



Audit Report

Audit of Global Fund Grants to the Republic of Honduras

GF-OIG-15-022
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I. Background

Country context

Honduras is located in Central America with an area of 112,090 km, and is politically and administratively divided into 18 departments with a total population of 8.6 million inhabitants.¹ Honduras is a Lower Middle Income Country with a GNI per capita of USD 2,190 and GDP growth of 3.5% in 2014. Nevertheless, over 59% of the population remains below the poverty line and 36% live in extreme poverty.² Honduras is one of the most violent countries in the region and has one of the world's highest homicide rates at 66 out of 100,000.³

In 2004, a law was passed to reorganize the national health system on three levels: national, regional and municipal. As a consequence, the administrative and financial responsibilities were transferred to the 20 health regions.⁴ Furthermore, a health reform was introduced, and changes started to be implemented first in sanitary regions (2012) and recently at the central level (2015).⁵ One of the main changes for the current health reform in Honduras was the separation of functions between setting norms, standards and the decentralization of the responsibility for the delivery of services to the sanitary regions.⁶

Until 2015, Honduras used to have a vertical program implementation structure with three national disease programs which handled program implementation, drugs quantification and forecasting, supply chain management and data management. As part of the health reform process the three disease programs at the national level were recently dissolved and replaced by an integrated disease surveillance and control system, including a horizontal structure with functional units that absorbed specific disease requirements (surveillance, normalization, quality control, monitoring and evaluation, etc.).

The newly created units that are responsible for the implementation of the Global Fund programs are as follows:

- *Unidad Administradora de Fondos de Cooperación Externa* (UAFCE) is the unit responsible for the program implementation for the TB grant (as Principal Recipient), and HIV and Malaria grants (as sub-recipient);
- *Unidad de Vigilancia de la Salud* (UVS) is the Unit for Health Surveillance that is responsible mainly for two information subsystems: Mandatory Notifiable Diseases and Alert Response to disease outbreaks. UVS is also responsible for the Malaria Information System and the subsystem that notifies of HIV infection (asymptomatic and advanced infection);
- *Unidad de Gestión de la Información* (UGI) is the Unit for Information Management that is responsible for receiving all subsystems' information for the three diseases that were part of the former vertical programs.

¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/ho.html>

² <http://data.worldbank.org/indicator/SI.POV.GINI>

³ <http://www.insightcrime.org/news-analysis/insight-crime-2014-homicide-round-up>

⁴ Secretaría de Salud. Manual de Procesos de las Regiones Sanitarias de la Secretaría de Salud de Honduras. Septiembre 2013.

⁵ Secretaría de Salud. Marco conceptual, Político y estratégico de la Reforma. 2009

⁶ Secretaría de Salud. Marco conceptual, Político y estratégico de la Reforma. 2009

- *Unidad Logística de Medicamentos e Insumos Estratégicos (ULMIE)* is the management structure responsible for organizing, monitoring, and supporting all supply chain activities within the logistics system.

Disease context

Honduras has the highest malaria burden in the Central American region.⁷ In 2011, the country had 53% of the total malaria cases in the region and the largest percentage of cases for *Plasmodium Falciparum* (90%).⁸ In 2014, the country reported 151,420 suspected cases of malaria (by thick blood film); of these 3,380 were confirmed, resulting in a slide positivity rate (SPR) of 2.2%. The predominant parasite species remains *Plasmodium Vivax* at 83%, with *P. falciparum* at 17%.⁹

According to UNAIDS estimates, HIV prevalence for adults between 15 to 49 years old is 0.4% while the number of people living with HIV is estimated at 23,000.¹⁰ The number of children under 14 years old living with HIV is 2,200 and the number of estimated deaths due to HIV/AIDS was 1,500 in 2013.¹¹ 10,000 of the 23,000 estimated people living with HIV receive antiretroviral therapy treatment.¹²

In 2013, the WHO estimated that the rate of new TB cases was 54 out of 100,000 and the prevalence of TB was 74 per 100,000. During the same year, the estimated detection rate was only 68% for TB with 2,981 cases reported.¹³ The treatment success rate for the 2012 cohort was 89%.¹⁴

Global Fund Grants

Eight grants have been signed with Honduras since 2003 and USD 40 million has been allocated to the country under the New Funding Model. Currently, there are three active grants for a total signed amount of USD 51.9 million which are implemented by two Principal Recipients as follows:¹⁵

- The TB grant is managed by the Ministry of Health through UAFCE; and
- One HIV and one malaria grant are managed by the Cooperative Housing Foundation (CHF) and implemented through several sub-recipients, including the Ministry of Health and NGOs.

