



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to Ukraine

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EXECUTIVE SUMMARY

Introduction

1. The Office of the Inspector General (OIG) carried out an audit of Global Fund grants to Ukraine, which covered all three grants totaling USD 229 million, of which USD 183 million had been disbursed from March 2004 (the date of the first disbursement) to 30 September 2010. The Principal Recipients (PRs) in Ukraine were the International HIV/AIDS Alliance (Alliance UK), the International HIV/AIDS Alliance in Ukraine (Alliance Ukraine) and the All Ukrainian Network of People Living with HIV/AIDS.

2. Ukraine has secured positive outcomes and achievements with Global Fund grants. However, the Office of the Inspector General has identified significant weaknesses in grant administration and financial management which require attention if the Global Fund's investments to secure health outcomes are to be optimized.

3. This report presents 35 High priority recommendations and 29 categorized as Significant¹ priority, which need to be implemented to address material risks to the effectiveness and value of the Global Fund's support. 11 other recommendations have been offered to management that "Require Attention" to address minor control weaknesses or non-compliance.

4. In finalizing this report, the OIG discussed conclusions and recommendations with the Global Fund Secretariat, the Country Coordinating Mechanism, Principal Recipients, as well as Development Partners in Ukraine and provided the opportunity to these stakeholders to clarify specific items and express views about the observations, conclusions and recommendations. The report has benefitted from their input.

The International HIV/AIDS Alliance in Ukraine

5. The International HIV/AIDS Alliance is a global partnership of over 30 organizations working to support community action on AIDS. The Alliance was appointed in Round 1 as a Principal Recipient under a stewardship agreement in 2004.

6. Alliance-Ukraine's grant management has scope for improvement, particularly with respect to management oversight, including the requirements on appointed and potential Sub-Recipients. The processes for selecting suppliers should be strengthened by implementing controls over the SRs when choosing suppliers, and reviewing payroll rates across sub-recipients.

7. Alliance-Ukraine's procurement function should be strengthened by: (i) consolidating procurement operations under its fully-fledged procurement department; (ii) reducing bureaucratic and cumbersome processes, specifically a reduction in the number of committees; and (iii) ensuring that good procurement practice, including the consistent use of competitive processes, is followed in identifying service providers.

8. At the time of audit, Alliance-Ukraine had contracted more than 120 Sub-Recipients, which did not facilitate easy coordination and monitoring of the delivered services by the Principal Recipient. There were instances of duplication of activities provided by different Sub-Recipients within a single city. Consolidation of activities would make it easier to coordinate and monitor the quality of service provision. However, this should not be at the expense of territorial and client coverage.

¹ Recommendations are categorized as: "High Priority", "Significant Priority" and "Requires Attention". Definitions are at paragraph 28

9. Internal audit arrangements at the Alliance-Ukraine were in need of strengthening, particularly with respect to independence, distance from operational management, and oversight.

All Ukrainian Network of People Living with HIV/AIDS

10. The All-Ukrainian Network of People Living with HIV/AIDS (the Network) was formed in 1999 by HIV-positive activists from different HIV service organizations to protect human rights, lobby for access to treatment and improve the quality of life of people living with HIV/AIDS in Ukraine.

11. Oversight arrangements to the program had scope for improvement. The organizational structure of the Network should be reviewed to ensure adequate support to the project with the Global Fund; and the duplication of managerial functions addressed. Consideration should be given to instituting internal audit arrangements.

12. Procurement regulations at the Network require strengthening to address findings related to irregular provisions for submission of bids; the ability of the procurement unit to approve and influence the composition of Tender Opening and Tender Review Committees; the absence of clarity on the correction of arithmetical errors in submitted bids; and the ability of the procurement unit to determine the composition of the Procurement Review Committee.

13. There is scope to improve the PR's financial management systems, policies and procedures. Management reports should be prepared and reviewed more frequently. The accounting software, 1C, should provide accurate and reliable information on grant activities, and needs to be updated with the necessary information. The approach of implementing salary increases based on movement in the minimum official wage should be reviewed.

14. Compliance by the Network with Global Fund grant agreements needs to be strengthened. For example, SRs should be consistently audited as required by the grant agreement. There were no internal audit arrangements in place at the time of the audit.

15. The Network had an integrated performance framework, which consisted of a number of quantitative indicators (for processes and outputs, and for outcomes and impacts) and targets to be reached by the end of each year. However, the targets set were not always formulated adequately and supported by validated assumptions. Because of this, and in light of the changing epidemiological situation, consideration should be given to reviewing the existing performance framework.

16. The Network oversees over 150 Sub-Recipients and this affected its ability to effectively co-ordinate and monitor services delivered. Cases of duplication of activities were noted by different Sub-Recipients within the same city. The consolidation of activities, but not at the expense of territorial and client coverage, would make it easier for the Principal Recipients to coordinate and monitor the quality of service provision.

Oversight

17. The OIG identified a need to increase the Government's role and participation in HIV prevention activities and to improve the coordination of different structures, with the Country Coordinating Mechanism (CCM) adopting a more proactive role when overseeing grant implementation.

18. According to the Ukrainian AIDS Centre, in July 2010 a total of 19,370 (21%) patients were receiving antiretroviral treatment. The estimated number of patients in need of ART was 92,000, which indicates that the majority of patients in need of ART did not have access to treatment. This should be addressed in the future.

19. In relation to disease-specific interventions, there is a need for increased coverage in the provision of Anti-Retroviral Treatment, reformulating the regulatory framework and strengthening the capacity for its decentralization. The Country Coordinating Mechanism needs to address the spread of HIV into the general population; and develop consensus on opiate substitution therapy, including the need to avoid delays in customs clearance of OST drugs.

20. PricewaterhouseCoopers were appointed as Local Fund Agent in Ukraine in 2003 with the first framework contract. The Local Fund Agent team had scope for increasing the involvement of procurement and/or public health monitoring and evaluation experts when conducting periodic reviews such as Progress Update and Procurement Requests and on-site data verification.

21. On-site verifications are an important mechanism in the assessment of grant implementation and the frequency and scope of these engagements are determined by the Secretariat. The OIG observed that there had been a reduction in the number of on-site data verifications carried out by the Local Fund Agent which will adversely affect the extent and quality of information on which decisions are based. Further, the Secretariat did not require the Local Fund Agent to engage specialists when conducting some important assessments, including Progress Update and Disbursement Requests and on-site data verifications. Had this been done, some of the OIG's findings may have been drawn to attention much earlier by the Local Fund Agent.

Conclusion

22. While the OIG noted a number of good practices and achievements in the management of grants, the OIG identified significant weaknesses in the internal control framework. Based on the findings in this audit, the OIG is not able to provide the Global Fund Board with reasonable assurance over the effectiveness of controls in place at the time of the audit to manage all the key risks impacting the Global Fund-supported programs and operations in Ukraine. As noted below, the PRs and CCM have shown strong commitment to take actions to mitigate the risks in grant management and to put in place controls to manage the key risks impacting Global Fund-supported programs in Ukraine.

Events Subsequent to the Audit

23. Following the OIG oral de-brief in Ukraine in November 2010 and discussions with the Global Fund Secretariat of preliminary audit findings, the Secretariat, in collaboration with national stakeholders, has developed action plans and begun to implement measures to address the findings and risks identified during the audit. These actions include:

The International HIV/AIDS Alliance in Ukraine (Alliance-Ukraine)

- (i) Alliance-Ukraine has consolidated its procurement operations based on the OIG's initial recommendations presented during the November 2010 de-brief. The LFA has conducted a review of the PR's procurement practices and submitted an assessment report to the Secretariat in July 2011. The Secretariat approved new Procurement and Supply Chain Management guidelines in September 2011.

- (ii) Revised procedures include the requirement that terms of reference and evaluation criteria for any given procurement should not be changed during the actual procurement process. Composition and quorum of the Evaluation Committee are detailed in the document, as is a specification that the committee evaluate the results of the tender in accordance with criteria clearly mentioned in the bidding documents.
- (iii) Under the Round 10 HIV grant, Alliance-Ukraine plans to rotate procurement officers. While complicated cases requiring specific knowledge will be overseen by a specific officer, others will be assigned using the rotation principle to allow staff to expand their skill sets.
- (iv) A Unique Identification Code (UIC) system was adopted by Alliance-Ukraine and the Network in 2011. This will help to avoid potential double counting of clients. The Round 10 Performance Framework reports on incremental (vs. cumulative) targets semi-annually, which will also improve the accuracy of reported results.
- (v) The Performance Framework and summary budget were revised, with added targets for Year 5.
- (vi) The Round 10 HIV grant addresses the need for increased coverage of anti-retroviral therapy, and for reformulating the regulatory framework and strengthening capacity for the decentralization of ART. The government of Ukraine has substantially increased its budget for ARV treatment in 2012.

All Ukrainian Network of People Living with HIV/AIDS

- (vii) The Network's procurement procedures and manual (including tender procedures) were reviewed in May 2011 to improve procedures and ensure compliance with Global Fund policies. The procurement unit was restructured in line with the new procedures and training on the new procedures was carried out in May 2011. Procurement was consolidated in one unit.
- (viii) Targets that required improved development were discussed in the review of the Round 6 Year 5 targets and are being addressed through Round 10 negotiations.

Oversight

- (ix) The Country Team approach for the grant portfolio in Ukraine was introduced at the Global Fund in March 2011.
- (x) The LFA team for Ukraine now has a PSM expert that meets Global Fund requirements and has been approved by the Secretariat. This expert has carried out Pharmaceutical and Health Product Management assessments for the Round 10 HIV grants. In addition, the LFA has appointed a Monitoring and Evaluation expert, who provided input to the Round 10 PR assessments. The LFA country team is considering hiring a public health professional to strengthen its capacity.
- (xi) The Secretariat has requested that the PRs analyze and review, in consultation with other stakeholders and experts, the current SR implementation arrangements and propose to the Global Fund concrete plans for increasing efficiency and streamlining the sub-granting mechanisms within GF grants.

MESSAGE FROM THE GENERAL MANAGER OF THE GLOBAL FUND



10 YEARS
OF IMPACT

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31 July, 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the audit of Global Fund grants to Ukraine.

The audit was carried out in November 2010 and covered all the three grants active at that time, totalling US\$ 229 million - of which US\$ 183 million had been disbursed from March 2004 (the date of the first disbursement) to 30 September 2010.

The audit report states that Ukraine has secured positive outcomes against HIV and AIDS. It has also identified weaknesses in the internal control framework, grant administration, financial management, and procurement which require attention.

In Ukraine, there is a large unmet demand for anti-retroviral treatment. The provision of opiate substitution therapy also needs broader involvement of the government and other stakeholders, in order to develop consensus around the intervention and avoid delays in customs clearance of drugs.

The audit also identified a need to increase the government's role and participation in HIV prevention activities with the Country Coordinating Mechanism adopting a more proactive role when overseeing grant implementation.

To address those concerns, as well as other weaknesses, the report presents 64 recommendations.

Following an oral debrief and discussions on the audit's results, in November 2010, the Global Fund Secretariat, in collaboration with national stakeholders, has developed action plans and begun to implement measures to address the findings and risks identified in Ukraine's grants.

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

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM



МІНІСТЕРСТВО ОХОРОНИ ЗДОРОВ'Я УКРАЇНИ
(МОЗ України)

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На № _____ від _____

Пану Джону Парсонсу
Генеральному інспектору
Глобального фонду для
боротьби зі СНІДом,
туберкульозом і малярією

Шановний пане Парсонс!

Від імені Координаційного механізму країни, що діє в Україні, хотів би подякувати співробітникам Офісу генерального інспектора за здійснення комплексного аудиту використання грантів Глобального фонду в Україні.

Здійснений аудит підтвердив, що Україна досягла значних успіхів у боротьбі з епідемією ВІЛ-інфекції/СНІДу. Крім того, він вказав на сфери які потребують особливої уваги з боку України для забезпечення більшої ефективності реалізації грантів Глобального фонду в Україні.

Координаційний механізм країни і Основні реципієнти ретельно вивчили зауваження та рекомендації Офісу генерального інспектора і раді повідомити, що для виконання більшості з них вже вжито необхідних заходів.

Ми тісно співпрацюватимемо з Секретаріатом Глобального фонду для вирішення будь-яких існуючих проблем.

Ми б хотіли звернути увагу на те, що з приходом Глобального фонду в Україні розпочалась боротьба з епідемією ВІЛ-інфекції/СНІДу і країна отримала унікальну можливість побудувати життєздатну систему попередження та лікування ВІЛ-інфекції/СНІДу.

Що стосується аудитів, які здійснюватимуться в Україні в майбутньому, було б чудово, якби остаточний звіт можна було б отримувати одразу після здійснення аудиту. Завдяки цьому рекомендації були б актуальнішими по відношенню до поточного стану виконання Програм, оскільки більшість рекомендацій, зроблених у існуючому звіті, було виконано ще до того, як через півтора роки після фактично здійсненого аудиту ми отримали перший проект остаточного звіту.

КМК України хотів би підтвердити свою повну готовність продовжувати співпрацю з ОГІ, Глобальним фондом і Основними реципієнтами для забезпечення ефективної реалізації грантів ГФ у нашій країні.

З повагою

Заступник Міністра,
заступник голови Національної ради
з питань протидії туберкульозу та
ВІЛ-інфекції/СНІДу

О. Толстанов

Translation from Ukrainian

**Mr. John Parsons
Inspector General
Global Fund to fight AIDS,
Tuberculosis and Malaria**

Dear Mr. Parsons,

On behalf of the Country Coordination Mechanism in Ukraine would like to thank the OIG team for the comprehensive audit undertaken of the Global Fund grants in Ukraine.

The audit recognized considerable success in Ukraine's response to HIV/AIDS epidemic. It also identifies areas for special attention, which are to be made by Ukraine to strengthen implementation of the Global Fund grants in Ukraine.

The Country Coordination Mechanism and the Principal Recipients have thoroughly considered observations and recommendations made by the Office of Inspector General and are pleased to report that necessary actions have been taken to implement most of them.

We will work closely with the Global Fund Secretariat to resolve any outstanding issues.

We would like to stress that the Global Fund's presence in Ukraine ignited the action to fight HIV/AIDS in Ukraine and gave the country unique possibility to develop sustainable system of prevention and treatment of HIV/AIDS.

Regarding the future audits to be taken in Ukraine it we would be grateful if the final draft report could be provided shortly after the audit itself, so the recommendations would be more relevant to the current state of the Programs. With the current audit most of the recommendations have already been implemented before we received the first draft of the final report one and a half year after the actual field work.

The CCM of Ukraine would like to state its full commitment to further collaboration with the OIG, the Global Fund and the Principal Recipients to ensure effective implementation of GF grants in our country.

Yours sincerely,

**O. Tolstanov
Deputy Minister of Health of Ukraine
Vice Chair of National TB and HIV/AIDS Council**

AUDIT OVERVIEW**Audit Objectives**

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

- i. Achievement of value for money from funds spent;
- ii. Accomplishment of programmatic objectives, including quality of service provision;
- iii. Compliance with Global Fund grant agreements, related policies and procedures, and relevant laws and regulations;
- iv. Safeguarding of grant assets against loss, misuse or abuse; and that
- v. Risks were effectively managed.

In undertaking this audit an important focus was to identify opportunities to strengthen grant management.

Audit Scope

25. The audit covered all three Global Fund grants to Ukraine.

Table 1: Summary of Grants

Round	Component	Grant Number	Grant amount USD	Disbursed USD
International HIV/AIDS Alliance				
1	HIV/AIDS	UKR-102-G04-H-00	97,686,078	97,686,078
International HIV/AIDS Alliance in Ukraine				
6	HIV/AIDS	UKR-607-G05-H	79,222,821	51,519,973
All Ukrainian Network of People Living with HIV/AIDS				
6	HIV/AIDS	UKR-607-G06-H	52,314,214	33,548,165
TOTAL			229,223,113	182,754,216

[Source: The Global Fund website. Disbursements as at 30 September 2010]

26. The audit covered the operations of the Principal Recipients (PRs) and their interactions with their Sub-Recipients (SRs), as well as the oversight by the Country Coordinating Mechanism (CCM), the Local Fund Agent (LFA), co-operating partners and the Global Fund Secretariat.

27. Emphasis was placed on Round 6, the active grants at the time of the audit. The Round 1 grant had ended by the time of the audit and was covered through a review of the close-out process completed in early 2010. At the time of the audit, a Round 9 grant for TB had just been approved; the audit included a review of the process followed by the CCM for development of the Round 9 proposal and selection of the PR. The audit team, which included specialists in financial management, public health, and procurement and supply management, visited 28 Sub-Recipients and five oblasts (regions) to assess grant operations.

Prioritization of Audit Recommendations

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

Audit of Global Fund Grants to Ukraine

- 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;
- 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
- Requires Attention: There is a minor control weakness or noncompliance within the system 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.

INTERNATIONAL HIV/AIDS ALLIANCE

Background

29. The International HIV/AIDS Alliance is a global partnership of organizations working to support community action on AIDS. The organization started to work in Ukraine at the end of 2000. The International HIV/AIDS Alliance-Ukraine became a separate legal entity operating as a country office in March 2003, after the Ministry of Justice of Ukraine had registered it as an international charitable foundation with the Secretariat of the International Alliance in the United Kingdom as a founder.

30. In 2007, the Alliance-Ukraine in Kiev and the Secretariat in the UK agreed to launch a transition process to change Alliance-Ukraine from a country office to an independent organization with its own separate governing bodies. The Alliance-Ukraine became an independent organization in 2009, and has remained an international charitable foundation but with modified independent governing bodies which now include citizens of Ukraine and other countries of the region.

31. The Alliance-Ukraine's mission is to reduce the spread of the HIV infection and AIDS mortality and alleviate the negative impact of the epidemic through supporting community action against HIV/AIDS in Ukraine, and disseminating effective approaches to HIV prevention and care throughout Eastern Europe and Central Asia.

32. In March 2004, International HIV/AIDS Alliance (UK) was appointed Principal Recipient by the Global Fund for Round 1 under a Stewardship Agreement for the three suspended grant components. This followed the suspension of Global Fund grants to Ukraine due to insufficient progress in the implementation of the Program and other management issues. This arrangement was for an initial period of one year, with a budget of over USD 15 million. The Alliance was subsequently approved as one of the Principal Recipients of the Round 6 HIV grant submitted by the country to the Global Fund. The Alliance-Ukraine, which is part of the PR structure, has been implementing this grant since August 2007.

33. Under Alliance stewardship, the Program resumed but faced challenging circumstances. These included country coordination, a complicated legal system and sometimes complex relationships between stakeholder organizations and the government. There were varied perceptions based on the experience of how the Global Fund work had been implemented before the grant was suspended. The implementation of the initial program and the Global Fund's decision to suspend the grant and pass stewardship to an international NGO were controversial.

34. Up to 2010, Alliance-Ukraine followed two main strategic directions, in line with the HIV/AIDS epidemic in Ukraine, and closely interrelated with the four strategic directions of the Alliance's Global Partnership:

- i. Ensuring a level of access for communities to comprehensive needs-based and high quality services sufficient to make an impact on the epidemic. This is intended to result in behavioral changes that reduce the exposure of the most vulnerable communities and improve the quality of life of HIV-positive people.
- ii. Promoting sustainable responses to the epidemic at local, national and regional levels by advocating evidence-based policies; building the capacity of HIV services in community-based and other local relevant organizations; and leveraging adequate financial resources.

35. The program supported by the Global Fund significantly contributes to the implementation of the majority of tasks included in the Ukrainian National HIV/AIDS Prevention, Treatment and Support Program, including:

- i. Ensuring access of HIV-infected adults (particularly pregnant women), adolescents and children to anti-retroviral therapy as well as prophylaxis and treatment of opportunistic infections;
- ii. Ensuring access of vulnerable population groups to targeted HIV/AIDS and sexually transmitted infection prevention measures and programs;
- iii. Introduction of information and education programs, interactive learning and skills-building technologies aimed at reducing vulnerability to HIV through educational establishments and workplace-based activities, as well as television and radio campaigns;
- iv. Creation of conditions enabling the provision of psychological, social, legal, medical and counseling services aimed at the reduction of vulnerability to HIV, as well as preventing discrimination of HIV-positive people, including labor related discrimination;
- v. Development of a National Monitoring and Evaluation system; and
- vi. The opening of nine HIV/AIDS Regional Resource Centers in Donetsk, Dnipropetrovs'k, Simferopol (Crimea Region), Ivano-Frankovsk (Western Ukraine Region), Sevastopol, Mykolaiv, Odessa (two centers) and Kiev.

36. With the goal of raising awareness and promoting tolerance of people living with HIV/AIDS, the Regional Resource Centers support information and advocacy campaigns and educational programs on HIV/AIDS issues in their regions and conduct skills-building and discussion sessions for different target groups, such as educational specialists, journalists, and staff from AIDS-service organizations. The centers aim to make HIV services more accessible and effective, unite regional NGOs and contribute to the process of experience exchange, and develop links between different segments of society (state bodies, NGOs, mass media, business, target groups of AIDS-service organizations).

Programmatic Achievements

37. The programs funded by the Global Fund are part of an overall national program. Any program achievements outlined below cannot be attributed to Global Fund alone but are the result of funding from a number of co-operating partners under the leadership of the government.

38. Opiate substitution therapy (OST) has traditionally been a controversial intervention in many countries with high HIV prevalence among injecting drug users. The Alliance-Ukraine, in conjunction with the Network, was able to launch OST in Ukraine despite resistance from many stakeholders in the country.

39. The Alliance-Ukraine introduced a Peer Driven Intervention (PDI) model for prevention programs among the most-at-risk population groups, covering most-at-risk adolescents in particular.

40. Co-operation with NGOs resulted in implementation of projects covering all stages of the education process essential for shaping safe behavior among children and youth. In addition, the Alliance-Ukraine was collaborating with the Ministry of Family, Children and Youth, the State Penitentiary Department and a range of other national and local bodies. The engagement of government and civil society by Alliance-Ukraine has strengthened Ukraine's response to HIV/AIDS over the period of the GF grants.

41. Alliance UK and Alliance-Ukraine dramatically influenced a fall in the prices of anti-retroviral drugs imported to the country. The state was procuring ARV drugs at much higher prices than Alliance-Ukraine. This triggered multiple media and social campaigns, which eventually led to a review and a remarkable decrease of state-procured drug prices.

42. The Alliance Regional Technical Support Hub for Eastern Europe and Central Asia, established to improve access for civil society organizations to high quality technical support to

scale up national and regional HIV and AIDS responses across the region, is hosted by Alliance-Ukraine.

43. The Alliance successfully initiated and scaled up ART in Ukraine from 2004-2008 by enrolling 6,080 patients on treatment. This program was successfully handed over to the Ministry of Health in Ukraine at the end of the grant.

Programmatic Challenges

44. Alliance-Ukraine is responsible for procurement of opiate substitution therapy drugs. The PR had suffered long delays in trying to import those drugs into Ukraine. Although OST is a state-run program and procured drugs are handed over to the state from the moment they arrive in country, delays in obtaining import permission had taken 6-8 months. This has had a significant impact on grant performance.

Recommendation 1 – High Priority

The CCM should seek to develop a consensus on opiate substitution therapy.

45. Alliance-Ukraine has experienced major challenges in exempting procured goods and services from taxes and duties. Despite support from the Global Fund and efforts to solve this issue, tax was still charged on certain products. For instance, in 2008 the products shown in Table 2 were not granted humanitarian aid status that would have released the purchaser from paying taxes and duties.

Table 2: Health products purchased in 2008 but not granted “Humanitarian Aid” status

Product	Origin	Obligation	Amount in UAH	Equivalent in USD
Lubricant Triesco Lube	Canada	Customs duty 6.5%	35,264.32	7,279.10
Lubricant Triesco Lube	Canada	VAT 20%	115,558.46	23,853.04
Lubricant One Touch	Thailand	Customs duty 6.5%	18,844.37	3,889.77
Lubricant One Touch	Thailand	VAT 20%	61,751.55	12,746.47
Total paid			231,418.70	47,768.38

46. During the audit, the OIG also noted a number of goods procured in 2010 that were awaiting humanitarian aid status by customs authorities:

Table 3: Health products purchased in 2010 awaiting “Humanitarian Aid” status

Products	Origin	Obligation	Value in USD
Male condoms Gusarskie Lubricated	Thailand	Customs duty 5%	26,244.00
Male condoms Gusarskie Lubricated	Thailand	Customs duty 5%	26,244.00
Total due			52,488.00

47. At the time of the audit, Alliance-Ukraine was negotiating with state authorities to release the above stock of 17.5 million condoms which covered the need for male condoms for two years.

Recommendation 2 – High Priority

PRs are strongly encouraged to ensure that goods and services procured using Global Fund grants are exempted from taxes. The Country Coordinating Mechanism should pursue efforts to obtain tax exemption for goods from the Government of Ukraine.

48. The Monitoring and Evaluation (M&E) function under the Ukrainian AIDS Centre was created in August 2009 according to a Ministry of Health Order dated 9 April 2009. Alliance-Ukraine provides technical assistance and full-time staff members for the M&E Centre. The M&E Centre's activities include monitoring medical programs, epidemiological surveillance, behavioral surveys, and support for national databases on monitoring and evaluation, and development of the regional M&E system. However, the established M&E function at the Ukrainian AIDS Centre does not have an adequate mandate or independence to assure inter-sectoral cooperation at the national level. Several interventions aimed at capacity building of the national M&E specialists were implemented under the Global Fund program; however, the M&E function has limited capacity to harmonize information flows from different health facilities (such as sexually-transmitted infection dispensaries, TB dispensaries and drug centers), or to use the data obtained to support national strategies and programs.

Recommendation 3 – High Priority

Consideration should be given to moving M&E programs and services to the new National AIDS Program with appropriate funding. A comprehensive national monitoring and evaluation plan should be developed which establishes a clear mandate for the national M&E Centre to coordinate the HIV/AIDS information flows.

Institutional capacity

Internal audit arrangements at Alliance-Ukraine are not adequate. A Senior Advisory Unit was set up to perform the role of internal audit. However, while the Unit formally reports to the Supervisory Committee, many of the activities carried out relate to advocacy, managing stakeholder relations, etc., and are supervised by the management of Alliance-Ukraine. There is a need for a greater focus on a stand-alone internal audit function. The internal audit function should report directly to the Supervisory Committee and should not participate in Alliance-Ukraine's day-to-day operations.

49. Alliance-Ukraine is controlled by two oversight bodies, the Governing Board and a Supervisory Committee. These are composed of experts working for national non-governmental and international organizations, as well as leaders in public health and corporate governance, including people directly affected by HIV.

50. The Supervisory Committee is expected to provide oversight of the governance and financial health of the organization. The Committee should also review the adequacy of the mechanisms in place to manage effectively the resources of the Alliance-Ukraine, while assessing the financial risks to Alliance-Ukraine, its beneficiaries and stakeholders.

51. The Senior Advisory Unit was created to strengthen internal and external accountability, manage organizational risks and improve compliance with donor rules and regulations. The Unit is headed by a Senior Advisor on stakeholder relations, risk management and compliance. The Unit formally reports to the Supervisory Committee and advises and supports the Executive Director and senior management team in communications and risk management. Some of the functions undertaken by this Unit, e.g., risk management are management functions.

52. The Senior Advisory Unit performed internal audit functions within the Alliance Ukraine, namely, testing of effectiveness of controls over disbursement of funds; monitoring effectiveness of internal practices and compliance of internal procedures (e.g., procurement and SRs management); and formulation and follow-up of recommendations to management on necessary improvements. However, the Unit's reporting structure was not independent, which is a risk that may impact its effectiveness in performing its oversight role.

Recommendation 4 – High Priority

The Alliance-Ukraine board should establish a stand-alone internal audit function. The internal audit function should report directly to the Supervisory Committee and should not participate in core operational activities. The Committee should perform oversight activities

such as approving the internal audit work plan, evaluating the head of the function, reviewing internal audit reports and holding management accountable for implementing internal audit recommendations.

Compliance

The OIG noted instances of non-compliance with the Global Fund's grant agreement. Alliance-Ukraine should comply with the grant conditions established and required by the Global Fund to ensure that Global Fund assets are safeguarded and used effectively.

53. According to Article 11 of the Global Fund grant agreement, any revenues earned from program activities by the Principal Recipient or Sub-Recipients, including but not limited to revenues from social marketing activities, shall be accounted for and used solely for program purposes. The OIG noted a discrepancy in the calculations of foreign exchange transactions by Alliance-Ukraine and the Local Fund Agent. The Principal Recipient considered its calculations to be correct and did not seek approval from the Secretariat before spending the funds gained from the exchange transactions. As a result, there was an apparent cash over-statement for the period from 2007 to 2009 of USD 234,000 due to the application of a modified approach by Alliance-Ukraine when calculating foreign currency exchange gains and losses.

