available for counsel and consultation with our cooperating partners whereby careful, case-by-case study is needed to address individual implementation issues.

北京市朝阳区亮马河南路14号塔园外交办公大楼2-8-2 邮编: 100600
2-8-1, Tayuan Diplomatic Office Building, 14 Liangmahe Nanku, Chaoyang District, Beijing 100600, P.R.China
电话/Tel: +86 10 8532 4230/50 传真/Fax: +86 10 8532 2261

Introduction

What was the review about?

1. As part of its 2011 work plan, the Office of the Inspector General (OIG) undertook a diagnostic review of the Global Fund grants to the People's Republic of China (China). This review sought to identify key risks to which the Global Fund grant programs were exposed, make recommendations for risk mitigation where weaknesses and gaps were found in the current risk responses and also identify and share good practices in the program.

2. A diagnostic review is different from a country audit in that functional areas are not comprehensively evaluated, no overall opinions are provided and no assurance is provided regarding how grant funds were spent. The team for the diagnostic review included technical experts in public health, financial management, and procurement and supply chain management. The fieldwork for the diagnostic review for China was conducted from 14 November to 16 December 2011.

What Global Fund grants have been signed for China?

3. The review covered all 13⁴ active grants to China totalling USD 826 million of which USD 546 million had been disbursed at the time of the review. The Chinese Center for Disease Control and Prevention (China CDC) is the Principal Recipient (PR) of the Global Fund grants to China since the inception of the China Global Fund programs in 2002.

4. The PR implements the grants through three National Program Offices (NPOs): National Center for Tuberculosis Control and Prevention (NCTB), National Center for AIDS (NCAIDS) and National Institute of Parasitic Diseases (NIPD) and their Sub-Recipients (SRs), Sub-Sub-Recipients (SSRs) and Sub-Sub-Sub-Recipients (SSSRs) at Province, Prefecture and County levels. The PR had disbursed a total of USD 418 million to the SRs since 2007 (for HIV/AIDS, TB and Malaria) as at October 2011.

5. The OIG review covered the PR, NPOs, 6 SRs (Provinces), 4 SSRs (Prefectures) and 6 SSSRs (Counties). Transactions covering the period 1 January 2007 to 31 October 2011 were tested.

6. In 2010, all grants except Round 6 Malaria were consolidated resulting in single HIV, TB and Malaria grants. Since Round 6 Malaria supports mainly activities in Northern Myanmar, this remained free-standing. As a result of a recent Board decision, China is not eligible for Phase 2 funding under the consolidated grants. Global Fund Grants to China will end after completion of Phase 1.

What was the environment within which the programs were implemented?

7. There is a strong commitment by the Government to combat the three diseases including the provision of free access to first-line treatment for all three diseases and a rapid scale-up of Methadone Maintenance Therapy (MMT). This is within the context of a good infrastructure of health facilities and laboratory network and a comprehensive national health information system covering all three diseases.

8. The China Country Coordinating Mechanisms (CCM) has been functioning well. Within the country context, it is a unique and critical platform for encouraging partnership among all stakeholders and developing complementarity and coordinated approach with existing national policies

⁴ The review did not include one Malaria grant CHN-102-G02-M-00 totalling USD 6.2 million which had closed as at the time of the review.

and priorities.

How is this report structured?

9. The report that follows highlights strengths in grant implementation, common risks and associated recommendations relating to oversight, financial management and controls, procurement and supply management and program implementation by the PR and the program as a whole. Each of these risks and recommendations is described in further detail in the annexes to this report. The risks and recommendations in this report have been discussed with the Global Fund Secretariat, CCM, PR and LFA and their comments have been incorporated in this report. Feedback received mainly from the PR, generally agreed with the OIG findings and is also included in the detailed annexes.

What was the conclusion from this Diagnostic Review?

10. Whilst the Diagnostic Review identified strong leadership and many strengths, there were some challenges encountered in the implementation of the grant programs. There are also emerging risks that if not adequately mitigated will adversely affect the program effectiveness in the future. The in-country stakeholders have demonstrated a commitment to implement the recommendations offered. Doing so will significantly strengthen the overall control environment and grant management of the Global Fund program in China.

Grant Implementation and Good Practices

What strengths were identified in the Diagnostic Review?

