



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the People's Republic of Bangladesh

Report

**GF-OIG-11-005
29 October 2012**

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EXECUTIVE SUMMARY

Introduction

1. The mission of the Office of the Inspector General (OIG) is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations.

2. As part of its 2011 work plan, in May and June 2011 the OIG carried out an audit of Global Fund grants to Bangladesh which totaled USD 214 million of which USD 157 million had been disbursed to five Principal Recipients.

3. The audit examined the operations of the Principal Recipients, their interactions with their Sub-recipients and implementing partners, the supply chain for the goods and services purchased with the Global Fund grant funds and the oversight functions of the Country Coordination Mechanism, the Local Fund Agent and the Global Fund Secretariat.

Overall conclusion

4. The OIG noted a number of good practices and achievements in the management of grants. However, the audit also identified a number of significant areas for improvement in the internal control framework, particularly related to financial management and procurement. Therefore the OIG is not able to provide the Global Fund Board with reasonable assurance that effective controls were in place at the time of the audit to ensure that grant funds disbursed had been used for the purposes intended and that value for money had been secured.

Oversight

5. The OIG observed good governance practices in the CCM including regular review of the membership of the CCM and the establishment of an Oversight Committee in April 2009. However, the audit noted a number of areas offering scope for improvement, in particular:

- *Organization:* CCM meetings can be planned more effectively, particularly with respect to defining a minimum annual number of meetings, the definition of a quorum and of formally appointed substitute members;
- *Conflicts of Interest:* CCM elections can be better documented and members should declare any conflict of interest. Representation of people at risk was limited at the time of the audit; and
- *Transparency:* The process for selecting PRs, SRs and Managing Agencies can be formalized and improved in regard to transparency.

Grant Management

6. Although a number of good practices were noted during our audit such as segregation of duties, documented procedures and archival of documents, we noted a number of areas for improvement among all Recipients, including:

- *Expense reporting:* A need to report actual expenses rather than committed expenses, and recording of expenses in the correct period, in order to avoid misstatement of expenses and/or cash balances;
- *Treasury arrangements:* Comingling of grant funds, crediting of bank interest earned by Global Fund deposits, controls around bank reconciliations and returning remaining funds after grant closure;
- *Asset and Inventory Management:* A need to ensure use of program vehicles for programmatic purposes, regular physical verification of fixed assets and reconciliation to the ledger;

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- *Human Resources and Payroll*: A need for monthly reconciliation of the payroll with the previous month to verify accuracy and identify unusual variances; and
- *Non-health procurement*: A need to adhere to national and entity-wide procurement policies, ensure documentation around tendering and related decisions and minimize the frequent emergency procurements.

7. The OIG identified USD 1.6 million in potentially recoverable expenditures including USD 0.4 million in unbudgeted expenses and USD 0.4 million paid in taxes and duties using grant funds. Please see Annex 4 for details. The Global Fund Secretariat should determine recoverability of the specific amounts identified.

Health Procurement and Supply Chain management

8. The OIG audited the systems and operations used by the PRs to manage the procurement and supply of health commodities with Global Fund grants, and found that:

- Save the Children (USA), which was responsible for the procurement and supply chain activities for health products and for the management of national efforts under the National AIDS/STD Program, had not demonstrated to the satisfaction of the Global Fund Secretariat that it had sufficient capacity to act as an international procurement agent at the time of the audit, and there was a need for action to ensure that its procurement framework was fully transparent and included national regulations;
- PSM responsibilities were not clearly defined between the two PRs for Malaria (the Ministry of Finance and the Bangladesh Rural Action Committee) which could lead to weak oversight of the total supply chain; and
- The PRs for the TB program had scope for strengthening their quantification and forecasting processes by increasing capacity and skills, and improving stock information flows; improvements were also required to the storage facilities, including the computerization of logistics data.

Actions subsequent to the audit

9. The OIG has noted that a number of significant actions have been taken to address the risks that emerged from the audit findings. These include improvements to the Terms of Reference and structure of the LFA to allow for greater focus at the sub-recipient level, efforts to obtain exemptions from taxes and duties for Global Fund expenditures and improvements in procurement policies and procedures.

10. The terms of reference and the structure of the LFA team have been substantially revised to allow for greater focus at the Sub-recipient level. In addition, refunds for certain ineligible expenditures have been made totaling USD 106,500.

11. Following the audit, a number of issues were referred to the OIG Investigations Unit. An investigation report on a Sub-Recipient, PMUK, was published on 10 July 2012. Other investigations are in progress.

12. Subsequent to the audit, the OIG reviewed further documentation provided by the PRs and SRs relating to potentially recoverable expenditures. This is reflected in Annex 4. The OIG recommends that the PRs provide any further supporting evidence to the Global Fund Secretariat for appropriate resolution.

MESSAGE FROM THE GENERAL MANAGER OF THE GLOBAL FUND



10 YEARS
OF IMPACT

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25 October 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 the People's Republic of Bangladesh.

The audit was carried out in May and June 2011 and covered all 15 Global Fund grants to Bangladesh totalling US \$214 million, of which US \$157 million had been disbursed to five Principal Recipients.

Bangladesh has a high burden of TB with prevalence estimated at 690,000 cases in 2009. TB morbidity and mortality in Bangladesh is greater than for HIV/AIDS and malaria combined. The prevalence of HIV in Bangladesh is less than 0.1% in the general population and the estimated number of HIV positive cases in the country is around 7,500. Malaria is a major public health challenge. Under Global Fund funding a cumulative number of roughly 1.8 million malaria cases has been diagnosed and treated. The number of deaths reported due to malaria declined from 501 in 2005 to 23 in 2010.

The Office of the Inspector General noted a number of good practices and achievements in the management of grants. However, the audit also identified significant areas for improvement in internal controls, particularly related to financial management and procurement. To address shortcomings, the report made 58 recommendations.

The audit identified US \$1.6 million in potentially recoverable expenditures including US \$0.4 million in unbudgeted expenses and US \$0.4 million paid in taxes and duties using grant funds. The Office of the Inspector General recommended that the Secretariat should determine recoverability of the specific amounts identified.

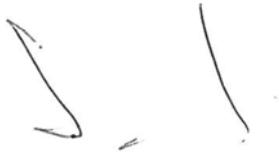
Significant action has been taken to address risks identified in the audit: the terms of reference and the structure of the Local Fund Agent team have been substantially revised to allow for greater focus at the Sub-recipient level; efforts to obtain exemptions from taxes and duties for Global Fund expenditures have been made by a number of Principal Recipients; procurement policies and procedures in several Principal Recipients have been improved; and US \$106,500 related to ineligible expenditures has been refunded to the Global Fund.

Following the audit, the OIG commenced an investigation to establish the extent of loss or misappropriation of Global Fund grant funds. An investigation report on a Sub-Recipient, PMUK, was published in July 2012. Further aspects of the investigation remained in progress at the date of finalizing this report.

Audit of Global Fund Grants to Bangladesh

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



Audit of Global Fund Grants to Bangladesh

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

Dr. A. F. M. Ruhul Haque MP
Minister
Ministry of Health & Family Welfare
Govt. of the People's Republic of Bangladesh



ডা. আ. ফ. ম. রুহুল হক এম পি
মন্ত্রী
স্বাস্থ্য ও পরিবার কল্যাণ মন্ত্রণালয়
গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Memo No: MOHFW/Minister/2012/288

October 18, 2012

Mr. John Parsons
Inspector General
The Global Fund to Fight AIDS, Tuberculosis and Malaria
Chemin de Blandonnet 8, 1214 Vernier, Geneva, Switzerland
inspector.general@theglobalfund.org

Subject: **BCCM Response on draft OIG audit report on the Global Fund Grants to Bangladesh, OIG/JP_12/271, dated October 12, 2012**

Dear Mr. Parsons,

Thank you for sharing the Third Draft Audit Report on Global Fund Grants to the People's Republic of Bangladesh (the Report).

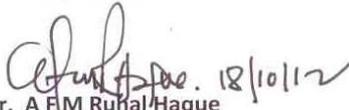
The second draft report included recommendations incorporating budgetary control, update of procurement policy and procedures of Principal Recipients (PRs), good practices on value for money, CCM strengthening and other recommendations. All Principal Recipients (PR) responded to second draft audit report and submitted a detailed action plan with specific timelines to address all issues appropriately.

As you might appreciate it was not possible to hold meeting of CCM before 19th of October and we asked for written comments from PRs and other members. No major disagreements were reported. We are attaching those comments with this letter. As recommended by the OIG all evidence, including requests for subsequent approval, would be provided to the Global Fund Secretariat and resolved appropriately.

Bangladesh Country Coordinating Mechanism would closely monitor the Action Plan. The CCM Oversight Committee would also proactively monitor the progress of the recommendations to reduce risks and strengthen the internal control mechanism in program operations further.

Please accept the assurance of our highest consideration.

Sincerely Yours,


Dr. A F M Ruhul Haque

OVERVIEW

Audit Objectives

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

- Achievement of value for money from funds spent;
- Compliance with Global Fund grant agreements, related policies and procedures, and relevant laws and regulations;
- Safeguarding of grant assets against loss, misuse or abuse; and that
- Risks were effectively managed.

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

14. The audit looked at the operations of the Principal Recipients (PRs), their interactions with their Sub-recipients (SRs) and implementing partners (IPs), the supply chain for the goods and services purchased with the Global Fund grant funds, and the oversight functions of the Country Coordination Mechanism (CCM), the Local Fund Agent (LFA) and the Global Fund Secretariat.