⁷ PAHO/WHO (2013). Situation of Malaria in the Americas, 2000-2012. Pan American Health Organization/World Health Organization (PAHO/WHO). 5 pp. Available at:

http://www.paho.org/HQ/index.php?option=com_docman&task=doc_download&gid=25777&Itemid=270&lang=en

⁸ PAHO/WHO (2014). Malaria surveillance indicators. Available at: www.paho.org/malariastats

⁹ Data according to Unidad Administradora de Fondos de Cooperación Externa (UAFCE), Secretaría de Salud de Honduras. Official Report issued in June 2015.

¹⁰ <http://www.unaids.org/en/regionscountries/countries/honduras>

¹¹ http://www.unaids.org/sites/default/files/media_asset/UNAIDS_Global_Report_2013_en_1.pdf

¹² http://www.paho.org/Hq/index.php?option=com_docman&task=doc_view&gid=23710&Itemid=

¹³ https://extranet.who.int/sree/Reports?op=Replet&name=%2FWHO_HQ_Reports%2FG2%2FPROD%2FEEXT%2FTBCountryProfile&ISO2=HN&LAN=EN&outtype=html

¹⁴ Unidad Administradora de Fondos de Cooperación Externa (UAFCE), Secretaría de Salud de Honduras. Official Report June 2015.

¹⁵ <http://portfolio.theglobalfund.org/en/Country/Index/HND>

II. Scope and Rating

Scope

The OIG assessed the effectiveness of the implementation arrangements of the Global Fund grants to the Republic of Honduras. Specifically, the audit aimed to assess:

- a. effectiveness of program implementation arrangements focusing on the current Ministry of Health reform;
- b. governance, coordination and oversight mechanisms over Global Fund programs;
- c. adequacy of the design and operational effectiveness of internal controls in safeguarding Global Fund resources.

The audit reviewed the Global Fund operations from January 2013 to June 2015, focused on the existing active grants managed by Cooperative Housing Foundation (CHF) and the Ministry of Health, and considered the proposed changes to the implementation arrangements. This is the OIG's first audit of the Honduras portfolio. The audit did not assess the operations for one of the sub-recipients of the Cooperative Housing Foundation (CHF) that had closed its operations at the date of the audit and whose expenses were not material.

Rating¹⁶

Below are the OIG's overall ratings of the implementation of the Global Fund grants to Honduras:

Operational Risk	Rating	Reference to findings
a) Effectiveness of the implementation arrangements	Partial plan to become effective	IV 1.1 and 1.2
b) Governance, coordination and oversight mechanism	Full plan to become effective	IV 1.1 and 1.2
c1) Oversight and internal controls over program data	Partial plan to become effective	IV 2.1
c2) Oversight and internal controls over finance and procurement	Generally effective	NA

¹⁶ See Annex A for the rating definitions.

III. Executive Summary

Implementing grants in the Republic of Honduras is complicated because of the introduction of a comprehensive health sector reform and significant internal unrest. Honduras has the highest malaria burden in the Central American region¹⁷ with 144,431 suspected cases in 2013, out of which 5,364 were confirmed. The HIV prevalence for adults between 15 to 49 years is 0.4% while the number of people living with HIV is estimated at 23,000.¹⁸ TB prevalence is 74 per 100,000, with fairly low detection rates. Eight grants have been signed with Honduras since 2003 and USD 40 million has been allocated to the country under the New Funding Model.

The OIG audit of the Global Fund's management of its grant portfolio in Honduras concluded that the **effectiveness and efficiency of the implementation arrangements**, as well as the **internal controls and oversight over programmatic data**, are not effective and only a **partial plan to become effective** exists. The **oversight and internal controls over finance and procurement are generally effective**.