Program Activities

11. China has contributed significantly to the Global Fund's overall performance in Tuberculosis accounting for over 30% of the Global Fund's global figures for Directly Observed Treatment, Short Course for Tuberculosis (DOTS).

Financial Management

12. The PR had established a web-based reporting system which is used by all sub-recipients of the Global Fund-supported programs to submit their financial reports on a semi-annual basis. The PR utilizes this reporting system for consolidation of SR financial reports for the purpose of preparing the Progress Update and Disbursement Requests (PU/DRs) and Enhanced Financial Reports (EFRs).

13. The PR had a dedicated 5 member internal audit team for the Global Fund programs which was established in 2005. The team is responsible for conducting internal audits of the SRs and to provide training and guidance to the monitoring and evaluation personnel of the NPOs and the SRs.

14. The PR had developed a Finance Management Manual to strengthen the funds management processes and improve the efficiency in use of program funds. All sub-recipients use this Finance Manual.

15. The PR had strong processes in place for storage and archiving of financial documents. Transaction vouchers were systematically archived based on a unique voucher number assigned to each transaction, facilitating easy retrieval.

Procurement and Supply Chain Management

16. The Government of China contributed to the first line drugs while the current Global Fund grants were used for procurement of specific goods such as second line drugs and LLINs to support national programs, complementary to government funding for diagnostics and all first line treatment. Such complementarity of funding is good practice⁵ as it would ensure sustainability and facilitate an exit strategy of the Global Fund without risking major interruption of supplies to the program.

Program Implementation

17. There were very significant achievements in the program implementation noted in China. These included:

- The number of patients on ART increased by over three-fold from 19,282 in 2005 to 86,122 in 2010, when coverage reached 32% of those in need. The number of pregnant women living with HIV receiving ART increased from 118 in 2004 to 1,873 in 2010⁶;

⁵ China funds more than 80% of its HIV/AIDS program (2010 UNGASS Progress report, China MOH)

⁶ UNAIDS 2011: "UNAIDS Data Tables - 2011"

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- People on Methadone Maintenance Therapy increased from 1,029 users in 2004 to 242,000 in 2009⁷;
- Tuberculosis (including HIV) incidence/prevalence/mortality declined steadily from 92/140/6.6 per 100,000 in 2005 to 78/108/4.1 in 2010⁸⁹; and
- Malaria declined substantially from 100,106 cases (confirmed and probable) and 48 deaths in 2005¹⁰ to 7,855 cases and 19 deaths in 2010¹¹, with eradication of local transmission well within reach.

⁷ Yin, W et. Al (2010) “Scaling up the national methadone maintenance treatment program in China: achievements and challenges” *International Journal of Epidemiology* 2010;39:ii29–ii37.

⁸ WHO 2011: “Global TB Control Report 2011 – Annex 3: Table A3.1 Estimates of the burden of disease caused by TB 1990-2010 (p227)”

⁹ PR (China CDC) presentation to OIG on 15 Nov 2011, Beijing, China

¹⁰ WHO 2010: “World Malaria Report 2010: Country Profile – China” – 21,936 confirmed cases out of 3,814,715 microscopy tests performed in 2005.

¹¹ WHO 2011: “World Malaria Report 2011: Annex 6a - Reported Malaria Cases and Deaths, 2010” – 4,990 confirmed cases out of 7,115,784 tests (microscopy/RDT) in 2010.

Risks

What were the risks relating to oversight of the program as a whole?

18. As per the 25th Global Fund Board decision¹², China will no longer be eligible to apply for renewal of existing Global Fund grants/SSFs, or for new funding from the Global Fund, including Transitional Funding Mechanism and Funding under continuity of services policy.¹³ Therefore, the OIG review also focused on key risks resulting from the impact of this decision, to minimize disruptions in service delivery and ensure that achievements made to date are not lost.

The Country Coordinating Mechanism

Future role of The China CCM

19. Given the discontinuation of funding because China is no longer eligible, there is a need to consider establishing a governance forum along the lines of the CCM to take its place.

There is a need to enhance external audit arrangements at the PR and SR levels

20. The Terms of Reference (ToR) and the execution of the external audit for 2010 prepared by the PR and the PR's external audit report for 2010 had gaps. The audit scope did not include grant compliance requirements and verification of foreign exchange rates.