15. The OIG deployed a multi-skilled team comprising financial auditors, public health and program specialists and procurement and supply management specialists. The team conducted four field visits to the Chittagong, Bandarban, Rangamati and Cox's Bazar sub-districts.

Audit Scope

16. The audit covered all 15 Global Fund grants to Bangladesh, which totaled USD 157 million disbursed as of the date of the audit. The audit focused on governance and oversight, procurement and supplies management, and financial management. In July 2012 the Global Fund Secretariat agreed a new evaluation approach to support program reviews in high impact countries. Bangladesh is included in its 2012 evaluation workplan. Given the agreement reached between the Technical Evaluation Reference Group and the OIG to undertake joint work and jointly share findings, the OIG is passing on its public health/programmatic findings in Bangladesh to those involved in this process.

17. The programmatic findings will therefore provide a "building block" to inform the broader scope of program reviews and evaluation work in Bangladesh planned in the Global Fund and by national partners in 2012 and 2013. In the circumstances, the OIG considered it premature to include these findings in the body of the audit report, but reflected them in the Letter to Management to bring them to the attention of the CCM and other in-country stakeholders.

18. Further detail on the grant portfolio can be found in Annex 2. The Principal Recipients of the Global Fund grants to Bangladesh were as follows:

- The Bangladesh Rural Advancement Society (BRAC) for TB Rounds 3, 5 and 8 and Malaria Round 6 and 9;
- The International Centre for Diarrheal Disease Research, Bangladesh (ICDDR) for HIV RCC program;
- The Economic Relations Division (ERD) of the Ministry of Finance (HIV Rounds 2 and 6, TB Rounds 3, 5 and 8, and Malaria Rounds 6 and 9, an SSF program which incorporated multiple grant rounds);
- The Ministry of Health and Family Welfare (MOHFW) is a PR for an HIV RCC grant, with the National AIDS/STD Program (NASP) as the Implementing Agency; and

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- Save the Children USA (SCUSA) a PR under the HIV/AIDS RCC program who also served as the management agent under the Round 2 and 6 HIV/AIDS programs, for which the Ministry of Finance (ERD) was PR.

Prioritization of Audit Recommendations

19. The implementation of all audit recommendations is essential in mitigating risk and strengthening the internal control environment in which the programs operate. OIG recommendations are prioritized as follows to assist management in deciding on the order in which recommendations should be implemented:

- (a) **Critical:** There is a material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization interests, erode internal controls, or jeopardize the achievement of aims and objectives. It requires immediate attention by senior management.
- (b) **Important:** There is a control weakness or noncompliance within the system, which presents a significant risk. 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 controls, or undermine achievement of aims and objectives.
- (c) **Desirable:** There is a minor control weakness or noncompliance within the system, which requires remedial action within an appropriate timescale. The adoption of good practices would improve or enhance systems, procedures and risk management for the benefit of the grant programs.

Letter to Management

20. The implementation of all audit recommendations is essential in mitigating risk and strengthening the internal control environment in which the programs operate. However, not all audit observations have the same urgency or priority. Audit findings deemed 'desirable' as well as the results of the OIG's programmatic review have been reported separately in a Letter to Management. This lists audit findings that constitute a less significant control weakness or noncompliance within the system, which require remedial action within an appropriate timescale. The adoption of best practices would improve or enhance systems, procedures and risk management for the benefit of the grant programs. Though these findings and recommendations do not warrant immediate action, their implementation would help to strengthen the overall control environment for Global Fund-supported programs. The OIG would expect Management at the Global Fund Secretariat and/or the PRs to follow up as appropriate.

Actions subsequent to the audit

21. A summary of recommendations was provided to each PR and SR to facilitate timely implementation of the OIG recommendations pending the issue of the Final Report. The comments received from each entity and the actions initiated, where applicable, were incorporated into the Final Report.

22. The OIG has noted that a number of significant actions have been taken to address the risks that emerged from the audit findings. These include:

- The terms of reference and the structure of the LFA team have been substantially revised to allow for greater focus at the Sub-recipient level;
- Efforts to obtain exemptions from taxes and duties for Global Fund expenditures have been made by a number of PRs;
- Procurement policies and procedures in several PRs have been improved; and

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- An amount of USD 106,500 related to ineligible expenditures has been refunded to the Global Fund.

23. Following the audit, the OIG conducted an investigation to establish the extent of loss or misappropriation of Global Fund grant funds. An investigation report on a Sub-Recipient, PMUK, was published in July 2012. Further aspects of the investigation remained in progress at the date of finalizing this report.

OVERSIGHT AND GOVERNANCE

25. As part of the Global Fund grant architecture, a Country Coordinating Mechanism (CCM) oversees the Global Fund-supported programs and a Local Fund Agent (LFA) verifies grant program implementation for the Global Fund Secretariat; these oversight measures are critical to good fiduciary and program management.

Country Coordinating Mechanism

26. The CCM is a country-level public-private partnership that coordinates the development of grant proposals based on national priorities needs and selects and monitors appropriate organizations to act as PRs for Global Fund grant programs.

27. The OIG observed good governance practices in the CCM including regular review of the membership of the CCM and the establishment of a CCM Oversight Committee in April 2009. However, the OIG noted a number of areas for concern, in particular:

- The CCM meetings were not planned effectively and that there was no policy stipulating either the minimum number of meetings required per year or defining a quorum. In the event that CCM members are not available, there are no formally appointed substitute CCM members to ensure that a quorum is reached and that appropriate constituency representation has been achieved.
- The CCM includes all of the PRs and some SRs, causing a conflict of interest: the CCM Chair and Secretariat is the MOHFW (which also serves as PR), 48% of CCM members are from implementing agencies (PRs and SRs) and 45% are from the government. Representation of MARPs is limited;
- Elections of CCM members from their respective constituencies were not documented and therefore the OIG cannot provide assurance on transparency in the membership selection process;
- The CCM does not have a formalized Terms of Reference including stipulations on the representations of constituencies, their allocated seats, duration of service of members, policies on re-election and extension of membership terms;
- The CCM does not have an established policy requiring conflict-of-interest declarations to be signed by its members; and
- The CCM Oversight Committee does not have a direct reporting line to the CCM Chair.

Recommendation 1 (Critical)

In accordance with its policies and procedures, the Global Fund Secretariat should coordinate with the CCM to improve its oversight of Global Fund grants; at a minimum this should include:

- Implementing a formal, documented and transparent selection process for its member; Establishing and formally approving its Terms of Reference to include: a minimum number of meetings to be held annually, defining what constitutes a quorum and ensure that CCM members have officially assigned substitute CCM representatives in case they are unable to attend meetings, stipulating the number of constituencies, duration of service of members, policies on re-election and extension of membership terms; future changes to the Terms of Reference should be approved by a CCM quorum;*
- All members of the CCM and the CCM Oversight Committee should sign a conflict-of-interest declaration; and*
- Ensuring that its membership includes all constituencies and MARPs and that the membership of the Oversight Committee should not be from PR or SR organizations; implementing a direct reporting line from the Oversight Committee to the CCM Chair.*

28. The OIG noted a number of areas of non-compliance with National Public Procurement Rules 2003 and transparency in relation to the CCM's PR and management agency¹ selection processes :

- The request for Expressions of Interest for PR selection for the HIV/AIDS RCC program was circulated by email, which did not guarantee wide circulation;
- The management agency selection by MOHFW for the Round 2 HIV/AIDS program did not advertise Expressions of Interest for at least 14 days as required, and the incumbent was re-selected for Round 6 without a formal evaluation of its performance or a documented decision; and
- The CCM could not provide appropriate PR and management agency selection documentation to the OIG.

Recommendation 2 (Critical)

In accordance with its policies and procedures, The Global Fund Secretariat should coordinate with the CCM to undertake PR and management agency selection in a fair and transparent manner as follows:

- a. The CCM should establish guidelines for the PR and management agency selection processes to ensure fair and competitive selection of PRs and management agencies for each new funding opportunity; and*
- b. The CCM should establish a mechanism to assess PR and management agency performance and maintain appropriate documentation if it wishes to propose continuation with the same PR or management agency for continuing grants.*

29. Though the CCM is not directly involved in the SR selection process, it is nevertheless a good practice for the CCM to maintain oversight of SR selection to ensure that the PR uses acceptable selection criteria and performs basic due diligence. The OIG noted that in Round 6, SCUSA continued with the same SRs from Round 2 without formal evaluation or providing appropriate justification to the CCM for doing so.

30. The OIG observed that communication within the CCM, and between the CCM and the Global Fund, is neither systematic nor consistent. Matters relating to the CCM were communicated to the Global Fund on behalf of the CCM by one or two CCM members without the knowledge of other CCM members. The CCM Secretariat is not consistently copied on correspondence related to Global Fund grant programs. There is no formal policy in place regarding drafting, approving or circulating CCM meeting minutes.

Recommendation 3 (Important)

The CCM should establish consistent and routine communications with the Global Fund, PRs, other implementers and the media. This should include:

- a. CCM meeting minutes and decisions should be drafted by the CCM Secretariat and circulated to all CCM members simultaneously; these should be formally approved by all CCM members; and*
- b. Communication with the Global Fund should be made through the CCM Secretariat and all CCM members should be copied on all such communications.*

31. The CCM Secretariat support function does not have a defined role. At the time of the audit, the role was filled by one full time staff member, housed at MOHFW.

¹ ERD implemented the HIV/AIDS programs through Save the Children USA as the management agent
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Local Fund Agent

32. The LFA is the 'eyes and ears' of the Global Fund in country and plays a crucial role in the Global Fund's system of oversight and risk management. The LFA's key roles include assessing the PR both before grant signing and at other stages of grant implementation, providing independent and continuous oversight of grant recipients and carrying out programmatic and financial data verification.