Recommendation 5 – Priority Significant

Alliance-Ukraine should ensure compliance with Global Fund grant agreement requirements. The conditions set out in grant agreements are meant to safeguard Global Fund assets and reduce the risk to which Global Fund grants are exposed. Specifically, the PR should seek retroactive approval for funds expended without an approved work plan. Failure by the PR to comply with conditions in the grant agreement leaves the grants exposed to the risk of financial loss.

54. The grant agreement strongly encourages the Principal Recipient to ensure that expenditure using Global Fund grants are exempt from taxes and duties imposed in the host country. However, the OIG found that the PR and all SRs were paying VAT on purchases made from grant funds. Payments to the tax authorities were carried out by the PR for Round 6 for local acquisitions and imports amounting to UAH 8,275,000 (USD 1,040,000). While the organization had not paid VAT on imported products since 2009, it was paying domestic value added tax and customs duties on condoms at the rate of 5%.

55. While the OIG acknowledges that tax issues cannot be fully addressed by Alliance-Ukraine alone, failure to comply with grant requirements in this regard means that less money is available for program implementation.

Recommendation 6 – Priority Significant

Alliance-Ukraine should take immediate steps to strengthen its efforts with the Government of Ukraine to achieve tax exemption for Global Fund grant activities in accordance with grant requirements.

Financial management

In 2010, Alliance-Ukraine conducted a salary survey to justify existing salary levels. The survey drew mainly on international multi-lateral organizations and led to salary levels that were high by local standards. The survey did not consider government organizations that typically implement Global Fund programs. In Ukraine, sub-recipients such as the Ukraine AIDS Centre have been major implementers of grant programs. Since they cannot pay high levels of remuneration, the approach taken may create salary and employment distortions in the health sector, leading to the loss of skills and expertise in government institutions when skilled workers move to NGOs.

56. The OIG observed that the Principal Recipient had conducted a salary survey in 2009/2010 to provide a reference point and justification for salary levels. The survey was conducted by Ernst and Young in Ukraine and involved 15 nonprofit organizations. However, none of the organizations involved in the survey was a governmental institution.

57. The OIG was informed by the Secretariat that the organizations which were included in the survey as comparators were mainly national or international Non-Governmental Organizations (NGOs) with similar levels of program complexity, budget scale, program and professional standards, as well as human resources requirements necessary for the successful implementation of the Global Fund programs in Ukraine. The expatriates' salaries were not included in the survey data. The governmental official salaries were not included in the survey because they were considered not relevant for comparison with NGOs.

58. We consider it important for government salaries to be considered since, while their salaries may be low, they are paid other benefits that can be monetized. In addition, there is evidence that government institutions have improved their capacity to manage Global Fund grants, and have been proposed as Principal Recipient under the Round 10 HIV grant proposal. International HIV/AIDS Alliance (UK) only became a PR after initial efforts to engage the government to become a Principal Recipient were unsuccessful.

Recommendation 7 - Significant Priority

The PR should regularly monitor the market salary levels to ensure that its salaries remain reasonable and within the salaries of a similar scale.

59. The Alliance (in the UK and Ukraine) charged management fees to the Global Fund amounting to USD 2.25 million for the Round 1 grant and USD 143,000 for Round 6. In addition, the Global Fund separately paid for operational and administrative costs such as salaries, rent, etc.² During the audit, the OIG requested but was not provided with an analysis of how the management fees charged had been used.³

Recommendation 8 – High Priority

The actual use of management fees should be accounted for to the Global Fund to confirm that funds are used to support grant activities. In addition, the administrative and human resource costs budgeted and paid for separately by the Global Fund should be reviewed and reimbursed if they should reasonably have been covered by the management fees.

60. The OIG noted that for over two years under the Round 6 grant, Alliance-Ukraine maintained large amounts of grant funds in fixed deposit accounts. While the Global Fund encourages Principal Recipients to maintain funds in interest-bearing accounts, the funds should be readily available. The OIG did not see evidence that these fixed deposits gave rise to cash flow problems.

² At the time of the audit, there was a policy vacuum at the Global Fund with respect to management fees. A new policy on management fees is now in force with the Global Fund correcting the unclear situation prevailing at the time of the audit.

³ Subsequent to the audit, Alliance UK and Ukraine provided financial documentation and audit reports to support their use of the management fees.

61. Alliance-Ukraine gradually moved away from this practice and there were fewer placements observed in 2010. However, the deposit framework agreement that Alliance has had with its bankers requires the Principal Recipient, after placing a fixed deposit, to provide five working days’ notice in case the deposit is to be withdrawn prior to its maturity date. Under this arrangement, funds are not immediately accessible by Alliance-Ukraine.

Table 4: Summary of deposits placed by Alliance-Ukraine during 2007-2009

Start date	End date	Amount USD	Interest received, USD	Duration days	Rate %
29.10.2007	30.10.2007	2,000,000	167	1	3
30.10.2007	30.11.2007	2,000,000	5,167	31	3
30.11.2007	10.12.2007	2,000,000	1,528	10	2.75
13.12.2007	19.12.2007	1,500,000	688	6	2.75
19.12.2007	25.12.2007	1,000,000	458	6	2.75
26.12.2007	09.01.2008	1,724,943	1,845	14	2.75
14.01.2008	21.01.2008	1,000,000	583	7	3
14.02.2008	21.02.2008	791,778	308	7	2
28.02.2008	11.03.2008	792,086	528	12	2
14.03.2008	21.03.2008	792,614	231	7	1.5
24.03.2008	31.03.2008	792,845	308	7	2
04.04.2008	14.04.2008	793,153	330	10	1.5
17.04.2008	05.05.2008	4,082,286	4,082	18	2
24.11.2008	15.12.2008	2,700,000	1,811	21	1.15
16.12.2008	25.12.2008	3,000,000	188	9	0.25
25.12.2008	26.01.2009	3,000,000	2,000	32	0.75
28.12.2009	11.01.2010	8,050,000	689	14	0.22

[Source: Framework deposit agreement concluded with Calyon Bank Ukraine on 22 Oct 2007]

Recommendation 9 – Priority Significant

Grant funds should remain readily accessible by the Alliance-Ukraine. While grant funds should be kept in interest-bearing bank accounts, priority should always be given to program implementation. The OIG recommends the use of overnight deposits to avoid potential delays in accessing funds for operational activities.

Sub-Recipient management

Alliance-Ukraine requires additional development in the area of grant management to effectively continue its role as PR. The grant agreement with SRs should be reviewed and changed to protect SRs against currency risks that may arise during implementation of the programs. Alliance-Ukraine should execute stricter control over the expenditures of its SRs, and introduce the value for money concept into the program with the Global Fund. Rationalization of the number of sub-recipients would reduce administrative workload and improve the efficiency and quality of services. It would help reduce excessive administrative expenses as a proportion of programmatic expenses.

62. The OIG observed that there had been delays in the disbursement of grants to SRs. In some instances, the delays in disbursing funds exceeded one month, which is a risk affecting timely implementation of the programs according to the agreed work plans. This delay in disbursements was also raised by NGO representatives to the CCM. The PR explained that it had to do its due diligence and thus provided a month’s buffer to ensure that program implementation was not affected by delays. A few examples of significant delays (above 20 days) in the disbursement of funds to SRs are listed below.

Table 5: Grant disbursement delays to SRs

Name of SR	Amount in UAH	Request date	Payment date	Delay days	Delay after buffer period
CO Ukrainian Institute of Public Health Policy Research	456,041	26.04.2010	19.05.2010	23	9
Odessa Charitable Fund "The Way Home"	665,019	15.04.2010	21.05.2010	36	2
Odessa Charitable Fund "The Way Home"	792,322	21.01.2010	19.02.2010	29	1
Donetsk oblast charitable fund Oberig	312,857	15.04.2010	21.05.2010	36	10
NGO Soyuz Amicus	427,974	13.05.2010	02.06.2010	20	7
Charitable foundation "Hope and Salvation"	299,864	06.08.2010	30.08.2010	24	2
Charitable foundation "Hope and Salvation"	453,335	05.02.2010	03.03.2010	26	4
Public organization "Youth Centre for Women's Initiative"	28,631	23.01.2009	13.03.2009	49	21

Recommendation 10 – High Priority

Delay in disbursements to sub-recipients should be avoided to ensure timely implementation of planned activities.

63. The OIG noted that proposals from SRs did not contain information on whether the SR received funding from other donors/charity programs, or the amounts assigned for administrative purposes. (For example, operating expenses might be financed by other donors.)

64. In addition, the proposals submitted for consideration were insufficiently documented to effectively evaluate a sub-recipient's control environment and program management capacity.

Recommendation 11 – High Priority

(i) *The procedure for submitting proposals should require sub-recipients to provide information on funds received from other donors, to minimize the risk of double financing of similar activities. In addition, Alliance-Ukraine should explore the possibility of a mutual exchange of information about sub-recipients with other donors.*

(ii) *Additional information at the point of appraisal and selection of SRs should be requested. Such information might include the relevant accounting policies in use; financial statements (balance sheet, income statement); certificates from tax authorities; current staff lists; copies of current grant agreements with other donors; bank certificates with balances and cash inflows for the previous year; certificates from the bank to confirm outstanding liabilities on loans and other obligations; verification of fixed assets at the end of the month preceding the submission of the proposal; and letters of recommendation from other donors.*

65. Sub-Recipients carry out procurement of goods and services using grant funds, yet the procurement capacity of potential SRs had not been examined by Alliance-Ukraine at the time of SR selection. This can lead to difficulties during program implementation. The OIG noted the following weaknesses in SRs' procurement operations:

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- i. Instances where the chronology of procurement activities was not consistent, for example where the payment date preceded the date of decision on tendering. For example, the agreement date preceded the protocol date in the "Way to Home" grant agreement 51-GF-10 dated 20.10.2009, involving the purchase of medical goods from Hippocrates Ltd for UAH 12,428;
- ii. Supporting documents that were not dated e.g. the Donetsk oblast's charitable fund;
- iii. Suppliers' proposals that were not stamped or signed, thereby providing no evidence that the proposals had been properly obtained from the suppliers concerned (NGO Eney Club, grant agreement number 01-GF-09 dated 10.10.2008, protocol 18-Nov-2008 for the tender of a monitor purchase).
- iv. The rejection of some proposals without written explanation or reasons (CO "Ukrainian Institute of Public Health Policy Research", grant agreement number 128-GF-10 dated 01.10.2009, with a tender for the organization of seminars). Good procurement practice requires that rejection of proposals is justified and documented.
- v. An absence of evidence of competitive selection of suppliers, which means that the SRs may not have obtained best value for money in the procurement of goods and services. The PR should obtain and review, as part of its periodic reviews, the processes employed by PRs in procuring program inputs. Examples are listed in the table below.

Table 6: Examples of SRs not selecting suppliers using competitive methods.

SR Name	GA Ref	Description	Amount (UAH)
NGO Soyuz Amicus	Number 95-GF-10	Purchase of medicines	7,018
NGO Eney Club	Number 01-GF-09	Purchase of used syringes utilizers	
CF "Hope and Salvation"	Number 119-GF-10	Purchase of medical supplies from entrepreneur Andrey Hulenok	27,825
CF "Hope and Salvation"	Number 119-GF-10	Training	
CF "Hope and Salvation"	Number 119-GF-10	Purchase of drugs from private enterprise Olkar Farm Servis	19,350
CF "Hope and Salvation"		Purchase of medical supplies from PE Alanar	40,728
CF "Hope and Salvation"	Number 119-GF-10	Purchase of air-conditioning system for "Bogdan" bus	23,900
CF "Hope and Salvation"		Purchase of hygienic supplies from PE New technology	27,384
Odessa CF "The Way Home"	Number 51-GF-10	Purchase of foods and personal hygiene products	20,161
Total			161,366

USD1 = UAH 7.99

Recommendation 12 – High Priority

The procurement capacity of Sub-Recipients should be evaluated by the Principal Recipient prior to the appointment of SRs. Further, SR procedures for the selection of suppliers should be improved to ensure appropriate controls and consistent practice, such as the use of competitive bidding on the basis of standard forms with appropriate supporting data.

66. The OIG noted that although budgeted, some expenses incurred at SR level did not represent economical use of resources. A review of accountabilities cleared by the PR revealed some expenses that should have been questioned as part of the PR's review of SR accountabilities. There was no evidence on record that this happened. The review by the PR

should be documented to evidence any concerns they may have about accountabilities and how these have been resolved. The following expenditures were identified:

- i. High rates for hotels⁴;
- ii. Use of luxury rather than standard class seats in trains⁵;
- iii. High rent for an office in the center of Kiev⁶;
- iv. Purchase of large amounts of office consumables (such as printer cartridges), office equipment, stationery, and renovation of premises;
- v. Miscellaneous poorly justified purchases⁷.

Recommendation 13 – High Priority

Alliance-Ukraine should align the agreements with its SRs. The PR should strengthen the rigor of its review of SR expenses to minimize unjustified or uneconomical use of grant funds. The agreement should incorporate measures that the PR will enforce in cases where funds are ineligible, unsupported and/or do not represent value for money.

67. A review of supporting documentation provided by SRs to the PR showed that insufficient documentation by SRs to PRs for clearance of accountabilities. For certain expenditures, SRs maintained insufficient basic documentation to evidence that a transaction happened. In consequence the OIG was unable to provide assurance that the expenditure had been properly incurred on grant activities. The PR explained that these documents were available at SR offices. However, without such documentation at PR level, it remains unclear how the PR reviewed and cleared these accountabilities. Some examples were as follows:

- i. Absence of confirmation of actual expenses incurred by private service providers after they provided services (in particular consulting services) to SRs. For example, the NGO Soyuz Amicus, in sub-grant agreement number 95-GF-10 dated 12 October 2009 regarding a seminar in Donetsk held on 16-17 March 2010. For this seminar, an advance of UAH 8,350 (approx. USD 1,045) was obtained. However, only UAH 5,350 (approx. USD 670) were accounted for, leaving an unaccounted for balance of UAH 3,000 (approx. USD 375).
- ii. Lack of appropriately detailed reports from suppliers of delivered services or work (in particular training and workshops). Under sub-grant agreement number 51-GF-10 dated 20 October 2009, a company known as Eridan had provided marketing services amounting to UAH 40,800 (approx. USD 5,106) although there were no reports to indicate and confirm the outcomes of the services provided. In addition, consultancy services provided by PE Maister and PE Bezugliy were not supported by any reports.
- iii. In sub-grant agreement number 128-GF-10 dated 1 October 2009, consulting services provided by Pryb, Skalko, Sylvanovych were not supported by detailed reports or other documentation such as questionnaires. Although the contractors indicated that they had taken trips to consult third parties, the audit did not identify any supporting evidence such as signed confirmations from those consulted.

Recommendation 14 – Priority Significant

SRs should be required to provide reports on services rendered with a clear indication of the scope of services or hours spent applicable for any consultancy services. Controls should be

⁴ UAH 900 instead of UAH 500-600 under sub-grant agreement number 127-GF-10 dated 21.09.2009 for a hotel in Donetsk.

⁵ 1st class railway ticket from Dnipropetrovs'k to Kiev at a cost of UAH 500 under sub-grant agreement number 127-GF-10 dated 21.09.2009.

⁶ UAH 500/USD 62 for 1 sq. meter under sub-grant agreement number 128-GF-10 dated 01.10.2009

⁷ Three laptops and a boat by the NGO “Eney Club” under grant agreement number 01-GF-09 dated 10.10.2008.

strengthened by enforcing the requirement for timely and accurate invoicing which is consistent with detailed reports on services provided by external consultants.

68. Alliance-Ukraine did not have a policy on budget reallocations by SRs. Requests for budget reallocations by SRs were approved by a single staff member at the Principal Recipient – normally the Program Officer. The sub-grant agreement provided guidance on reallocations.

69. The OIG observed that SRs often requested reallocation of initial budgets between different budget lines, such as infrastructure, equipment, etc. (For example under agreement number 72-GF-08 dated 15.10.2007 and agreement number 127-GF-10 dated 21.09.2009, concluded with Ukrainian AIDS Center).

70. Many reallocations were observed under grant agreement number 72-GF-08 dated 15 October 2007. Funds had been reallocated to train employees in Governmental procurement, which was not associated with the program activities. The legal requirement that SR staff have procurement certification was an institutional obligation and, unless budgeted, should not have been paid from program funds. There were also many budget reallocations noted related to the purchase of computer and office equipment.

71. Requests for reallocation were approved by a single individual from Alliance-Ukraine without any second approval from the Finance Department or another appropriate department, e.g., requests 1326 and 337 under grant reference 99_GF. No detailed policy had been established for the processing of reallocation approvals. Budgets should normally be realistic and approved by appropriately authorized officials of the Principal Recipient. After reallocation, budgets should remain realistic and consistent with program targets.

72. For instance, as regards the non-governmental organization “Eney Club” (grant agreement number 01-GF-09 dated 10.10.2008), renovation of an apartment in Bratislavka Street had been made at a cost of UAH 105,000 using reallocated funds. Although some quotations were available, competitive tendering procedures had not been used and the OIG was unable to verify why additional funding was allocated for the renovation when it should have been covered under the rental charges since the obligation to renovate was the responsibility of the owner.

Recommendation 15 – High Priority

Given the frequency of budget reallocations, the related procedures should be reviewed and a detailed policy developed to ensure that all reallocations are properly justified and evidenced. Budget reallocation at the PR should be approved by a program officer with the additional confirmation of a finance officer.

73. Although Alliance-Ukraine uses a computerized accounting system (1C), grant records identifying the name of the SR, details of the grant agreement, the region, name and execution dates of the project, amounts disbursed, returned and reported were maintained in MS Excel spreadsheets. Excel was also used for budgeting purposes. The spreadsheets were not protected and were thus susceptible to unauthorized changes. In consequence, the maintenance of records in spreadsheets did not provide an adequate level of information security and control, and was exposed to the risk of error and manipulation.

Recommendation 16 – Priority Significant

The use of Excel should be reduced and limited to support processes where no alternative systems are available. Key information should be maintained in a more reliable management information system. A computerized system for management accounting would facilitate (i) more restricted access to sensitive information; (ii) an audit trail for transactions; (iii) reconciliation of information in accounts and other functions, such as procurement and grant management; (iv) improved assurance on the completeness and accuracy of information; (v) the generation of

timely analytical reports to support better-informed decision making; and (vi) enhanced data security via backups.

74. The PR does not effectively link the programmatic and financial performance achieved by SRs. Program Officers are not required to review financial reports in order to understand the amount of funds spent to achieve the targets. Financial Officers do not assess the programmatic reports and do not evaluate the cost of program implementation. This represents a missed opportunity for improved decision making based on known unit costs of running the programs and informed conclusions on the SRs performance prior to grant disbursements.

Recommendation 17 - Priority Significant

The OIG considers that it is important to establish a link between the programmatic reports and financial reports so that the Global Fund can obtain assurance that it is getting value for money from its investment. It is especially important for the PR to analyze performance based on programmatic and financial reports after the reporting period and before the next disbursement to SRs.

75. According to paragraph 1.4 of the grant agreement signed with SRs, the PR has a right to unilaterally change (increase or decrease) the grant amount in accordance with a pre-determined method of calculation of foreign currency movements against the Ukrainian Hryvnia over the grant period.

76. While SRs expenses are in local currency and so should not be affected by currency fluctuations, the Ukrainian Hryvnia is not a stable currency and has depreciated in the recent past. As a result, SRs have received more funds than initially planned and required for the program. By contrast, if the currency appreciates in the future, SRs could experience insufficient resources for program activities because of budget shortfall, and would then be compelled to ask for additional funds. In the long run, SRs bearing currency risks can have negative effects on program implementation, since many do not have the capacity to absorb exchange losses.

77. During field visits, the OIG identified differences between budgeted and actual expenses related to currency fluctuations, where the grant agreement in the national currency of Ukraine was determined by recalculating the amount of expenses denominated in US dollars at the applicable exchange rate for the date of the agreement; and the actual utilization of grant funds was controlled against expenses expressed in US dollars at the exchange rate on the date of receipt of the next tranche of financing.

Recommendation 18 – Priority Significant

The PR should revise the grant agreement with its SRs. Budgets should be denominated in local currency in order to protect SRs against currency risks that may arise during implementation of the programs. The SR budget should be derived from translating the respective USD denominated budget at the applicable exchange rate at the date of grant signature.

78. The OIG noted that internal PR review of SR financial reports needs significant strengthening. The financial reports submitted by SRs were not checked by financial officers of the PR but reviewed only by the audit company contracted for this. The financial team relied on the auditors without additional internal controls to oversee the SRs' financial performance. The Finance Department was responsible for financial monitoring but in fact only the Chief Accountant's reports and their implementation was monitored. While the PR explained that they undertook additional monitoring of SRs, there was no documented evidence of this at the time of the audit.

79. In field visits, the OIG observed that the Sub-Recipient Public Movement "Faith, Love, Hope" prepared quarterly reports on expenditure incurred under the grant agreement. The form of the report did not provide for aggregated data for each type of expense over the full period of the project. The OIG was therefore unable to verify actual charges against plans for each type of expenditure. According to the reports, all planned activities were fully carried out.

80. The OIG concluded that at the time of the audit the PR's monitoring of the financial transactions by SRs was not sufficient to fully safeguard the Global Fund's resources. The PR has reported and is commended for putting in place measures to strengthen their review of financial transactions. However, the OIG has not reviewed and thus cannot comment on the effectiveness of processes put in place.

Procurement and supply management

Overview

Procurement and supply chain management arrangements at Alliance-Ukraine had scope for improvement. Procurement activities were undertaken throughout the organization despite the availability of a dedicated procurement unit. Alliance-Ukraine had several committees responsible for different stages of the procurement process. Some of these committees were composed of members who were not employed by Alliance-Ukraine. While this might have been intended to improve transparency, audit findings pointed to the contrary. The OIG identified instances where high value advance payments had been made with no performance guarantees in place, and where contract conditions were not being adhered to.

81. The OIG noted that all departments in Alliance-Ukraine conducted their own procurement operations and therefore examined procurements managed by several departments/units. Along with the Procurement Department, numerous other departments, including monitoring and evaluation, administrative units and others were actively engaged in procurement management. While procuring services for program needs, these departments administered the full purchasing cycle, including identifying needs, advertising, evaluation and contract management. Each department used its own approach and judgment for the procurement of goods, works or services.

82. The procurement unit was not engaged in procurement of non-health goods or services, even though this area accounted for a considerable portion of grant resources.

Recommendation 19 - High Priority

All procurement of goods, works and services should be conducted by the Procurement Department. Full specifications or terms of reference should be forwarded to the Procurement Department with the formal request for procurement. It is the responsibility of the requestor to prepare specifications in accordance with relevant standards to permit the widest possible competition. The Procurement Department should screen the proposed specifications or terms of reference to confirm compliance with procurement guidelines and decide on the method of procurement in accordance with relevant procurement requirements and regulations.

PSM oversight and structures in place

83. The OIG found that the procurement management processes, systems and procedures in the Alliance-Ukraine office were bureaucratic and cumbersome, and did not necessarily result in the appropriate level of transparency, integrity and efficiency in the procurement process. The OIG identified many weaknesses in the procurement process.

84. For the procurement of goods and services, the Principal Recipient had convened numerous committees at different times and for different purposes:

Table 7: List of procurement committees at Alliance-Ukraine

Committee	Role/responsibility
Local Purchasing Committee	An internal Alliance-Ukraine committee assigned to review purchases up to a certain threshold.
Bid Opening Committee	The committee responsible for the opening of bids.
Procurement Review Committee	A committee established to evaluate bids, also referred to as the Procurement Committee.
Qualification Committee	A committee established to undertake a pre-qualification assessment where required.
Specification Review Committee	A committee established to review and approve the final list of products to be procured based on technical specifications.
Technical Review Sub-Committee	A sub-committee of the Procurement Review Committee tasked to verify bid compliance with technical specifications.

85. Evaluation committees were composed of at least one representative of the PR staff members, and other stakeholders (NGOs or partners) were invited once the need for a meeting emerged.

86. Decisions that are made collectively seldom hold anyone adequately accountable. The format of evaluation protocols and minutes did not clearly explain the rationale behind decisions made by the committee and did not clarify reasons for the rejection of bids or award of contracts. In many instances, the reasons for decisions made by the committees (sometimes questionable based on verbal justifications shared with the OIG) were not documented by the respective committees in their protocols, dossiers or minutes.

87. Moreover, the OIG found that some committees went beyond their mandate. As an example, the Specification Review Committee had recommended that exact quantities of drugs required should be excluded from bidding documents and, as a result, left the required quantities unknown to bidders. In adopting this recommendation, Alliance-Ukraine failed to question the decision and did not restrict the committee to its core function, which was the review of specifications.

Recommendation 20 – High Priority

- (i) There should be a single evaluation committee for all tenders that Alliance-Ukraine conducts under the framework of Global Fund projects. The committee should consist principally of procurement officers, budget holders/requestors of goods or services and, optionally, independent technical experts (not more than one for each tender) who may be invited in case of critical need.*
- (ii) Evaluation protocols, minutes or dossiers should contain a full description of the procurement cycle as well as the reasons for rejecting bids or awarding contracts. The opinion of technical experts, if any, should be properly documented, signed and annexed as an integral part of the evaluation protocol.*
- (iii) The Principal Recipient should refrain from convening committees which could take over the functions of previous committees (other than an evaluation committee).*

88. Alliance-Ukraine employs a team of procurement officers that is mainly involved in purchasing health products and related services. The OIG noted that Alliance-Ukraine did not rotate its procurement staff and did not engage procurement officers in the purchasing of varying types of goods. Assignments to procure certain type of products tended to come to officers who had procured those items before and were believed to be familiar with the challenges and peculiarities of that particular type of request.

Recommendation 21 - Priority Significant

The procurement department should consider rotating its staff to further increase the capacity and experience of procurement officers. This would broaden an individual's knowledge of other functions and departments in the organization; develop individual careers; maximize an individual's exposure to customers by moving him or her into positions that require customer interaction; act as a tool for motivating/challenging an individual who has been on a job for a long time; and assist in the cross-training of team members.

Procurement operations

89. The Principal Recipient advertises its tenders, including international competitions, for non-health products and services on its own web site. The OIG noted that there was a low level of participation in tenders for non-health products and services, with only single participants in most cases. The audit revealed that the system and method of procurement can have a major influence on the level of interest and participation achieved in competitive procurements.

Recommendation 22 – High Priority

The Principal Recipient should announce major tenders for non-health products and services in well-known and free international arenas, such as UN Development Business, a practice already followed by the Procurement Department in the purchase of health products.

90. As part of its audit, the OIG reviewed a sample of procurement transactions exceeding USD 50,000 in contract value i.e. 76 major procurement processes managed by procurement unit, 8 major procurement processes managed by administrative unit and 11 major procurement processes managed by monitoring and evaluation unit with the following findings.

91. Procurement of STI drugs: Following advice by the Specification Review Committee to omit mention of the exact quantities of drugs required under bids being requested, the PR asked bidders to provide only unit prices for drugs. However, an indication of the exact quantities of drugs required would help potential bidders to assess their capacity and estimate best value prices to offer. Failure to indicate the quantities of products required in bid proposals could result in unnecessary re-tendering later if bidders underestimate their capacity to deliver; and may lead to higher prices than necessary because potential contractors fail to offer volume discounts.

92. According to Alliance-Ukraine management, the exact quantities of drugs requested by the Ministry of Health was not provided, although Alliance is expected to know the quantities of products under procurement and has its own forecast of quantities in work and procurement plans, along with budgets and targets.

93. The OIG also noted that contracts with companies VVS, Alba and Optima Pharm, for a total value of USD 230,000, envisaged a delivery period of seven days following a 50% advance payment. All three companies incurred considerable delays in delivering the contracted drugs. The OIG found that no penalty had been collected for delays in delivery, although penalties were clearly identified in the contracts concerned.

Recommendation 23 – High Priority

The PR should clearly specify quantities in requests for bids to allow potential suppliers to offer their best prices and avoid potential complications. Where contractors fail to meet their obligations, the Principal Recipient should invoke penalty clauses to ensure that the Global Fund does not pay unnecessarily for service or products not delivered to time.

94. Procurement of Mobile Clinics: Due to lack of alternative funds for the procurement of turn-key mobile clinics, Alliance-Ukraine decided to procure vehicles and later equip them with basic medical and related equipment. Basing its decision on budget availability, the Specifications Review Committee drafted specifications for vehicles which were smaller than needed and inadequate to serve as mobile clinics. These specifications were applied to the bidding documents and announced for open tender. After offers were received, the PR registered the lowest-priced bid which met the specifications.