21. The external audit report did not include key components such as an opinion on accounting standards used for preparing the financial statements, the internal control environment of the PR (such as sub-grant management, recording and approval of expenses and assets management). Gap analysis between the Chinese CPA audit standards and International Organization of Supreme Audit Institutions (INTOSAI) and International Standards on Auditing (ISA) as recommended by the Global Fund was not performed.

22. The SRs, SSRs and SSSRs did not follow a standard ToR for external audit in line with the Global Fund's requirement for the annual audit of financial statements. In addition, competitive bidding procedures were not followed for selection of the external auditors by some of the SRs, SSRs and SSSRs; while in others there was no documented evidence that competitive selection was done.

23. Based on discussions with the PR and a review of the external audit budgets at the locations visited, the OIG noted that the budget available at the Prefecture (SSR) and County (SSSR) level was not sufficient to allow adequate external audit coverage and competitive selection procedures.

24. The China National Audit Office which has a wide presence at all levels in the country as well as adequate staff numbers and capacity, confirmed to the OIG its readiness to support the Global Fund grant program oversight as long as the relevant Government Agency requests them to do so.

¹² The decision stipulates that Upper Middle Income (UMI) countries will no longer be eligible for grants renewal (unless disease burden is extreme. Source: Presentation by Country Program director on 14 Dec 2011 at CCM Plenary in Beijing

¹³ Source: FPM memo (Ref: OPC/EAP/CHN/1470/OC/alf) dated 16 January 2012

The Global Fund Secretariat

LFA monitoring needs to be enhanced

25. The size of grant portfolio and the scope of grant coverage in China should have warranted extra scrutiny over financial management supervision and reporting. However, the number of finance experts in the LFA team between January 2009 and December 2010 was not adequate.

26. The Global Fund Secretariat has developed various tools for performance monitoring of LFA such as Program Evaluation Tools (PET), In-Country Evaluations (ICE) and Mid-Term Evaluations (MTE). The OIG noted that such tools were not fully utilized as it did not highlight gaps in financial management skills in the LFA team

Role of development partners

27. Key development partners such as UNAIDS, US-CDC, WHO, DFID & UNICEF were represented in the China CCM. The working Groups for 3 diseases are either chaired or vice-chaired by representatives of the development partners. The above and other international organizations provided considerable support in proposal writing, monitoring and evaluation of grant implementation and technical support to the implementing entities when needed.

28. In addition to their involvement in the China CCM, development partners provided additional support. For instance, UNDP manages China CCM funds, UNAIDS houses the China CCM Secretariat function, and CBO/SR review is jointly sponsored by UNAIDS and the Gates Foundation.

29. During the course of the review, the OIG team met with representatives from Gates Foundation, UNAIDS, DFID, USAID, US CDC, UNICEF, WHO and the Clinton Foundation. The objective of the meetings was to get a better understanding about program performance, key risks, and level of involvement of development partners and identify opportunities for better coordination.

Local Fund Agent

30. The current Local Fund Agent for China, United Nations Office for Project Services (UNOPS), has been providing service as LFA since the first Global Fund grant was signed in 2003. During the re-tendering process in 2008 and in 2011, UNOPS was selected for an additional period.

The need to strengthen the LFA Human Resource capability

31. The number and composition of skills set in the LFA team were considered by the OIG to be insufficient based on the scope and complexity of China grant programs. As a result, some assignments were outsourced due to limitation of staff numbers and capacity.

32. The OIG observed that in addition to the limitation of staff size, there was a concern of lack of capacity in financial management in the past. While action had been taken to improve the capacity by assigning a financial specialist one of the CCT QA members) from India on a part time basis, this did not sufficiently fulfil the need to have a full time key finance staff due to the complexity of the grant implementation.

The need for timely PU/DR reviews and submission

33. As per the LFA guidelines, PU/DRs received from the PR should be reviewed and submitted to the Global Fund Secretariat within ten working days. However, the OIG noted delays ranging from 1 to 40 working days in submission of the PU/DRs for 31 Dec 2009 (R7TB, R8 TB, R3/R4/R5/R6AIDS, and R6 Mal) and 30 June 2010 (AIDS RCC).