33. The Global Fund entered into a contract with UNOPS in October 2008, which prequalified UNOPS to provide LFA services for Bangladesh. The contract began on 1 November 2008 and will end on 31 December 2012.

34. For LFAs prior to UNOPS, the Global Fund Secretariat were unable to provide the OIG with comprehensive information regarding contracts, subcontractors, names of LFA team members, team recruitment, performance evaluation and fees paid. The hand-over process to UNOPS was not comprehensive and led to a loss of institutional knowledge.

35. The current LFA team is composed of five locally engaged staff members which is made up of finance, public health, PSM and M&E professionals. UNOPS has also assigned a Central Coordination Team (CCT) to coordinate its operations among the countries it covers under the Global Fund contract. The CCT includes finance and PSM professionals in New Delhi and an LFA supervisor based in Bangkok.

36. The OIG audit reviewed a sample of work undertaken by the LFA. Since November 2008 UNOPS had completed nine PR assessments, 39 PU/DR reviews, eight procurement plan assessments, six on-site data verifications, seven EFR reviews and over 100 other reviews or analyses.

37. The OIG observed some examples of good practice by UNOPS which included conducting performance evaluation reports for all consultants at the end of their contracts and preparing country risk assessment reports. However, the OIG noted that UNOPS resources were insufficient in light of the increase in requirements and additional assessments required by the Global Fund Secretariat. This has led to instances of insufficient in-depth analysis which compromises the quality of its reporting. There had also been insufficient support from the CCT team. For example, the CCT is supposed to visit the country every four months; however, these visits had not happened consistently.

38. During our review, the OIG also identified a number of areas where oversight and grant management should have been stronger and which should have been captured by the LFA in their routine reporting. This included:

- Discrepancies between PU/DRs and PR books of accounts;
- Conditions Precedent not completed;
- Differences between the approved SR budgets and disbursed funds;
- Program vehicles used for non-programmatic purposes;
- Anomalies in the Implementing Partners selection process;
- Non-competitive vendor selection;
- VAT and other duties paid for Global Fund program procurement; and
- A number of real or potential conflicts of interests in the management, implementation and oversight of Global Fund grant programs.

39. The current LFA has performed assessments at the PR level only. This is insufficient as the majority of Global Fund-supported programs are implemented at the SR level.

Recommendation 4 (Important)

The Global Fund Secretariat should improve its management and monitoring of the LFA to better improve its oversight of grant programs and to ensure that it is proactively kept informed about emerging risks and issues; this should include:

- a. *Developing a comprehensive periodic work plan to cover risk areas and oversight gaps that are currently not covered by the LFA in order to minimize ad hoc requests for LFA services;*
- b. *Ensuring that the LFA performs regular PR and SR assessments to a high standard and based on in-depth analysis and review; and*
- c. *Monitoring of Conditions Precedent and ensuring appropriate review and reconciliation of PUDRs and SR budgets to key financial records.*

40. The OIG also noted that the Global Fund Secretariat does not have a system in place to track the details of payments released to the LFA at the country level. The OIG was therefore unable to verify the accuracy or timeliness of payments to the LFA.

BANGLADESH RURAL ADVANCEMENT COMMITTEE

Background

41. The Bangladesh Rural Advancement Committee (BRAC) was established in 1972 to alleviate poverty by empowering the poor to bring about change in their own lives. It has extended its operations to nine additional countries and is one of the largest development organizations in the world.

42. BRAC has received funding to implement Round 3, 5 and 8 TB grants and Round 6 and 9 malaria grants. Details of amounts committed and disbursed are as follows:

Table 1: Summary of Grants committed and disbursed to BRAC

Particulars	Amount committed USD	Disbursed Amount USD	Disbursed to SRs USD	Available with BRAC USD
TB Grants	52,588,080	49,536,716	13,732,901	35,803,815
Malaria Grants	15,566,335	12,230,293	4,271,441	7,958,852
Total	68,154,415	61,767,009	18,004,342	43,762,667
% funding with PR and SRs			29%	71%

Source: the Global Fund website for disbursements made to the Country of Bangladesh up to 31 March 2011

43. BRAC covers 295 upazilas¹¹ with 34 field offices under the Global Fund-supported TB program and employs community health volunteers to educate people, detect TB cases and oversee directly observed treatment, short course (DOTS). Under the Malaria program, BRAC supports a consortium of NGOs to implement malaria control in 13 districts with 314 field offices. BRAC's key responsibilities include informing and educating people at the community level, promoting the use of insecticide-treated nets, and early diagnosis and prompt treatment of malaria.

Grant Management

Budgetary Control and Reporting

44. During the review, the OIG noted the following areas for improvement in the PR's accounting and reporting procedures:

¹¹ Upazilas are sub-districts.

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- At the end of each quarter the PR records expenses *committed* rather than actual receipt of goods or services from the vendor. The OIG review noted four instances where the recorded expense committed was higher than the actual expense and the excess provision was not reversed by the PR, resulting in overstatement of expenses totaling USD 6,070;
- The OIG noted 17 instances where travel advances were recorded as expenses immediately on disbursement rather than upon verification of actual travel time for purposes of recording per diem expenses; and
- The OIG reviewed a sample of 495 financial transactions posted by field offices and noted that 90 (18%) transactions had to be corrected by head office. These transactions mainly pertained to payroll, training and monitoring and evaluation expenses;
- Despite the Global Fund issuing guidelines on financial reports such as Progress Updates/Disbursement Requests (PU/DRs) and enhanced financial reporting (EFR) to PRs, the OIG review highlighted the following instances of non-compliance with the guidelines:
 - Provision of expenses was reported as expenses in PU/DR. The OIG noted that a provision for expenses amounting to USD 125,795 was reported as actual expense in the PU/DR for the period from October 2008 to March 2009 for the Round 6 malaria grant, resulting in an overstatement of expenses and an understatement of cash; and
 - Since July 2010, the PR has used budgeted exchange rates rather than the actual or average exchange rate for the reporting period while preparing the PU/DR. This resulted in incorrect reporting of expenditures and cash balances in the PU/DRs for Rounds 5, 8 and 9.

45. The OIG also noted 3 instances from October 2007 to December 2009 in which Country Coordinating Mechanism expenses of USD 4,691 were charged to the Round 3 and 5 TB grants. While the absolute amounts observed were small in the context of the grant amount, the findings indicate areas of management that should be strengthened to achieve better controls.

Recommendation 5 (Important)

BRAC should improve the accuracy of its accounting and reporting of expenses by:

- a. Only recording expenses after receipt of the goods or services. Any overstatement of expenses as a result of recording the expense before receipt should be reversed upon receipt of the vendor invoice; this includes recording travel advances as advances in the financial records and recording expenses only after the submission of the approved travel expense report by the employee;*
- b. Reporting the actual cash position in the PU/DR, ensuring that commitments are included in the total forecast net cash expenditures and do not reduce the actual cash balance; and*
- c. Using the exchange rate valid on the day of the transaction or the average exchange rate for the reporting period, rather than budgeted exchange rates.*

46. The purchase of goods and services using Global Fund grant funds should be free from taxes and duties wherever possible. The OIG noted that BRAC had not obtained an exemption from payment of taxes and duties and has therefore paid VAT amounting to USD 209,680 for the period under audit.

Recommendation 6 (Important)

BRAC should make best effort attempts to receive an exemption from payment of taxes and duties on purchases of goods and services under the Global Fund grant program.

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Bank & Cash management

47. The OIG identified commingling of grant funds at the PR which is contrary to best practice. Funds were transferred from the dedicated Global Fund program bank account to the general operational bank accounts at the PR Head Office on quarterly basis, and at field offices on weekly basis (which were used for both the Global Fund programs and BRAC micro finance activities). Therefore, the actual balance of grant funds in each operational account could not be determined. In addition, there was no system in place to calculate and credit the Global Fund programs with the interest income earned on the grant funds transferred to operational bank accounts.

48. The PR did not close the Round 3 TB bank account upon closure of the grant. The interest income of USD 2,276 credited to this bank account in June and December 2010 was not credited to the grant program until May 2011, and no reconciliation was performed for this account after the grant closure.

Recommendation 7 (Critical)

In order to comply with the grant agreement, BRAC should strengthen its treasury management procedures including:

- a. Maintaining funds received under Global Fund grants in dedicated bank accounts. For common expenses, a monthly budget should be prepared for each grant and money should be transferred as an advance to the BRAC common bank account. At the end of the each month the amount advanced should be reconciled and cleared;*
- b. Crediting the interest earned on grant funds to the relevant grant program on a timely basis;*
- c. Preparing bank reconciliations on a monthly basis for all active bank accounts; and*
- d. Closing relevant bank accounts on a timely basis when grants are closed.*

Asset & Inventory Management

49. A review of vehicle management highlighted the following issues, which resulted in excess expenses being charged to the Global Fund grants:

- 817 motorcycles procured by BRAC under Rounds 3, 5 and 6 were loaned to program staff. The OIG identified that the Global Fund was not informed of this arrangement and loan repayments of USD 232,388 from the employees were not credited to the Global Fund programs;
- From January 2010 to March 2011, 80% of the usage of 13 program vehicles was for personal use of staff or not related to the Global Fund programs, however, all running and maintenance costs for these vehicles were charged to the Round 5, 6 and 9 grant programs. Furthermore, USD 74,853 recovered in relation to these costs was not credited to the Global Fund programs; and
- Fuel and maintenance expenses charged to the Round 5, 6 and 9 grants programs from October 2010 to March 2011 exceeded the expenses reported in the vehicle fuel consumption and maintenance reports by USD 11,733.