95. The evaluation committee made a decision to reject the lowest-priced compliant bid and award the contract to a bidder offering larger vehicles at a higher price. No explanation was recorded for this decision. The OIG was informed that the reason for this decision had been the need to procure bigger, more appropriate vehicles for mobile clinics within the available budget.

96. In fact, the PR had not advertised the need for different or larger vehicles and therefore the OIG was unable to confirm that the price eventually paid for vehicles represented the best value that the PR could obtain in the circumstances. The value of this contract was approx. USD 500,000.

97. The OIG found that in procuring equipment/furniture for these vehicles, the Principal Recipient had subsequently considered offers from three companies all registered at the same address but not dealing with sales and warranty services for medical equipment such as gynecological armchairs, medical refrigerators and other items in the offer. The OIG visited Cherkassy where these companies were based and noted that all three companies were situated within one building located in front of a factory producing vehicles previously procured by the PR.

98. Given these circumstances, the OIG considered that there was a risk that these companies were registered by the same or related individuals, operating to present a quorum of 3 bids required for certain public tenders conducted by the state or other purchasers. The OIG was unable to obtain sufficient audit assurance that the price paid for medical equipment/furniture represented best value for money.

Recommendation 24 – High Priority

- (i) The Principal Recipient should ensure accurate budgeting and specification of needs in tender documents; and the related procurement evaluation processes and records of the decisions taken should provide clear evidence of the reasons supporting the rejection of bids and the award of contracts in all cases of competitive tendering. Unless adequately justified to the contrary in the evaluation process, the PR should normally award contracts to the lowest price offered so as to ensure best value from Global Fund resources.*
- (ii) The PR should conduct due diligence or market research on potential contractors to confirm the credentials of the companies before contracts are awarded.*

99. Procurement of condoms: A tender for the procurement of condoms with a value of some USD 600,000 was advertised in major international media and required 30 days for delivery following award of contract. The OIG noted that the Principal Recipient had not included price as one of the evaluation criteria for this tender. The PR explained that this had been considered obvious and unnecessary, although the OIG noted that in other similar tenders, the PR had clearly mentioned price as a main criterion in the evaluation of bids.

100. The delivery requirement of 30 days advertised in the media produced no compliant proposals and bids actually submitted to the PR offered 40-120 days for delivery. The evaluation committee made a decision to award the contract to a bidder who had proposed 40 days for delivery.

101. The advertising of an apparently unrealistic delivery period was likely to have discouraged potential bidders thus limiting the choices available to Alliance-Ukraine. In addition, the omission of price as an evaluation criterion may have led to higher priced bids, or poorer value than might otherwise have been obtained. Given these circumstances, the OIG was unable to provide a reasonable level of assurance that best value for money was obtained under this contract.

Recommendation 25 – High Priority

Going forward, the Principal Recipient should ensure realistic delivery requirements and inform the market of all evaluation criteria, with price being among the critical decisive factors in the evaluation of bids.

102. Procurement of spirit wipes through competitive bidding: The OIG noted that the advertisement for the purchase of spirit wipes valued at approximately USD 230,000 had not laid down in advance any formal date and time for the opening of tenders but promised that these details would be “communicated later” to the potential suppliers submitting bids. Further, only the delivery period for a first consignment had been specified in the bidding requirements (an approach which presents risks and which may not ensure best prices from bidders over the entirety of the contract requirement).

103. According to Alliance-Ukraine, New Year holidays had affected the arrangements and it had not been possible to convene a tender opening committee at that time, since the deadline for submission of bids was 29 December.

Recommendation 26 – High Priority

The PR should apply consistent procedures for tender opening within a short time of the deadline for submission of bids, and should clearly publicize these in the tender documents. Where advertised arrangements cannot be adhered to, all prospective contractors submitting tenders should be notified accordingly.

104. Local purchase of spirit wipes: The OIG reviewed a further purchase of spirit wipes in which the Principal Recipient (by inviting companies to quote for a portion of overall requirements) had organized a local purchase contract valued at more than USD 75,000, even though the established limit for local purchasing was USD 50,000. One of the unsuccessful quotations registered in the PR’s evaluation records as having a higher price than that against which the contract was awarded, could not be located for audit.

Recommendation 27 – High Priority

The PR should ensure that local purchase requirements and thresholds stipulated in its procurement regulations or standard operating procedures are observed and should maintain a fully-documented purchasing record with supporting documents for audit purposes.

105. Procurement of syringes, legal services and survey services without adequate contract conditions: The OIG noted that while procuring syringes in 2009 valued at more than USD 870,000, Alliance-Ukraine had not included key conditions of contract in the tender requirements. In fact the bidders did not know what they would be signing if they were successful. The contract was eventually awarded to a local company for a quantity of products which was significantly higher than that advertised.

106. In the tendered procurement of legal services worth some USD 140,000, audit services worth USD 9,000/month and survey services worth USD 72,000, organized by different departments in Alliance-Ukraine, the audit found that conditions of contract had been omitted from the tender requirements and documentation notified to bidders. Conditions of contracts were drafted retrospectively, based on negotiations with the successful contractors, after the tendering process was over. In the procurement of survey services, Alliance-Ukraine made an advance payment of 80% of the contract value without obtaining a bank guarantee.

107. Failure to establish contractual conditions in advance of competitive tendering is not in line with good procurement practice, and gives rise to significant avoidable risks:

- i. The risk that a successful bidder may subsequently refuse to sign a contract on the terms required, with consequent waste of the Principal Recipient’s time and effort. This can lead to significant delay, inefficiency, wasted resources and poor value for money.
- ii. The risk of paying unnecessarily high prices or being subject to other unwanted conditions, since following selection and commitment to a contractor, the PR is in a poor bargaining position to secure the terms and conditions it requires.

- iii. The risk of poor value for money and potential legal action, since an unsuccessful bidder could claim it would have provided a lower and more advantageous bid if it had known of the contract conditions in advance.
- iv. The risk of a lower response rate, since additional suppliers might have submitted better offers if the market had been informed of the conditions of contract.
- v. The risk of poor value for money where product quantities are changed after selection of a contractor and prices have therefore not been subject to open competition.

Recommendation 28 – High Priority

The Principal Recipient should include required conditions of contract in the bidding documents for all tendered procurements and provide those to all potential bidders. The PR should not change the quantity of products in the contract after selection of a supplier, unless these changes were envisaged in the bidding documents and communicated equally to each potential bidder before bid submissions. The PR should avoid making unnecessary advance payments to contractors.

108. Contracting for technical assistance: The Principal Recipient had posted an advertisement on its web site for the procurement of technical assistance. Only one company responded. The OIG noted that the timeframe as advertised for the required delivery of services (25 July 2009) was significantly shorter than that which was subsequently agreed in the final contract (31 October 2009). Changes to key contract terms after selection of the supplier (particularly related to stringent timelines) present the risk that potential suppliers may have been unnecessarily discouraged from submitting bids on more stringent requirements; a risk of unethical contract management by either party (for example by the discouragement or exclusion of potential competition); and the risk of the supplier acquiring undue influence once selected

Recommendation 29 – High Priority

To ensure good financial management and ethical procurement practice, when requesting technical assistance or the provision of any services or goods, the Principal Recipient should advertise realistic time-frames and other conditions and not vary these after the selection of contractors.

109. The OIG noted that while formal procurement processes were in place, areas were noted where processes could be strengthened further in order to strengthen the control environment within which program-related procurement took place. Management should ensure that there are no lapses in compliance with laid down procedures.

Public Health

110. Both the All-Ukrainian Network of People Living with HIV/AIDS and the International HIV/AIDS Alliance in Ukraine have been influential in the media and publications to increase people's knowledge on HIV/AIDS. To raise public awareness on HIV/AIDS, a series of public events involving celebrity concerts and public marathons were organized. However, limited progress has been achieved to reduce stigma and discrimination towards people living with HIV/AIDS. Limited resource allocations for prevention services at the national level undermine the effective implementation of prevention programs.

111. Alliance-Ukraine has worked successfully at the national level as an advocate for government support in the implementation of opiate substitution therapy, including methadone therapy, as an effective and proven method of HIV prevention among injecting drug users. However, expansion of substitution therapy programs remains a challenge at national and Principal Recipient level. Currently only 5,552 injecting drug users are receiving methadone- and buprenorphine-based substitution therapy under the Global Fund-supported program, compared to a national need of approx. 60,000.

112. Substitution therapy is unavailable in penitentiary settings. Challenges associated with the regulatory framework hinder the implementation of the program in prisons. Prison authorities remain reluctant to scale up the coverage of opiate substitution therapy in prisons and both penitentiary settings and drug centers lack trained personnel and the relevant infrastructure for OST provision.

Recommendation 30 – High Priority

The Country Coordinating Mechanism should consider increasing efforts to scale up the provision of opiate substitution therapy through the involvement of Government, the Global Fund, UNAIDS and other stakeholders to achieve greater impact on the epidemic. The Alliance-Ukraine should focus on training mechanisms for medical practitioners involved in OST provision. The PR should also consider further information initiatives to promote the significance and value of OST with prison authorities.

113. In recent years HIV prevention activities have improved among the general population. Currently, prevention activities mainly include basic HIV education for schoolchildren but not to a full extent for other specific population groups such as young people, uniformed services, migrants and refugees. From an epidemiological perspective, military personnel⁸ constitute a serious risk group, yet this group has not been included in prevention programs, which may create additional risks associated with the further spread of the epidemic.

114. Prevention programs should also focus on increasing people's knowledge about sexual transmission, which can result in beneficial behavioral change. Sexual behavior among the general population and among young people is of interest in many countries, since the promotion of safer sex is at the core of HIV prevention programs. An insufficient level of prevention programs aimed at raising public awareness on sexual behavior among the general population may have had an impact on the recent trends of increasing rates of HIV infection through sexual transmission. HIV transmission through sexual means surpassed parental transmission in 2009. Information on behavior is critical for assessing changes over time as a result of prevention efforts.

Recommendation 31 – High Priority

There is a need to develop and introduce prevention interventions focused on discrete groups of young people, such as youth in rural areas, employed youth and youth living in hostels. Alliance-Ukraine should also consider the value of a pilot project aimed at developing a new system on HIV prevention in the armed forces of Ukraine, focusing mainly on HIV prevention activities and safe behavior. The PR should engage and cooperate closely with the Ministry of Defense as a partner in program implementation.

115. The HIV epidemic remains concentrated among the most at-risk population groups, which include injecting drug users, commercial sex workers, men who have sex with men, adolescents and prisoners. These at-risk groups are still not addressed adequately at the national level, due to difficulties related to legislation and insufficient interaction among relevant ministries and state agencies.

Recommendation 32 – High Priority

There is an increasing need to review HIV/AIDS-related legislation to ensure that it addresses epidemiology findings in Ukraine.

116. Under the Global Fund grant program since 2004, the International HIV/AIDS Alliance in Ukraine expanded its prevention programs targeted at specific groups. For harm reduction programs, the Alliance engaged civil society participation. The most significant progress was made in scaling up services for injecting drug users, which resulted in a decrease of the number of HIV positive IDUs in 2009.

⁸ UNAIDS Case Study on "HIV/STI Prevention and Care Activities in Military and Peacekeeping Settings in Ukraine", February 2004

117. As of June 2010, prevention services were being provided to 169,514 injecting drug users. According to survey results in 2009, the estimated number of IDUs was between 230,000 and 360,000; and prevention services were being provided by SRs in many regions of Ukraine, with programs focused on regions of higher prevalence rates and in larger cities. Coverage of injecting drug users remained limited outside the larger regions.

Recommendation 33 - Priority Significant

Alliance-Ukraine should consider the viability of extending its coverage of injecting drug users to the country's smaller regions in the long term.

118. At the beginning of grant implementation, prevention services had included educational information, counseling by a social worker, and distribution of syringes, condoms and other preventative materials. Under the syringe exchange program, used syringes collected by SRs within harm reduction programs had not been kept in secure conditions, and the issue of their destruction had not been resolved at the time of the OIG audit.

Recommendation 34 - Priority Significant

Alliance-Ukraine should initiate contact and negotiation with government authorities about medical waste management (syringes and other material) in order to push forward the development and application of a policy on disposal of used syringes.

119. From 2007, harm reduction services provided by the Alliance-Ukraine were integrated with voluntary counseling and testing, and referral for treatment for HIV and sexually transmitted infections. Prevention services were integrated with mobile clinics intended to bring medical services to clients who never or only reluctantly access such services.

120. There was some improvement of grant performance in terms of the provision of screening tests for sexually transmitted infections to the vulnerable population. Coverage of only 50% had been assured at the beginning of the intervention, while by the end of the program some 102% of the target had been achieved. However, the OIG observed that there were no data available on the outcome of tests and relevant counseling.

121. The table below shows that the target for the number of counseling and treatment courses for sexually-transmitted infections received by people from vulnerable groups was not met by Alliance-Ukraine, with only 23% achieved. The need for STI treatment had been overestimated among vulnerable groups. This suggests that the baseline data were not reliable.

Table 8: Grant performance on STI testing, counseling and treatment from 2008-2009

Indicator	Target Period 5	Result P5 Jan-June 2008	Target P6	Result P6 Jul-Dec 2008	Target P8	Result P8 Apr-July 2009
Number of STI screening tests provided to vulnerable groups	32,600	16,294 (50%)	93,215	71,508 (77%)	153,830	154,163 (102%)
Number of STI counseling and treatment courses received by people from vulnerable groups	8,056	0 (0%)	23,130	3,031 (13%)	38,206	8,652 (23%)

Recommendation 35 – High Priority

The PR should review whether appropriate targets have been set relative to universal access to prevention, paying special attention to the quality of prevention services. Prevalence surveys should be initiated and targets reviewed in light of the outcomes of these surveys, to

ensure the realism of targets. Target setting should also consider related work undertaken by other stakeholders and donors.

122. As a matter of good practice, Alliance-Ukraine introduced a Peer-Driven Intervention model (PDI) for prevention programs among the most at-risk population groups. Most-at-risk adolescents were covered by harm reduction services through the PDI model but unfortunately the program did not envisage the collection of statistical data on adolescent injecting drug users.

123. Despite the challenges outlined, the program supported by the Global Fund grant contributed to decreasing the HIV infection rates among injecting drug users as evidenced by statistical data.

Recommendation 36 - Priority Significant

The OIG recommends the inclusion of an indicator on HIV prevention among adolescent IDUs as part of the current program (to be addressed in Round 10); and also consider the need to obtain information to monitor trends in behavior and target appropriate prevention interventions.

124. Alliance-Ukraine exceeded its targets for prevention services to commercial sex workers, men who have sex with men, and prisoners, covering a total of, and individuals respectively at June 2010. Nevertheless, the overall need for prevention services aimed at these groups as well as adolescents remains unmet. In 2009, the estimated size of the individuals was:

	Population in need	Clients served	Percentage
Female sex worker population	63,000-93,000	25,518	33%
Men having sex with men	95,000-213,000	14,907	10%
Prisoner population	145,000	29,012	20%

125. The number of prisoners reached with prevention services after release from prison was unknown. Special attention should be paid to program orientation to life outside the penitentiary setting. Specifically, adolescents and young people should have an opportunity to acquire useful social skills to help them adjust to their new life beyond the prison. This should include communication skills and constructive problem solving. Such interventions need the support of local municipal health and social organizations. The epidemic situation in penitentiary settings is influenced to a great extent by the situation of the epidemic in the relevant regions.

Recommendation 37 - Priority Significant

Consideration should be given to the creation of enduring service chains to work with those who are at risk of HIV infection when they leave prison, and which can engage with both civil society and penitentiary settings. HIV/AIDS-related training and testing should be pursued with prison authorities. While working with prisoners, the staff within the penitentiary settings, as well as social and health workers outside the penitentiary settings should use the same methods and approaches for prevention services. This would ensure consistency in the type of prevention services after prisoners are released.

Monitoring and Evaluation

126. Alliance-Ukraine has a monitoring and evaluation (M&E) unit responsible for collecting, analyzing and disseminating information related to the results obtained through program implementation. There is an established system for the monitoring and evaluation of services provided within the program. Data on outcome and impact indicators (changes in knowledge, behavior and epidemiological status) are obtained at national level through Second Generation

Surveillance (SGS) studies. According to its work plan, Alliance-Ukraine supports the SGS studies in partnership with the Ukrainian AIDS Centre and national research institutions, under the guidance of UNAIDS.

127. The M&E team of Alliance-Ukraine has developed a Program Monitoring and Evaluation Practical Manual, which describes the methodology and procedures for programmatic monitoring and evaluation to be implemented by the Principal Recipient. This includes practical recommendations on the development of M&E systems for programs directed at HIV/AIDS prevention among the most-at-risk population groups and for care and support for people living with HIV/AIDS.

128. Furthermore, the Alliance-Ukraine performance framework consists of a number of quantitative indicators (outcome/impact indicators and process/output indicators) and sets out targets to be reached by the end of a given period. However, the targets established were not always formulated adequately and supported with validated assumptions. For example, the planned target for counseling and treatment for sexually transmitted infections was in excess of the level needed. In addition, given the fact that the epidemiological situation is changing, there is a need to regularly review existing performance frameworks.

Recommendation 38 – Priority Significant

The Principal Recipient should consider the provision of continuous capacity-building training for its M&E specialists in order to improve planning and program development based on M&E data received from different health facilities.

129. Principal Recipients routinely collect data on services provided by the SRs and analyze progress against targets. However, the appropriateness of targets is not always clear. For example, in prevention services for injecting drug users, Alliance-Ukraine exceeded the planned targets by 140%, although there was some risk of inaccuracy in the supporting data.

Table 9: Grant performance under prevention programs from 2009-2010

Indicator	Target for Period 10	Result Aug-Dec 2009 Period 10	Target for Period 12	Result Jan-June 2010 Period 12
Injecting drug users reached by HIV/AIDS prevention programs	207,000	266,666 (129%)	220,000	308,878 (140%)
Number and percentage of sex workers reached by HIV/AIDS prevention programs	38,400	45,729 (119%)	44,000	51,559 (117%)
Number of men having sex with men reached by prevention programs	22,000	28,881 (131%)	25,000	33,660 (135%)

Recommendation 39 – High Priority

Given the importance of data integrity, the Principal Recipient should consider commissioning an audit of the quality of data and data reporting. Representatives from government should be included in the teams conducting monitoring visits of Sub-Recipients. This may facilitate validation of reported performance indicators.

Evaluation of the quality of service

130. Special emphasis is needed to monitor the quality of services delivered in line with appropriate service quality standards. In the area of treatment, there are official standards in the form of protocols which are applied in medical facilities. However, Ukraine still lacks appropriate service quality standards for HIV/AIDS prevention, care and support services.

131. In the absence of national service quality standards for prevention, care and support, the monitoring of service quality is achieved through monitoring visits to the sub-recipients carried out by Principal Recipients. Currently, Alliance-Ukraine has contracted over 120 sub-recipients and is unable to assure effective coordination and monitoring of the delivered services. The OIG identified cases of duplication of activities being provided by different sub-recipients within the same city. For example, the OIG observed cases where similar activities were being carried out by different SRs under the prevention programs in Cherkassy, Kryvyi Rih and Ordzhonikidze. Some consolidation of activities (although not at the expense of territorial and client coverage) would make it easier for the Principal Recipient to effectively co-ordinate and monitor the quality of service provision.

Recommendation 40 – High Priority

Monitoring of the quality of services delivered should be strengthened and should involve government officials in monitoring visits to sub-recipients. The OIG considers that there would be merit in rationalizing the number of sub-recipients without compromising territorial and client coverage.

HIV/TB collaboration

132. TB is the leading opportunistic infection associated with AIDS morbidity and mortality. This situation is affected by low overall ART coverage, late referral for TB treatment of people living with HIV/AIDS and a lack of preventative TB treatment, as well as insufficient interaction and coordination between relevant specialists. In 2009, TB/HIV mortality in the country was estimated at 5.5 per 100,000 of the population. People living with HIV/AIDS have only limited access to integrated services, including TB treatment.

133. A system of integrated services was established under national programs and the Global Fund Round 6 grant, which contributed to the quality of medical services, particularly for those vulnerable to HIV, TB and sexually-transmitted infection. In March 2010, a Round 9 tuberculosis proposal for reducing the tuberculosis burden in Ukraine through expanding and enhancing high quality TB services was approved by the Global Fund.

Prevention of mother-to-child transmission

134. In 2009, surveillance data in maternity hospitals showed that prevalence of HIV among pregnant women in Ukraine was 0.55% (3,234), the highest of any country in Europe. The highest incidence of HIV-positive pregnant women was observed in five regions of Ukraine: 1.59% in the Kiev oblast; 1.28% in Mykolaiv oblast; 1.12% in Dnipropetrovs'k oblast; 1.03% in Kirovograd oblast; and 0.93% in the Odessa oblast. The prevention of mother-to-child transmission is the only prevention program in the country that provides almost universal coverage for its target group. Despite the increasing rate of HIV prevalence among pregnant women, their coverage with antiretroviral therapy is gradually increasing, and in 2009 reached almost 95%.

135. The program for the prevention of mother-to-child transmission resulted in a reduction of the vertical transmission rate from 27.8% in 2001 to 6.2% in 2007. A comprehensive approach was applied to achieve this success through: The implementation of rapid HIV tests in all maternity hospitals; expansion of the scope of early HIV diagnosis of newborns by DNA polymerase chain reaction; the introduction of antiretroviral therapy as the most effective regimen of vertical transmission prevention; and secure artificial feeding of infants born to HIV-positive mothers.

ALL UKRAINIAN NETWORK OF PEOPLE LIVING WITH HIV/AIDS

Background

136. The All-Ukrainian Network of People Living with HIV/AIDS (Network) was formed in 1999 by HIV-positive activists from different HIV service organizations in order to protect human rights, lobby for access to treatment and improve the quality of life of people living with HIV/AIDS in Ukraine. The organization was registered in the Ministry of Justice of Ukraine in May 2001.

137. The Network received the International Red Ribbon award for its achievements in fighting HIV/AIDS at the XVI International HIV/AIDS Conference in Toronto in 2006. The organization was acknowledged as an active participant in the area of combating HIV/AIDS-related stigma and discrimination.

138. In the Global Fund's Round 1 grant, the Network acted as a Sub-Recipient to Alliance-Ukraine. Under Round 6, the Network became a second Principal Recipient of Global Fund grant support. At the time of signing the agreement with the Global Fund, the Network had no procurement expertise and opted to purchase drugs through its former PR, Alliance-Ukraine.

139. At the time of the audit the Network had 40 offices in all regions of Ukraine, with more than 500 members and over 400 employees. It provided services to over 20,000 clients and had 146 sub-recipients, all NGOs. The Network had established 19 affiliates in Kiev, 16 regions and in the Autonomous Republic of Crimea.

140. The overall goal of the program supported by the Global Fund is to reduce HIV transmission and HIV-related morbidity and mortality in Ukraine through interventions focused on the most at-risk populations. The key objectives of the grant are:

- i. To scale up comprehensive HIV care and treatment and ensure equitable access for injecting drug users and other vulnerable populations;
- ii. To expand access to comprehensive adherence counseling, psychological and social support, and care for people living with HIV/AIDS; and
- iii. To create a supportive environment for a sustainable and sufficient response to HIV/AIDS in Ukraine through advocacy.

Programmatic Achievements and Challenges

141. The Network had to evolve rapidly to be in a position to manage financing from the Global Fund and expand its grant projects within the territory of Ukraine.

142. The organization faced the task of establishing the necessary administrative processes and an adequate organizational structure, and attracting additional qualified specialists at the Headquarters in Kiev and at the organization's affiliates. Grant procedures were put in place and procedures for selecting Sub-Recipients were established effectively.

143. The Network changed its central warehouse in 2010. While visiting the PR's current central warehouse, the OIG noted that it corresponded to the market's best standards, with temperature monitoring and control; and security and air conditioning in the warehouse being properly controlled by the contractor company (Falbi).

Institutional capacity

The oversight arrangements at the Network need to be strengthened. The organizational structure of the Network should be reviewed and improved to ensure that arrangements are adequate for the management of grant funds and program implementation, and that duplication of managerial functions is avoided. There were no independent internal audit arrangements in place.

144. The OIG found that the organizational structure of the Network was initially insufficient to ensure proper governance and oversight over the program activities supported by the Global Fund. Starting from May 2010, the staff lists of the All-Ukrainian Network provide for two chief executive positions in the organization, a Head of the Coordination Council and an Executive Director. The Head of the Coordination Council carries out representative functions with the authorities and the Executive Director controls administrative processes at the Headquarters of the organization.

145. At the same time, there is a full-time Advisor on Social and Political Issues, who is mainly engaged in de facto representation of the organization as is the Head of the Coordination Council. A Deputy Executive Director/Director of the Operational and Administrative Department primarily deals with administration issues of the office.

146. There are four departments: an Operational and Administrative Department, a Program Department, a Communication, Policy and Advocacy Department, and a Treatment and Procurement Department. The Operational and Administrative Department consists of four units: a Finance Management Unit, Accounting Unit, Human Resources Unit, and a Training and Logistics Unit. The Finance Unit is headed by a Finance Director, and the Accounting Unit by a Chief Accountant.

147. At the time of the audit there were only three external members on the Supervisory Board, one of which is a donor to the Network (which is in compliance with the Statute of the Network). After examining the minutes of the Supervisory Board, the OIG concluded that most of the recorded minutes merely approved the annual reports on the Network's activity and discussed some advocacy activities. There was no evidence that the Supervisory Board had provided an effective oversight function over the Network's senior management. There was no evidence to show that the Board had been involved in oversight activities such as review of sub-granting approval for larger value activities; approval of transactions involving senior management; setting policies to govern operations; carrying out scheduled oversight visits to program areas; or holding senior management accountable on a regular basis. Management confirmed that the gaps identified would be addressed by assigning them to the Coordination Council of the Network.

Recommendation 41 – High Priority

- (i) Independent oversight by the Supervisory Board could be strengthened by appointing experts from wider civil society and private sector organizations, to provide the organization with better balance, independence and experience in providing oversight and governance over the Network.*
- (ii) It is advisable to streamline senior management responsibilities to avoid duplication of effort. The organizational structure should be reviewed to provide more adequate governance and to ensure oversight over program implementation.*

148. There was no independent internal audit function operating at the Network. The internal auditors checked the financial reports submitted by SRs and reported directly to the Finance Director. The internal auditors did not review administrative issues.

Recommendation 42 – Priority High

Internal audit should not participate in the day to day running of the organization and should report to the Supervisory Board rather than the Finance Director. It is advisable to establish a stand-alone, independent internal audit function to provide oversight of the financial and grant management of the organization in both financial and programmatic aspects.

149. The grant proposal provided for the establishment of Social Entrepreneurship. This was implemented by investing grant funds in the Development Center for Social Entrepreneurship (98% owned by the Network). A number of revenue-generating projects had been initiated by the Network through three grant agreements with the Development Center of Social Entrepreneurship, including the establishment of a café, car wash, parquet trading activities, and the leasing of a pond with a term of 20 years (the only remaining project). The total funding for these projects amounted to UAH 900,000 (approximately USD 113,000). However, in part due to the economic crisis in Ukraine in 2009, the café, parquet trading and car wash activities were terminated.

150. Such projects would be expected to generate income; this was not the case for this social enterprise. The OIG noted that projects were regularly stopped after a certain period of time and the company had been accumulating losses each year, with about half of its capital used up. The initial evaluation of the merits of these business projects appeared to be poor.

Recommendation 43 – Priority Significant

The initial evaluation of business projects carried out by the Network under Global Fund grant support is important; all proposed projects should be carefully analyzed and planned prior to implementation.

Compliance

The OIG audit revealed some instances of non-compliance by the Network with the Global Fund's grant agreements. The Network should comply consistently with all grant conditions to ensure proper stewardship of Global Fund assets and reduce exposure of Global Fund resources to unnecessary financial risk.

151. According to Article 13 of the agreement concluded between the Global Fund and the Network, the Principal Recipient shall ensure that annual audits of the revenues and expenditures of each sub-recipient of grant funds are carried out. The external audit of the sub-recipients should be undertaken by the Network on an annual basis if the amount sub-granted exceeds USD 50,000. However, prior to 2009, no sub-recipient audits were carried out on recipients who exceeded the threshold. The PR explained that subsequent to 2009, SR audits had been undertaken for all SRs that met the threshold; however, the OIG did not see documentary evidence to substantiate this.