The LFA's performance and communication need to be enhanced

34. The LFA constitutes an important oversight model, based on whose work the Global Fund Secretariat makes critical decisions regarding program performance and fund disbursements. The recommendations issued by the LFA had scope to be more closely aligned with the SMART model, i.e. Specific, Measurable, Achievable, Result-oriented and Time-bound.

35. The OIG noted that the LFA did not have a mechanism in place for follow up on the recommendations that it provided. LFA notification to the Secretariat about risks and recommendations by email has scope for being better coordinated. Uncoordinated emails impair the Secretariat's capacity to understand and assess risks in a comprehensive manner.

The LFA needs to proactively identify, assess and report on emerging risks to the Global Fund secretariat.

36. Prior to 2010, the LFA did not identify anomalies in cash reconciliations which led to inaccurate cash balances being reported in the PU/DRs. This resulted in a material cash balance discrepancies at the time of grant consolidation, an issue still to be resolved.

37. The LFA did not carry out a comprehensive assessment of the external audit arrangements at the SR level, including the selection process, adequacy of ToRs and capacity of the external auditors. The LFA had also not been regular in reviewing the external audit reports of the SRs.

38. The LFA had made recommendations to the PR through the Global Fund Secretariat after assessment reviews, financial spot checks, review of external audit reports and special purpose financial verification. However, some recommendations and action plans were still open after several correspondences between the PR, LFA and the Secretariat.

39. The LFA informed the OIG that for PU/DR reviews in 2009 and before, the PR had been reporting PU/DRs in a consistent way and the LFA could only verify certain expenditures on a random sample basis due to staffing constraints. No feedback was received from the Global Fund; hence they assumed that this was accepted. The LFA indicated that they will further strengthen review of PU/DRs with the addition of more professional and experienced financial officers in the new team.

There is scope for strengthening the proposed Enhanced Field Level Financial Verification 2012

40. In its latest proposal, UNOPS suggested introducing "Enhanced Field Level Financial Verification (EFLFV)-2012" with an objective to expand focus to sub-recipients' financial management at provincial level. The OIG believes it will be a value added service in China context. However, the scope of EFLFV should be strengthened to include assessment of SR oversight mechanisms over prefectures and counties; methodology for selecting sample locations (Provinces, Prefectures and Counties); defining

sample size at each location and the resource requirements.

Scope for improving communication with in-country partners

41. Global Fund's communication protocol stipulates that the LFA needs to maintain good working relations with the PR without compromising its independence on fiduciary obligations to the Global Fund. The OIG noted instances of PR dissatisfaction with LFA communication, especially in relation to special financial management verification exercise and external audit arrangements at the PR level. Further, the PR also expressed that they do not get adequately briefed about the outcome of LFA assessments.

42. The LFA had limited interactions with in-country development partners. In the OIG's opinion, the LFA could benefit from development partners' invaluable experience, knowledge, contextual factors and health sector developments which could be linked to its assessments.

What were the risks relating to financial management?

The need to improve internal and external audit coverage and scope

43. The PR did not submit SR audit reports for 2009 and 2010 to the LFA as required by Global Fund guidelines. In addition, the PR's internal audit scope for 2007 to 2010 did not adequately cover the Global Fund grants. The internal audit scope did not adequately address some key areas in sub-grant management, grant compliance and reporting, such as joint review of financial and programmatic reports by Sub-recipients, review of financial management at CBOs, incorporation of PR equivalent clauses in the sub-grant agreements, use of correct exchange rates for preparing PU/DR and EFR, and reconciliation of PU/DR and EFRs with accounting records.

The need to strengthen monitoring of expenses against budget and avoid unbudgeted expenditure

44. The accounting system used at different locations facilitates recording of expenses only at 'Service Delivery Area' (SDA) level instead of the 'Activity' level defined in the Global Fund approved Work Plan and Budget (WPB). In the absence of such a facility, monitoring of expenses against the budget at activity level could not be performed.

45. A formal process to compare the actual expenses against the budget on a periodic basis to identify variances, if any, was not in place at the PR as well as the NPOs. The SRs were also not required to submit a variance report comparing expenses against budget. Of the ten field offices visited by the OIG, only one (Henan SSSR HIV) performed budget versus actual variance analysis.