Recommendation 8 (Important)

BRAC should improve its controls over assets, including:

- a. Obtaining prior approval for all private loan arrangements and that motorcycle loan installments from employees are credited to the Global Fund-supported programs*
- b. Program assets should be used solely for program purposes;*
- c. Usage charges relating to program assets should be credited to the Global Fund programs; and*
- d. Ensuring that only appropriate fuel and maintenance expenses are charged to the programs.*

Human Resources and Payroll

50. The OIG identified that payroll and other shared costs were charged to the grant programs on the basis of budget availability rather than time sheets or another pre-defined basis for the allocation of shared costs; it is therefore not possible to determine whether the Global Fund has been charged appropriately. Further, the actual payroll costs of employees working on more than one Global Fund-supported program were charged to a single program and not allocated appropriately to others.

51. The PR does not perform a monthly reconciliation of the payroll with the previous month's payroll to verify the accuracy of processing, therefore unusual variances in salary payments would not be identified or investigated.

Recommendation 9 (Important)

BRAC should strengthen its payroll processing procedures by:

- a. *Charging the salaries and other costs of shared staff to the appropriate Global Fund programs on the basis of timesheets prepared by the employees or on another reasonable basis pre-defined by management; and*
- b. *Reconciling each month's payroll with the previous month's payroll to ensure accuracy and identify anomalies.*

Sub-Recipient Management

52. The PR does not have formal policies and procedures for SR selection. Although the OIG was informed that the PR issues circulars from time to time and that a consolidated SR manual is being developed, there was no guidance at the time of the audit on pre-award assessment, awarding SR contracts, SR monitoring, contract close-out, and record maintenance and retention. In the absence of such guidance, SR management is suboptimal; in addition there is a risk that the SR selection process may not be competitive and that the best SR may not be chosen for implementation.

53. Time lags of twelve and ten months were noted in signing SR agreements for the Round 6 Malaria and Round 8 TB programs, respectively. The PR's late initiation of the selection process (7.5 months and 4 months, respectively) was the primary cause for delay in both cases.

Recommendation 10 (Important)

BRAC should strengthen the procedures for selection and management of sub-recipients by:

- a. *Developing guidelines for working with Sub-recipients, which include policies and procedures for pre-award assessment, awarding SR contracts, SR monitoring, contract close-out, and record maintenance and retention; and*
- b. *Initiating and executing the process for selection of SRs in a timelier way.*

54. The PR employed 61 SRs to implement its programs. As of the time of the audit, the total amount disbursed to SRs was USD 18,004,342. The OIG selected LEPR, an SR for the TB programs which was disbursed USD 1,673,969 in Rounds 3, 5 and 8 TB programs, as a sample SR for review.

55. LEPR was primarily responsible for treating smear-positive patients, training district hospital doctors and field staff in DOTS, conducting workshops to disseminate information on TB activities, and conducting DOTS committee meetings. The OIG reviewed the financial management systems at LEPR and found a number of areas with scope for improvement, in particular:

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- Manual records were maintained by the SR to record the program financial transactions, resulting in an increased risk of undetected human error;
- Taxes and duties paid using grant funds were not tracked and reported separately to the PR;
- Shared program costs (such as fuel, maintenance, internet and office rent) of USD 9,997 were charged solely to the grant. No basis for allocating shared program costs was defined by the SR;
- Budget overruns totaling USD 7,932 were not explained in the quarterly financial reports submitted to the PR; and
- The SR did not perform a monthly reconciliation of the payroll with the previous month's payroll to verify the accuracy of processing, therefore any unusual variances in salary payments could not be identified and investigated.

Recommendation 11 (Important)

BRAC should require LEPR (and other SRs where appropriate) to improve controls over financial accounting. In particular, the SRs should:

- Implement accounting software to record program expenses;*
- Separately track and report taxes and duties paid using grant funds;*
- Provide a documented and reasonable basis defined by the management for charging shared costs to the programs;*
- Refund any unbudgeted expenses to the programs;*
- Obtain prior written approval from the PR for any budget overruns and explain these in the quarterly financial reports; and*
- Reconcile each month's payroll with the previous month's payroll to ensure accuracy and identify anomalies.*

56. A review of LEPR procurement procedures in place and a sample testing of purchases highlighted the following:

- There was no defined threshold for procurement through open tendering and written RFQs to vendors;
- The procurement manual did not reflect the current composition of the Procurement Committee nor describe the basis for member selection;
- RFQs were not available for eight instances totaling USD 11,225.

Recommendation 12 (Important)

The Global Fund Secretariat should recommend that the PR requires LEPR (and other SRs if appropriate) to:

- Amend the procurement policy to define the procurement thresholds and ensure that high value purchases are made through open tender;*
- Document the basis for selection of members of the Procurement Committee and revise and document the latest composition; and*
- Ensure that evidence is retained of all key stages and decisions in the procurement cycle, including Procurement Committee signatures on the quote comparison sheets.*

Procurement (Non-health and local purchases)

57. The OIG reviewed the PR's procurement policies and procedures, as well as a sample of 305 purchases transactions worth USD 5.62 million (representing 13% of non-SR disbursements) and found that:

- The thresholds defined for competitive procurement through RFQs, limited tendering and open tendering were higher (often more than 4 times more) than Bangladesh's Public Procurement Rules;

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- The PR's procurement guidelines do not require obtaining conflict of interest declarations from personnel involved in making procurement decisions, including from members of the procurement committee;
- The procurement guidelines required that at least ten days be allowed for submission of quotations from the date of an RFQ; however, the OIG noted 24 instances where one week or lesser time was allowed; and
- 43 instances totaling USD 414,722 were identified where competitive quotes were not obtained, including 18 instances where contracts were awarded to BRAC affiliates without inviting quotations from any external vendors.

58. In addition, sample testing of 57 purchases of TV, radio and billboard advertising highlighted a number of procurement practices that should be strengthened, including:

- The budgeted amount was stipulated in 10 RFQs (valued at USD 838,954);
- The basis for choosing a particular TV channel was not documented or justified for any of the 24 TV spots sampled (valued at USD 833,382);
- Third-party transmission certificates were not obtained for 43 cases (valued at USD1,122,768) to verify that TV or radio spots had aired, and transmission certificates issued by Bangladesh TV for 24 TV spots (valued at USD 833,382) relating to this broadcaster did not include the date and time of transmission or program details for the advertisements aired;
- No independent process for monitoring billboards at regular intervals was in place for all six cases (valued at USD 434,754) verified; and
- There were three instances of delay in initiating purchase requests and releasing work orders (valued at USD 459,732), resulting in delays of one to two months in the annual contract for TV spots.

Recommendation 13 (Critical)

BRAC should strengthen its procurement controls to improve transparency and competitiveness, including:

- Reducing the bidding threshold in line with the Bangladesh Public Procurement Rules and ensuring that applicants have a minimum of 10 days to submit quotations;*
- Ensuring that conflict of interest declarations are obtained from those involved in procurement decisions including members of the Procurement Committee;*
- Inviting competitive quotations from multiple vendors for purchases above the direct purchase threshold and obtaining justification for any deviations*
- Documenting the justification for all procurement decisions, particularly for instances where competitive quotes are not available or the lowest quote vendor is not selected;*
- Not disclosing the purchase budget on the RFQ or tender documents;*
- Obtaining third-party evidence of services received prior to making final payment. The PR should ensure that the date and time of the spot are mentioned on the broadcaster transmission certificate;*
- Implementing a process for independent physical verification of billboards at regular intervals; and*
- Ensuring that purchase requests are promptly forwarded to the procurement department to avoid delays.*

INTERNATIONAL CENTRE FOR DIARRHEAL DISEASE RESEARCH, BANGLADESH

Background

59. The International Centre for Diarrheal Disease Research, Bangladesh (ICDDR, B) is one of the three PRs for HIV/AIDS Rolling Continuation Channel (RCC) grants (in addition to SCUSA and MOHFW) and implements its grants through three SR consortia. Of the total USD 2,438,437 disbursed to ICDDR, B by the Global Fund as of 31 March 2011, ICDDR, B had disbursed USD 1,294,221 to these three SRs.

Grant Management

Budgetary Control and Reporting

60. The OIG reviewed the financial controls at ICDDR, B and highlighted the following areas for attention:

- The accounting software used by the PR did not generate primary financial statements nor trial balances for grant funds, increasing the risk of undetected human error or fraud;
- There was no reconciliation between the program asset register and the program financial records to verify the accuracy and completeness of records;
- The PR had not implemented appropriate security procedures for its banking arrangements such as sequentially numbered authorization letters and call-back procedures to enable the bank to authenticate wire transfer transactions; and
- There was no process in place to perform a periodic verification of the blank check stock.

Recommendation 14 (Important)

ICDDR, B should strengthen its financial controls, in particular by:

- a. Implementing a financial accounting software package that enables the automatic generation of primary financial statements;*
- b. Periodically reconciling the program financial records with the assets register;*
- c. Attempting to obtain exemptions from payment of taxes and duties on the purchase of goods and services; and*
- d. Implementing appropriate security procedures such as sequentially numbered authorization letters, call-back procedures for wire transfer transactions and periodic physical verification of blank check inventory.*

Human Resources and Payroll

61. The OIG review of PR recruitment and payroll processes highlighted:

- For 14 employees that were scheduled to be recruited at the onset of the HIV grant in Dec 2009, delays of up to 243 days were noted;
- Salary costs of USD 94,764 for two shared staff that were charged to the grant program on the basis of budget availability, rather than using time sheets or other reasonable basis for allocating shared costs; and
- The PR did not perform a monthly reconciliation of the payroll with the previous month's payroll to verify the accuracy of processing.