152. Expenditure related to 2008 for 33 SRs was audited in 2009 (representing 59% of the total disbursed grants). Seventy-nine SRs were not audited despite meeting the USD 50,000 threshold. SRs that were funded by both the Network and the International HIV/AIDS Alliance were audited by the Alliance's auditor. There is a strong possibility that weaknesses at sub-recipient level will not be identified by the Network, leading to a risk of poor performance.

Recommendation 44 – High Priority

Going forward, the Network should increase its coverage of sub-recipients audited. This may be achieved using external resources, as has been the case, or by recruiting an internal team of auditors if outsourcing proves to be less economical.

153. The Global Fund strongly encourages PRs to obtain tax exemption status for goods and services procured using grant funds. Nonetheless, the Principal Recipient paid VAT on a regular basis within Ukraine. VAT payments were made to the tax authorities when medical supplies, e.g., test kits, were bought from the IDA HIV/AIDS Group; and in relation to consulting services acquired from WRC and Curatio International Consulting Ltd. At the time of the audit, the total amount of grant-related VAT paid by the Network between 2007 and 2010 was about UAH 1,330,000 (approx. USD 166,000).

Recommendation 45 – High Priority

The Network is strongly encouraged to obtain tax exemption status on the purchases of goods and services made from Global Fund grants. The PR should raise the issue with other NGOs and with the Country Coordinating Mechanism and seek a refund for itself and its sub-recipients through agreed arrangements with the responsible government authority. In the meantime, the amounts of VAT and other taxes paid should be monitored by the PR as well as by SRs to ensure full reclaim of all tax paid.

Financial management

In general, there is scope for improvement of the Principal Recipient's financial management. Management reports need to be prepared and reviewed more frequently. The accounting software, 1C, needs to be updated regularly with information. Currently it may fail to provide accurate and reliable information on grant activities. The application of salary increases based on changes in the minimum official wage should be revised.

154. The OIG concluded that the management reporting arrangements of the Network were not adequate. Reporting was undertaken only to meet Global Fund requirements (i.e., on a semi-annual basis) and was not part of management's periodic oversight of its program activities. Budget forecasting and monitoring of expenditure was carried out using Excel spreadsheets jointly prepared with narratives by programmatic and financial teams, approved by the Finance Director. No on-going reports were prepared to support monitoring of the progress of grant performance.

Recommendation 46 – High Priority

Senior management should review reports more frequently, on a monthly or at least quarterly basis, in order to properly monitor program implementation. Regular monitoring can assist in identifying and resolving variances in performance on a timely basis.

155. In the migration of accounting data to Version 8 of the accounting software, 1C, the opening balance of the grant was not entered accurately for Financial Year 2010. The accounting system is only able to provide data on the structure of donors starting from 2010. The commitments according to the grant agreements concluded in Financial Year 2010 (Year 4) had not been recorded in the accounting system at the time of the audit. In consequence, important accounting data needed for adherence to the grant agreement were not updated in the system.

Recommendation 47 – High Priority

- (i) There is a need to improve data reliability in the accounting system which is currently prejudiced by the inaccurate migration of closing balances and the incompleteness of the opening balance in the new version of the PR's 1C software. The shortcomings in data migration need to be rectified. The accounting system needs to be updated according to the existing detailed plan and commitments under*

the agreements concluded in 2010 should be added into the accounting system. It is advisable to improve the management accounting functionality in the 1C accounting software.

- (ii) *There is a need for the Network to contract or hire qualified IT personnel who are in a position to provide professional services, including the proper and complete migration of systems and data.*

156. Microsoft Excel spreadsheet software was being used for budgeting and reporting. The accounting management of grants is also carried out using Excel; the table with grant information is updated manually. This practice always carries the risk of error, miscalculation, omission of control sums, incomplete data exports and the lack of efficient reconciliations. Management accounting under Excel requires regular reconciliation to ensure reliability and accuracy. During the audit, the OIG noted that figures in grant tables had not been updated correctly. For example, the OIG identified a large discrepancy in the recorded figures in the initial table (UAH 3,146,060.54) and the updated table (UAH 4,516,335.53) relating to a Sub-recipient, Chas Zhyttya Plus (grant agreement 096-GF-09).

Recommendation 48 – Priority Significant

Management accounting records based on spreadsheets in Excel should be regularly checked and reconciled. The control reports should be generated by the applicable systems and used to compare systems with each other. The spreadsheets should be security protected to minimize the risk of unauthorized access and manipulation.

157. The OIG noted that lease payments made by the Principal Recipient were above market rates for comparable premises. According to the lease agreement, the direct monthly payment to the lessor, PE VILEX, in the amount of UAH 174,370.05 included the lease (at UAH 156,607.61 for 908.10 square meters) and other services (at UAH 17,762.44). Communal expenses on energy, water supply, heating and security were paid separately by the Network.

158. The lease agreement re-signed on 10 September 2010 stipulated a price for one square meter of UAH 172, although in audit enquiries by the OIG, the same lessor quoted UAH 150 per square meter for the same premises. In addition, communal services amounting to UAH 17,762.44 were not supported by invoices from the service providers and were considered by the OIG to be overvalued.

159. The OIG's review of the rental agreement identified provision for heating mentioned twice and inconsistently⁹. The Network claimed that negotiations with the lessor had been initiated and that new agreement conditions would reduce the lease cost to UAH 136 per square meter, with an additional rate for additional services at UAH 13.26 per square meter. There is therefore a risk of overstatement of rental expenses and other services under the existing contract.

Recommendation 49 – Requires Attention

The Network should seek to re-negotiate the price of the lease and associated services with the lessor at realistic current market rates, with a view to signing an additional agreement to the lease agreement. The potential annual saving to the Global Fund could be in the order of some UAH 360 000 (USD 48,000).

⁹ Appendix 3 of the agreement provides for payment for heating costs on the basis of invoices, while yet Appendix 6 stipulates the cost of the heating at UAH 11.10 per square meter (equivalent to UAH 10,079.91 per month).

160. The OIG reviewed staff salary rates at the All-Ukrainian Network from 2005 to 2010 and carried out a trend analysis. The salary rates increased sharply in September 2007, and the organization's payroll bill climbed from UAH 197,000 (USD 25,000) to UAH 527,000 (USD 66,000) in just one month, with the same number of employees (66). In October 2010, the wage bill was UAH 1,144,000 (USD 144,000) for 84 employees.

161. The PR explained that that assignment and payment of salaries in the organization was at all times performed according to internal procedures. The first pay rise was associated with the beginning of the process of implementation of the Round 6 grant and significant increases in employees' workload. The second pay rise was based on the company's employee performance assessment which had not been conducted since 2008. The PR justified that there was a saving between budgeted and actual payroll costs. This creates a risk that the salary rates of employees are based on available financing rather than work load or performance indicators. It remains questionable that an increase in salaries by 164% is justified even when workload increases, unless the workforce has been working at less than 100% full-time equivalency.

162. Salary increases at the Network were based on two economic indicators: the minimum official wage in Ukraine and the UAH/USD exchange rate. The minimum official wage in Ukraine was subject to change each month. The Network chose to apply the percentage change in the minimum wage to the total salary of employees for the previous month. Between January 2009 and June 2010, the salaries for all headquarters staff were not fixed in UAH but were based on the current exchange rate of USD/UAH, with the difference paid in the form of a bonus. Starting from July 2010, salaries were fixed against an exchange rate of 7.89.

Recommendation 50 – Priority Significant

Linking salary increases to adjustments in the minimum official wage is not provided for under Ukrainian legislation and is not justifiable on a cost-effectiveness basis. The Principal Recipient should devise and introduce a transparent system of salary rate increases based on employee performance in accordance with their functions. The OIG recommends reviewing the salary rates of all staff and revising them in line with the current market situation in Ukraine.

163. The Network allocates overhead expenses to the organization's various donors. According to the PR's internal policies, the allocation formula for expenses attributable to the specific donor is calculated as the number of programmatic employees engaged in the donor's project divided by the total number of programmatic employees. The PR pays overhead expenses from a consolidated administrative account for all donors whose forecast expenses exceed USD 20,000 a year. The time of program staff is allocated to projects based on time sheets at the end of each month. The OIG noted that the allocation rate used for the Global Fund-supported programs in relation to cross-cutting staff was 100%. However, such staff also carried out work on programs funded by other donors (for example, the Network Head).

164. The table below shows the time worked by some managerial staff allocated to the Global Fund at the rate of 100% (full time commitment). In addition, many regular employees are also accorded a 100% allocation rate in relation to the Global Fund.

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Table 10: Work time of managerial staff allocated to the Global Fund at the rate of 100% (full time commitment)

Period	Administrative expenses charged to the GF	Administrative expenses charged to other projects	Total	Work time of managerial staff allocated to the GF at 100%
September 2008	79.70%	20.30% (5 projects)	100%	Procurement and Treatment Director, Consultant on Social and Political Issues, Consultant on External Policy and Advocacy, Head of Monitoring and Evaluation Unit, Head of Program Grant Management Unit and heads of other units.
September 2009	82.10%	17.90% (4 projects)	100%	Program Department Director, Procurement and Treatment Director, Consultant on Social and Political Issues, Finance Director, Head of Monitoring and Evaluation Unit, Head of Program Grant Management Unit and heads of other units.
September 2010	90.44%	9.56% (2 projects)	100%	Head of Coordination Council, Program Department Director, Communication, Policy and Advocacy Department Director, Finance Director, Head of Monitoring and Evaluation Unit, Head of Program Grant Management Unit and heads of other units.

[Source: Management accounting of the Network]

165. In 2010 the budgeted allocation rate for Global Fund grants was set at 79%, although the actual allocation rate ranged between 81.85% and 90.44%, since more employees were engaged on the Global Fund-supported projects. The total administrative budget for nine months of 2010 in the amount of UAH 5,137 000 (approx. USD 643,000) compared with actual performance in the amount of UAH 4,884 000 (approx. USD 611,000) did not indicate budget over-run. However, the administrative budget of the Global Fund demonstrated a budget over-run of UAH 114 000 (approx. USD 14,300).

Recommendation 51 – Requires Attention

- (i) *The Network is engaged in projects not supported by the Global Fund. The allocation of key personnel to the Global Fund grant at 100% should be reviewed and revised as appropriate.*
- (ii) *The actual allocation of administrative expenses should not exceed the budgeted allocation amount defined for the program with the Global Fund.*

166. The OIG reviewed the PR's budget for administrative expenses, which was generally categorized between office-wide non-staff costs and office-wide staff costs. Office-wide non-staff costs were further classified into office-based costs and professional service costs. The management accounting of allocated administrative expenses did not follow this classification, and did not distinguish professional service costs, which were included in

other office expenses. In fact, these expenses contained different consulting services, such as fees for computer, legal and accounting consultancy. The budget lines established were not monitored and were sometimes exceeded.

Recommendation 52 – Requires Attention

Other office expenses should be classified in accordance with the categorization provided in the administrative budget for legal fees, accounting fees, organization-wide consulting fees, computer consulting fees and other professional services' costs. As a rule, such costs can be material and should be monitored carefully in order not to exceed the approved budget levels.

167. In 2007-2008, transactions in UAH were translated into US dollars at the National Bank of Ukraine exchange rate for the date of disbursement from the PR's current account. From 2009, a "first in first out" method was applied, valuing transactions at the exchange rate on the last date of sale of foreign currency. According to the PR's on-going Progress Update and Disbursement Requests, the Network's cash balance amounted to USD 1,510,846.06 for the period ended 31 December 2008 and USD 1,326,294.11 for the period beginning 1 January 2009. This presented a discrepancy in the balance of unused funds in the amount of USD 184,551.95.

168. The Network's method of translating operational transactions from UAH to US dollars implies that the amount of financing in US dollars is sold at a certain commercial exchange rate and the equivalent amount in the national currency is obtained. Then the first amount disbursed in UAH is recorded and closed at the same commercial exchange rate, rather than recording disbursements at the actual exchange rate obtained. The OIG noted that balances at the junction of two reporting periods require additional adjustment because of interest accrued on deposits.

169. A weighted average rate is calculated and used to record values in the Local Fund Agent's report for pharmaceuticals acquired by SRs in US dollars. The amounts concerned were not material, but the OIG noted that different methods had been applied for the calculation of the average weighted rate in Quarters 7 and 8.

Recommendation 53 – Requires Attention

The OIG considers that the "first in, first out" method is a reasonable approach, relevant for reports provided on a cash basis. However, the calculation is performed manually in Excel spreadsheets, which involves complex computations to follow each amount in US dollars, which should be closed by different disbursements in UAH in full. In the OIG's view, such calculations can be carried out more reliably using accounting software such as 1C, as is done in commercial enterprises. A consistent approach should be followed for currency translations by the PR and in procurement transactions by the SRs.

Sub-Recipient management

The Principal Recipient requires improved linkage between financial and programmatic reports to help assess overall program performance. Existing procedures for selecting sub-recipients should be consistently applied.

170. The OIG noted a number of cases in which Sub-Recipients did not follow the terms of conduct for the purchase of goods and services. The OIG identified cases in which service providers for staff accommodation had been selected solely on the basis of room availability which would only be reasonable if there were shortages in hotel accommodation. However, under grant agreement number 73-GF-08 concluded with ACO Chas Zhyttia Plus, the successful tender for services valued at UAH 3,666 was a hotel (Intourist-Zaporizhzhya) offering the highest price for rooms at a cost of UAH 611 compared with other tenders at UAH 180 and UAH 330 (Tender Protocol number 09 dated 18.05.09).

171. The OIG identified cases in which potential suppliers had submitted proposals that included ranges of products different to those specified, and in which the dates of invoices did not meet those required by the invitations; cases in which proposals were dated after the date of tender (Ukrainian AIDS Center, grant agreement number 87-GF-09); and instances in which proposals from potential suppliers comprised no more than price lists without dates, seals or signatures (e.g., stationery purchased by ACO "Chas Zhyttia Plus" under grant agreement number 96-GF-09).

Recommendation 54 – Priority Significant

Sub-Recipient arrangements for the selection of suppliers should be reviewed and strengthened in line with standardized procurement procedures. The Principal Recipient should execute more effective control of and oversight over the conduct of tendering arrangements by SRs.

172. Different departments at the Network prepared programmatic and financial reports. The performance of Sub-Recipients was not monitored in such a way as to assess the relationship between program indicators and funds spent. While the achievement of results suggests that operations are effective, it is difficult to assess the efficiency of grant operations unless the analysis can assess the relationship between inputs and outputs. It is therefore important that a link is established between the programmatic and financial reports, so that the Global Fund can obtain assurance that it receives value for money from its investment.

Recommendation 55 – Requires Attention

The programmatic and financial reviews of SRs performance should be linked. In order for the Principal Recipient to meet the goals agreed with Global Fund, it is important that the PR checks that SRs have used disbursements in line with agreed work plans and are on target towards achieving the overall objectives of the grant. These checks will also ensure that the SRs' financial and programmatic mechanisms are clearly identified and strengthened on a timely basis. The PR should strive to match grant performance by SRs with disbursements made to ensure compliance with the grant agreement.

Public Health

173. In August 2004, a large-scale introduction of antiretroviral therapy for HIV/AIDS patients in Ukraine began within the framework of Global Fund grant support. The ART program aims to provide universal access to prevention, treatment, care and support related to HIV infection. The ART program in Ukraine envisages methodical provision of ARV drugs for the treatment of HIV infection in all regions of the country, based on WHO

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recommendations and the establishment of adequate laboratory monitoring of HIV infection.

174. However, there has been little progress in terms of reaching national targets. According to the Ukrainian AIDS Centre, by July 2010 a total of 19,370 (21%) patients were receiving antiretroviral treatment compared to an estimated number of patients in need of 92,000. The majority of patients in need of ART did not have access to treatment at the time of the audit.

175. By June 2010, the number of adults with advanced HIV infection receiving ART under the Global Fund program was estimated at 2,740 patients, or 98% of the program target. However, the coverage remained inadequate, as the number of patients in need of advanced treatment had been increasing faster than the number of new patients on ART.

Recommendation 56 – Priority Significant

- (i) *Decentralization of treatment is needed to achieve more effective and higher quality ART provision. In addition, the development of a regulatory framework and the implementation of organizational or structural changes will be needed.*
- (ii) *There is a need to give greater focus to integrated care packages (for HIV-infected TB and viral hepatitis patients), while ensuring attention to infection control in health facilities. The Country Coordinating Mechanism should make an effort to scale up ART provision through greater involvement of Government, UNAIDS and other stakeholders. The OIG suggests that the CCM call on PRs to increase their mobilization efforts to reach the patients in need of ART.*

176. The Network achieved some improvement in grant performance after a slow start, in the first year (see Table 11).

Table 11: Selected grant performance against the objective for comprehensive HIV care and treatment

Indicator	June 2008		June 2009	
	Target	Result	Target	Actual
Adults with advanced HIV infection receiving ART	600	0	1400	1436 (103%)
Number of injecting drug users with advanced HIV infection receiving both ART & OST	250	0	1500	412 (27%)
Prisoners with advanced HIV infection receiving ART	100	0	300	301 (100%)
Number of people on OST	1000	0	8300	4291 (52%)
Number of integrated service centers established to provide ART, TB services, and ST	3	0	8	9 (113%)
Number of cases of OI treatment provided to people living with HIV/AIDS	1890	0	2670	1701 (64%)
Number of PLWHA adults (on ART and without ART) diagnosed for active TB and referred for treatment	6000	0	1200	2567 (214%)

177. The OIG observed that the Network had struggled with the enrolment of injecting drug users with advanced HIV infection on combination therapy of ART and OST in Phase I of Round 6, since only 27% of the target had been met. In Phase II of Round 6, the CCM decided to assign the implementation of the OST activity to the second PR (Alliance) with the respective indicator on the number of injecting drug users with advanced HIV infection receiving both ART and OST being removed. Yet opiate substitution therapy is essential in

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terms of attracting injecting drug users to ART and is effective in terms of improving compliance and adherence to ART among drug users with HIV infection.

Recommendation 57 – Requires Attention

To meet the ART needs of HIV-positive injecting drug users, the Principal Recipient should continue tracking and reporting ART and OST combination therapy.

178. The Network scaled-up the provision of anti-retroviral therapy in penitentiary settings and exceeded its targets by 16% in 2009 and by 53% as at June 2010 (Table 12). This achievement may imply that the planned target was set too low and that the real need for ART was much higher in penitentiary settings. Unfortunately, there are no statistical data against which the follow-up of ART patients can be assessed when subjects are released from prisons. This has been reviewed under Round 6 year target and will be addressed under the Round 10 negotiations.

Table 12: Grant performance indicator on ART provision in prisons from 2009-2010.

Indicator	Target Period 10	Result P10 Oct-Dec 2009	Target P12	Result P12 Apr-Jun 2010
Number of prisoners with advanced HIV infection receiving ART	300	347 (116%)	350	534 (153%)

Recommendation 58 – Requires Attention

The PR should encourage the establishment of statistical data for the follow-up of ART patients after they are released from prisons and carry out a prevalence survey in prisons to obtain realistic baseline data prior to setting targets. This will require supporting work to be undertaken by prison authorities.

179. The majority of non-medical care and support services for people living with HIV/AIDS are implemented by Sub-Recipients supported by Global Fund grants. The program sought to strengthen civil society participation in the areas of service provision and advocacy and the Network has contributed to a gradual increase of coverage in community outreach and care and support services for people living with HIV/AIDS. The main objective of this component is to provide psychological and social support to people living with HIV, as well as access to timely medical services (anti-retroviral therapy, opiate substitution therapy, treatment for TB and opportunistic infections, and so on). By June 2010 the Network had reached 33,186 adult PLWHA with community-based care and support services.

180. Despite significant achievements in terms of increased coverage by the Network, the scope of care and support services at a national level remains low compared to need and relies only on Global Fund grants. National targets for care and support are limited and do not indicate any further scaling up of services from other sources, including state funding.

Monitoring and Evaluation

181. Data collection for care and support services provided by the Network was carried out using *Case+* software developed on the basis of *Syrex*. Client codes were based on personal information in order to be restored easily in case of loss of client card records. However, the client coding system used by the Network at the time of the audit did not address the risk of double counting by Sub-Recipients delivering the same services. Coding systems varied from

one organization to another. This was true also of some organizations delivering different types of services to the same client.

182. The Network had a Monitoring and Evaluation Unit responsible for collecting, analyzing and disseminating information related to results obtained through program implementation. There was an established system for the M&E of services provided within the program. Data on outcome and impact indicators (changes in knowledge, behavior and epidemiology) were obtained at national level through second generation HIV surveillance studies.

183. The Network had an integrated performance framework which consisted of a number of quantitative indicators (outcome/impact and process/output indicators) and set targets to be reached by the end of a given period. However, the targets set were not always formulated adequately or supported with validated assumptions. For example, the target for prisoners with advanced HIV infection to receive ART was below the needed level. In addition, given the fact that the epidemiological situation is changing, there is a need to regularly review the existing performance framework.

Recommendation 59 – Requires Attention

- (i) The Network should ensure that targets set at the beginning of interventions are reflective of the real situation in the country at the time. Epidemiology studies, the projection of cases, and interventions should be adequately analyzed.*
- (ii) There is a need to review the current emphasis on process indicators and give greater focus to impact indicators such as the number and percentage of injecting drug users who are HIV positive, and a need to review the performance framework in the light of current trends and changes which have taken place since the Round 6 proposal was formulated.*

184. In order to improve the quality of services delivered, the Network has developed five standards for populations vulnerable to HIV. These are:

- i. A service delivery standard for OST clients;
- ii. A service delivery standard for persons at high risk of contracting HIV through sexual contacts;
- iii. A service delivery standard for care and support of PLWH;
- iv. A service delivery standard for clients with triple diagnosis¹⁰; and
- v. A methodical recommendation for service delivery in the care and support of HIV-positive prisoners.

185. However, with more than 150 SRs to oversee, the Network cannot ensure effective coordination and monitoring of the services delivered by the large number of SRs. There can be duplication in the activities carried out by different sub-recipients within the same city. For example, in Donetsk there were five sub-recipients providing the same type of services under a care and support program component (ART adherence for children and adults, support for pregnant women and children born by them, support of day care centers of HIV-positive children and youth). The consolidation of activities, albeit not at the expense of territorial and client coverage, would make it easier for Principal Recipients to co-ordinate and monitor the quality of service provision.

¹⁰ HIV/TB/IDU

Recommendation 60 – Requires Attention

The Network should consider strengthening the monitoring of the quality of the delivered services and involve government officials in monitoring visits to sub-recipients. It should consider rationalizing the number of SRs, not at the expense of territorial and client coverage, but by developing a method/formula to attain an optimal number of SRs for effective coordination and monitoring.

Procurement and supply management

There is a need for the Network to consolidate its procurement function in a single dedicated unit and to strengthen its management. Procurement regulations should be reviewed and a conflict of interest policy established. The PR should avoid making unnecessary advance payments in procurement transactions.

186. The OIG noted that the procurement of non-health products and services was being conducted by the Network's Financial Department while the Procurement Department was engaged solely in the procurement of health products and related services.

Recommendation 61 – Priority Significant

In order to ensure the best use of professional procurement experience and expertise, and to ensure appropriate separation of responsibilities, the procurement of all major goods, works and services should be conducted by the Procurement Department.

187. Contracting for the procurement of consulting services: At the stage when the Network needed procurement expertise to support its procurement operations, the PR contracted a company named World Response Consultancy (WRC). The OIG's audit inquiries revealed that WRC had been engaged by the Network in the drafting of its proposal for grant Round 6 and that the founder of the company was a co-author of the procurement and supply chain management element of the proposal. The co-founder of the company claimed in proposals submitted to the Network that he had been the first procurement manager for Global Fund headquarters in Geneva despite having had only a few short-term contracts with the Global Fund.

188. The contract was awarded to WRC directly, ignoring Global Fund procurement guidelines and best international tendering or selection/comparison practice. The PR stated that the request for proposals was posted on its website, and only WRC responded. However, the PR could not provide any documentary evidence to support this. The final report provided by WRC consisted of some 20 pages and provided the PR with only a few standard and basic forms for conducting procurement. Most of these forms were freely available elsewhere and could have been drafted by an averagely competent procurement officer. The OIG examined the CVs of WRC staff and found no evidence that the contract staff engaged to support local procurement possessed the appropriate experience.

189. The company was paid USD 203,000 for its work. The OIG was unable to satisfactorily reconcile the fee charged by WRC with the nature and scope of the work carried out, given that local staff currently performing procurement operations have the same capacity and a wider scope of work.

190. In the absence of procurement capacity to organize a proper open competition at the beginning of Round 6, the PR should have taken steps to obtain alternative quotations from at least one other procurement consulting company, to assess whether the WRC price proposal appeared reasonable and comparable to market prices obtainable elsewhere.

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191. Given the circumstances, the OIG cannot give assurance that the Principal Recipient obtained acceptable value for money for the services contracted.

Recommendation 62 – High Priority

The PR should institute improved procedures, including due diligence checks on potential suppliers, to ensure adherence to acceptable procurement standards, including competitive tendering wherever appropriate.

192. Deviation from the PSM plan and potential conflict of interest: Under its approved procurement plan, the Principal Recipient—lacking experience of direct procurement of anti-retroviral drugs—had committed to procure them through the IDA Group, to ensure purchase through a confirmed and trusted source. The International HIV/AIDS Alliance in Ukraine used its agreement with IDA to conduct procurement of ARV drugs and exercise quality control, and reported that in the past the company won an international limited tender and thus became a procurement agent of the International HIV/AIDS Alliance in Ukraine.

193. The PR advised the Global Fund that IDA had demonstrated capacity to provide procurement, quality control and consolidation services for antiretrovirals at optimal prices, and in the past had won a limited international competitive bidding tender to act as procurement agent to the Alliance-Ukraine. For Phase II grant implementation, the Network wished to continue procurement of ARVs from IDA, to ensure an appropriate quality of goods.

194. The OIG noted that the Network deviated from its PSM plan and procured ARV drugs directly from suppliers and manufacturers. The Network explained that this was for suppliers of original drugs who held a patent on procured drugs, had exclusive rights, or were an otherwise defined monopoly and whose prices for procured drugs were a matter of common knowledge and not negotiable. This was meant to save on IDA fees and resulted in a saving of USD 100,000. The total amount of contracts signed with suppliers outside the planned and approved IDA mechanism was USD 1.6 million, as reported to the Global Fund by the Local Fund Agent.

195. The PSM plan submitted to and approved by the Global Fund included the staffing of the Treatment and PSM Department and responsibilities of PSM unit. The PSM team sits within the Department of Treatment and PSM. The Director of TPSM coordinates as necessary the input of international expertise; in addition, local experts are sought to provide additional support if required.

196. While conducting its audit, OIG found that a key PSM staff member had been employed by one of the direct ARV drug suppliers, Delta Medical. Before joining the Network, the staff member had been responsible for sales and marketing activities at Delta Medical. After joining the Principal Recipient as a member of the Procurement and Supply Management Unit, the Network—deviating from its PSM plan—signed a direct contract for the procurement of ARV drugs from Delta Medical valued at approx. USD 600,000 on 30 June 2010.

197. Although the PR's procurement regulations include conflict of interest provisions and guidance, no declaration of interest or justification had been recorded in relation to this contract. The direct procurement of drugs from suppliers while the PR's most senior procurement official has an unreported potential conflict of interest remains a matter of concern.

Recommendation 63 – High Priority

It is essential that the Principal Recipient comply with the approved PSM plan submitted to the Global Fund. Going forward, the PR should review procurement practices and responsibilities and ensure scrupulous compliance with its conflict of interest policy.

198. Procurement of services for storage and distribution of pharmaceuticals: While organizing a tender for procurement of these services valued at USD 100,000, the Network contracted a local company, Ukrmedpostach, on 20 July 2009. The bidding documents reviewed by the OIG did not contain any evaluation criteria and bidders were left uninformed about the method and criteria for evaluation, although they were asked to provide prices for numerous services required under this contract.

199. After bids had been submitted and prices were known, the PR applied a “formula” for evaluation. The OIG was verbally informed about the “formula” which had not been included in the evaluation protocol provided to OIG for audit. Applying evaluation criteria only after the prices of all bids are known constitutes unsatisfactory procurement practice and presents major risks to propriety and value for money.

200. In this particular tender, after the contract award decision had been made, one of the unsuccessful bidders attempted to establish the reason for selection. The procurement officer concerned and the head of the Procurement and Treatment Department informed this bidder that the Principal Recipient was not obliged to explain the reasons for selection.