46. The OIG review noted a number of expenses that had not been budgeted. These included hiring for unbudgeted positions at the National Institute of Parasitic Diseases (NIPD) and use of an unspent budget to pay for salary bonuses and purchase of additional equipment at two SRs.

More closely following reporting Guidelines for PU/DRs and EFRs submitted to Global Fund Secretariat

47. Transactions recorded in the accounting system were not linked to the 13 EFR expense categories. All expenses were recorded by NPOs using 34 cost categories with no defined basis for categorizing these expenses into the 13 EFR cost categories. In the absence of a well-defined basis, the OIG noted two instances of inaccurate allocation of expenses under EFR cost categories.

48. At all three NPOs, differences between cash inflows (plus opening cash balance) and closing cash balance was reported as expenses in the PU/DR. This resulted in inaccurate reporting of expenses for the PU period since the expense reported included the effect of foreign exchange fluctuation. Consequently there were variances in expenses reported in the PU/DR vis-à-vis actual expenses as per financial records for the period January 2007 to December 2010.

49. There were differences between the SR disbursements reported in the PU/DR and the amounts per the financial records for the period January 2007 to June 2010. Some of the differences were a result of incorrect expense allocation while others related to use of incorrect exchange rates.

The need to improve cash forecasting in disbursement requests

50. The PR prepared the cash forecast in the PU/DR after making adjustments for cash in hand at the sub-recipients and the catch up activities. The total amount of cash in hand reported by the SRs was reduced from the forecast amount and a lump sum amount for 'catch-up' activities was added. However, the PR did not have a detailed breakdown for the total amount for 'catch up' activities reported in the PU/DR.

The need to establish accurate opening cash balances for the consolidated grants

51. The Round based grants for HIV were consolidated under Rolling Continuation Channel (RCC) as of 01 January 2010. Similarly, the Round based grant for TB and Malaria (except Round 6) were consolidated under Single Stream Funding (SSF) and National Strategy Application (NSA), respectively, as of 01 July 2010. However, the closing cash balance of those round based grants was not established so as to accurately determine the opening cash balances of the consolidated grants. As a result, the accuracy of the cash balances and accounts payable adjusted by the PR from cash balances could not be determined¹⁴.

Avoiding commingling of funds and improving controls over bank reconciliations

52. As best practice, grant funds should be maintained in separate bank accounts. The OIG review noted three instances of commingling of funds, as no separate bank accounts were maintained for the Global Fund Grants. The PR explained that according to the Ministry of Finance regulations, one organization is not allowed to open multiple bank accounts.

53. There was no defined basis for allocation of interest income among different grants commingled in one bank account, which may result in incorrect allocation of interest income to the Global Fund grants. The OIG noted three instances in which interest income at the PR, SR and SSR level had been allocated using a different basis in each.

54. The OIG noted areas for improvement in the bank reconciliation process which should include regular preparation on a monthly basis, consistent review and ensuring accurate balances in the reconciliation.

The need to ensure that sufficient supporting documents are kept and that there is a reasonable basis for the allocation of shared costs

55. The OIG review identified the need for SRs to ensure that, SSRs kept adequate supporting documents and confirmation of receipt of goods or services at the SSR. In its limited sample, the OIG identified 37 instances of expenses without adequate supporting documents. The Secretariat, with the LFA, should explore the eligibility of the inadequately supported expenditure identified to ensure that all expenses are valid and in line with Global Fund policies.

56. There was no documented rationale for allocating shared costs such as rent, electricity and general administrative costs. The OIG noted that at

¹⁴ As at the time of finalizing the report in July 2012, the Secretariat, the LFA and the PR had finalized the TOR and the LoE appointing PWC to perform the opening cash and accounts payable reconciliations and ensure the reconciliations are finalized by 31 December 2012

the NCTB office, the proportion of rent for the office premises was allocated to the TB program based on budget availability, without a reasonable basis for allocation. As a result, in 2009, 2010 and 2011 the proportion of office rent allocated to the TB program was 71%, 83% and 100% respectively.