Effectiveness of the implementation arrangements

The Ministry of Health has initiated an ambitious health reform by which the traditional vertical programs were dissolved and replaced by a horizontal structure with functional units in charge of their previous functions. While the long-term merits of this reform are recognized, the absence of a full short to medium term plan to mitigate the risks of the reform is affecting the accuracy and the timeliness of data reporting and may hamper the programs' achievements. The OIG found that accountabilities within the Ministry were not clearly defined and capacity varies between national and regional structures in terms of program management and governance. Data management, formerly handled by the vertical programs, is currently being migrated to a centralized approach and is fragmented between the vertical and centralized streams leading to gaps and overlaps.

The Global Fund grant objective aims to eliminate Plasmodium Falciparum malaria by 2017 but the delays in implementing the operational requirements to improve the current structure could impact the achievement of this target. Even if the grant was only signed in May 2015, the OIG noted that the recommendations from the TRP are ongoing and not all the requirements are in place or have made significant progress to be implemented soon.

Design and effectiveness of the internal controls over Global Fund resources

Major risks related to governance and financial management are effectively mitigated by the Global Fund secretariat through a number of internal safeguards. However, limited controls over monitoring and evaluation, and data quality are the result of inadequate risk identification. This prevents the Secretariat from moving the oversight resources to areas that require more attention. A lack of supportive supervision visits at all levels, absence of written procedures, and a predominantly manual data reporting system have contributed to inefficiencies and inconsistencies in data collection.

¹⁷ PAHO/WHO (2013). Situation of Malaria in the Americas, 2000-2012.

¹⁸ <http://www.unaids.org/en/regionscountries/countries/honduras>

IV. Findings

01. Effectiveness of the implementation arrangements

1.1	Impact of the Ministry of Health reform over the Global Fund grants
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The absence of a plan to mitigate the risks related to the Ministry of Health organizational reform is affecting the accuracy and timeliness of data reporting and may hamper the programs' achievements.

The Ministry of Health has initiated an ambitious health reform by which the traditional vertical programs were dissolved and replaced by functional units in charge of functions, including procurement and supply chain, monitoring and evaluation, and surveillance. Although this reform is expected to increase the efficiency and effectiveness of the Ministry of Health in the long term, the structural and functional ambiguity is currently affecting basic functions, including the accuracy and timeliness of reporting on programmatic indicators and the achievement of expected targets.

Despite several official documents describing the new organizational structure, including roles and functions, these major changes had not been implemented at the time of the audit. This has caused issues around accountability, capacity at the regional levels and in data reporting.

Accountability

The OIG found that accountabilities, including responsibilities for key positions within the Ministry of Health, at the regional and central levels, were not clearly defined. The responsible focal points in charge of surveillance, monitoring and evaluation, and reporting activities had not been appointed at the date of the audit. As a result, hospitals are still reporting directly to the national level instead of the regional authorities.

These gaps in accountability affect the programmatic achievements of the Global Fund grants and the accuracy and timeliness of data reporting. Specifically:

- The national reference hospital, the *Instituto Cardio Pulmonar*, which is the largest TB service delivery point in the country, has not reported any data in the past six months as the reporting line wasn't clear to them;
- No coordination exists between the central level and sanitary regions for referring Multi-Drug Resistant (MDR) TB patients after their release from isolated care for further treatment to their closest health units, resulting in potential treatment disruption. There are, therefore, risks for treatment failure, further possible infections and developing additional drug resistance.

Capacity

Capacity variances between national and regional structures in terms of program management and governance have further contributed to weaknesses in coordination and follow up on issues at all levels. There is no plan for equipping regions with the required technical expertise to deliver on the new organizational responsibilities.

- There is lack of capacity to systematically notify and respond to smear positive tuberculosis for a target population in the San Pedro Sula prison, a prioritized sanitary region¹⁹ where the disease burden is highest. The region is included in a prioritization strategy.²⁰
- Several critical prevention activities have not been completed: no nurses were trained for Mother to Child Transmission (PMTCT) activities during the past six months because there is a lack of trainers and organized trainings. Additionally, PMTCT services are not integrated with the obstetric services in large hospitals; thus, there is a risk that prevention activities are not carried out.