201. Given the absence of advertised evaluation criteria in the bidding documents, this treatment of an unsuccessful bidder was unwise, unprofessional and risked reflecting adversely on the PR, the Global Fund and its partners, to the possible detriment of future projects. The provision of explanations to unsuccessful bidders is in line with good procurement practice and is aligned to the Global Fund principles of procurement processed being fair, transparent and open.

202. The OIG was also concerned about the format of the evaluation protocol signed by the members of the evaluation committee. This document did not provide any rationale for the committee’s decision and did not explain the reasons for either bid rejections or the contract award.

203. Given the circumstances, the OIG is unable to give assurances that the Network followed proper procedures and acceptable practice, or obtained value for money in this procurement example.

Recommendation 64 – High Priority

The PR should include appropriate evaluation criteria in its bidding documents available to potential suppliers; should follow accepted professional practice and standards in procurement exercises, including ethical standards; and should provide adequate explanation and justification for contract award decisions.

204. Procurement of hotel venue and services to host a national HIV conference: The OIG noted that in 2005 the Network had organized a selection procedure to identify a venue for hosting a national HIV conference. The amount of money paid to this contractor was equivalent to approx. USD 50,000.

205. In selecting a contractor, the Network compared two quotations from hotels which, due to their limited capacity, could not host such a conference, and another quotation from a hotel (the future contractor) which was larger and consequently in a position to host the

required conference. The Network did not invite other hotels with comparable capacity to offer quotes. The evaluation protocol compared only one room category—twin rooms—and documented a decision to award the contract to the larger hotel, as the remaining had insufficient twin rooms to host the conference.

206. The OIG noted that the Network had made an advance payment of 70% of the contract amount to the hotel, without also requiring any security. The case in question took place under the Round 1 grant, when the Network was a Sub-recipient. On future occasions, the procurement of hotel services did not demonstrate such unsatisfactory arrangements.

Recommendation 65 – Priority Significant

In future procurement exercises, the PR should seek to invite to tender only those vendors who are reasonably capable of offering the required services and only consider significant advance payments to contractors in justifiable and unavoidable circumstances.

207. Procurement of Technical Assistance services: The OIG found that in 2009, the Network had contracted an Australian company, AIDS Project Management Group, to provide organizational Technical Assistance to the Network. The company was contracted directly, without any tendering exercise and was paid in excess of USD 55,000.

208. As the company was contracted directly, the OIG cannot give assurance that the Network had followed appropriate procurement procedures or achieved value for money in this case. In cases where direct procurement is undertaken, proper justification should be made for the decision and evidence provided that even in such cases that costs remain reasonable.

Recommendation 66 – High Priority

The PR should ensure that contracting of vendors is in conformity with the Global Fund's procurement guidelines. In cases where direct procurement is undertaken, proper justification should be made for the decision. The PR should be able to demonstrate that costs incurred in such cases are reasonable.

Storage and distribution system

209. The OIG noted that at the beginning of grant activities the Network had been unable to meet one of its main treatment targets due to stock-outs of vital antiretrovirals and drugs to counter opportunistic infections. Under the agreed targets, treatment was to be provided to 600 adults with advanced HIV infection, 250 injecting drug users, 100 prisoners, 100 injecting drug users on substitution therapy, 1,890 people living with HIV/AIDS from opportunistic infections, and 6,000 people living with HIV/AIDS diagnosed with active TB and referred for treatment. The reported figures achieved against all those targets for the period 1 April to 30 June 2008 was zero.

210. Despite these circumstances, the Network did not adjust its work plan for the quarter July to October 2008, resulting in the Network only meeting 20% of the set targets. The main reason reported by the Network for missed targets was stock-outs of necessary drugs.

211. While carrying out its audit in November 2010, the OIG noted a stock-out of Efavirenz in the PR's buffer stock. Although the PR had an ongoing contract with IDA for the provision of this drug, complete absence of the drug is a matter of concern, since proper planning of supply management operations should guard against stock-outs of vital drugs in buffer stocks.

212. The management of supplies, whether from the local market or from an external source, is typically a complex logistical problem that requires solid organizational and management capacities to ascertain efficient handling and good use of resources. The stock-out of a vital ARV drug in a buffer stock in Phase 2 of the project indicates insufficient supply management capacity for procurement forecasting and planning.

Recommendation 67 – High Priority

With the project already in Phase 2, the PR should make every effort to properly forecast and manage its buffer stock. As a matter of good practice, the PR should maintain a 3-month buffer stock of vital ARV drugs.

OVERSIGHT

Country Coordinating Mechanism

There is a need for the CCM to support mechanisms for increasing coverage of anti-retroviral therapy, reformulating the regulatory framework and strengthening the capacity for decentralization of ART treatment. The CCM in Ukraine needs to address the spread of HIV into the general population; and should develop consensus on opiate substitution therapy, including the need to avoid delays in customs clearance of OST drugs. The tax exemption issue on grant-related procurement should be resolved.

The development of a national monitoring and evaluation plan, which establishes a clear mandate for the national M&E unit, should be supported. In addition, a local comparative study on pay should be initiated to address rising variances in health sector salaries.

Background

213. The CCM in Ukraine, known as the National Council, was formed in 2003 to meet Global Fund requirements. The CCM is a country-level public-private partnership and the primary oversight body for Global Fund grants in a country. The key functions of the CCM are to:

- i. Coordinate the development of grant proposals to the Global Fund based on priority needs at the national level;
- ii. Select one or more appropriate organization(s) to act as Principal Recipient(s) for Global Fund grants;
- iii. Monitor the implementation of activities under the Global Fund's approved programs, including the approval of major changes in implementation plans when necessary;
- iv. Evaluate the performance of these programs, including the performance of PRs in implementing a program, and submit requests for continued funding prior to the end of the two years of initially-approved financing from the Global Fund; and
- v. Ensure linkages and consistency between the Global Fund's assistance and other development and health assistance programs in support of national priorities.

214. At the time of the audit, the CCM in Ukraine comprised 31 members with representation from various sectors as required by the Global Fund. There were 20 representatives from government; one from scientific and educational institutions; three members representing people living with diseases; four members representing charitable organizations (NGOs), including faith-based organizations; two members representing international organizations; and one member representing the private sector.

215. The OIG reviewed the minutes of CCM meetings and met members of the CCM to obtain an understanding of how they conducted business. The frequency of meetings has increased over the years and the agenda for meetings is circulated well in advance, giving members time to prepare appropriately. Minutes of meetings are prepared and circulated to members for review and comment.

216. During 2010, the CCM established two working committees: A national policy sub-committee for TB and HIV/AIDS, and a regional policy sub-committee.

217. The CCM Secretariat was set up in 2009 and is currently housed at the Directorate of the Committee on TB and HIV/AIDS. This has helped improve the operations of the

committee, although the Secretariat lacks sufficient funding and staff to fulfill the objectives above.

Disease specific interventions

218. The Government of Ukraine has assumed certain commitments with international organizations (including UNAIDS, the Global Fund, WHO, UNICEF, UNODC, USAID, UNFPA, and GIZ) as well as with non-governmental organizations, and is making efforts to meet them and control the HIV/AIDS epidemic in the country. The Ministry of Health has the leading role in the national response to AIDS, which is coordinated by the Ukrainian National Law on AIDS and the National Aids Program.

219. In February 2009, the Verkhovna Rada (Supreme Council) of Ukraine adopted a new National Program for the Prevention, Treatment, Care and Support for HIV-infected People and AIDS for 2009–2013, with envisaged budget funding. However, the Parliament approved only 54% of the state funding, and in 2010 only 50% of the state budget of the new AIDS Program was allocated. State funding was envisaged for anti-retroviral drugs and test reagents but no funds were allocated for HIV prevention except for the prevention of mother-to-child transmission. This gap in state resources means that the increasing need for prevention services during the next five years will not be met.

220. According to Decree N 926 of the Cabinet of Ministers of Ukraine dated 11 July 2007, the National Council to Fight Tuberculosis and HIV/AIDS was assigned to function as the CCM. The main task of the National Council is to assure inter-sectoral cooperation in the national response to AIDS, as well as to coordinate the activities of all stakeholders. The function of the Secretariat to the National Council is performed by the Committee on HIV/AIDS and Socially Dangerous Diseases within the Ministry of Health. However, clear mechanisms to ensure effective national coordination have not yet been developed.

Recommendation 68 – Priority Significant

There is a need to increase the Government's role and participation in HIV prevention activities, with improved coordination of different stakeholders, including from government, and an increased share of funding for prevention.

Recommendation 69 – Priority Significant

The CCM would benefit from capacity building aimed at further strengthening of governance and oversight over programs and to minimize the likelihood of duplication of scarce resources given that there is no system in place to monitor the contributions of the various partners.

Grant oversight

221. The CCM is the primary body responsible for oversight of Global Fund grants. The OIG detected very little evidence to demonstrate that active grants were being effectively supervised by the CCM in Ukraine. There were no technical working groups or sub-committees to evaluate performance under the grants in areas such as monitoring and evaluation, or procurement and supply management.

222. Under the Round 6 grant, the Principal Recipients and other stakeholders in the health sector formed a Group charged with reviewing grant performance reports prepared by the PRs. This group also acts as a forum for the resolution of disputes, for instance between the PRs and sub-recipients. However, there is no provision for such a group in the Global Fund's grant architecture. The functions performed by the 'Conciliatory Group' in Ukraine are typical functions of the CCM, although there is no relationship between the Group and the CCM. However, the CCM relies on the work of this Group, especially with regard to the

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review of financial and program reports. Performance reports presented to the CCM are brief and assumed to have been reviewed by the Conciliatory Group.

Recommendation 70 – Priority Significant

- (i) *There is a need for the CCM to adopt a more proactive role in overseeing grant implementation. This could include the formulation of working groups to provide greater analysis of grant performance than can be provided during CCM meetings.*
- (ii) *The CCM should provide greater clarity on how the Conciliatory Group can add value to the CCM's oversight responsibilities, especially with regard to review of periodic performance reports.*

223. The CCM chair is normally a Deputy Prime Minister of the Government of Ukraine. Over the past year, the OIG noted that there had been frequent changes in this Government position, leading to frequent changes in the CCM chairmanship. During the OIG's visit the position was vacant (it was filled at the end of October 2010). Frequent changes in the CCM chair affect continuity and smooth operations of the CCM. New incumbents require time to obtain a proper grasp of CCM work.

224. The frequent changes in government also affect political appointees such as Ministers and Deputy Ministers, many of whom are members of the CCM. The CCM included at least eight (Deputy) Ministers at the time of the audit.

Recommendation 71 – Priority Significant

Given the dynamic political environment in Ukraine, it is likely that the CCM chair will change regularly. The CCM could consider rotating the position of chair between other CCM members, such as representatives of NGOs or faith-based organizations, to provide greater stability and ensure more constant leadership. The CCM might also consider who represents government departments on the CCM to ensure greater stability.

225. The OIG noted that CCM members did not conduct any site visits during the period under review. Planned site visits are necessary to give members first hand exposure to interventions being made using Global Fund grants.

Recommendation 72 – High Priority

The CCM should periodically arrange site visits.

Proposal writing and resource allocation

226. The CCM dedicates a significant portion of its time to the development of grant proposals and the CCM has been successful in this under Rounds 1, 6 and 9. At the time of the OIG's visit, a Round 10 proposal had been submitted to the Global Fund for consideration.

227. The CCM has learned lessons from previously unsuccessful attempts, such as its Round 8 application, and the proposal development process is now more thorough, with the establishment of working committees to write proposals, detailed discussion of proposals at CCM level, and appropriate selection procedures for Principal Recipients.

228. The OIG noted that CCM procedures allow for the use of proxies. Members may delegate their vote to another CCM member or representative of their constituency. While this procedure allows business to proceed, there are instances where some CCM members had up to 5 proxies delegated to them. Proxy voting may encourage absenteeism.

Recommendation 73 – Requires Attention

The CCM should review and strengthen its rules related to proxy voting so as to limit and minimize the number of proxies any member is allowed to hold.

229. The OIG noted that government members of the CCM, other than those from the health sector, seldom appeared to make visible contributions to the CCM's deliberations. In addition, longstanding challenges to the effectiveness of grants—such as the deduction of taxes and security concerns over the implementation of opiate substitution therapy—had not been resolved. An important reason why the Global Fund encourages a broad-based CCM is for cross-cutting issues to be discussed effectively during meetings. With little or no input from line ministries responsible for taxes and/or security, such issues will remain outstanding.

Recommendation 74 – Priority Significant

The CCM should encourage more active participation and input from its members, particularly those from government ministries other than the health sector.

230. The OIG noted that new members had not undergone any formal orientation or briefing once they were elected to the CCM. As a result, they were insufficiently apprised of their roles and responsibilities as members of the CCM. The OIG noted cases where PR presentations had included instances of non-compliance with Global Fund requirements, which had not been noticed or corrected by the CCM. For instance, in a presentation during the meeting of 17 August 2010, the Network informed the CCM that it had made direct procurement of health products. This action contravened the PR's approved procurement plan, but no member of the CCM challenged the issue.

Recommendation 75 – Requires Attention

The CCM secretariat should consider developing an induction program for new members and a refresher program for existing members, to cover members' roles and responsibilities within the CCM and provide an overview of the operations of Global Fund grants.

231. The Local Fund Agent does not attend CCM meetings. While this is not a requirement, the presence of the LFA during CCM meetings may enable the LFA to provide useful clarification and information for members. The LFA would be well-placed to advise members on their roles and responsibilities.

Recommendation 76 – Requires Attention

The CCM should consider inviting the Local Fund Agent to attend meetings as an observer.

Cooperating Partners

232. The Global Fund maintains no country presence and relies on in-country stakeholders, including co-operating partners, to oversee the grant implementation process.

233. The OIG noted considerable goodwill among the various development partners, especially in their desire to work with the Global Fund towards the achievement of its goals. Some co-operating partners would be amenable to approaches to provide further technical support. The co-operating partners have also entered into a partnership framework with the Secretariat which is envisaged to make Global Fund programs even more effective.

234. The co-operating partners, while cognizant of the increasing role played by the government in fighting HIV, had some concerns regarding changing legislation in Ukraine. For instance, at the time of the OIG's visit, a new law was being considered to significantly reduce the amount of drugs that individuals could possess without risking prosecution. It

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was felt that this law could have serious detrimental effects in fighting the disease amongst injecting drug users.

Annex 1: ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
ART	Antiretroviral Therapy
ARV	Antiretroviral
AU	“International Charitable Fund” Alliance-Ukraine
CCM	Country Coordinating Mechanism
CSW	Commercial sex workers
CP	Condition Precedent
CSO	Civil Society Organization
HIV	Human Immunodeficiency Virus
IDU	Injecting drug user
IEC	Information, Education and Communication
LFA	Local Fund Agent
M&E	Monitoring and Evaluation
MDR	Multi Drug-Resistant
MOH	Ministry of Health of Ukraine
MOU	Memorandum of Understanding
MSM	Men who have sex with men
NGO	Non-Governmental Organization
OI	Opportunistic infection
OIG	Office of the Inspector General
OST	Opiate Substitution Therapy
PLWHA	People living with HIV/AIDS
PMTCT	Prevention of mother to child transmission
PR	Principal Recipient
PSM	Procurement and Supply Chain Management
PUDR	Progress Update and Disbursement Request
QA	Quality Assurance
RFQ	Request For Quotation
SGS	Second generation HIV surveillance
SR	Sub-Recipient
SSR	Sub-Sub-Recipient
STI	Sexually Transmitted Infection
SYREX	Syringe exchange database for client monitoring
TB	Tuberculosis
TOR	Terms of Reference
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USD	United States Dollar
WHO	World Health Organization

Annex 2: RECOMMENDATIONS AND MANAGEMENT ACTION PLAN

	Recommendation	Priority	Management action	Responsible party	Due date
International HIV/AIDS Alliance in Ukraine					
Programmatic Challenges					
1	The CCM should seek to develop a consensus on opiate substitution therapy. This will inter alia minimize delays in customs clearance of OST drugs.	High	<p>Suggested actions for NCC:</p> <p>I) <i>Develop, approve and provide follow up for National Operational OST scale up Plan for 2012-2013 (NOP 2012-2013).</i> NOP shall be approved by the Decree of the Cabinet of Ministers of Ukraine. The implementers shall be MoH, MIA, State Service of Socially Dangerous Deceases, State Service on Drug Control, Academy of Medical Sciences, State Penitentiary system, Alliance Ukraine, Ukrainian AIDS Center, oblast administrations.</p> <p><u>Rationales:</u></p> <p>i. NOP 2012 -2013 is to describe how mismatched 20,000 OST target set by National HIV/AIDS Prevention Program for 2009-2013 (National Program) will be achieved.</p> <p>ii. NOP 2012 -2013 is to define roles and responsibilities among State Agency(ies)/Executive Bodies/NGO partners responsible for the expansion of the access to OST</p> <p>iii. NOP 2012 -2013 is to obligatory address following urgent issues:</p> <ul style="list-style-type: none"> • Issuance of MOH distribution order(s) regulating OST scale up to 20,000 by the end of 2013; • Issuance of Cab. Min Decree(s) regulating adequate quota for OST drugs needed to ensure SMT scale up by 20, 000 patients; • Issuance of Cab. Min Decree(s) regulating narcotic turnover in healthcare institutions and allowing usage of narcotics in liquid forms for oral intake; • Issuance of MOH order, regulating implementation of liquid Methadone OST Pilot Project; • Continuity of treatment for OST patients unable to attend 	NCC	June 30 th , 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>their primary SMT sites due to health problems, travel, change of residency, incarceration etc;</p> <ul style="list-style-type: none"> • Creation and functioning of modern automated state OST monitoring system; • Wide OST availability in HIV/AIDS and TB HCI; • Utilization of State budget allocated in the National HIV/AIDS Prevention Program for procurement of OST medications. <p>iv. NOP 2012 -2013 is to be developed under International technical assistance.</p> <p>II) <i>Ensure adoption of changes into the Law #1026-VI dated February 19, 2009 on National HIV/AIDS Prevention Program for 2009-2013 proposed by Alliance Ukraine on July 15, 2011.</i></p> <ul style="list-style-type: none"> - <i>Introduction of Liquid form of methadone (Introduction of all forms of OST drugs to the medical practice having state registration in Ukraine, including liquid methadone for oral use)</i> - <i>Ensure uninterrupted OST (Ensure uninterrupted treatment for OST patients who for different reasons are unable to attend HCIs to take OST drugs)</i> - <i>Improvement of psychological and social support of OST patients, methods of rehabilitation and re-socialization for OST patients.</i> <p><u>Rationales:</u></p> <p>Proposed changes predominantly address the increase access and expansion of the OST, define responsible Parties and increase allocated OST budgets taking into account GFATM Rd 10 Program.</p>		
2	PRs are strongly encouraged to ensure that goods and services procured using Global Fund grants are exempted from	<i>High</i>	<p>Actions undertaken by PR:</p> <p>Alliance Ukraine continues to apply 2 possible solutions to resolve the problem:</p>	NCC	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
	<p>taxes. The Country Coordinating Mechanism should pursue efforts to obtain tax exemption for goods from the Government of Ukraine.</p>		<p>i. Obtaining HA status for goods imported under GF programs by applying to government of Ukraine and accepting a positive decision</p> <p>ii. Approval of the Law by Parliament of Ukraine under which all goods, works and services procured under GF funds shall be exempt from taxation.</p> <p>Currently, AU applies to Humanitarian AID commission (a committee under the Cabinet of Ministers) for the approval Humanitarian AID (HA) to import health products (syringes) and pharmaceuticals (methadone hydrochloride) under which duties and VAT's are exempted. Application on syringes has been reviewing by commission since January. Obtaining approval from HA commission is sporadic and depends on case by case basis. AU cannot influence the decision of HA commission.</p> <p>To implement option 2, PRs in close cooperation with other partners had developed and submitted corresponding Draft Law "On implementation of the GFATM programs in Ukraine". At the moment this document is under revision of corresponding departments of the Verkhovna Rada.</p> <p>Suggestion for NCC regarding tax exemption issue:</p> <p>i. NCC to promote and ensure the Ukrainian Government's decision to declare imported cargo's (health products and commodities) as HA under GF programs and monitor for its appropriate implementation.</p> <p>ii. NCC should facilitate the issue of tax exemption of GF grants and get involved in resolving possible solution of this matter</p>		Continuous May-June 2012.
3	<p>Consideration should be given to moving M&E programs and services to the new National AIDS Program with appropriate funding. A</p>	High	<p>In Round 10 all relevant national M&E programs are under the National AIDS Center. The Regulation on National Monitoring and Evaluation System was officially endorsed in December 2011 by the Cabinet of Ministers of Ukraine (<i>Annex 1.3</i>). This Regulation describes the role of the National AIDS Center in coordination of HIV/AIDS</p>	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
	comprehensive national monitoring and evaluation plan should be developed which establishes a clear mandate for the national M&E Centre to coordinate the HIV/AIDS information flows.		information flows and outlines the National M&E Plan as the main guidance in regard to indicators, targets, data sources and responsible agencies. The National M&E Plan is currently in the process of endorsement.		
Institutional capacity					
4	The Alliance Ukraine board should establish a stand-alone internal audit function. The internal audit function should report directly to the Supervisory Committee and should not participate in core operational activities. The Committee should perform oversight activities such as approving the internal audit work plan, evaluating the head of the function, reviewing internal audit reports and holding management accountable for implementing internal audit recommendations.	<i>High</i>	<p>AU has already introduced the internal audit function with a new role of a Senior Officer: Compliance & Internal Audit within the existing unit (since May 2011). This position was redesigned /updated from the previous position of Officer: Risk Management and Compliance is stressing the focus on ‘internal audit’. This is a new function and development, which was introduced after the time when the OIG audit was conducted.</p> <p>According to job description Senior Officer: Compliance & Internal Audit conducts regular audit of policies and procedures compliance. Results of such audit are submitted to the Supervisory Committee of the Alliance Ukraine. Organizational structure, which shows the subordination of the Senior Officer, is attached.</p> <p>The same situation is now envisaged with the senior position within the unit. The position title and functions are being revised with a focus on strengthening the internal audit function. The new title is Senior Advisor: Internal Audit, Risk Management and Compliance and the updated job description provides the relevant functions and responsibilities. The replacement of the head of the unit (left AU in June 2011) was due to the awaited OIG report, and now it gives some ground to make shift from “stakeholder relations” to the “internal audit” as the major area. The recruitment process preparation has started in March 2012.</p>	Alliance Ukraine	June 30 th , 2012
Compliance					
5	Alliance Ukraine should ensure compliance with Global	<i>Significant</i>	Alliance Ukraine recently agreed with the Secretariat of the Global Fund on the expenditures incurred during the Global Fund grants	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
	Fund grant agreement requirements. The conditions set out in grant agreements are meant to safeguard Global Fund assets and reduce the risk to which Global Fund grants are exposed. Specifically, the PR should seek retroactive approval for funds expended without an approved work plan. Failure by the PR to comply with conditions in the grant agreement leaves the grants exposed to the risk of financial loss.		implementation, which are mentioned in paragraph # 28 of OIG report. At the date of this response there is therefore no discrepancy between the Global Fund and Alliance Ukraine regarding expenditures incurred by PR.		
6	Alliance Ukraine should take immediate steps to strengthen its efforts with the Government of Ukraine to achieve tax exemption for Global Fund grant activities in accordance with grant requirements.	<i>Significant</i>	<p>Alliance Ukraine as a charitable organization is not paying income tax in accordance with the Ukrainian legislation. There are two possible mechanisms for other tax exemption in Ukraine according to the Ukrainian legislation at the moment:</p> <ol style="list-style-type: none"> i. Obtaining humanitarian aid status for goods (VAT exemption, custom duties exemption). ii. Adoption of a special law on GF programs, which will provide for tax exemption. <p>Actions taken by the Alliance Ukraine:</p> <ul style="list-style-type: none"> • Advocating of the decisions of the Humanitarian Aid commission and different government authorities to obtain humanitarian status for the imported products (health products and commodities) under GF programs. • The draft of a special law on GF programs was developed, the PRs of the GF grants provided their input in its development. According to the draft procurement of goods, works and services under the GF financed programs will be exempted 	Alliance Ukraine NCC	Continuous January 1 st , 2013