Recommendation 15 (Important)

The Global Fund Secretariat should coordinate with ICDDR, B to:

- a. Ensure that recruitment for program staff is conducted on a timely basis;*

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- b. *Provide a documented and reasonable basis defined by management for charging shared costs across the programs; and*
- c. *Reconcile each month's payroll with the previous month's payroll to ensure accuracy and identify anomalies.*

Sub-Recipient Management

62. The OIG's review of the SR selection and monitoring processes revealed a number of areas for improvement around transparency, including:

- ICDDR, B received 61 applications for three packages¹³, however supporting documents such as technical and financial proposals, registration certificates and consortium agreements were not retained for the 58 rejected applicants;
- Fifteen applications were received for one package; however, 14 were rejected at the preliminary screening and eligibility assessment stage; the PR also performed technical and financial evaluations of the selected applicant without justifying why fresh quotations were not invited;
- The PR took more than eight months from the grant start date to select three SRs. This time lag resulted in delayed implementation of program activities and necessitated emergency procurement of condoms and lubricants without following competitive bidding procedures.

Recommendation 16 (Critical)

ICDDR, B should ensure that all documentation is retained regarding SR selection (including both successful and rejected candidates) and adopt timely and competitive procedures at every stage of SR selection to ensure selection is both fair and transparent.

Procurement (Non-health and local purchases)

63. The OIG identified three instances of emergency purchases of condoms and lubricants where competitive purchasing procedures were not followed by the PR. These purchases totaled USD 318,716 and constituted 21% of the PR's total budget for health products. While the PR obtained approval from the Global Fund Secretariat to buy these products on an emergency basis, the Global Fund was not informed that they would be purchased from a single source.

64. The OIG also noted that purchase orders issued to vendors did not include any penalty clause for delay in delivery of goods. In five instances, delivery was delayed by up to 37 days.

Recommendation 17 (Important)

ICDDR, B should improve its procurement planning to avoid emergency purchases; where this is unavoidable, the PR should adopt competitive bidding procedures and include penalty clauses for delayed deliveries.

¹³ Package is a term used by the Bangladesh program to describe 'specific activities' defined by objectives and service delivery area (SDA).

THE ECONOMIC RELATIONS DIVISION, MINISTRY OF FINANCE

Background

65. The Economic Relations Division in the Ministry of Finance (ERD) was PR for Rounds 2 and 6 HIV, Rounds 3, 5 and 8 TB and Rounds 6 and 9 Malaria grants. ERD implemented the HIV/AIDS programs through Save the Children USA (SCUSA) as the management agent. The TB programs were implemented by the World Health Organization (WHO) as the management agent under Round 3 and the National Tuberculosis Control Program (NTP) as the implementing agency under Rounds 5 and 8. The National Malaria Control Program (NMCP) has been the implementing agency for all of the malaria programs. Amounts committed and disbursed are as follows:

Table 2: Summary of grants committed and disbursed to ERD

Program	Management/Implementing Agency	Grant Number	Amount committed (USD)	Amount Disbursed (USD)
HIV/AIDS	SCUSA	BAN-202-G01-H	20,272,690	19,631,639
		BAN-607-G08-H	20,216,223	20,216,223
TB	WHO	BAN-304-G03-T	15,446,444	10,185,367
		BAN-506-G05-T	20,559,608	14,731,252
	NTP	BAN-809-G09-T	1,903,392	771,400
Malaria	NMCP	BAN-607-G07-M	14,102,703	14,102,703
		BAN-S10-G14-M	11,144,629	3,697,050
Total			103,645,689	83,335,634

Source: the Global Fund website for disbursements made to the Country of Bangladesh up to 31 March 2011

66. The results of the OIG review of NTP and NMCP controls are reported as part of this section. The results of the review of SCUSA as management agent for ERD are reported under the section relating to SCUSA as the PR.

Grant Management

Budgetary Control and Reporting

67. The OIG review of the ERD's financial accounting system found a number of areas for improvement including:

- NMCP expenses totaling USD 208,393 were either recorded with delay or posted prior to the actual date incurred in order to match budget availability; this resulted in incorrect reporting of expenses in EFRs and PU/DRs which the LFA had not identified; and
- The PR did not separately track and report the amount of taxes and duties paid using grant funds in the EFRs and PU/DRs. In five of the transactions reviewed, taxes totaling USD 85,365 were paid by NTP and NMCP using grant funds.

Recommendation 18 (Important)

NMCP should ensure that:

- Expenses are recorded on a regular basis in the accounting periods in which they are incurred; and*
- Further efforts are made to obtain exemptions from taxes and duties on purchase of goods and services under the Global Fund grants; in the interim, taxes and duties paid using grant funds should be separately tracked and reported to the Global Fund with the PU/DRs and EFRs.*

68. Neither NMCP nor NTP has a documented mechanism in place to determine the available budget under each service delivery area (SDA) line item prior to approval of a purchase request by the finance team. Further, there is no formal process to perform a periodic review of actual expenses, identify variances between actual and budgeted expenses and obtain reasons for such variances from the relevant personnel. The OIG review of actual expenses highlighted instances of both unbudgeted expenditure (totaling USD 9,100) and budget overruns at NMCP (totaling USD 25,592):

Recommendation 19 (Important)

The PR should strengthen its budgetary controls to achieve compliance with the Global Fund budgeting guidelines; this should include obtaining prior written approval from the Global Fund Secretariat for deviations from the budget and refunding any unbudgeted purchases charged to the grant programs.

Bank & Cash management

69. The OIG review of the NTP closed grants highlighted that unutilized funds of USD 132,832 relating to the Round 3 and 5 TB grants had not been refunded to the Global Fund.

Recommendation 20 (Important)

The Global Fund Secretariat should coordinate with the PR to require NTP to formally close all completed grants and return any unused monies to the Global Fund.

70. The review showed a number of areas for improvement around the recording and monitoring of training advances, including:

- NMCP did not consistently record the details of training advances disbursed and settled by program and government staff and did not promptly enter the advances in the financial accounting system.
- At the NTP:
 - USD 409,225 of advances were provided to staff through bearer checks;
 - Twelve consecutive advances totaling USD 253,055 from July 2009 to December 2009 were settled on 31 December 2009;
 - Advances totaling USD 51,193 were made prior to settlement of outstanding previous advances totaling USD 64,736;
 - Delays of up to 111 days (rather than the permitted two weeks) in settlement of advances totaling USD 6,438; and
 - Supporting documents relating to training expenses were not routinely forwarded to the finance department for approval.

Recommendation 21 (Important)

The PR should strengthen its controls around staff advances by working with NMCP and NTP to:

- (a) Track and record details of advances disbursed and settled;*
- (b) Monitor expected settlement dates to ensure timely settlement of advances; and*
- (c) Disburse new advances only after previous advances have been settled.*

71. NMCP follows the Bangladesh Health Nutrition and Population Sector Program (HNPS) guidelines for making per diem payments to staff and other personnel who are required to travel for training. However, the OIG noted a number of issues that indicated scope for improved review by the finance team including:

- 118 instances totaling USD 8,155 that had been paid erroneously (e.g. per diems paid twice or paid where employees didn't actually travel); and

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- Two vendor invoices that had been photocopied 41 times and attached in support of vouchers for different trainings, resulting in overpayment of USD 2,796.

72. The OIG noted a lack of segregation of duties at NMCP as the accountant responsible for physical custody of cash and blank checks was also responsible for preparing bank reconciliation statements and had unrestricted access to the accounting system. In addition, the finance manager responsible for maintaining employee files was also responsible for payroll processing.

Recommendation 22 (Important)

The PR should require NMCP to improve its controls around cash and expenses including:

- (a) Performing a detailed review of per diem expenses to ensure that only legitimate payments are made;*
- (b) Clarifying the existing per diem policy to ensure that per diems are paid only to employees travelling to a training location;*
- (c) Ensuring payment to vendors only on the basis of the original invoice as supporting documentation and to refund the amount of expenses charged to the grant programs based on photocopied invoices; and*
- (d) Segregating the incompatible duties performed by individual staff members in the Finance team to minimize any potential conflicts of interest.*

Asset & Inventory Management

73. The OIG reviewed the controls over safeguarding and usage of program assets in both implementing agencies and found a number of significant issues:

- At NTP, one program vehicle was being used by the Director General's office despite being allocated to supervisory activities and two vehicles were being used for transporting non-program staff (associated running, maintenance and staff costs totaling USD 4,830 were charged to Global Fund-supported programs). A further 54 program IT assets were issued to employees not working on Global Fund-supported programs;
- At NMCP, two motorcycles were issued to employees for non-Global Fund-related purposes and the thefts of two microscopes worth USD 3,571 and a motorcycle worth USD 1,300 were not reported to the Global Fund (the items had not been replaced at the time of the audit); and
- At both agencies, there were no processes in place to physically verify program assets or to reconcile the program fixed assets register with the financial records on a timely basis. The NTP's fixed asset register was incomplete and it did not include any assets procured prior to July 2009.