Improving review of expenditure reports and program performance before disbursement of funds to the SRs/SSRs/SSSRs

57. Disbursements to SRs were made on the basis of cash-flow statements submitted semi-annually by the SRs. The OIG review of the disbursement process noted that there were no joint reviews of financial reports and programmatic results to ensure that programmatic progress was in line with the expenses reported by the SSRs/SSSRs. Also, at NCAIDS and NCTB, there was no documented evidence of the review of the semi-annual expenditure reports submitted by the SRs.

58. There was no process in place for submitting a "Funds Request" for disbursement of funds. As a result, funds were disbursed without 'Fund Requests' by the sub recipients. The disbursements to the SRs, SSRs and SSSRs were made on the basis of their approved work-plans & budgets (WPB) instead of actual cash requirement.

What were the risks relating to sub-recipient monitoring?

Improving financial monitoring of SRs/SSRs/SSSRs

59. None of the three NPOs, three SRs and three SSRs used an annual financial monitoring plan detailing the frequency, team composition and coverage for financial monitoring visits to provinces/cities/counties. As a result, few monitoring visits were done.

60. The scope of financial monitoring visits was not sufficient as they did not include checks on areas such as human resource, payroll and assets management. The results of such visits were also not documented and communicated to the visited SRs, SSRs or SSSRs.

Compliance with the PR guidelines and the need to strengthen procedures for selection of CBOs

61. The OIG review and visits to the Community Based Organizations in Henan Province noted that the PR guidelines for the selection of CBOs were not fully complied with. The procedures for the selection of the CBO assessment committee required representation from several stakeholders but most of the 16 members selected were from the local CDC offices (44%) and the community (38%).

62. Some of the reviewers of the grant applications by the CBOs were members of three CBOs applying for funding; hence there was potential conflict of interest in the review process. The OIG noted that no conflict of interest statement was signed with the experts involved in the selection process¹⁵.

Documentation of expenses at the CBOs requires strengthening

63. The OIG conducted visits to 11 CBOs in Zhengzhou and Kaifeng cities. However, only 3 out of the 11 organizations provided their financial documents to the OIG. Review of the documents of the three organizations highlighted that the supporting documents for expenses incurred by the

¹⁵ The PR explained that there was no specific requirement on signing the statement of conflict of interest in the CBO Opening Tendering Guidelines (Version 2010) developed by PR. The PR will include this in the revised guidelines.

What were the risks relating to assets management?

CBOs were either not available or not adequate, making it difficult to assess the reasonableness of expenses charged by the CBOs.

Reconciling differences between fixed asset financial records, Fixed Assets Register and the physical count records

64. The special financial verification performed by the LFA highlighted significant variation between the PR's fixed asset financial records, Fixed Assets Register and the audited financial Report as at 31 December 2009. The Global Fund Secretariat issued a management letter requiring the PR to reconcile these differences, conduct a physical verification of assets and reconcile the physical records with the book records.

65. The PR¹⁶ had submitted the latest reconciliation statement dated 23 November 2011 wherein the difference between financial records and the Asset inventory records had come down to USD 65,441. However, the LFA could not validate the accuracy of the reconciliation statement with respect to the reconciling differences reported by the PR. The reconciliation between Fixed Asset Register and the physical verification records was pending at the completion of the OIG review¹⁷. In the absence of these reconciliations, it was difficult to assess the reasonableness of fixed asset expenses charged to the Global Fund grants.

¹⁶ During the period of OIG review, PR has already provided the justification for the variance of US\$65441.

¹⁷ As at the time of finalizing the report in July 2012, the OIG was informed by the Secretariat that the physical verification exercise and reconciliations with fixed assets register for the TB-SSF, NSA malaria and RCC-HIV grants had been completed.

What were the risks related to overall program implementation?

Transitional risk in sustaining Global Fund grant Program achievements for HIV, TB and Malaria Grants

66. Following the Global Fund Board's November 2011 decision, China was no longer eligible for Phase 2 funding of its three consolidated grants with Phase 1 funds ending in December 2012 for HIV RCC and June 2013¹⁸ for TB SSF while the Malaria NSA funding ended on 30 June 2012. The Government's initial response to the Global Fund's withdrawal decision was to indicate that it would fill the funding gap after the Global Fund's departure, for HIV/AIDS in particular.¹⁹ However, there were three programmatic risks the OIG identified as most critical in a successful transition of the Global Fund programs to the Government.