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>from taxes through introducing of relevant changes in to the Tax Code of Ukraine. The draft law was submitted by the Cabinet of Ministers of Ukraine to the Supreme Council of Ukraine (Verkhovna Rada) for adoption. Please, refer to the links on the official web-site of the Verkhovna Rada for the drafts (the law on GF programs itself and the law on relevant changes into the Tax Code of Ukraine):</p> <ol style="list-style-type: none"> 1. http://w1.c1.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=42684 2. http://w1.c1.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=42685 <p>Subject to approval of the Verkhovna Rada, the laws shall be effective starting from 1 January 2013.</p> <p>The following steps are taken by Alliance Ukraine with regards to taxes exemption for GF grants:</p> <ul style="list-style-type: none"> • In coordination with other PRs: advocating the adoption of the abovementioned laws on implementation of GF programs in Ukraine. • Advocating of humanitarian aid status mechanism with a goal to receive assurance from government of Ukraine that such status will be received for goods to fight HIV/AIDS and tuberculosis epidemics in Ukraine. • Apply to HA commission for the HA aid status approval for the goods (health products and commodities) currently planned to be imported under GF grants. • Advocating the involvement of the representatives of the Alliance Ukraine t the sessions of the HA commission to influence commission's decision making in favor of humanitarian aid status for imported goods. 		
Financial management					
7	The PR should regularly monitor the market salary levels to ensure that its salaries	<i>Significant</i>	Round 10 salary levels and the salary budget have been approved by the GF. Alliance Ukraine is ready to fulfill recommendation in the proposed wording; in particular, Alliance Ukraine is planning to	Alliance Ukraine	December, 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	are within the salaries of a similar scale.		conduct a tender for salary survey to be done by a specialized company by the end of 2012.		
8	The actual use of management fees should be accounted for to the Global Fund to confirm that funds are used to support grant activities. In addition, the administrative and human resource costs budgeted and paid for separately by the Global Fund should be reviewed and reimbursed if they should reasonably have been covered by the management fees.	<i>High</i>	<p>The Stewardship Agreement (signed on 15/3/04) was for one year and included the Program Objectives, Key Indicators and Intended Results as an appendix plus the budget. This budget shows the Management Fees, for one year agreed at \$500k, being \$125k per quarter. The total Management Fees charged during the period March 2004 to September 2005 were \$750k, being \$125k per quarter. The Alliance UK continued to be the Principal Recipient from 1/10/05 to 31/3/09 and charged the agreed management fee of \$125k per quarter, which totaled \$1,500k for the period. The total approved Management Fee totaled \$2,250k and is the figure quoted in paragraph 35.</p> <p>The management fee was set up to ensure the right level of management oversight and governance of a significant agreement (43% of IHAA 2004 income in the first year of the agreement), which was a major undertaking and a potential major exposure for the International HIV/AIDS Alliance, UK. The management fee was part of the agreement reached between the two parties for the Alliance UK to take on a large program under very risky conditions that the audit report does not explain. Our commitment was to re-build trust in the GF mechanism and build up Alliance Ukraine as a national steward / PR; IHAA took on this high risk grant and managed to work itself out of a job, leaving local capacity and trust in a way that few other PRs have.</p> <p>Administrative and human resource costs which were incurred by the Alliance from the funds of the Global Fund (both in the UK and Ukraine) have not duplicated costs budgeted and paid for from the management or organizational development fee. Alliance Absence of duplication in expenditures is indirectly supported by independent auditors' reports, which concluded that "the Statement of Sources and Uses of Funds presents fairly, in all material respects...costs incurred...in accordance with the terms of the agreements...". Besides, the PR has not received from the GF any message regarding the</p>	<p>Alliance UK</p> <p>Alliance Ukraine</p>	June 30 th , 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>duplication in administrative or human resource costs based on results of regular verification. Alliance Ukraine will agree with the GF the way on how to account for the actual use of management fees and/or the organizational development fee</p> <p>Secretariat response: The Global Fund Secretariat acknowledges the annual audits conducted by other donors on the total pool of indirect expenditures. These audit reports received by the Secretariat for the years when the management fee was charged to the GF grant provide reasonable assurance on the appropriateness and eligibility of the indirect costs incurred during the years in question. The regular program audit of GF program funds provides additional assurance that there was no duplication of indirect charges and direct costs. Existing grants managed by the International HIV/AIDS Alliance in Ukraine do not include any percentage or flat-fee based overheads and therefore are compliant with the new Global Fund policy on indirect costs for international NGOs.</p> <p>OIG response: The Global Fund in April 2011 instituted a policy to govern eligibility and accountability for management fees which should be applied going forward.</p>		
9	Grant funds should remain readily accessible by the Alliance Ukraine. While grant funds should be kept in interest-bearing bank accounts, priority should always be given to program implementation. The OIG recommends the use of overnight deposits to avoid potential delays in accessing funds for operational activities.	<i>Significant</i>	Since January 2010 Alliance Ukraine has re-considered its treasury practices and moved away from placing deposits to avoid any risk of delays in financing the programs of the Global Fund. At the same time Alliance Ukraine complies with requirements of the Global Fund by keeping funds on current accounts which bear interest at the reasonable commercial rate available in Ukraine.	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
Sub-Recipient management					
10	Delay in disbursements to sub-recipients should be avoided to ensure timely implementation of planned activities.	<i>High</i>	To ensure that the risk of delays in implementing planned activities at SRs level is minimized, Alliance Ukraine has revised its disbursement procedures to extend the SRs financing buffer period from 1 month until 2 months. Amount and time schedule in the SRs' financing, which is part of sub-grant agreement, is followed in accordance with the budget and work plan of the project.	Alliance Ukraine	Done
11	(i) The procedure for submitting proposals should require sub-recipients to provide information on funds received from other donors, to minimize the risk of double financing of similar activities. In addition, Alliance Ukraine should explore the possibility of a mutual exchange of information about sub-recipients with other donors.	<i>High</i>	<p>(i) To minimize the risk of double financing of similar activities, Alliance Ukraine updated in Chapter 12, section 12.4.2 "Call for proposals" of "Onward Granting" procedures of Staff Manual and has undertaken the following preventive and detective measures at all stages of the onward granting process:</p> <ul style="list-style-type: none"> • At the stage of a call for proposals: Caution in the announcement in respect of budget assumptions by potential SRs recipients (avoidance of double funding of similar activities) • At the stage of negotiations with SRs: Comprehensive analysis of budget submitted by SRs is performed by financial specialists of PR • At the stage of signing sub-grantee agreement (SGA): Clause # 3.1.14 of sub-grant agreement regarding fair distribution of funding among donors, which prohibits use of funds by SR for projects which are financed by other donors • At the stage of verification of the intended use of funds by SRs: Expenditures that are duplicated (financed by other donor(s)) or violate provisions of SGA are disallowed by Alliance Ukraine. <p>In March 2012, by fulfilling to Round 10 special terms and conditions,</p>	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>Alliance Ukraine provided evidence to the Global Fund that the procedures for submitting proposals have been updated to require sub-recipients to provide details of all funding received from other donors, to minimize the risk of double financing of similar budget lines.</p> <p>To ensure fair distribution of funding among donors Alliance Ukraine agreed with other PRs, upon request, to mutually exchange information about SRs. Such information may include (but not limited to) sharing budgets of the project, which is financed by PR, which will be analyzed at the stage of negotiations with SRs, sharing of quarterly financial reports of overlapping SRs, exchanging the results of monitoring visits, etc. The PRs are currently developing the mechanism of information exchange.</p>		By June 30 th , 2012
	(ii) Additional information at the point of appraisal and selection of SRs should be requested. Such information might include the relevant accounting policies in use; financial statements (balance sheet, income statement); certificates from tax authorities; current staff lists; copies of current grant agreements with other donors; bank certificates with balances and cash inflows for the previous year; certificates from the bank to confirm outstanding liabilities on loans and other obligations; verification of fixed assets at the end of the month		<p>(ii) Since June 2011 Alliance Ukraine expanded the list of documents, which is requested from SRs for the purposes of their appraisal and selection to include breakdown of fixed assets, current staff lists, and annual budget of SRs.</p> <p>At the same time, to receive more understanding regarding financial position of SR, its organization-wide budget and budgetary needs, as well as to properly assess financial risk, which SR faces, Alliance Ukraine explores the relevance of inclusion the following information, which may be included into list of requested documents at the paragraph of selection of SRs and sub-grant agreement negotiation:</p> <ul style="list-style-type: none"> • Full set of financial statements for the previous reporting period and associated general ledger; • Copy of tax report on use of funds by non-for profit organization for the previous reporting period; • Copy of effective grant agreements (including budgets) with other donors 	Alliance Ukraine	Done June 30 th , 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	preceding the submission of the proposal; and letters of recommendation from other donors.				
12	The procurement capacity of sub-recipients should be evaluated by the Principal Recipient prior to the appointment of SRs. Further, sub-recipients' procedures for the selection of suppliers should be improved to ensure appropriate controls and consistent practice, such as the use of competitive bidding on the basis of standard forms with appropriate supporting data.	<i>Significant</i>	<p>Proven track record of SRs in successful implementation of the Global Fund's programs is a criterion that SR's capacity was evaluated properly by the PR. Alliance Ukraine makes a comprehensive evaluation of organizational capacity of all SRs) prior to their appointment.</p> <p>Alliance Ukraine will upgrade its procedure for the SR's capacity assessment at the stage of its selection for the purposes of evaluation of the SR's procurement function</p> <p>Alliance Ukraine will communicate to both existing and potential SRs the importance of having appropriate procurement guidelines, which may be assessed by Alliance Ukraine upon SR's selection. Alliance Ukraine may also help to upgrade SRs' procedures to ensure that appropriate controls and consistent practice is applied.</p>	Alliance Ukraine	By June 30 th 2012
13	Alliance Ukraine should align the agreements with its SRs. The PR should strengthen the rigor of its review of SRs' expenses to minimize unjustified or uneconomical use of grant funds. The agreement should incorporate measures that the PR will enforce in cases where funds are ineligible, unsupported	<i>High</i>	<p>To minimize unjustified or uneconomical use of grant funds the PR's sub-grant agreement, which is concluded with SR, has the following provisions:</p> <ul style="list-style-type: none"> ▪ Clause #6.1.4, which requires SR to pay out reasonable costs. ▪ Clause #9.3, which sets the SR's responsibility to reimburse to PR ineligible costs. <p>At each workshop with management and accountant of SR, the PR has been emphasizing the importance of the above clauses. In addition, to guide SRs on how to follow the value for money principle, Alliance Ukraine plans to develop costs eligibility principles for SRs outlining,</p>	Alliance Ukraine	June 30 th 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	and/or do not represent value for money.		among others, provisions for costs to be reasonable, allowable and eligible. The costs principles are assumed to be part of financial guidelines for SRs and included into sub-grant agreement.		
14	SRs should be required to provide reports on services rendered with a clear indication of the scope of services or hours spent applicable for any consultancy services. Controls should be strengthened by enforcing the requirement for timely and accurate invoicing which is consistent with detailed reports on services provided by external consultants.	<i>Significant</i>	The PR revised the list of supporting information which is requested from SRs for the verification purposes according to OIG recommendation. At the same time, taking into account Round 10 special conditions on involvement of external consultants Alliance Ukraine has already started the process of revision of documentations flow related to consultancy services both at PR's and SRs' levels. As a result, the Consultancy fee framework was developed and approved by CCM. Key principles of this document were communicated by Alliance Ukraine to SRs as well as the importance of proper details in primary supporting documents was emphasized.	Alliance Ukraine	Done
15	Given the frequency of budget reallocations, the related procedures should be reviewed and a detailed policy developed to ensure that all reallocations are properly justified and evidenced. Budget reallocation at the PR should be approved by a program officer with the additional confirmation of a finance officer.	<i>High</i>	The standard practice of budget reallocations in Alliance Ukraine does stipulate approval of each reallocation from finance officers. To reflect the standard practice on budget reallocation Alliance Ukraine will update is onward granting policies and procedures to incorporate provisions on segregation of duties over budget reallocation.	Alliance Ukraine	June 30 th , 2012
16	The use of Excel should be reduced and limited to support processes where no alternative systems are available. Key information should be maintained in a more reliable	<i>Significant</i>	Alliance Ukraine is launching an automated system of sub-grants management - Grant Management System (GMS). This computerized system is to facilitate management of onward granting.	Alliance Ukraine	September 30 th , 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	management information system. A computerized system for management accounting would facilitate (i) more restricted access to sensitive information; (ii) an audit trail for transactions; (iii) reconciliation of information in accounts and other functions, such as procurement and grant management; (iv) improved assurance on the completeness and accuracy of information; (v) the generation of timely analytical reports to support better-informed decision making; and (vi) enhanced data security via backups.		The system will maintain full documentation flow related to SR, including its selection, assessment, sub-grant agreement as well as financial information, including SR's budget, amount of PR's disbursement to SR and the SR's expenditures.		
17	The OIG considers that it is important to establish a link between the programmatic reports and financial reports so that the Global Fund can obtain assurance that it is getting value for money from its investment. It is especially important for the PR to analyze performance	<i>Significant</i>	<p>Alliance Ukraine strengthened the link between financial and programmatic teams by introducing:</p> <ul style="list-style-type: none"> Starting October 2009 - rating system, which includes joint evaluation of SRs' performance by financial and programmatic teams; Starting October 2011 - a pilot project under which quarterly financial reports are verified by Alliance Ukraine officers. The methodology for verification stipulates information sharing between programmatic and financial teams. Additionally, program and finance officers of Alliance Ukraine were instructed to review, upon necessity, each other's reports in respect of SRs for improved decision making. Starting August 2011 – the Alliance Ukraine introduced costed 	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			workplan documents to project proposals and grant agreements, which align programmatic and finance components of SRs' activities.		
18	The PR should revise the grant agreement with its sub-recipients. Budgets should be denominated in local currency in order to protect SRs against currency risks that may arise during implementation of the programs. The SR budget should be derived from translating the respective USD denominated budget at the applicable exchange rate at the date of grant signature.	<i>Significant</i>	<p>The SRs budget is denominated in both currencies USD - the currency in which Alliance Ukraine receives funding from the Global Fund and UAH – local currency in which Alliance Ukraine makes disbursement to SR. Upon disbursing funds, Alliance Ukraine takes into account impact of changes in UAH-USD exchange rate upon financing and implementation the program and makes a disbursement based on USD-denominated budget.</p> <p>Alliance Ukraine considers that this approach, which proved its reasonableness and efficiency since 2009, does address all risks, associated with changes in foreign currency exchange rates. Changes in the approach of financing SRs would require dramatic workload and time related to re-signing sub-grant agreements and may have negative implications upon implementation of the program.</p> <p>Nevertheless, Alliance Ukraine will thoroughly analyze, including applying the “pros” and “cons” approach, possible implications of implementation of OIG recommendation on financing and implementation the program and will make a respective decision on SRs financing method, which could be implemented by end of Round 10 Phase 1.</p>	Alliance Ukraine	January 1 st 2014
Procurement and supply management					
19	All procurement of goods, works and services should be conducted by the Procurement Department. Full specifications or terms of reference should be forwarded to the Procurement Department with the formal request for procurement. It is	<i>High</i>	<p>Actions undertaken by PR: Significant organizational and process changes have been done in Alliance Ukraine during the last year. All procurement (health products, programmatic, administrative) in the organization has been consolidated within the Procurement unit. New Procurement Guidelines reflecting these changes have been developed by Alliance Ukraine and approved by the Global Fund in September 2011 with a period of piloting of their implementation. The Guidelines, inter alia, describe the process of submission of the specification and request for</p>	Alliance Ukraine	Done as of September 2011; see Annex 6.1, 6.2, 6.3

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	Recommendation	Priority	Management action	Responsible party	Due date
	the responsibility of the requestor to prepare specifications in accordance with relevant standards to permit the widest possible competition. The Procurement Department should screen the proposed specifications or terms of reference to confirm compliance with procurement guidelines and decide on the method of procurement in accordance with relevant procurement requirements and regulations.		procurement to the Procurement unit and thresholds to be the basis for procurement method selection. The procurement procedures addresses all of the recommendations regarding the procurement and supply management within the OIG report (20-30) and are being implemented throughout the organization. Appended are the following documents: <ul style="list-style-type: none"> • Alliance Ukraine Procurement Guidelines • Procurement consolidation proposal • Letter from Angelica Perez, The Global Fund, to Zahedul Islam dated September 9, 2011 on new procurement guidelines approval. 		
20	(i) There should be a single evaluation committee for all tenders that Alliance Ukraine conducts under the framework of Global Fund projects. The committee should consist principally of procurement officers, budget holders/requestors of goods or services and, optionally, independent technical experts (not more than one for each tender) who may be invited in case of critical need.	<i>High</i>	New Alliance Ukraine Procurement Guidelines clearly address this issue, describing the composition and the TOR of the tender committee. The tender committee is responsible for making decision on supplier selection and contract award and consists of representatives of the requestor, procurement officers and finance team representatives; additionally, external experts as well as representatives of Legal and Internal Audit Teams are invited in case of necessity. (For details please refer to p. 7.5 of Alliance Ukraine Procurement Guidelines)	Alliance Ukraine	Done as of September 2011
	(ii) Evaluation protocols, minutes or dossiers should contain a full description of the procurement cycle as well as the reasons for rejecting bids or awarding contracts. The		With introducing of new Procurement Guidelines Alliance Ukraine amended the format of the evaluation report to clearly reflect the reasons for each decision. For every Alliance Ukraine procurement we have introduced an Evaluation report: it is a document summarizing and describing all	Alliance Ukraine	Done as of September 2011

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	Recommendation	Priority	Management action	Responsible party	Due date
	opinion of technical experts, if any, should be properly documented, signed and annexed as an integral part of the evaluation protocol.		information concerning the specific procurement case and when completed, provides a brief description of procurement need, necessary dates along the procurement process, bidders' names, announced prices and Inco terms, comparative analysis of bidders and bid offers in terms of organizational and technical requirements stipulated in the tender documentation, prices comparison, recommendation of the tender committee, any special opinions of the tender committee members and other information which might be considered important for the specific procurement case. (For details please refer to p. 7.4 of Alliance Ukraine Procurement Guidelines)		
	(iii) The Principal Recipient should refrain from convening committees which could take over the functions of previous committees (other than an evaluation committee).		In the current PSM guidelines there are no "committees" as such within the procurement process, therefore recommendation is not any longer relevant. Decision-making on the supplier selection and contract award is the responsibility of the tender committee. See <i>Alliance Ukraine Procurement Guidelines</i>	Alliance Ukraine	Done as of September 2011
21	The procurement department should consider rotating its staff to further increase the capacity and experience of procurement officers. This would broaden an individual's knowledge of other functions and departments in the organization; develop individual careers; maximize an individual's exposure to customers by moving him or her into positions that require customer interaction; act as a tool for motivating/challenging an	<i>Significant</i>	<p>Alliance Ukraine has reviewed the procurement portfolio of the organization as part of PSM restructuring. It has been decided to standardize and unify all job descriptions of the PSM staff which was done mid of 2011 and principle of rotation introduced in most cases taking also the workload per person into account.</p> <p>However, in exceptional cases like procurement of substitution treatment medicines and its distribution are kept unchanged due to its complicated nature of entire operation. Procurement of these items require wide scope of knowledge and practical experience to work with drug control and health care system.</p> <p>Existing PSM guidelines as well as broad experience in procurement provide wide possibilities for the knowledge and skills sharing among personnel on tender processes. PSM staff working in Alliance Ukraine hired on the competitive basis envisaging previous experience in</p>	Alliance Ukraine	Done with exceptions for complicated cases

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	Recommendation	Priority	Management action	Responsible party	Due date
	individual who has been on a job for a long time; and assist in the cross-training of team members.		procurement, workflow and negotiations with contractors. Development of these skills and knowledge is also supported by Alliance as a regular personnel development (trainings on specific skills in the area of responsibilities and procurement of technical literatures) policy within the organization. Beside, joint trainings on negotiations, procurement and supply chain are organized time to time. Currently, a training on procurement in public organizations for the entire PSM unit is planned for July 2012. Additionally, international management training is provided for senior PSM staff to improve further their overall managerial skills.		
22	The Principal Recipient should announce major tenders for non-health products and services in well-known and free international arenas, such as UN Development Business, a practice already followed by the Procurement Department in the purchase of health products.	<i>High</i>	<p>With the consolidation of all procurement within the Procurement unit similar approach is applied to all procurement cases irrespective of product specifics. For non-health procurement PSM staff conducts market research to identify all possible suppliers and make a list of pre-qualified suppliers.</p> <p>The aim of the announcement is to spread information among maximum range of possible bidders. For this PSM staff places announcement of the web-site of Alliance Ukraine, specialized tender web sites, and also direct mailing to pre-qualified and leading known suppliers (contact information of potential suppliers are provided by the requestor and collected by PSM staff during market research). In some cases where it is sound and possible an announcement is published in mass-media</p> <p>In particular, all tenders are being advertised as wide as possible and information sent to maximum number of suppliers. For non-health products & services market research is done for identifying all possible contractors. All tender and shopping cases are announced on Alliance Ukraine web-site and through the direct mailing to the known potential suppliers. Major tenders are announced in all-Ukrainian newspapers and on Ukrainian tender sites (Tenders-UA, etc.).Not always it is relevant to publish the announcements on the international media since most of the administrative procurements are being done within</p>	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>the country, however we do place it on the free tender websites. In addition, in many cases the crucial thing for the non-health products procurement is direct mailing to the widest number of potential participants which is always done by Alliance Ukraine. Information on sources of tender announcements and list of companies to whom the information has been distributed has also been added to evaluation report.</p> <p>Tender price for each tender is determined by comparing price lists submitted by bidders. Thus comparison is implemented taking into account different factors stated in the tender documentation (like quality of goods, delivery terms, and correspondence with separate requirements of Specification etc.)</p> <p>Most non-health products are legally binding to be receiving services or products within Ukraine and the value of such tender is insignificant for any international bidders to respond, thus most of these tenders are announced within national media. Publishing any tender announcement to UN or other external arenas will depend on the value and diversity of the products or services to be procured.¹¹</p>		
23	The PR should clearly specify quantities in requests for bids to allow potential suppliers to offer their best prices and avoid potential complications. Where contractors fail to meet their obligations, the Principal Recipient should invoke penalty clauses to ensure that the Global Fund does not pay unnecessarily for service or products not delivered to time.	<i>High</i>	<p>The case, mentioned in OIG report, was concerning STI drugs distribution of which is being done only by MOH order, and exact quantities/needs from regions were not known at the time of tender announcement which led to stating budget quantities in the tender announcement instead. Currently, quantities of product to be procured are always stated in the tender documents; in case when deviation in final quantities can be predicted, this information is being stated, specifying the exact percentage of possible deviation.</p> <p>General terms and conditions for procurement of goods, pharmaceuticals, medical equipment, civil works and services, stipulated in bidding documents, to stay unchanged in terms of</p>	Alliance Ukraine	Done

¹¹ Alliance Ukraine procurement guidelines clause 5.2.1

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>contract negotiations.</p> <p>Penalty clause is a mandatory part of our supply agreements and Alliance Ukraine already has an experience of imposing penalties to the suppliers. For example the supplier of rapid tests, Norton Ukraine paid a penalty for the non-timely distribution.</p> <p>The provisions of any procurement contract signed with Alliance Ukraine will include, in addition to those required by Ukrainian law, relevant donor and any other legislative or regulatory requirements, the following provisions: Liability of the supplier in case of non-performance of improper performance under the contract, with appropriate remedies for Alliance Ukraine.</p>		
24	<p>(i) The Principal Recipient should ensure accurate budgeting and specification of needs in tender documents; and the related procurement evaluation processes and records of the decisions taken should provide clear evidence of the reasons supporting the rejection of bids and the award of contracts in all cases of competitive tendering. Unless adequately justified to the contrary in the evaluation process, the PR should normally award contracts to the lowest price offered so as to ensure best value from Global Fund resources.</p>	<i>High</i>	<p>P. 7.5.2. of Alliance Ukraine Procurement Guidelines states that in each case the general rule for Tender Committee decision making shall be “best value for quality assured products”. Procurement decisions are of a high importance for the organization. Decision-making process of supplier selection in Alliance Ukraine is based on clearly defined principles. Out of those that meet the organizational, technical and other requirements stated in the tender documents, the offer with the lowest price is being selected. Decision making and the reasons for supplier selection are being stated in the evaluation report. Moreover, they are being approved by the relevant directors during evaluation report approval.</p>	Alliance Ukraine	Done
	<p>(ii) The PR should conduct due diligence or market research</p>		<p>The following requirements in the guidelines are being followed on regular basis:</p>	Alliance Ukraine	Done; Continuous

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	Recommendation	Priority	Management action	Responsible party	Due date
	<p>on potential contractors to confirm the credentials of the companies before contracts are awarded.</p>		<p>3.1 The first step in selecting Suppliers is often market research, particularly if the product or service has not been procured before. There are a number of tools available for this initial phase. The Procurement unit can refer to widely available sources of information such as Internet searches, publications, and professional journals; and for products with specific requirements (usually health products) specific databases and information sources should be consulted (e.g. WHO prequalified lists of suppliers for pharmaceuticals, international reference price indicators such as the Global Fund PQR, national lists of registered products, etc).</p> <p>3.2 EVALUATION OF SUPPLIERS</p> <p>When conducting any procurement, unless otherwise separately defined in these Regulations, Alliance Ukraine first examines the capacity of the potential Suppliers and confirms their qualifications. The following criteria may be used when verifying the qualifications and capacity of the Suppliers, depending on the item to be procured, procurement type or method:</p> <ul style="list-style-type: none"> • Legal capacity (abstract from the Unified State Register of Enterprises and Organizations of Ukraine) • Availability of necessary permits and licenses; • Availability of required material and technical resources; • Evidence of meeting national and international quality standards for the product required; or evidence of national and international acceptance of its services; • Availability of properly qualified staff possessing the required knowledge and experience; • Availability of properly documented expertise in performing similar works, providing relevant services, and for procurement of goods – experience in sales of such goods; • Capacity to provide after-sale services for the goods and services provided; • Compliance with Quality Assurance policies and norms; 		

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	Recommendation	Priority	Management action	Responsible party	Due date
			<ul style="list-style-type: none"> • Financial compliance; • Compliance with Alliance Ukraine Procurement Guidelines and internal policies; • Other criteria as may be defined in the tender documents. 		
25	Going forward, the Principal Recipient should ensure realistic delivery requirements and inform the market of all evaluation criteria, with price being among the critical decisive factors in the evaluation of bids.	<i>High</i>	The recommendation was referring to one single case which was a rather technical mistake. Normally evaluation criteria are always included into the tender documents with price being listed among them. Bidding by definition is the process of prices (bids) comparison, so price is always considered as one of the key evaluation criteria.	Alliance Ukraine	Done; Continuous
26	The PR should apply consistent procedures for tender opening within a short time of the deadline for submission of bids, and should clearly publicize these in the tender documents. Where advertised arrangements cannot be adhered to, all prospective contractors submitting tenders should be notified accordingly.	<i>High</i>	This practice is currently in place with date, time and place of the bid opening being part of the tender documentation.	Alliance Ukraine	Done as of September 2011; Continuous
27	The PR should ensure that local purchase requirements and thresholds stipulated in its procurement regulations or standard operating procedures are observed and should maintain a fully-documented purchasing record with supporting documents for audit purposes.	<i>High</i>	The thresholds for procurement method selection are stipulated in the Alliance Ukraine Procurement Guidelines. The PR always applies them selecting the appropriate procurement method for a specific procurement. The situation being the basis for a recommendation, however, refers to a case of an emergency need when the longer timeframes needed for the tender process would have put the program under risk. In line with the guidelines valid at the time, there was a special Alliance Ukraine Senior Management Team approval for this case. (<i>Annex 6.4</i>). It is important to mention that Alliance Ukraine strictly follows the thresholds stated in the Procurement Guidelines	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>and from September 2011, when they have come into force, never a less stringent procurement method has been applied by PSM team. However, should there be a need of an emergency purchase, which the PR could not foresee in advance, a possibility to refer to SMT for approval to apply such method has been kept in order to avoid possible programmatic risks.</p> <p>To improve work flow and record keeping on tenders conducted, a centralized electronic archive of all past tenders was created from the moment new PSM guidelines came in to force and are ready at any time either for review or audit purposes. See the <i>Alliance Ukraine Procurement Guidelines and SMT minutes #32 dated 04.09.2008 extract</i></p>		
28	<p>The Principal Recipient should include required conditions of contract in the bidding documents for all tendered procurements and provide those to all potential bidders. The PR should not change the quantity of products in the contract after selection of a supplier, unless these changes were envisaged in the bidding documents and communicated equally to each potential bidder before bid submissions. The PR should avoid making unnecessary advance payments to contractors.</p>	<i>High</i>	<p>Alliance Ukraine always included relevant essential conditions of a future purchase into an announcement. After the OIG debriefings following the audit, Alliance Ukraine has included into new Procurement Guidelines (approved on 09.09.11 by GF) provide the inclusion of essential contract conditions are being included into tender documents on the stage of announcement for each tender. Quantities of product to be procured are stated in the tender documents; in case when deviation in final quantities can be predicted, this information is being stated as well specifying the exact percentage of deviation. Draft Contract contains responsibilities of the Parties, payment terms etc.</p> <p>The above stated is being reflected in the Alliance Ukraine Procurement Guidelines, p. 7.5.2: “Pursuant to the Tender Committee’s decisions, the Procurement Officer will prepare and release relevant contracts to each selected supplier. The contract will include the Specification and other conditions previously identified in the Tender Announcement and Bid Documents.”</p> <p>P. 7.7: “General terms and conditions for procurement of goods, pharmaceuticals, medical equipment, civil works and services,</p>	Alliance Ukraine	Done as of September 2011; Continuous

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	Recommendation	Priority	Management action	Responsible party	Due date
			stipulated in bidding documents, to stay unchanged in terms of contract negotiations. Negotiations on future contract conditions may be conducted with the selected Suppliers regarding finalizing the aspects not stated in bids documents only. It is of the utmost importance that the negotiations result in a clear understanding by both parties of their responsibilities under the contract.”		
29	To ensure good financial management and ethical procurement practice, when requesting technical assistance or the provision of any services or goods, the Principal Recipient should advertise realistic time-frames and other conditions and not vary these after the selection of contractors to the detriment and disadvantage of other potential suppliers.	<i>High</i>	With the consolidation of all procurement functions within one procurement unit we will continue to ensure all procurement announced by the organization adhere to single procedure and provide equal opportunity for all potential suppliers. Required delivery dates have been made a mandatory part of the tender Specification which is an annex to Procurement Guidelines. Point 4 of the Specification states: <ol style="list-style-type: none"> 1. Specific delivery conditions. <ol style="list-style-type: none"> 1.1 <number of consignments; if delivery with several shipments is available, then specify minimum number of units of the product to be delivered with the 1st shipment> 1.2 <time of latest product arrival to the place of destination for each separate consignment> 	Alliance Ukraine	Done
Public Health					
30	The Country Coordinating Mechanism should consider increasing efforts to scale up the provision of opiate substitution therapy through the involvement of Government, the Global Fund, UNAIDS and other stakeholders to achieve greater impact on the epidemic. The Alliance Ukraine should focus on training mechanisms for medical practitioners involved in OST provision. The PR	<i>High</i>	Suggested actions for NCC: please, see Recommendation 1 and proposed actions. Actions undertaken by PR: Significant advocacy efforts aimed to resolve opioid substitution treatment(OST) scale up problem as well as other problems/issues associated with OST implementation were applied by Alliance Ukraine and partnering organizations. Following general strategic directions were pursued: <ul style="list-style-type: none"> ▪ Issuance of MOH and Cabinet of Minister’s documents addressing OST scale up and regulating OST provision (OST distribution/redistribution Orders); ▪ Coordination of activities done by Alliance Ukraine and OST Partners and aimed for OST expansion and for protection 	NCC	June 30 th , 2012

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	should also consider further information initiatives to promote the significance and value of OST with prison authorities.		<p>against harassments and intrusions of enforcement agencies.</p> <p>NCC is to address OST related problems/issues on regular basis in order to assure adequate OST scale up.</p> <p>In terms of collaboration with health care institutions (HCI) to identify training needs of staff, and under Alliance Ukraine grant, Ukrainian institute of public health policy (UIPHP) identified training needs for HCI implementing OST, or preparing to implement OST. Based on these data a training plan was developed and then implemented during the program.</p> <p>In total, 14 trainings conducted where 369 participants trained on specific treatment related questions, as well as 16 experience exchange seminars for 357 representatives of HCIs were conducted.</p> <p>Due to lack of funding in phase 2 R6 no additional training was planned for year 3</p> <p>The paragraph 8 of Order of the Cabinet of Ministers #1002-p issued on 12, October, 2011 prescribes that “The joint decree on the procedure of interaction between health care institutions, local police, agencies and penitentiary institutions to ensure continuity of substitution therapy have to be issued”. The Alliance Ukraine is also actively involved in the execution of this order.</p> <p>At that, in May 2011 the Order described interactions between HCI, police, remand prisons and correctional centers to ensure continuity of treatment of drug substitution therapy was signed by MOH and still on acceptance stage in Ministry of Justice, State Drug Control Service and Ministry of Internal Affairs.</p>		
31	There is a need to develop and introduce prevention interventions focused on discrete groups of young people, such as youth in rural areas, employed youth and	<i>High</i>	CCM supports OIG recommendations to scale up activities financed by GF to prevent HIV-infection with an aim to cover additional youth groups and military personnel within the GF programs. However, within remaining Round 6 and newly introduced Round 10 programs, GF allocates funds to implement specific activities to prevent HIV-infection targeted at separate primary risk groups. Compared to the	Alliance Ukraine NCC	