Data management

Data management, formerly handled by the vertical programs, is currently being migrated to a centralized approach under the responsibility of the Management Information Unit (UGI). Consequently, data reporting is fragmented between the vertical and centralized streams leading to gaps and overlaps, and affecting the Global Fund programs. Specifically:

- Only the HIV and TB data reporting systems were transferred to the Management Information Unit (UGI), while the malaria system has been transferred to the Health Surveillance Unit (UVS). Furthermore, the Health Surveillance Unit (UVS) is also responsible for the data reporting that notifies of HIV infection, which should be the responsibility of the Management Information Unit (UGI). Therefore, there is a risk that data is not being compiled in a consistent way and data management issues identified might not be effectively addressed to enable efficient decision making.
- UGI, the unit responsible for management information has not appointed a responsible person to be in charge of data management at the central level. This could affect the quality and timely monitoring of data.

Agreed Management Action 1

During grant making of the new HIV and TB concept notes, the Country Team will request and approve from each Principal Recipient a comprehensive description of implementation arrangements between the selected Principal Recipients and their potential Sub-recipients (the “Implementation Mapping”). The Implementation Mapping shall include (1) a detailed description of programmatic data flows from local to central level, and (2) an organization chart with description of roles and responsibilities at the central level (Ministry of Health) of officials responsible for each disease component.

Owner:

Head, Grant Management Division

Target date: 31 December 2016

¹⁹ One of the 20 administrative regions in Honduras in charge of delivery of health services.

²⁰ Solicitud de Renovación de la Subvención, Fortaleciendo la Estrategia TAES en Honduras, Segunda Fase Enero 2014 – Junio 2016 (Proposal Phase II TB grant page 20)

1.2	National strategy for Falciparum malaria elimination
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The Global Fund grant objective aims to eliminate *Plasmodium Falciparum* malaria by 2017, but the delays in implementing the operational requirements and improving the current structure could impact the achievement of this target.

Malaria elimination is defined as the reduction to zero of the incidence of infection caused by a specified malaria parasite in a defined geographical area. Based on the new grant agreement, which came into effect in May 2015, Honduras is committed to reduce to 45% its cases of autochthonous malaria by 2017, compared with cases registered in 2014 in the national health system, and to fully eliminate *Plasmodium Falciparum* malaria by 2017.²¹ However, the observed delays in implementing the operational requirements needed for the successful implementation of the Global Fund grant may lead to the risk of non-achievement of the expected malaria control and *Plasmodium Falciparum* elimination targets for 2017.

The path towards malaria-free status is characterized by four distinct program phases which are control, pre-elimination, elimination and prevention of reintroduction. Moving from the control to the elimination phase requires a reorientation of strategies, and an emphasis on surveillance and information systems with strong case management approach.²² Assessing the readiness of the country to fully implement a comprehensive approach towards elimination was not part of the OIG objectives and scope of this audit. Still, the OIG noted that the implementation of key recommendations from the TRP in this area is ongoing and not all of the inputs are in place or have made significant progress to be implemented soon. Two main gaps exist in this regard:

- The Ministry of Health (MoH) has very low human resource capacity to address malaria from a comprehensive and interdisciplinary approach at all levels. The Ministry does not have entomologists, epidemiologists, or a person able to integrate malaria epidemiological, ecological and entomological information as requested by the strategy. There is no documentation on how to address outbreaks of malaria and there is little information and studies on *Anopheles* species (i.e. characterization, ecology, feeding behavior, sectorial capacity), which is vital for malaria elimination. In addition, the physical space allocated for entomology in the field is limited and contaminated with insecticides that impede the creation of an insectary;
- For malaria elimination, all cases need to be notified, epidemiologically investigated and centrally registered. However, the Ministry of Health mainly uses data from laboratories to report malaria cases (number of examined smears, number of positive cases etc.) that do not include epidemiological data. As primary data, malaria reporting activities use a document called M1, which is a community-based instrument filled by volunteer personnel. This is aggregated at the locality level through a Locality Information System (SISLOC) but the information is not reported and used at the national level.

²¹ See Grant Agreement for grant HND-M-CHF, Grant Number 682, Program Title: Integrated Strategy for Malaria Elimination in Honduras, 2015-2017

²² "The main objective of malaria control is reducing malaria cases and deaths by providing access to preventive methods, diagnostic testing and treatment to the entire population at risk. During the elimination phase, malaria is no longer considered to be a significant public health concern, and programmes become more focused on reducing malaria transmission in a few specific regions. At this stage, interventions focus on detecting all malaria cases, preventing onward transmission, managing malaria foci, and managing imported malaria cases." WHO, Moving from Malaria control to Malaria elimination, 2014.