Limited time for the Government to plan and budget for the funding gap after Global Fund grants close

67. Considering the fact that all three grants will be closed in 2012-2013, and the limited timeframe and considerable effort associated with the transition, the government runs the risk that it may not be able to ensure continuity in provision of all services that are critical in fighting the three diseases. The large size of the country with a highly complex and layered administrative structure implies there may not be enough time for the entire government structure at all levels to re-allocate resources to ensure continuity of program implementation.

Sustaining CBO funding and service quality after Global Fund grants end

68. Despite Global Fund's support for Civil Society Organization (CSO) development since Round 6, there is still no strong and sustainable national funding mechanism²⁰ or technical support for ensuring service quality is in place to support CBOs, which are key to prevention, treatment, care and support among MARPs²¹.

Enhancing PR capacity to analyze M&E data at provincial levels

69. The OIG review noted a good web-based M&E reporting system at the provinces visited. However, effort should be made towards developing and building capacity to carry out analytical reviews of such data collected. Further, the results of such analysis could be fed into the planning process which would then impact the approach and budget of the future activities and interventions.

¹⁸ As at the time of finalizing the report, the CCM had indicated to the Secretariat that it would be seeking a no-cost extension to 31 December 2013. The Secretariat had also indicated its willingness to accommodate the request

¹⁹ See UNAIDS news piece (2 Dec 2011) "UNAIDS applauds China's decision to fill its HIV resource gap" <http://www.unaids.org.cn/en/index/topic.asp?id=809&classname=Photo%20Stories&class=2>

²⁰ On 8 May 2012, the Secretariat approved a budget amounting to USD 18.1 million for the Chinese Association of STD & AIDS Prevention and Control through which funding to CBOs will be channeled

²¹ The PR stated that with the implementation of R6 HIV/AIDS grant, It provided good experiences/practices in strengthening the involvement of CSOs for HIV/AIDS control in some provinces. With the consolidation of different round-based grants in 2010, this model was expanded to all the 31 provinces. And under the consolidation framework, CBO participation was mainly supported by Global Fund funding as a key complementary to government funding. Other key areas, such as VCT, MARPs intervention, ARV treatment, IEC, PMTCT and HIV surveillance, etc were primarily funded by the government. The government will inject funding to continuously support CBO participation when the GF withdraws from China in future.

Strengthening National TB program readiness to scale up MDR-TB diagnosis and treatment services at all levels

70. Multi Drug Resistant Tuberculosis (MDR-TB) program components such as human resources structures, treatment and diagnostic capacities were weak and required well-planned human resources and capacity building support. At the early stage of Single Stream Funding (SSF) grant implementation, the SSF grant Program Office hired dedicated staff for managing the MDR-TB program at all levels from national to the county. A more sustainable approach, however, would have been to hire those staff through NCTB. On the other hand, there were limited numbers of NCTB staff members responsible for MDR-TB program activities. The OIG also observed that in the field, the roles and responsibilities of Program Office and NCTB staff were not clearly defined²².

What were the risks related to the HIV program implementation?

Revising policy and funding for access to the treatment and care on ARV

71. National insurance coverage was limited for PLHIV, particularly for outpatient services and tests. Although ART was free, PLHIV still had to pay user fees for many laboratory tests such as complete blood count and also for treatments such as OIs. Some of these services were costly, particularly for the poor in the rural areas. This poses a considerable risk to treatment adherence as well as achieving good outcomes from ARV treatment. However, the national insurance scheme was running a pilot to increase benefit levels for OIs.

Increasing utilization of Voluntary Counselling and Testing (VCT) services by MARPs at local level

72. The number of clients receiving voluntary counselling and testing in the health facilities and centers at district-level CDCs and Sexually Transmitted Infection centers visited by the OIG at province and county levels was very low. This was particularly critical for the migrant population, which was usually not eligible for health and social benefits provided by local governments. This, taken together with HIV-associated stigma, was likely to contribute to fear and unwillingness reported by MARPs to get tested for HIV.