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	Recommendation	Priority	Management action	Responsible party	Due date
	youth living in hostels. Alliance Ukraine should also consider the value of a pilot project aimed at developing a new system on HIV prevention in the armed forces of Ukraine, focusing mainly on HIV prevention activities and safe behavior. The PR should engage and cooperate closely with the Ministry of Defense as a partner in program implementation.		<p>Round 6 program, the size of these groups and scale of activities is larger and covers new target groups, such as IDUs' and sex workers' sexual partners and also MARA in addition to street children and other risk youth groups including those studying at technical colleges. This is youth at more risk than youth belonging to the general population.</p> <p>It should be taken into account that the GF funding in Ukraine is given as grants which is additional to the available funding from the state side and financial support from other partners' side, and it should not be viewed as one replacing the abovementioned funding. Since the state informational and other programs on HIV prevention targeted at youth are performed by MoH and Ministry of Education and are financed from the regional budgets, and the implementation of those targeted at military personnel is performed by the Ministry of Defense and correspondent regional authorities, these programs do not meet the objectives and scope of programs financed by GF.</p> <p>However, within the framework of the National AIDS Program for 2014-18 development, CCM will supervise the review of the Program on HIV-infection prevention in the army, which is financed by the Ministry of Defense and other programs on HIV prevention among youth supported by MoH, Ministry of Education, Ministry of Labor and other partners implementing the National AIDS program, and will provide recommendations on further adjustment of these programs with an aim of improving their effectiveness and enlargement of funding from the state side.</p>		
32	There is an increasing need to review HIV/AIDS-related legislation to ensure that it addresses epidemiology findings in Ukraine.	<i>High</i>	In 2009 Ukraine adopted National AIDS program for 2009-2013 which includes HIV prevention programs among injecting drug users, commercial sex workers, men who have sex with men, adolescents and prisoners.	NCC	Done
33	Alliance Ukraine should consider the viability of extending its coverage of injecting drug users to the	<i>Significant</i>	In 2011 Alliance Ukraine has been supporting drug user programs in 170 cities and towns in all administrative regions of Ukraine varying in size from millions to a few thousand inhabitants covering annually	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
	country's smaller regions in the long term.		some 170 000 IDU or 60% of estimated drug user population in the country which constitutes a substantial programmatic reach. Further expansion to small towns and villages with the same coverage principle will raise program expenditure and will not be cost-effective. The Alliance Ukraine is developing other methods of reach including involvement of Government Centers for Social Services for Youth, pharmacies, internet coverage via educational films and information materials. Currently CSSYs are engaged in Luganska, Kharkivska, Chrnigivska, Ivano-Frankivska, Kyivska oblasts and Crimea. Local resources of CSSYs and CSSYs personal as well as additional social workers are involved in HIV prevention among risk groups. Realistic expanding of coverage of injecting drug users in smaller regions of the country in the long-term perspective will be considered at the program committee of the National Council and the IDUs' subject groups.		
34	Alliance Ukraine should initiate contact and negotiation with government authorities about medical waste management (syringes and other material) in order to push forward the development and application of a policy on disposal of used syringes.	<i>Significant</i>	Medical waste management regulations are impossible to implement within the harm reduction projects. The sanitary requirements are long out-dated and have not been reviewed for years, giving the regulatory agencies the reason to stall syringe exchange programs. Alliance proposed for a number of times to change current regulations for used syringe disposal to enable NGOs collect and transport used syringes to sites of syringe utilization. Alliance Ukraine sent a letter to MoH in June 2011 suggesting to introduce amendments to sanitary regulations on collection and disposal of syringes which would allow bringing down the barriers hindering syringe exchange, following best practices in developed countries. Similar regulations are already adopted in Russian Federation. Examples of letters sent by Alliance to MOH are attached. MoH responded the issue to be under consideration. In September 2011 Alliance Ukraine raised the problem again during the meeting of intersectoral working group on substitution therapy under MoH. In February 2012 the issue was again raised by Alliance Ukraine during the meeting of National Coordinating Council. Alliance Ukraine will continue actions to improve disposal of used syringes both from amounts of narcotic drugs and waste disposal perspectives.	Alliance Ukraine NCC	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>Another important issue is criminalization of very small amounts of drugs in syringes from late 2010. This stopped IDU from bringing used syringes to NGOs; Entering into force of the new edition of the ‘Table of Small, Large and Significantly Large Amounts of Narcotic Drugs, Psychotropic Substances and Precursors in Illicit Circulation’ (29.10.2010), resulted in significant increase of the criminalization of injecting drug users (5-20 times). Because of the risk of criminal liability for drug remains in used syringes, the number of collected syringes (within the framework of syringe exchange programs) decreased by 50% (as of the end of Q4 2011 as compared to Q4 2010). Alliance Ukraine lodged an appeal against the Decree of the Ministry of Health changing the ‘Table of Amounts of Narcotic Drugs’ in the Administrative Court. In October 2011 Alliance Ukraine interposed appeal to the Kiev City Court of Appeal.</p> <p>Actions from NCC:</p> <ol style="list-style-type: none"> 1. To address MOH and other relevant Ministries on changing the ‘Table of Amounts of Narcotic Drugs’ to align it with European drug legislation. 2. To address MOH on changing current requirements on medical waste disposal in circumstances of syringe exchange and harm reduction programs. Amend the sanitary standards of collection and disposal of syringes, which will reduce barriers to needle exchange, following the best practices in developed countries. Allow destruction of used syringes. 		
35	The PR should review whether appropriate targets have been set relative to universal access to prevention, paying special attention to the quality of prevention services. Prevalence surveys should be initiated and targets reviewed in light of the outcomes of	<i>Significant</i>	<p>Currently all targets within the active Performance Frameworks are set based on HIV prevalence data (sentinel surveillance results obtained every two years) and up-to-date estimates of key population sizes. Although this activity is not reflected within the Performance Framework targets, Alliance Ukraine will continuously improve the quality of prevention services throughout Round 10, in order to achieve both sufficient scale and quality of interventions.</p> <p>The quality of services will be improved through ongoing trainings for</p>	Alliance Ukraine	<p>Done</p> <p>On-going</p>

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	Recommendation	Priority	Management action	Responsible party	Due date
	these surveys, to ensure the realism of targets. Target setting should also consider related work undertaken by other stakeholders and donors.		social workers, changes made to the methods of services provision based on the operational researches conducted and improvement of clients' visits regularity.		
36	The OIG recommends the inclusion of an indicator on HIV prevention among adolescent IDUs as part of the current program (to be addressed in Round 10); and also consider the need to obtain information to monitor trends in behavior and target appropriate prevention interventions.	<i>Significant</i>	<p>Adolescent IDUs are a subset of two indicators which are currently part of the Performance Framework: IDU coverage and MARA coverage. Data collection system used for both of these indicators (SyrEx) allows for disaggregation by age group (in case of IDU coverage) and secondary risk group (MARA who are IDUs), thus data on adolescent IDUs is available for analysis and usage. Behavior trends are measured among adolescent IDUs as part of the general IBBS among IDUs every two years.</p> <p>Management action: to pay specific attention to analysis of trends in programmatic, epidemiological and behavioral data among adolescent IDUs and amend prevention programs accordingly, in order to most effectively target this sub-group.</p>	Alliance Ukraine	<p>Done</p> <p>On-going Starting 2013</p>
37	Consideration should be given to the creation of enduring service chains to work with those who are at risk of HIV infection when they leave prison, and which can engage with both civil society and penitentiary settings. HIV/AIDS-related training and testing should be pursued with prison authorities. While working with prisoners, the staff within the penitentiary settings, as well as social and health workers outside the penitentiary settings should	<i>Significant</i>	<p>Currently Alliance Ukraine conduct negotiations on signing new Memorandum of understanding with State Penitentiary Service of Ukraine which defines terms of joint cooperation on organization of provision of HIV/AIDS prevention services not only for imprisoned but also for prisoners before release. In frames of the activities planned within cooperation number of trainings for staff of the penitentiary institutions and distribution of informational materials will be conducted. Consistency in provision of HIV/AIDS prevention services for prisoners and released will be built through cooperation of HIV-service NGOs and penitentiary institutions at the regional level based on the Memorandum of Understanding signed at the national level. Within Round 6 Alliance Ukraine supports provision of the following services:</p> <ul style="list-style-type: none"> - Trainings for volunteers from the prisons on peer educational work among other prisoners; - Informational meetings, trainings for prisoners and staff of the 	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
	use the same methods and approaches for prevention services. This would ensure consistency in the type of prevention services after prisoners are released.		<ul style="list-style-type: none"> - prisons on HIV/AIDS prevention; - Voluntary counseling and testing on HIV; - Distribution of individual commodities of HIV-prevention (condoms) and other humanitarian aid, informational materials; - Counseling by social workers, psychologists, infection disease doctors. 		
Monitoring and Evaluation					
38	The Principal Recipient should consider the provision of continuous capacity-building training for its M&E specialists in order to improve planning and program development based on M&E data received from different health facilities.	<i>Significant</i>	The PR continuously monitors the availability of training opportunities in the sphere of M&E, and M&E specialists take part in relevant trainings (e.g. at WHO Collaborating Centre for HIV Surveillance, Zagreb, Croatia). It is planned to continue this practice in R10 as well. It is planned that by the end of Phase I, M&E specialists will take part in several trainings of Zagreb knowledge Hub on epidemiological surveillance, intervention effectiveness and evaluation workshop and workshop on preparation of scientific publications (State University of New York at Albany). In February 2012 all M&E department staff members participated in training on projects and programs evaluation.	Alliance Ukraine	Done
39	Given the importance of data integrity, the Principal Recipient should consider commissioning an audit of the quality of data and data reporting. Representatives from government should be included in the teams conducting monitoring visits of sub-recipients. This may facilitate validation of reported performance indicators.	<i>High</i>	<p>Reliability of the programmatic data has been proven by independent audits. In particular, over March– April, 2011, the Alliance Ukraine passed a data quality audit (DQA) initiated by the USAID. The external assessment of data reported both to the Global Fund and USAID showed that the Alliance Ukraine “had arranged a reliable system of reporting and data collection” (which is uniform for information collection under all the programs, irrespective of a donor). The audit of data showed their high quality. Their accuracy reached nearly 100% for all the indicators reported by the Alliance Ukraine.</p> <p>GF on-site data verification exercise that was conducted in September 2011 at four sites showed high level of data quality. Data-verification rating for MARPs coverage indicators, VCT and visits to mobile clinics indicator was set as A.</p> <p>Please, see also the response to the Recommendation 41 on inclusion of</p>	Alliance Ukraine	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
			government officials in monitoring visits to SRs.		
40	Monitoring of the quality of services delivered should be strengthened and should involve government officials in monitoring visits to sub-recipients. The OIG considers that there would be merit in rationalizing the number of sub-recipients without compromising territorial and client coverage.	<i>Significant</i>	<p>Alliance attracted representatives of state organizations for joint visits to analyze the situation of rapid tests and referral to regional centers for vulnerable groups in September and October 2010. The Alliance plans to involve representatives of state organizations in monitoring visits that require a common solution. Besides, according to Regulation on the Ukrainian Oversight Committee, Committee determines the schedule of site visits for supervision over programmatic activities in the fields entrusts members of the Committee to take part in site visits, involves other stakeholders and members of regional councils on TB and HIV-infection/AIDS to participate in them. This mechanism will ensure the involvement of government officials in monitoring visits to SRs. To improve the quality of services, the Alliance Ukraine plans to involve two staff positions for strengthening analytical and technical expertise in evaluation and quality assurance of the existing program and optimization HIV prevention resources.</p> <p>The quality of services is also consistently improved by Alliance Ukraine based on the results of operational researches. A new round of OR is planned under Round 10. During the last quarter of Round 6 few external evaluations led by UNAIDS and supported by World Bank are planned to evaluate current programs.</p> <p>During the recent call for proposals Alliance Ukraine recommended to Expert Committees to avoid supporting organizations with the same scope of work and covering the same geographical region. As result of it the number of NGOs supported decreased significantly comparing to the previous program year. For example number of NGOs working with IDUs decreased from 81 to 71 (by 12%), number of NGOs working with CSWs decreased from 47 to 39 (by 17%).</p>	<p>Alliance Ukraine</p> <p>NCC</p>	Done

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	Recommendation	Priority	Management action	Responsible party	Due date
All-Ukrainian Network of PLWH					
Institutional capacity					
41	<i>i. Independent oversight by the Supervisory Board could be strengthened by appointing experts from wider civil society and private sector organizations, to provide the organization with better balance, independence and experience in providing oversight and governance over the Network.</i>	High	<u>Explanation</u> In the second half of 2011, a process of review of the new organizational structure of the Network was started, which would involve all units, including the Coordination Council and Supervisory Board, as well as the relationship between the Central Office and regional affiliates. On September 30, 2011 on tender basis the company DP "Centre for Quality Systems "Pryrist-Systema" was selected (term of contract December 2011- April 2012). At present, the new structure is being agreed with regions. The new structure and functions were presented to the members of the Coordination Council. The proposed changes require approval by the General Meeting with subsequent amendments to the Charter and possible re-registration of the organization.	1) The Network Coordination Council; 2) The Network Coordination Council; 3) The Network Coordination Council; 4) The Network Coordination Council; 5) The Network Board of Directors	1) March-April 2012; 2) April-May 2012; 3) September 2012; 4) where appropriate October - December 2012 5) where appropriate October - December 2012
	<i>ii. It is advisable to streamline senior management responsibilities to avoid duplication of effort. The organizational structure should be reviewed to provide more adequate governance and to ensure oversight over program implementation.</i>		<u>Measures</u> 1) completing an assessment of the new structure of the Network; 2) discussing the new structure of the Network by the Coordination Council and Supervisory Board; 3) approving the structure of the organization by the General Meeting, including the renewal of the term of office of Supervisory Board members; 4) making amendments to the statutory documents, where required; 5) reviewing the duties and responsibilities of senior managers in accordance with the revised structure.		
42	<i>Internal audit should not participate in the day to day running of the organization and should report to the Supervisory Board rather than the Finance Director. It is advisable to establish a stand-</i>	High	<u>Explanations</u> The recommendation deals with the presence of positions of internal auditors in the Network structure who exercised control over the use of funds by sub-grantees. To avoid confusion in the terms, the position "internal auditor" was renamed into "Senior Financial Specialist of the Grant Management Unit."	1) The Network Board of Directors; 2) The Network Coordination Council;	1) by October 2012; 2) where appropriate October -
			Setting up an autonomous independent internal audit service is not		

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>alone, independent internal audit function to provide oversight of the financial and grant management of the organization in both financial and programmatic aspects.</i>		<p>stipulated in the current budget of the Network. An audit of project costs is carried out each year by an independent auditing firm, so is an independent financial audit of the entire organization, which results are submitted to the Coordination Council and Supervisory Board. In particular were audited:</p> <ul style="list-style-type: none"> - for the period 2007-2008 – 21 sub-recipient out of 80 (80% of all funds provided to sub-recipients were audited); - for 2009 – 33 sub-recipients out of 124 (77% of all funds provided to sub-recipients were audited); - for 2010 p. – 154 sub-recipients out of 154 (100% of all funds provided to sub-recipients were audited). - for 2011 p. it is planned to audit 46 sub-recipients out of 132 (73% of all funds provided to sub-recipients). <p>All external audit reports are available for reviewing and analyzing the findings in the office of the Network.</p> <p>Against the background of a funding gap and absence of significant violations, setting up the autonomous independent internal audit service is considered not feasible.</p> <p><u>Measures</u></p> <ol style="list-style-type: none"> 1) studying the feasibility of setting up the autonomous independent internal audit service of the Network; 2) making changes and modifications to the organizational structure of the Network, where required. 		December 2012
43	<i>The initial evaluation of business projects carried out by the Network under Global Fund grant support is important; all proposed projects should be carefully analyzed and planned prior to implementation.</i>	<i>Significant</i>	As part of the implementation of the Round 1 grant (2005) when the Network was a sub-recipient, the Work Plan of the Proposal provided for the establishment of Social Entrepreneurship for PLWH. The activity was terminated due to the reasons beyond control on the part of the Network. At present, the Network is not implementing or planning to implement business projects funded by the Global Fund.		

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	Recommendation	Priority	Management action	Responsible party	Due date
Compliance					
44	<p><i>Going forward, the Network should increase its coverage of sub-recipients audited. This may be achieved using external resources, as has been the case, or by recruiting an internal team of auditors if outsourcing proves to be less economical.</i></p>	High	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> The Network considers the existing system of audit of sub-recipients as the one, providing an adequate level of assurance on the legality of expenditures under sub-grants, and is economically reasonable in view of costs for its maintenance. In particular, the organization audits the costs of sub-recipients in two ways: 1) Officers of the Financial Management Unit conduct quarterly audit of all expenditures made by sub-recipients within the reporting period in view of their relevance to the grant agreement, the requirements of Ukrainian legislation, internal regulations, and sub-recipients' procedures and their appropriate use. To confirm the expenditures the sub-recipients provide copies of all financial records of expenditures for the period. Original documents, physical presence of purchased fixed assets and practice of cost accounting of the project is checked during financial monitoring visits that are carried out by the officers of the Financial Management Unit. 2) An external audit company which is selected on tender basis under the ToR approved by the Global Fund, carries out the verification of sub-recipients' financial reporting data for the calendar year. Such audit is conducted once a year. Since early 2011, the Network has introduced a new approach to ensure a quality annual internal audit. For this purpose, all sub-recipients, whose grant funds for the reporting period exceeded 1% of the total grants disbursed to sub-recipients over the same period, are included in the sample which is provided to the selected auditing firm. Such approach has been agreed with the International HIV/AIDS Alliance in Ukraine and approved by the Global Fund Secretariat. In addition, if the SR in the sample of one PR is, at the same time, the SR of the other PR, but with the funding less than 1%, the expenditures under the project of the later PR will also be reviewed by the external auditor of the former PR. For 2011, the coverage ratio of funds disbursed to sub-recipients under the Network projects will amount to 77% for the</p>		Completed

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	Recommendation	Priority	Management action	Responsible party	Due date
			independent external auditor. Supporting documents – the 2011 statement of work to be performed by external auditors. The provided explanation proves the reasonability for keeping the existing mechanisms of control and audit.		
45	<i>The Network is strongly encouraged to obtain tax exemption status on the purchases of goods and services made from Global Fund grants. The PR should raise the issue with other NGOs and with the Country Coordinating Mechanism and seek a refund for itself and its sub-recipients through agreed arrangements with the responsible government authority. In the meantime, the amounts of VAT and other taxes paid should be monitored by the PR as well by sub-recipients to ensure full reclaim of all tax paid.</i>	<i>High</i>	<p><u>Explanation</u></p> <p>The Network thoroughly studied and repeatedly raised the issue of obtaining tax exemption status for goods and services procured using the GF grant funds at the highest level. However, the Ukrainian legislation did not provide for any mechanisms of obtaining such VAT exemption status that time. In 2011, the Network in cooperation with the State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases and other PRs supported the drafting of a separate law on the Global Fund supported projects stipulating that the implementers of such projects should be entitled to exemption from VAT and customs duties. The draft law was considered and approved by the Cabinet of Ministers of Ukraine and submitted to the Verkhovna Rada for approval in January 2012. It is expected that the law will be adopted during 2012 and it will become effective on January 1, 2013. Supporting documents – the draft law.</p> <p><u>Measures</u></p> <ol style="list-style-type: none"> 1) participating in the meeting of relevant committees of the Verkhovna Rada at which the draft law on the GF supported projects is considered; 2) using the mechanism of recognition of such goods as humanitarian/charitable aid. 	<ol style="list-style-type: none"> 1) National Council, State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases, Principal Recipients; 2) Principal Recipients, MOH, State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases 	During 2012
Financial management					
46	<i>Senior management should review reports more frequently, on a monthly or at least quarterly basis, in order to properly monitor program</i>	<i>High</i>	<p><u>Explanation</u></p> <p>The recommendation has been implemented in part, i.e. starting from January 2012, the functions of the Chief Financial Officer and the Head of Financial Management are differentiated, and at present, the predictive modeling of the budget takes place on a regular basis, and</p>	1) The Network Board of Directors;	1) during Quarter II and III of 2012;

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>implementation. Regular monitoring can assist in identifying and resolving variances in performance on a timely basis.</i>		control over expenditures is exercised on a quarterly basis through the budget monitoring system used jointly by programmatic and financial experts. <u>Measures</u> 1) updating the procedures and developing an algorithm for monitoring the project by senior management of the Network; 2) familiarizing the members of the Oversight Commission and the National Council with the revised algorithm; 3) reviewing the job descriptions of the Network employees according to the revised procedures.	2) All-Ukrainian Network of PLWH; 3) The Network Board of Directors;	2) Quarter IV of 2012; 3) Quarter III-IV of 2012
47	<i>i. There is a need to improve data reliability in the accounting system which is currently prejudiced by the inaccurate migration of closing balances and the incompleteness of the opening balance in the new version of the PR's 1C software. The shortcomings in data migration need to be rectified. The accounting system needs to be updated according to the existing detailed plan and commitments under the agreements concluded in 2010 should be added into the accounting system. It is advisable to improve the management accounting functionality in the 1C accounting software.</i>	High	<u>Explanation</u> The accounting system was finalized in terms of four modules that have been functioning since January 1, 2011. Updating the accounting software used by the organization to record and process accounting transactions is performed by the Network on a continuous basis. For this purpose, the Network has an IT specialist on staff, as well as it entered into a long term agreement with AbbyEE providing current technical assistance in maintaining the 1C accounting software. As of January 1, 2010, budgets of all grants implemented by the Network were entered into the 1C accounting software. Further work on the reconciliation of the balance of grant agreements will be done on a semi-annual basis. <u>Measures</u> ➤ performing periodic reconciliations of account balances.	Accountancy Office of the Network	September 1, 2012, In the future – every six months

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>ii. There is a need for the Network to contract of hire qualified IT personnel who are in a position to provide professional services, including the proper and complete migration of systems and data.</i>				
48	<i>Management accounting records based on spreadsheets in Excel should be regularly checked and reconciled. The control reports should be generated by the applicable systems and used to compare systems with each other. The spreadsheets should be security protected to minimize the risk of unauthorized access and manipulation.</i>	<i>Significant</i>	<p><u>Explanation</u></p> <p>Management accounting records based on spreadsheets in Excel are regularly checked and reconciled. In particular, the consolidated Excel database on grants is checked against the accounting data in system 1C quarterly. Excel spreadsheets are security protected with the help of passwords to minimize the risk of unauthorized access and manipulation. The passwords are available to a limited number of CO officers.</p> <p><u>Measures</u></p> <ul style="list-style-type: none"> ➤ developing and implementing the module for generating the control reports based on the data of the 1C accounting software. 	The Network Board of Directors	By August 1, 2012
49	<i>The Network should seek to re-negotiate the price of the lease and associated services with the lessor at realistic current market rates, with a view to signing an additional agreement to the lease agreement . The potential annual saving to the Global Fund could be in the order of some UAH 360 000 (USD 48,000).</i>	<i>Requires Attention</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u></p> <p>The price of the lease has been re-negotiated and now it corresponds to realistic current market rates in Kyiv. (Supporting documents – the Lease Agreement dated November 2010.)</p>		Completed
50	<i>Linking salary increases to adjustments in the minimum</i>	<i>Significant</i>	<i>Recommendation has been implemented</i>	National Council	By the end of 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>official wage is not provided for under Ukrainian legislation and is not justifiable on a cost-effectiveness basis. The Principal Recipient should devise and introduce a transparent system of salary rate increases based on employee performance in accordance with their functions. The OIG recommends reviewing the salary rates of all staff and revising them in line with the current market situation in Ukraine.</i>		<p><u>Measures</u> The salary rates of all staff of the Central Office of the Network were adjusted based on the results of the survey conducted by Ernst&Young, an auditing firm, at the request of Alliance-Ukraine, and correspond to the average salary rates in the labor market. Such salary rates were communicated to and approved by the LFA and the Global Fund, respectively. Since 2008, the Network has introduced an annual employee performance assessment when employee performance results are considered during the process of reviewing the salary rates of employees.</p> <p>Supporting documents – the 2008-2011 performance assessment tool. Taking into account that the available data on the situation on the labor market in Ukraine reflect the situation as of the end of 2009, in order to implement the recommendations the Network requests the National Council for assistance in obtaining permission from the Global Fund to conduct a new study of the labor market and the corresponding redistribution of the budget funds.</p>		
51	<i>i. The Network is engaged in projects not supported by the Global Fund. The allocation of key personnel to the Global Fund grant at 100% should be reviewed and revised as appropriate.</i>	<i>Requires Attention</i>	<p><u>Explanation</u> In 2011, the evaluation of personnel management procedures was conducted by Futures Group. Based on the results of such evaluation, the Network was offered TA to finalize its internal procedures.</p> <p><u>Measures</u></p> <ol style="list-style-type: none"> 1) reviewing the personnel management procedures (which include tracking of working hours and control); 2) conducting training on new approaches to the record of hours worked under various projects; 3) making amendments to the personnel management procedures, as appropriate. 	The Network Board of Directors	<ol style="list-style-type: none"> 1) March-April, 2012; 2) April, 2012; 3) Quarter II-III of 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>ii. The actual allocation of administrative expenses should not exceed the budgeted allocation amount defined for the program with the Global Fund.</i>		<p><u>Explanation</u></p> <p>The administrative expenses never exceeded the budgeted allocation amounts. Moreover, during the entire period of project implementation, administrative cost savings were achieved. Those were used to procure additional ARV drugs upon agreement with the National Council and the Global Fund and led to an increase in the indicator of the number of HIV-positive adults receiving ART.</p>		
52	<i>Other office expenses should be classified in accordance with the categorization provided in the administrative budget for legal fees, accounting fees, organization-wide consulting fees, computer consulting fees and other professional services' costs. As a rule, such costs can be material and should be monitored carefully in order not to exceed the approved budget levels.</i>	<i>Requires Attention</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u></p> <p>Other office expenses have been classified in accordance with the categorization provided in the administrative budget, accounting and reporting based on the extended categories have been implemented since January 1, 2011.</p>		Completed
53	<i>The OIG considers that the "first in, first out" method is a reasonable approach, relevant for reports provided on a cash basis. However, the calculation is performed manually in Excel spreadsheets, which involves complex computations to follow each amount in US dollars, which should be</i>	<i>Requires Attention</i>	<p><u>Explanation</u></p> <p>Since July 1, 2010, a unified approach has been used to calculate the average weighted exchange rate for all reporting needs: all expenditures of the PR in Ukrainian hryvnias for the period are shown in the U.S. dollar equivalent amount.</p> <p><u>Measures</u></p> <ul style="list-style-type: none"> ➤ designing and using a module to calculate expenditures in an equivalent amount of hard currency with the use of the 1C 	The Network Board of Directors	By July 1, 2012

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>closed by different disbursements in UAH in full. In the OIG's view, such calculations can be carried out more reliably using accounting software such as 1C, as is done in commercial enterprises. A consistent approach should be followed for currency translations by the PR and in procurement transactions by the sub-recipients.</i>		accounting software.		
Sub-Recipient management					
54	<i>Sub-recipients' arrangements for the selection of suppliers should be reviewed and strengthened in line with standardized procurement procedures. The Principal Recipient should execute more effective control of and oversight over the conduct of tendering arrangements by SRs.</i>	<i>Significant</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> Since April 1, 2011, the Network has been using the new procurement procedures approved by the Global Fund, which provide clear terms and procedures for selecting suppliers of goods and services. Since July 1, 2011, such rules apply to sub-recipients of the Networks and are included in all grant agreements as an annex (Procurement Guidelines). According to the procedures, sub-recipients are also required to agree their annual procurement plans with the Network and, in addition, invite a representative of the Network to participate in the process of selecting a supplier if the procurement is for an amount equal to or exceeding UAH 40,000.</p> <p>Supporting documents – the updated procurement procedures of the Network, Procurement Guidelines for Sub-Recipients.</p>		Completed
55	<i>The programmatic and financial reviews of sub-recipient performance should be linked. In order for the</i>	<i>Requires Attention</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> Since July 1, 2011, the Network has been using a new format of the</p>		Completed