Recommendation 23 (Important)

The PR should require NTP and NMCP to strengthen its controls around fixed assets including:

- a. Ensuring that assets purchased under the Global Fund programs are used solely for program purposes;*
- b. Refunding all vehicle running and maintenance costs charged to the program for non-program purposes (NTP only);*
- c. Recording, reporting and replacing all stolen or lost fixed assets in the asset register; if such assets are not replaced, an amount equal to the value of the lost or stolen asset(s) should be credited to the program;*
- d. Performing periodic physical verification of all program assets including appropriate review by management; and*
- e. Performing a periodic reconciliation of all program fixed assets register with the financial records, updating the asset register as necessary.*

Human Resources and Payroll

74. The OIG's review of the recruitment process highlighted the following:

- Significant delays (eight to twelve months) were experienced in the recruitment of program staff at NMCP, which impacted grant implementation;
- In two instances under the Round 6 program at NMCP, employees recruited by the PR had less experience than was required in the advertisements for the positions, and documents pertaining to the rejected candidates were not available for review;
- Guidelines relating to recruitment processes followed at NTP were insufficiently clear. In one instance, experienced employees were rejected because their details were incorrectly entered in the candidate evaluation sheet used for short-listing candidates; and
- In 13 instances at NTP and NMCP, supporting documents were not retained to demonstrate competitive selection of recruited staff.

Recommendation 24 (Important)

The PR should work with NMCP and NTP to improve their recruitment process including:

- (a) Ensuring that recruited candidates have the requisite qualifications and that deviations are justified and fully documented (NMCP);*
- (b) Recruiting program staff within the timelines set out in the program budget and work plan. Delays, if any, should be reported promptly to the Global Fund Secretariat (NMCP);*
- (c) Implementing a process to ensure that candidate evaluation sheets are completed accurately (NTP); and*
- (d) Retaining recruitment documents (such as interview letters, question papers, answer sheets, educational qualification certificates) for rejected as well as selected candidates.*

75. The OIG noted that neither NTP nor NMCP performed a monthly reconciliation of payroll with the previous month's payroll to verify the accuracy of processing. Employee salary payments at NMCP for the periods from January to May 2009 and January to March 2010 were delayed by three to five months due to delay in the disbursement of funds.

Recommendation 25 (Important)

The PR should work with NMCP and NTP to strengthen payroll processing procedures by:

- a. Reconciling each month's payroll with the previous month's payroll to ensure accuracy and identify anomalies (both NTP and NMCP); and*
- b. Ensuring that budget forecasting accurately captures all future payments to ensure that disbursements are sought well in advance to avoid delays in the payment of employee salaries (NMCP).*

Compliance with Grant Agreement

76. The OIG performed a review of the terms and conditions of the grant agreements and noted the following instances of non-compliance:

- NTP did not comply with two conditions precedent (CPs) for disbursement, specifically regarding the implementation of accounting software and nationwide MIS for the TB program which was apparently due to capacity issues; and
- Neither NTP nor NMCP complied with four conditions in relation to the use of an international procurement agent, the submission of tax exemption status and the selection of an external auditor; a further twelve instances were noted where evidence of communication of conforming to CPs or special terms and conditions of the agreements was not available at NTP or NMCP.

Recommendation 26 (Important)

The Global Fund Secretariat should not disburse funds to the PR unless it and its SRs comply with critical CPs and special terms and conditions stipulated in the grant agreements; any approved exception in line with Global Fund policy should be documented.

77. The OIG's review of the financial and programmatic reports submitted to the Global Fund highlighted the following areas of concern:

- Clerical errors which led to the under-reporting of USD 2,214 and over-reporting of USD 3,925 of expenses by NMCP in the EFRs for the periods of July 2007 to May 2009;
- Accrued expenses of USD 128,867 reported by NMCP as actual expenses in the PU/DR for the period ending 31 Dec 2010, resulting in the incorrect computation of the closing cash balance;
- Reasons for variances not clearly explained in NTP's EFR and cumulative expenses not reported; and
- Significant delays in submitting, or failure to submit entirely, key financial reports¹⁴ to the Global Fund.

Recommendation 27 (Important)

The PR should require NMCP and NTP to:

- (a) Adhere to the Global Fund's reporting guidelines for preparing key financial reports;*
- (b) Prepare a reporting calendar to monitor submission of financial, audit and other reports to stakeholders within the timelines stipulated in the grant agreements and maintain documented evidence of timely submission; and*
- (c) Perform a reconciliation between the financial records and the expenses reported in the PU/DRs and EFRs (particularly NMCP) to ensure accurate reporting.*

Procurement (Non-health and local purchases)

78. NMCP and NTP were required to follow the Public Procurement Rules applicable to all government entities; all procurement of health and non-health products was required to be approved by a Procurement Committee. The audit noted the following areas for improvement in the procurement process at the SRs:

- Bundling of purchases in tenders and RFQs resulting in unclear value for money;
- A lack of clarity concerning prequalification criteria and critical terms and conditions at NMCP (e.g. payment terms, and technical specifications);
- Limited publication of tenders potentially resulting in uncompetitive tender outcomes;
- Insufficient documentary evidence on the tender process;
- Payments made to vendors before completion of agreed activities (including one instance at NTP of back-dated payments to a vendor despite Global Fund instructions not to release payment);
- Undocumented justification for changes in work plans for ACSM activity at NTP;
- Unutilized assets due to improper purchase planning; and
- Non-compliance with applicable competitive purchasing procedures.

Recommendation 28 (Important)

The PR should work with NMCP and NTP to adopt effective procurement practices and to ensure value for money through transparent and competitive bidding procedures including:

¹⁴ For example, Progress Updates/Disbursement Requests and Enhanced Financial Reporting documents.

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- a. *Ensuring that tender documents contain all necessary specifications and terms and conditions;*
- b. *Advertising tenders widely (including through a variety of channels) to ensure the best available procurement outcome;*
- c. *Documenting justification if competitive quotes are not available or the lowest quote vendor is not selected;*
- d. *Ensuring that goods and services received from vendors are in accordance with the relevant contract or purchase order, and releasing payment to the vendor in accordance to the agreed payment terms and upon evidence of completion of work;*
- e. *Implementing proper purchase planning to ensure that grant funds are utilized effectively; and*
- f. *Ensuring compliance with applicable competitive purchasing procedures.*

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MINISTRY OF HEALTH AND FAMILY WELFARE

Background

79. The Ministry of Health and Family Welfare (MOHFW) is a PR for the HIV RCC grant, with the National AIDS/STD Program (NASP) as the Implementing Agency. Established in 1998, NASP is part of the Directorate General of Health Services (DGHS) under the MOHFW, and is responsible for coordinating with all stakeholders and development partners involved in national HIV/AIDS program activities. It is an implementing and coordinating body to plan, monitor and streamline HIV/AIDS activities in Bangladesh.

80. Details of amounts committed and disbursed are as follows:

Table 3: Summary of Grant funds committed and disbursed to MOH&FW

Program	Implementing agency	Grant Number	Amount committed USD	Disbursed Amount USD
HIV/AIDS	NASP	BAN-202-G11-H-00	3,354,432	197,693

Source: the Global Fund website as at 1 March 2011

Budgetary Control and Reporting

81. NASP did not have a formal process to determine the available budget under each Service Delivery Area (SDA) line item prior to approving a purchase request by the finance team. At the time of the audit, there was also no formal process in place to perform a periodic review of actual expenses, identify variances between actual and budgeted expenses and obtain reasons for such variances from the relevant personnel.

82. The OIG noted that NASP did not record the details of training advances disbursed and settled by employees. The advances were recorded as expenses in the financial records upon disbursement and neither tracked nor followed up to ensure timely settlement.

Cash & Bank Management

83. Grant funds are first received by MOHFW and subsequently transferred to the NASP bank account. However, the OIG noted delays of 40 days in transfer of funds to NASP after receipt in the MOHFW bank account.

Human Resources and Payroll

84. The OIG's review of human resources and payroll processing at NASP highlighted the following:

- Employees working on multiple programs did not prepare time sheets to capture the hours worked on the Global Fund program. Salary costs totaling USD 20,296 for three employees working on multiple projects were charged fully to the Global Fund grant program;
- Salaries for successful candidates were determined based on the approved budget without verifying the employee's previous salary. The OIG noted an instance where the salary offered to an employment candidate was three times the last drawn salary; and
- No monthly reconciliation of each month's payroll with the previous month's payroll to verify the accuracy of processing was performed.

85. As NASP (MOHFW) is no longer a Principal Recipient, no recommendations have been issued to mitigate the risks identified above.

SAVE THE CHILDREN USA

Background

86. SCUSA is one of the three PRs under the HIV/AIDS RCC program and served as the management agency under the Round 2 and 6 HIV/AIDS programs, for which ERD was PR. (see the chapter on ERD above). SCUSA is a non-profit development agency with diverse community development programs which it implements through partnerships with the government, international and national NGOs, community and faith based organizations, academic institutions and a variety of other partners.

87. SCUSA has implemented its Global Fund-supported programs through 13 technical packages implemented by 13 SR consortia. The total funds disbursed by SCUSA to SRs as of 31 March 2011 were as follows:

Table 4: Details of funds disbursement to SRs by SCUSA

Component	Round	Grant Number	No. of SRs	Funds disbursed to SRs (USD)
HIV/AIDS	2	BAN-202-G01-H-0	5	16,022,895
HIV/AIDS	6	BAN-607-G08-H-0	13	15,185,067
HIV/AIDS	RCC	BAN-202-G12-H-0	13	9,013,186
Total				40,221,148

(NB: This includes disbursements listed under ERD above.)

Grant Management

Budget Monitoring

88. The OIG reviewed SCUSA's budgetary controls including a sample of program expenses and observed the following areas for improvement:

- Approved grant budgets were not centrally maintained, which has led to multiple versions of budgets being used by the PR to monitor expenses;
- There was no process in place to monitor actual expenses against detailed budgets on a periodic basis to identify variances, unbudgeted expenses or budget overruns; and
- There was no process in place to verify purchase requests against the available budget under each SDA line item prior to approval. The OIG identified a total of USD 542,480 of ineligible expenditure, unbudgeted expenditure and budget overruns.