Improving M&E of national responses to HIV

73. The National HIV M&E plan was pending as it was waiting for endorsed national HIV action plan for 2011-2015. The M&E plan that was in use from 2007 was a more general framework, and did not present enough details on indicators and other key components. The RCC grant M&E plan will not be finalized until the national HIV M&E plan is completed. There was scope to improve the draft RCC plan to enhance definition and alignment of the MARPs indicators with the existing national M&E plan 2007, which defines MARPs indicators appropriately.

Finalization of the National MDR-TB Plan

74. The China national MDR-TB action plan was still under development. Similarly, the MDR-TB action plans at province level were

What were the risks related to

²² The PR explained that NCTB staff are responsible for the technical support and guidance concerning the MDR-TB program activities, whereas the Program Office staff responsibilities are routine administration and accelerating the program implementation.

the TB program implementation?

not in place. Taking into account considerable scope of activities of SSF program to introduce and scale up MDR-TB program nationwide as well as overall level of the needed effort, there was need for well-coordinated planning and implementation work, which cannot easily be achieved without proper guidance provided by the national action plan.

Considering the need for an MDR-TB program in prisons

75. The MDR-TB program was not in place in prisons, which poses significant risk to MDR-TB control in the country. The data on MDR-TB epidemiology among prisoners was lacking in China. Two units under the Ministry of Justice, Prison Management Bureau and Re-education Center Management Bureau have been involved in SSF program as SRs beyond China CDC system. However, there were no definitive plans for introducing MDR-TB program in prisons. The SSF grant can provide a good opportunity and help NCTB to design and implement the pilot in selected prisons/provinces.

Extending national insurance coverage to include patients with MDR-TB

76. National insurance coverage was limited for TB patients. Although TB treatment itself was free, treatment of side effects and related tests are often out-of-pocket costs paid by patients themselves. As TB treatment takes a long time, this poses a considerable risk to treatment adherence. The above problem is more complex in the case of MDR-TB where there are more side effects and the treatment period is even longer.

77. The national insurance scheme was running a pilot to increase benefit level for MDR-TB²³. A successful pilot would be important in the enhancement of MDR-TB treatment outcomes for the country in the future.

Improving infection control in TB facilities

78. While visiting selected infectious disease hospitals in the field, the OIG observed that existing practice of hospitalization of TB/MDR-TB patients as well as TB suspected patients poses significant risk to intra-hospital TB/MDR-TB transmission. Although criteria for hospitalization of TB patients was included in the Implementation Guideline for National TB Control Program developed by the NCTB in 2008, this guideline was not strictly followed as the OIG observed that most TB patients or even TB suspects were hospitalized.

What were the risks related to the Malaria program implementation?

There was scope for improvement in malaria prevention, diagnosis and treatment

79. While in the field, the OIG review team observed that the free long-lasting insecticide-treated bed nets (LLINs) distributed in 2011 were underutilized during the 2011 malaria season in May to October. This was partly due to the late arrival of the LLINs in July 2011 and partly due to a lack of instructions to LLIN recipients on how to put up the nets and follow-up household visits by program staff to ensure LLINs were installed properly and used²⁴.

²³ The OIG interview (8 Dec 2011) with the Center for Co-operative Medical Scheme, Health Development Research Department, Ministry of Health.

²⁴ The PR has given assurance that this situation has been improved in 2012 and that the LLINs of NSA malaria program were distributed as scheduled before the end of June. Health education on LLIN usage guideline has been enhanced and

80. The OIG noted that in remote villages visited, the doctors only observed patients taking anti-malarial drugs and had not been trained in prescribing and storing anti-malarial drugs. The arrival of Rapid Diagnostic Test (RDT) requires that they be trained in both using RDT and prescribing and storing anti-malarial drugs.

Tackling the risk of counterfeit or sub-standard anti-malarial drugs which contribute to drug resistance

81. China has been part of the regional Mekong Roll Back Malaria Initiative to combat the disease since 1999, including participating in joint-investigation and prosecution of counterfeit drug manufacturing facilities in China²⁵. However, the availability of counterfeit or sub-standard (with less active ingredients) drugs in Myanmar border regions where Chinese migrant workers from Yunnan go for logging and mining work and return to Yunnan, represents significant drug resistance risks for Yunnan²⁶.

instruction posters have been sent out when distributing LLINs. After the LLINs were distributed, the actual usage of nets has been followed up.