The grant's detailed work plan addresses both the integration of the information system and the increasing human resource capacities by hiring two entomologists and two epidemiologists. However, the plan is currently being implemented with more than six months delay, which could impact the objective of eliminating Falciparum Malaria by the target date. These delays were not reported to the Global Fund through risk management tools as the grant started in May 2015 and no reports had been submitted to the Global Fund Secretariat.

Agreed Management Action 2

The Country Team will engage with the Principal Recipient, Technical Partners such as PAHO/WHO and the Ministry of Health to ensure that:

- the Sub-agreement between the Principal Recipient and “Unidad Administradora de Fondos de Cooperación Externa” (UAFCE) is signed by no later than 31 March 2016 and ensure timely recruitment (no later than 3 months since the signing of the sub-agreement) for the Ministry of Health key positions to address malaria elimination.
- the National Monitoring and Evaluation (M&E) Plan is updated by 31 March 2016.

Owner:

Head, Grant Management Division

Target date: 31 June 2016

02. Design and effectiveness of the internal controls over Global Fund resources

2.1	Ineffective internal controls over programs data
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Limited controls over monitoring and evaluation, and data quality are the result of inadequate risk identification processes and a non-differentiated approach requiring enough resources where needed.

Major risks related to governance, financial management and procurement are effectively mitigated by the Global Fund Secretariat through a number of internal safeguards, including the Pooled Procurement Mechanism and by the assurance mechanisms (financial reviews of LFA, PR oversight over SR) at the country level. However, risks related to program implementation, in particular monitoring and evaluation, were not effectively identified and are not sufficiently mitigated to ensure timely and accurate data management.

The lack of supportive supervision visits at all levels, absence of written procedures, and a predominantly manual data reporting system have contributed to inefficiencies and inconsistencies in data collection at all levels. This affects the accuracy and the quality of data reported by Principal Recipients. Specifically:

- There is no consistent record keeping and all data recorded included major discrepancies in counts and coding errors at all levels (from health facility to upper levels);
- One of the major hospitals, *Hospital Escuela*, has stopped using the pharmacy recording book to record all drugs dispensed without explanation and without introducing mitigating measures, which impacts the correct monitoring of treatment success rates.
- Data is reconstructed from different sources and methods without written specifications on how indicators should be recorded;
- The OIG found a major discrepancy in the number of registered TB cases counted by the Local Fund Agent in the on-site data verification exercise at the Cornelio Moncada Córdoba Hospital in Puerto Cortés;
- The Cooperative Housing Foundation (CHF) relies on the data aggregated and reported by its main sub-recipient (Ministry of Health) without conducting any independent verification at the lowest levels to ensure the accuracy of the information reported to the Global Fund.

Only 28% of the assurance controls performed by the Local Fund Agent during 2014 were related to programmatic and data monitoring reviews, while over 61% was related to financial reviews.

At the Principal Recipient level, the budget allocated to monitoring and evaluation officers for each grant represents around 10% of the total staff funded by the grants while the budget allocated for finance and administration staff is 70 %.

Agreed Management Action 3

During grant making of the new HIV and TB concept notes, the Country Team will request and approve from each Principal Recipient a detailed Monitoring and Evaluation (M&E) Plan, including but not limited to timelines, planned visits and available resources, and ensure that both grants include resources for regular M&E onsite visits as part of the M&E Plan.

In the interim, the Country Team will ensure that resources are re-allocated for at least quarterly monitoring visits to key services (quarterly reports will be submitted by the PR of the results of the visits).

Owner:

Head, Grant Management Division

Target date: 31 December 2016

Annex A: General Audit Rating Classification

<p>Highly Effective</p>	<p>No significant issues noted. Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.</p>
<p>Generally Effective</p>	<p>Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment. Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.</p>
<p>Full Plan to Become Effective</p>	<p>Multiple significant and/or (a) material issue(s) noted. However, a full SMART (Specific, Measurable, Achievable, Realistic and Time-bound) plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes.</p>
<p>Partial Plan to Become Effective</p>	<p>Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.</p>
<p>Ineffective</p>	<p>Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. No plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee.</p>

Annex B: Methodology

The Office of the Inspector General (OIG) performs its audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.