Recommendation 29 (Critical)

The Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that SCUSA adheres to the Global Fund budgeting guidelines. In case of the budget overruns above the threshold set in the Global Fund budgeting guidelines, SCUSA should obtain written approval from the Global Fund Secretariat prior to incurring the expense; if overruns are not approved by the Global Fund Secretariat, the relevant amount should be refunded to the grant program.

Cash and Bank Management

89. MOHFW received Global Fund disbursements into its bank account which were subsequently transferred to SCUSA as the Management Agency. The OIG review of the bank account highlighted that funds transferred by MOHFW to SCUSA were USD 82,456 less than the funds disbursed by the Global Fund and that interest income of USD 108,104 earned by MOHFW was neither reported nor credited to the Global Fund program.

90. The Global Fund strongly encourages purchases of any goods or service using grant funds by PRs and SRs to be free from taxes and duties. The OIG review highlighted that:

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- MOHFW had agreed to bear all taxes and duties in a letter to the Global Fund Secretariat dated 14 August 2003, however, taxes and duties paid during Rounds 2 and 6 were not refunded by the MOHFW; and
- There was no process in place to separately track and report the taxes and duties paid using program funds. A review of 31 transactions for the purchase of goods and services highlighted six instances of payment of taxes and duties using program funds (totaling USD 79,557) and one instance where tax of USD 34,756 was deducted from interest income.

91. The OIG review highlighted that expenses of USD 87,181 (NASP and STI under the capacity-building agreements) were not reviewed by SCUSA's finance team prior to processing the disbursement request.

Recommendation 30 (Critical)

SCUSA and MOHFW should improve their cash and bank controls including:

- a. Reconciling any differences between the funds received by MOHFW from the Global Fund and those transferred to SCUSA by MOHFW. All differences in funds transferred by MOHFW including all interest earned by the PR should be returned to the program by MOHFW.*
- b. Obtaining exemptions from payment of taxes and duties on purchase of goods and services under the Global Fund grant program, including any refunds of taxes and duties paid using Grant funds in line with the agreement.*
- c. Obtaining and verifying the supporting documents for expenses incurred and reported by NASP and STI under the technical support agreement.*

Asset Management

92. The OIG's review of SCUSA's asset management procedures highlighted a number of areas for concern around asset management controls including:

- Sixteen program assets (IT equipment) worth a total of USD 11,698 were issued to staff working on non-Global Fund programs; and
- Reconciliations between the Global Fund program financial records and the fixed assets register were not performed, and therefore variances were neither identified nor amended on a timely basis. The OIG review highlighted two instances where fixed consumable assets purchased (laptops and cameras worth USD 4,000) were not updated in the FAR.

Recommendation 31 (Important)

SCUSA should ensure that assets acquired with program funds are used only for program purposes, and that regular reconciliations of the program fixed assets register with the financial records are performed.

Human Resources and Payroll

93. The OIG noted that SCUSA's HR policy did not stipulate the sources to be used for identifying suitable candidates, the minimum number of candidates to be interviewed for each position, the time allowed for the prospective candidate to respond to an expression of interest, or the process to be followed when hiring contractors. In a sample of recruitment cases reviewed by the OIG, the following instances of non-compliance with SCUSA's internal HR policy manual were noted:

- In two cases, no member of the Senior Management Team was part of the interview committee;
- An employee was promoted internally based on the recommendation of the HIV Program Director, despite not meeting the minimum qualification criteria, scoring less overall

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than the other candidates and not achieving the minimum pass score on the written exam; and

- In two instances, candidates with the lowest overall ratings were selected with the justification of maintaining gender equity in the organization.

Recommendation 32 (Important)

SCUSA should improve its HR policies and procedures, in particular:

- a. Updating its HR policy manual to incorporate stipulate the sources to be used for identifying suitable candidates, the minimum number of candidates to be interviewed for each position, the time allowed for the prospective candidate to respond to an expression of interest, or the process to be followed when hiring contractors; and*
- b. Ensuring that candidates are fairly and transparently selected based on the results of internal assessments conducted by the Recruitment Committee.*

Compliance with Grant Agreement

94. The OIG reviewed the financial reports prepared and submitted by the PR to the Global Fund and highlighted the following areas for improvement:

- In relation to Enhanced Financial Reporting (EFR):
 - All expenses reported in the 2007 and 2009 EFRs for Rounds 2 and 6 were apportioned on the basis of approved budgets and not on the basis of the nature of expense incurred as required by Global Fund guidelines; and
 - Discrepancies of USD 184,933 for the period April 2008 to March 2009 and USD 58,380 since inception till 31 March 2009 were noted between the financial records and the expenses reported in Round 2 EFR for the period ending 31 March 2009.
- In relation to Progress Updates and Disbursement Requests (PU/DR):
 - Accrued expenses of USD 91,825 were reported as actual expense in the Round 6 PU/DR for the period ending 30 June 2009, resulting in an understatement of the actual cash position;
 - Expenses reported in the RCC program PU/DR for the period ending December 2010 were less than the actual expenses in the financial records by USD 173,647; and
 - SR interest income of USD 98,369 was not reported in the PU/DRs or EFRs submitted by SCUSA until May 2010¹⁵.

95. The Grant Agreement specifies Conditions Precedent and other special terms and conditions that must be complied with by the PR. The OIG noted the following instances of noncompliance with the grant agreements:

- Fourteen instances of delays in compliance with CPs and special terms and conditions. Of these, the LFA reported that the PR was compliant with two but did not assess the remaining cases;
- Eight instances where documented evidence of conforming with the special terms and conditions of the Grant Agreement was not available. Of these, the LFA reported that the PR was compliant with three and did not assess the remaining five; and
- Nine instances where funds were not transferred by MOHFW (PR) to SCUSA (Management Agency) within ten days of receipt of funds from the Global Fund, as required in accordance with the Grant agreement (the average delay was 57 days).

¹⁵ Interest received by the SRs (USD 98,369) since inception of the Round 2 Grants (i.e. 2004) was recorded by SC USA in its books of accounts only on 31 May 2010. Break up of this amount is as follows: Mattra (Taka 3,276,562/USD46,808); Hasab (Taka 1,281,072 (USD18,301); PIACT (Taka 802,420 or USD11,463); PMUK (Taka 233,513 or USD3,336); SRs consolidated (Taka 1,292,243 or USD18,461).

96. The OIG also saw the following instances of delayed submission of financial and audit reports to the LFA or the Global Fund:

- Eight instances of delays up to 120 days in submitting PU/DRs to the LFA;
- Five instances of delays up to 269 days in submitting EFRs to the LFA;
- Three instances of delays up to 15 days in submitting PR and SR audit reports; and
- Six instances where documented evidence of submission of the PR and SR audit reports to the Global Fund was not available.

Recommendation 33 (Important)

SCUSA should ensure compliance with all conditions precedents and special terms and conditions of the Grant Agreement in particular:

- a. Ensuring that financial reports are prepared in accordance with the Global Fund's reporting guidelines;*
- b. Obtaining approval from the Global Fund Secretariat in case of delays; and*
- c. Maintaining appropriate documents evidencing compliance and submission to the Global Fund Secretariat.*

Procurement and Inventory Management

97. The OIG noted the following areas for improvement regarding the procurement practices at SCUSA. In 18 procurement transactions reviewed (amounting to USD 788,780), we saw:

- Two instances, in which more expensive vehicles with higher specifications (costing USD 109,378) were purchased by the PR without documented justification; the cost variance compared to vehicles purchased, e.g. by BRAC was USD48,998; and
- Six instances (totaling USD 196,647) of goods and services purchased without obtaining the minimum number of quotations required under the procurement policy.

Recommendation 34 (Important)

SCUSA should (subject to certain valid exceptions) consistently adopt competitive bidding procedures to achieve value for money in procurement, including obtaining multiple vendor quotations for purchases and documenting the justification for all decisions, particularly if the lowest quote vendor is not selected.

98. The OIG identified a number of areas for improvement in the process used for selecting financial auditors in the period 2004 to 2009. This included:

- Insufficient or absent documentation on the selection process used, including the criteria used, an absence of ranking or rating each firm on the basis of cost or technical grounds and no comparative statements or Procurement Committee minutes to evidence decisions;
- Incomplete adherence to public tendering procedures, including only publishing Expressions of Interest (EOI) in one English daily newspaper which did not list the pre-qualification criteria and not allowing the requisite time to respond to the EOI; and
- The Terms of Reference for financial auditors did not include a reference to the Global Fund's code of conduct for suppliers.

Recommendation 35 (Important)

SCUSA should improve its procurement process in relation to selecting financial auditors, in particular:

- a. Ensuring that documentary evidence is retained for major selection decisions;*

- b. *Adopting robust tendering practices through transparent and competitive bidding by procuring through open tenders only;*
- c. *Ensuring that EOIs list all the pre-qualification criteria and obtaining approval from the Purchase Committee for the EOI advertisement prior to publishing;*
- d. *Defining the basis of evaluation prior to the Purchase Committee meeting, and applying this basis systematically; and*
- e. *Including the Global Fund's code of conduct for suppliers in all vendor contracts and agreements.*

Sub-Recipient Monitoring

99. The OIG review of a sample of SR selection documents identified a number of areas for improvement in the procedures adopted by the PR, including:

- A lack of selection documentation including missing independence declarations, technical evaluations and EOI documents;
- Preliminary screening not performed in accordance with eligibility criteria;
- SR agreements for Round 6 (packages 901 to 905) totaling USD 10.57 million were awarded to the SRs selected in Round 2 without following competitive selection procedures; and
- A number of errors and discrepancies in the technical and EOI evaluation sheets.