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>Principal Recipient to meet the goals agreed with Global Fund, it is important that the PR checks that SRs have used disbursements in line with agreed work plans and are on target towards achieving the overall objectives of the grant. These checks will also ensure that the SRs' financial and programmatic mechanisms are clearly identified and strengthened on a timely basis. The PR should strive to match grant performance by SRs with disbursements made to ensure compliance with the grant agreement.</i>		<p>work plan for sub-grantees, which reflects scheduled activities and budget expenditures, the same format of the project work plan of Round 6. This format is used not only as a work plan, but also as a report format analyzed by program and financial personnel of the Network on a quarterly basis. For verification of the program data, the database array of sub-granters CASE+ and the primary accounting records are used. Consolidated programmatic and financial deviations are recorded by mentors in the same format. In addition, since July 1, 2011, new approaches to financing regional sub-granters have been applied. An analysis of progress towards achieving the overall objectives of the grant by regional projects is carried out on a quarterly basis; the performance results are the basis for determining the amount of the next tranche, which is in compliance with the basic principle of the Global Fund - "performance-based funding."</p> <p><u>Documents:</u></p> <ol style="list-style-type: none"> 1) work plan/budget format within the framework of the 2011–2012 competitions posted on the website of the Network on February 18, 2011 http://www.network.org.ua/competitions-ua/announcements-ua/ 2) format of Financial Statements for sub-recipients; 3) financial and programmatic reports verification algorithm; 4) table of programmatic progress of regional projects and calculating amounts of tranches. 		
Public Health					
56	<i>i. Decentralization of treatment is needed to achieve more effective and higher quality ART provision. In addition, the development of a regulatory framework and the implementation of organizational or structural changes will be needed.</i>	<i>Significant</i>	<p><u>Explanation</u></p> <p>The recommendation deals with the National Treatment Program financed from various sources. The GF Round 6 program provides part of the need for treatment and focuses on providing ART to at-risk groups. At the time of the audit, the planned indicators within the framework of the GF program had been implemented. In addition to the program parameters of treatment, the Network carried out advocacy activities to increase public funding of ART, transparency,</p>	1) Principal Recipients, MOH, State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases;	1) Quarter II–III of 2012;

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	Recommendation	Priority	Management action	Responsible party	Due date
	<p><i>ii. There is a need to give greater focus to integrated care packages (for HIV-infected TB and viral hepatitis patients), while ensuring attention to infection control in health facilities. The Country Coordinating Mechanism should make an effort to scale up ART provision through greater involvement of Government, UNAIDS and other stakeholders. The OIG suggests that the CCM call on PRs to increase their mobilization efforts to reach the patients in need of ART.</i></p>		<p>and the public tender process providing access to ART for at-risk groups. As a result of such measures, the 2012 State Budget allocations are increased by 64% for the purchase of ART compared to 2011, which will make it possible to provide treatment services to 42,000 people living with HIV. The Network is aware that such coverage is insufficient, so it will continue advocacy activities at all levels to provide treatment to all who need it.</p> <p><u>Measures</u></p> <ol style="list-style-type: none"> 1) preparing a strategy to scale up access to ART at the country level, which includes providing a comprehensive package of services; 2) discussing the strategy at the meeting of the Program Committee of the National Council; 3) including the strategy into a new National Program for 2014-2018. 	<p>2) National Council;</p> <p>3) National Council, State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases, Principal Recipients;</p>	<p>2) Quarter III of 2012;</p> <p>3) in 2013</p>
57	<p><i>To meet the ART needs of HIV-positive injecting drug users, the Principal Recipient should continue tracking and reporting ART and ST combination therapy.</i></p>	<p><i>Requires Attention</i></p>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> The Network and the CCM are aware of the importance of tracking such indicator. The said indicator is included in the National Monitoring and Evaluation Plan and is part of Indicator 33, which reflects the coverage of ART among the group of IDUs. The National Monitoring and Evaluation Plan was approved pursuant to Resolution No. 1349 of the Cabinet of Ministers of Ukraine dated December 28, 2011.</p>		<p>Completed</p>
58	<p><i>The PR should encourage the establishment of statistical data for the follow-up of ART patients after they are released from prisons and carry out a prevalence survey in prisons to obtain realistic</i></p>	<p><i>Requires Attention</i></p>	<p><u>Explanation</u> The said activity is included in the Grant Project Round 10.</p> <p><u>Measures</u></p> <ol style="list-style-type: none"> 1) signing a Cooperation Agreement between the Network and the State Penitentiary Service of Ukraine; 2) setting up a project implementation group (PIG), developing 	<p>1) The Network, State Penitentiary Service of Ukraine;</p> <p>2) The Network, State Penitentiary Service of</p>	<p>1) by April 1, 2012;</p> <p>2) by mid-April, 2012;</p> <p>3) on a continuous basis;</p>

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>baseline data prior to setting targets. This will require supporting work to be undertaken by prison authorities.</i>		<p>the PIG Terms of Reference and the functional responsibilities of specialists;</p> <p>3) ensuring administrative and programmatic support for the project, including review of approaches and statistical data collection for further support of patients receiving ART after their release from penitentiary facilities;</p> <p>4) signing an agreement with the Central Supply Base of the State Penitentiary Service of Ukraine, and approving a plan of procurement of drugs and medical supplies;</p> <p>5) engaging the PIG and representatives of the Service in the evaluation of offers and selecting winners of competitions for NGOs;</p> <p>6) assessing the efficiency of implementation of grants at the meetings of the National Council.</p>	<p>Ukraine;</p> <p>3) PIG, State Penitentiary Service of Ukraine;</p> <p>4) The Network, State Penitentiary Service of Ukraine;</p> <p>5) The Network, State Penitentiary Service of Ukraine;</p> <p>6) National Council</p>	<p>4) by April 1, 2012;</p> <p>5) April, 2012;</p> <p>6) on a continuous basis</p>
Monitoring and Evaluation					
59	<i>i. The Network should ensure that targets set at the beginning of interventions are reflective of the real situation in the country at the time. Epidemiology studies, the projection of cases, and interventions should be adequately analyzed.</i>	<i>Requires Attention</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u></p> <p>i. For planning objectives in terms of indicators, the Network is based on dispensary records and sociological surveys.</p>		Completed
	<i>ii. There is a need to review the current emphasis on process indicators and give greater focus to impact indicators such as the number and percentage of injecting drug users who are HIV positive, and a need to review the performance framework</i>		<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u></p> <p>ii. At present, the project proposal of the Network for Round 10 contains a number of indicators that illustrate the impact. See the Table of Indicators of the Round 10 Project.</p>		

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>in the light of current trends and changes which have taken place since the Round 6 proposal was formulated.</i>				
60	<i>The Network should consider strengthening the monitoring of the quality of the delivered services and involve government officials in monitoring visits to sub-recipients. It should consider rationalizing the number of SRs, not at the expense of territorial and client coverage, but by developing a method/formula to attain an optimal number of sub-recipients for effective coordination and monitoring.</i>	<i>Requires Attention</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> As of January 1, 2012, the number of sub-grantees of the Network dropped from 150 to 119 NGOs. The Network is dedicated to optimizing and rationalizing the number of sub-recipients in the new competition of the first year of Round 10 while maintaining the territorial coverage and increasing client coverage.</p> <p>During the period of October 24 through November 8, 2011, a team of international auditors, acting at the request of the Global Fund, carried out an audit of data quality by program activity, which is implemented by the Network as part of Round 6. According to the audit's results, a high level of quality of the data management system and reporting of the Network was affirmed.</p> <p>The Network engaged representatives of state and community organizations in monitoring visits and provided financial support to such visits by engaging the Ukrainian AIDS Center's employees. Considering the uniform requirements to the consulting services provided by the Principal Recipients, when implementing the Round 10 grant, the Network will be able to engage experts of the Unified Register of National Experts, including representatives of government authorities listed in the Register.</p>		Completed
Procurement and supply management					
61	<i>In order to ensure the best use of professional procurement experience and expertise, and to ensure appropriate separation of responsibilities,</i>	<i>Significant</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> Since April 1, 2011, the Network has an updated structure of the Procurement Unit, which conducts procurements of both medical and</p>		Completed

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>the procurement of all major goods, works and services should be conducted by the Procurement Department.</i>		non-medical goods, works and services to meet the needs of the Central office of the Network and external customers, such as the Ukrainian AIDS Center or the State Penitentiary Service of Ukraine. The Procurement Unit is a separate unit headed by the member of the Board of Directors of the organization. Supporting documents - the organizational structure of the Network and the updated procurement procedures.		
62	<i>The PR should institute improved procedures, including due diligence checks on potential suppliers, to ensure adherence to acceptable procurement standards, including competitive tendering wherever appropriate.</i>	<i>High</i>	<i>Recommendation has been implemented</i> <u>Explanation</u> Since November 2010, the Network has engaged a procurement agent to conduct all of its procurements worth more than USD 25,000, except as otherwise specifically permitted by the Global Fund. On April 1, 2011, the procurement plan and procurement and supply management procedures, and the conflict of interest policy of the Network were updated. All said documents were carefully reviewed and approved by the Global Fund. As regards the Round 10 procurement and supply management plan, it provides for an opportunity for the PR to carry out direct procurements from the monopolists, and independently conduct the tender purchases without the engagement of procurement agents. The ability of the PR to independently conduct procurements was confirmed by the assessment carried out by LFA. Supporting documents – the updated procedures of the Network, Round 10 Procurement Plan.		Completed
63	<i>It is essential that the Principal Recipient comply with the approved PSM plan submitted to the Global Fund. Going forward, the PR should review procurement practices and responsibilities and ensure scrupulous compliance with its conflict of interest policy.</i>	<i>High</i>			Completed
64	<i>The PR should include appropriate evaluation criteria in its bidding documents available to potential suppliers; should follow accepted professional practice and standards in procurement exercises, including ethical standards;</i>	<i>High</i>	<i>Recommendation has been implemented</i> <u>Explanation</u> Improving standard procedures for conducting procurements, documenting the selection and evaluation criteria for tender bids are reflected in the new procurement procedures of the Network effective from April 1, 2011. Supporting documents – the updated procurement procedures of the		Completed

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	Recommendation	Priority	Management action	Responsible party	Due date
	<i>and should provide adequate explanation and justification for contract award decisions.</i>		Network.		
65	<i>In future procurement exercises, the PR should seek to invite to tender only those vendors who are reasonably capable of offering the required services and only consider significant advance payments to contractors in justifiable and unavoidable circumstances.</i>	<i>Significant</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> It was true at the time of implementation of the Round 1 grant. Subsequently, the organization developed all relevant tender procedures; at present, in such instances, two suppliers of logistics services should be selected and a competition takes place between them to choose the place of the measure at the lowest price, which makes it impossible for the situation described in the report to repeat. Advance payments to suppliers are discussed and justified in the relevant contracts with suppliers.</p>		Completed
66	<i>In order to guard against potential conflict of interests, the Network should refrain from hiring consultants who participated in the identification of the technical assistance needs.. The PR also ensures that contracting of vendors is in conformity with the Global Fund's procurement guidelines.</i>	<i>High</i>	<p><i>Recommendation has been implemented</i></p> <p><u>Explanation</u> Such recommendations have been taken into consideration during the reorganization process in the Headquarters; the Uniform Procurement Department was set up and the procurement procedures were updated and became effective April 1, 2011</p>		Completed
67	<i>With the project already in Phase 2, the PR should make every effort to properly forecast and manage its buffer stock. As a matter of good practice, the PR should maintain a 3-month buffer stock of vital ARV drugs.</i>	<i>High</i>	<p><i>Recommendation is irrelevant</i></p> <p><u>Explanation</u> A 3-month buffer stock of ARV drugs is always taken into account when planning procurements for any period. The methods of planning volumes of procurements have been standardized and harmonized for all institutions providing treatment services – the Ukrainian AIDS Center of the Ministry of Health of Ukraine, State Penitentiary Service</p>		

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	Recommendation	Priority	Management action	Responsible party	Due date
			of Ukraine, the Network and others. Supporting documents – the tool to determine the quantity of ARV drugs.		
National TB and HIV Council (National Council, CCM, NCC)					
Oversight					
68	<i>There is a need to increase the Government's role and participation in HIV prevention activities, with improved coordination of different stakeholders, including from government, and an increased share of funding for prevention.</i>	<i>Significant</i>	<p>The CCM fully agrees with the OIG recommendation and acknowledges the need for the Government to actively participate in HIV programs by financially and otherwise supporting the scaling up and, most importantly, sustainability of evidence informed, comprehensive and effective HIV prevention interventions and programs for key populations, youth and other groups, including provision of those services on the ground. These should be implemented in close coordination with other national and international partners, including the civil society, non-governmental organizations and local authorities, to achieve the National AIDS Program goals and targets, and ensure that the global declarations, including Zero Strategy and universal access, that the country has signed off are being fulfilled. For the sustainability of the AIDS response in Ukraine, it is of utmost importance that the state funding is increasingly available for HIV prevention both at the national and oblast/local levels. This remains a challenge in Ukraine that continues to be 50% dependent upon external and NGO financing, especially for HIV prevention for key populations. In this regard, the CCM proposes the following actions: In 2013 (the last year of the current NAP), the CCM should ensure annual budgetary commitments from the Ministry of Finance for the MOH and other line ministries that implement the NAP as well as the oblast/local level state funding in support of the respective annual oblast/local AIDS programs.</p> <p>1) In 2014-2018, the CCM should oversee development of the new National AIDS Program (NAP) with the priority focus on HIV prevention for key populations and youth, treatment, care and support that is adequately costed and budgeted with the increasing proportion of the state funding committed over time. The new NAP should also include an action plan for</p>	<i>The Cabinet of Ministers, Ministry of Health (as the main executing ministry and coordinator of the implementation of the National AIDS Program), the State Service for AIDS and Other Socially Dangerous Diseases, other respective NAP implementing ministries and state services, respective subnational authorities.</i>	<ol style="list-style-type: none"> 1. September 2012 2. The NAP concept to be developed by December 2012; the new NAP and its budgets to be developed by December 2013 3. On a regular basis 4. On a regular basis 5. On a regular basis 6. On a regular

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>financial and other aspects of sustainability of Ukraine’s AIDS response.</p> <p>2) The CCM Chair should facilitate and ensure governmental members’ active participation and inputs into the work of the CCM around the ongoing and new AIDS programs.</p> <p>3) The NTHC Committees and respective HIV prevention working groups under the State Service and other partners should step up their activity. Multisectoral cooperation should be established between government and non-governmental bodies at the national level to discuss HIV/AIDS prevention activities (working meetings, scientific and practical conferences, etc).</p> <p>4) The Drug Relief Service should make sure that HIV/AIDS prevention activities are conducted among drug users and the information about the risks of HIV infection is communicated.</p> <p>5) To improve the funding of HIV/AIDS prevention activities, the CCM should ensure applying a mechanism proposed by the Cabinet of Ministers of Ukraine to improve the social care services system.</p>		<i>basis</i>

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	Recommendation	Priority	Management action	Responsible party	Due date
69	<i>The CCM would benefit from capacity building aimed at further strengthening of governance and oversight over programs and to minimize the likelihood of duplication of scarce resources given that there is no system in place to monitor the contributions of the various partners.</i>	<i>Significant</i>	The CCM agrees with the OIG recommendation and recognizes the need in strengthening the National Council’s governance and oversight over programs that are supported by the GF and not only. The National Council is committed to also provide oversight over the programs that are funded by the state through central and oblast/local budgets and other development partners. The work plan of the National Council for 2012 (please see attached) reflects these needs, including the capacity building of the National Council, its members, and the National Council’s entities such as the two Committees and the Oversight Commission (for the latter, please see attached the work plan of the Oversight Commission for 2012). The CCM also agrees and recognizes the need in monitoring the contributions of the various partners working in the areas of HIV/AIDS and TB in Ukraine in order to minimize the likelihood of duplication of scarce resources. In this regard, the CCM would like to report on the recently institutionalized system of the Assessment on the National AIDS Expenditures and the prospective mapping of the fiscal allocations from all the governmental, non-governmental and development partners at the national and subnational levels that will be implemented on annual basis by the National M&E Centre at the Ukrainian Center for AIDS Prevention with the technical support from UNAIDS Ukraine and other partners. It is also important to note that each of the four PRs and their SRs, as per the GF conditions for R9 and R10 grants, are obliged to provide to the GF, LFA and the respective coordination councils information on relevant program activities that are financed through sources other than the GF in order to prevent the duplication of funding and activities. The CCM also finds it important to ensure that there is a coordination between especially external donors and international organizations and NGOs that provide funding for AIDS and TB in addition to the GF and state funds, to coordinate efforts between themselves and the CCM itself to ensure those discussions during CCM meetings. In this regard, the CCM also plans to strengthen its efforts and advocate for the National Council Committees and the working groups, including those for donor-governmental coordination, to ensure respective inclusive discussions and coordination between the partners	<i>1. The National Council Secretariat (the State Service); the Oversight Commission. 2. The National Council; National Council Secretariat; National Council committees and working groups; donor-governmental groups.</i>	<i>On a regular basis</i>

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	Recommendation	Priority	Management action	Responsible party	Due date
70	<p><i>(i) There is a need for the CCM to adopt a more proactive role in overseeing grant implementation. This could include the formulation of working groups to provide greater analysis of grant performance than can be provided during CCM meetings.</i></p> <p><i>(ii) The CCM should provide greater clarity on how the Conciliatory Group can add value to the CCM's oversight responsibilities, especially with regard to review of periodic performance reports.</i></p>	<i>Significant</i>	<p><i>(i)</i> The CCM fully agrees with the OIG recommendation and recognizes the need for the CCM to enhance its oversight of the GF grant implementation. In this regard, the CCM would like to report on the adoption of the new Oversight Procedures for Proposal Development, Grant Negotiations and Implementation of Programs Funded by the Global Fund to Fight AIDS, Tuberculosis and Malaria (hereinafter referred to as the "Procedures"), the Oversight Commission Terms of Reference, and the setting up of the Oversight Commission in December 2011. The Oversight Commission is responsible for overseeing the grant proposal development and country grant applications, grant negotiations and implementation of programs funded by the Global Fund in Ukraine, and consists of nine member-experts from governmental, non-governmental and international organizations. The Oversight Commission members are appointed upon approval by the National Council / CMC. . The oversight plan of the National Council / CMC was developed and endorsed on March 29, 2012. The Commission in collaboration with the National Council Committees and the (technical) working groups working in the areas of HIV/AIDS and TB will ensure analysis of performance of the GF grants for HIV/AIDS and TB, and other oversight functions (please see attached the Oversight Procedures, the Oversight Commission Terms of Reference, and the Oversight Plan for 2012).</p> <p><i>(ii)</i> In response to the OIG's note regarding the Conciliatory Group's oversight responsibility, the CCM would like to clarify that the Conciliatory Group was established in 2007 within the framework of the GF R6 grant supported program on HIV/AIDS with the goal of assisting the two PRs (the Network and the Alliance) in conciliation of any disagreements between the PRs, as well as coordinating and overseeing their performance reporting to the GF, and will soon cease existence due to the imminent completion of the R6 grant in July 2012 and the establishment of the Oversight Commission that should take</p>	<p><i>The National TB and HIV Council; the Oversight Commission for the Proposal Development, Grant Negotiations and Implementation of Programs Funded by the Global Fund to Fight AIDS, TB and Malaria under the National HIV Council; the National Council Secretariat (i.e. the State Service for AIDS and Other Socially Dangerous Diseases).</i></p>	<p><i>(i) The Oversight Commission already set up and active</i> <i>(ii) May 2012</i></p>

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			over the oversight function from the Conciliatory Group. These will need to be endorsed by the National Council.		
71	<i>Given the dynamic political environment in Ukraine, it is likely that the CCM chair will change regularly. The CCM could consider rotating the position of chair between other CCM members, such as representatives of NGOs or faith-based organizations, to provide greater stability and ensure more constant leadership. In a view to ensuring greater stability, the CCM might also consider designating the CCM members to represent government departments.</i>	<i>Significant</i>	<p>The CCM agrees with the OIG recommendation to strengthen the CCM functionally and organizationally and acknowledges the risks related to the frequent changes in the governmental and CCM leadership. The CCM also agrees with the notion of the need in greater stability in the membership from the governmental institutions. However, the rotation of the CCM chairmanship between the NGO, FBO or other non-governmental members will not ensure active and regular participation of the CCM members representing governmental sectors. For the latter to be secured in the absence of the chair, three deputy chairs, one of whom is a representative of the community of PLWHA, are proposed to call or/and chair CCM meetings and follow up on its decisions, respective actions/processes, etc.</p> <p>As far as the stability of governmental representation in the CCM is concerned, please see the CCM comment to Recommendation No. 75.</p>	<i>Chair and Deputy Chairs of the CCM, and the Secretariat (the State Service)</i>	<i>On a regular basis</i>
72	<i>The CCM should periodically arrange site visits.</i>	<i>High</i>	<p>The CCM fully agrees with the OIG on the necessity to organize periodic visits to the GF supported project/program sites. In this regard, the CCM and the recently established Oversight Commission included in their respective work plans for 2012 the site visits with the aim to assess the ongoing programs in regards to their efficiency, level of cooperative implementation with the participation of governmental and non-governmental actors, and the level of coordination of efforts on the ground through the program activities and the respective regional and local coordination authorities.</p> <p>As per those work plans, the CCM will undertake the following actions:</p> <ol style="list-style-type: none"> 1. The CCM plans to pay 4 monitoring visits to regional councils in order to study the response to HIV/AIDS and TB (1 visit per 	<i>The State Service to organize those site visits for the National Council members and the Oversight Commission. The State Service and the Oversight Commission to develop the site visit assessment tools</i>	<i>As per the National Council and Oversight Commission's work plans. The site visit tools to be developed by May 1, 2012.</i>

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>quarter). In a view to ensuring efficient oversight and carrying out its responsibilities as specified in the Oversight Plan, the Oversight Commission will pay visits to Global Fund R9 and R10 grant implementation sites in accordance with the following schedule: 2 visits per each Principal Recipient (8 visits per year).</p> <p>2. The National Council, under the support of the State Service and the Oversight Commission, will develop a site assessment toolkit to ensure regular site visits and the effective implementation of relevant recommendations with the goal of improving the program implementation at the local level.</p>	<i>(questionnaires, assessment forms, etc.)</i>	
73	<i>The CCM should review and strengthen its rules related to proxy voting so as to limit and minimize the number of proxies any member is allowed to hold.</i>	<i>Requires attention</i>	<p>The CCM fully supports the OIG's recommendation to ensure effective work of the CCM and full and meaningful participation of the CCM members in its advisory, decision making and other processes. The voting in the CCM is well articulated in the CCM's bylaws (Terms of Reference and Regulations). The CCM will take the following actions in order to implement the OIG recommendation:</p> <ol style="list-style-type: none"> 1. Ensure compliance with the bylaws, including those related to proxy voting. 2. Those CCM members who are regularly absent (xxx times in a row, or xxx times a year) and vote by proxy, will be given a written notification by the CCM Chair. In case of continuation of those instances, an alternative solution will be found for their replacement. 	<i>The Chair of the CCM and the CCM Secretariat (the State Service)</i>	<i>On a regular basis</i>
74	<i>The CCM should encourage more active participation and input from its members, particularly those from government ministries other than the health sector.</i>	<i>Significant</i>	<p>The CCM is supportive of the OIG's recommendation. With the newly appointed Minister of Health who also serves as Vice Prime Minister to be soon appointed as Chair of the National Council (CCM), we hope the CCM will be more effective in ensuring and facilitating increasingly active participation and input from its governmental members, especially those outside the health sector.</p> <p>In this regard, the National Council with the support of its Secretariat (the State Service) will undertake the following actions:</p>	<i>The Chair of the National Council and the State Service as its Secretariat.</i>	<i>On a regular basis</i>

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	Recommendation	Priority	Management action	Responsible party	Due date
			<ol style="list-style-type: none"> 1. Proactively seek inputs from the governmental and other members of the National Council prior, during, following and between the NC meetings. 2. Organize small or individual meetings with the governmental members of the National Council on a regular basis to ensure more effective and active participation of the respective constituencies in the work of the National Council and to support respective feedback through the respective members to their ministries for their better mobilization and increased commitment to the AIDS response. 3. Organize and facilitate thematic discussions between the respective members of the National Council and non-governmental and development partners to ensure for more productive discussions and effective decision making around respective issues within the National Council. 		
75	<p><i>The CCM Secretariat should consider developing an induction program for new members and a refresher program for existing members, to cover members' roles and responsibilities within the CCM and provide an overview of the operations of Global Fund grants.</i></p>	<p><i>Requires attention</i></p>	<p>The CCM agrees with the recommendation for new members of the National Council to undergo induction program and for existing members to be provided refresher course, and all the members to undergo an overview of the GF grant operations. In this regard, the CCM with the technical support from USAID HIV/AIDS Service Capacity Project in Ukraine, GIZ and other partners renewed the work of the CCM Secretariat and trained its personnel to build the capacity and organize the activity of the CCM in September 2011.</p> <p>Please be advised that in February 2012, a training on the CCM exercising oversight was conducted for the members of the Oversight Commission, which includes CCM members as well, with the support of USAID HIV/AIDS Service Capacity Project in Ukraine.</p> <p>Besides, USAID HIV/AIDS Service Capacity Project in Ukraine assessed the CCM performance, which resulted in the endorsement of the CCM Capacity Building Plan. The plan provides for conducting activities to raise the level of awareness of the CCM members, particularly by conducting presentations for the CCM members and workshops involving the CCM members as well as those of its</p>	<p>1. <i>The State Service as the National Council Secretariat – building the capacity of the CCM members, mobilizing resources and providing technical support to ensure efficient performance; relevant ministries and other agencies represented in the CCM – ensuring the all-round</i></p>	<ol style="list-style-type: none"> 1. <i>by December 31, 2012</i> 2. <i>June 1, 2012</i> 3. <i>on an ongoing basis for the period of grant implementation</i>

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	Recommendation	Priority	Management action	Responsible party	Due date
			<p>committees and the Oversight Commission:</p> <ol style="list-style-type: none"> 1. Conducting orientation presentations during CCM meetings to feature the role and responsibilities of the CCM in implementing and coordinating the national response to the TB and HIV/AIDS epidemics, maintaining multisectoral partnership and cooperation between the public sector and NGOs in overcoming the TB and HIV/AIDS epidemics, and the role of the National Council in ensuring the implementation, scale up and improvement of the quality of MAT and other related programs, avoiding existing risks, etc. 2. Ensuring the mobilization of additional resources to strengthen the capacity of the CCM by submitting its application to the GF and implementing the application if it is approved by the GF. 3. The International HIV/AIDS Alliance in Ukraine should plan the attraction, disbursement and use of the R10 grant funds aimed at strengthening the capacity of the CCM. <p>The State Service should mobilize additional resources to enable opportunities for building up the capacity of the members of the National Council, its two committees, the Oversight Commission, and working groups. With this in view, the funds needed to facilitate the operations of the National Council / CCM and its bodies will be duly budgeted and mobilized as part of the GF R10 grant (Alliance), and a national application for additional GF funds to be attracted to strengthen the capacity of the CCM will be developed.</p>	<p><i>coordination of the relevant members of the CCM and encouraging them to take active part in the activities aimed at building their capacity.</i></p> <p><i>2. The State Service should ensure the mobilization of additional resources to strengthen the capacity of the CCM by submitting a CCM application to the GF to finance the National Council for a two-year period and implementing the application if it is approved by the GF.</i></p> <p><i>3. Coordinating its activity with the State Service and the CCM, the</i></p>	

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	Recommendation	Priority	Management action	Responsible party	Due date
				<i>International HIV/AIDS Alliance in Ukraine should duly plan the attraction, disbursement and use of the R10 grant funds aimed at strengthening the capacity of the CCM.</i>	
76	<i>The CCM should consider inviting the Local Fund Agent to attend meetings as an observer.</i>	<i>Requires attention</i>	The CCM agrees with the recommendation and will ensure that the LFA is invited to all the National Council meetings and is on the National Council/CCM email and other distribution lists. Also, the CCM wishes to express the desire for the LFA, with the permission from the GF Secretariat, to present to the National Council and the Oversight Commission information related to the grant implementation by the PRs and SRs as relevant and warranting the NC/Commission's immediate or other actions.	<i>National Council Secretariat -- the State Service of Ukraine on HIV/AIDS and Other Socially Dangerous Diseases</i>	<i>Immediately.</i>