Recommendation 36 (Important)

SCUSA should improve its procedures for SR selection including:

- a. *Ensuring that all relevant documentation is retained for selected as well as rejected candidates;*
- b. *Ensuring that applicants are screened in accordance with the conditions specified in the EOI advertisement; and*
- c. *Defining comprehensive guidelines for evaluating applicants and ensuring compliance with the defined guidelines by the evaluators.*

100. The OIG review of the SR agreements highlighted changes to the SR budgets that were not communicated to or approved by the Global Fund (individual budgetary changes totaled USD 432,735 less and USD 801,581 more than the approved budget).

101. The OIG review of the SR monitoring procedures performed by SCUSA highlighted the following areas of concern:

- No comparison was performed between the programmatic and financial reports submitted by the SRs during SCUSA's quarterly review;
- The sampling methodology used by the finance team when reviewing SR expenses was not defined; and
- Internal control issues, unbudgeted expenses and budget overruns highlighted during the OIG review had not been identified during PR monitoring visits.

Recommendation 37 (Critical)

SCUSA should strengthen its procedures around SR monitoring including:

- a. *Allotting SR budgets in accordance with the Global Fund approved budgets and work plans. Prior written approval should be obtained from the Global Fund Secretariat for any deviations from the approved work plan and budget.*
- b. *Comparing SR financial reports with programmatic reports prior to disbursement;*
- c. *Defining a risk-based sampling methodology for reviewing SR expenses, ensuring better coverage and reviewing higher value transactions at high risk SRs; and*

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d. *Reviewing of SR internal controls over the management of cash and bank, procurement, fixed assets, HR and payroll functions and SSR monitoring procedures.*

102. The OIG noted 35 instances of delays of up to 77 days in disbursement of funds by the SCUSA to SRs (the average was 30 days delay).

Sub-Recipient Visits

103. During the review, the OIG selected a sample of SRs for detailed testing: DNS, HASAB, Mattra, PIACT. The financial reports submitted by the SRs to SCUSA highlighted a number of inconsistencies in the preparation of PU/DRs and EFRs, specifically:

- DNS and HASAB reported expenses on an accrual basis, and advances to vendors and employees were reported as program expenses;
- PIACT reported USD 13,081 less in expenses to the PR than were recorded in its financial records; and
- Neither HASAB nor PIACT could provide documented justifications for significant variances between actual expenses and approved budgets.

104. The OIG documented the following areas for improvement in the SRs financial accounting systems:

- DNS did not use accounting software to record and maintain financial records;
- DNS did not maintain a separate bank account for the RCC grant program funds (on 30 May 2010 DNS requested that SCUSA allow it more time to open the bank account, but no further actions had been taken by August 2011);
- The bank did not credit any interest to PIACT for a period of 11 months from February 2008 to December 2008, despite the average month-end bank balance during this period being USD 95,288; and
- The policies and procedures defined by PIACT for asset management did not include guidance on asset acquisition, transfer, disposal or safeguarding.

105. The OIG review highlighted that there was no process in place to separately track and report the taxes and duties paid using program funds. In SR transactions reviewed by the OIG, taxes and duties totaling USD 277,099 were paid for the purchase of goods and services using program funds

106. The OIG's review of SR budgetary controls highlighted that no documented mechanism was in place to verify purchase requests against available budget prior to approval. The OIG identified USD 186,245 in ineligible expenditures, unbudgeted expenditures and budget overruns.

107. The OIG review of the procurement policies and procedures defined by the SRs highlighted the following discrepancies:

- The procurement policies of Mattra and all of HASAB's NGO partners did not require public tendering procedures, even for high value purchases; and
- HASAB's procurement policy did not define a threshold for procurement through RFQs or the maximum time period allowed for candidates to respond to EOIs.

Recommendation 38 (Important)

SCUSA should improve the internal controls within its SRs, in particular by ensuring that:

- a. *Adequate training is provided to accounting staff on the Global Fund's reporting guidelines to ensure that financial reports are properly prepared and that any variances between actual expenses and approved budgets are fully documented;*

- b. Accounting software and separate bank accounts are used to manage grant funds;
- c. policies and procedures for asset management are defined and documented, including for asset acquisition, transfer, disposal and insurance coverage;
- d. taxes and duties paid using grant funds are separately tracked and reported to the PR;
- e. Threshold values for procurement tenders and time limits for obtaining quotations are defined; and
- f. All purchase requests are verified against the available budget prior to approval and all unbudgeted and ineligible expenses charged to the Global Fund program are refunded.

108. The OIG noted 15 instances (valued at USD 1,011,899) where the tendering practices followed by Mattra and PIACT were not competitive and did not ensure value for money; these included:

- Discrepancies between the specification in the RFQ and those used for selection;
- Relevant approvals dated after the vendor agreement had been signed;
- A lack of documented justification for vendor selection;
- Delays in finalizing specifications resulting in cost increases; and
- Failure to invite fresh quotations from vendors for subsequent orders.

109. The OIG also noted that Mattra did not maintain documented evidence of the basis for selecting channels for airing television commercials. A review of the total spent on advertisement (USD 1,334,439 for 2008 and 2009) highlighted that 72% was spent on five channels, each with no more than 2-7% market share (according to TRP ratings).

Recommendation 39 (Critical)

SCUSA should ensure that its SRs adopt good tendering practices and obtain value for money through competitive and transparent bidding to avoid delays in implementation of program activities; this should include requiring SRs to obtain multiple vendor quotations for purchases (particularly for transactions with SR affiliates and related parties) and to document the justification for selecting all vendors and products (e.g. television channels).

110. Mattra was unable to provide evidence of receipt to the OIG for goods and services valued at USD 312,308; these included trade fair advertisements and television commercials.

Recommendation 40 (Important)

SCUSA should require Mattra to retain evidence of receipt for all goods and services including third-party confirmations for all television commercials aired.

111. The OIG identified weaknesses in procurement planning for lubricants by DNS. Stock-outs were noted at three drop-in centers (DICs) including one which had been out of stock for over a month.

Recommendation 41 (Important)

The Global Fund Secretariat should recommend that DNS regularly monitors the quantities of stock available at all DICs. A re-order level should be defined for each DIC and procurement effected whenever the quantity goes below the defined minimum level.

112. The OIG noted a number of areas for concern around Human Resources and Payroll at the SRs including:

- DNS and PIACT HR policies and procedures did not include policies or procedures on preparing the monthly payroll, leave approvals, performance appraisals and employees conflicts of interest;

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- Mattra filled three positions without interviewing multiple candidates as required by their recruitment policy. In two of these cases, the employee was transferred to the Global Fund-supported program from another position in Mattra without any other candidates being interviewed;
- No SRs performed a monthly reconciliation payroll with the previous month's payroll to verify the accuracy of processing; and
- At HASAB and PIACT, time sheets were not completed by staff working on multiple projects; the costs for these employees were charged to the Global Fund grant program on the basis of the available budget rather than time spent on the program.

Recommendation 42 (Important)

The Global Fund Secretariat should recommend that SCUSA requires SRs to improve their HR processes including:

- a. Defining and documenting policies and procedures on monthly payroll runs, conflict-of-interest declaration, employee performance appraisal and leave approvals;*
- b. Implementing transparent and competitive recruitment procedures;*
- c. Perform monthly reconciliation of payroll with the previous month's payroll prior to payment of employees' salaries; and*
- d. Charge the salaries and other costs of shared staff to the Global Fund program on the basis of timesheets or another reasonable basis defined by the management.*

Sub-sub-recipient Monitoring

113. The OIG review of the expense reports submitted by Mattra's sub-sub-recipient (SSR) Nahid Advertising & Printing highlighted following weaknesses:

- Charges for materials, staff and admin expenses were USD 62,174 in excess of the budget; and
- There were significant variances between the materials supplied by the SSR and the work plan approved by SCUSA; however, no prior approval was obtained from SCUSA for the deviations.

Recommendation 43 (Important)

The Global Fund Secretariat should ensure that SCUSA requires Mattra to reconcile actual expenses reported by the SSR against the budget when verifying the financial reports submitted by the SSR and to obtain prior written approval from SCUSA for any changes in the approved work plan.

PROCUREMENT AND SUPPLY MANAGEMENT

114. The OIG audited the systems and operations used by the PRs to manage procurement and the supply of health commodities funded by the Global Fund.

HIV/AIDS

Background

115. Global Fund grants are used to procure ARVs, drugs against opportunistic and sexually transmitted infections, other essential drugs, condoms, lubricants, needles and syringes.

116. In 2009 the Round 2 RCC grant program was consolidated with Phase 2 of Round 6 into single stream of funding grants. The consolidated HIV program has three PRs: SCUSA, which was previously management agent under ERD for Rounds 2 and 6, MOHFW (for which NASP is the implementing entity) and ICDDR, B. The five-year, USD 40 million Round 6 program started in May 2007 and worked through the same structure as Round 2, but additionally with NASP as executing body and SCUSA as management agent.

117. Following the signing of the SSF grants, the network of SRs under SCUSA comprised 13, with 49 Sub-sub recipients. Their procurement plan included provision of pharmaceuticals and other health goods such as condoms and lubricant, needles and syringes and common STI drugs.

118. The OIG reviewed health-related PSM activities and documents in the offices of PRs SCUSA and ICDDR, B as well as the SR AAS in Dhaka. The OIG also reviewed supply chain arrangements during field visits to the AAS office Chittagong, the CARE Drop-In Center in Dhaka, and the PMUK Drop-In Center, Cox's Bazaar and the Bangla-German Latex Co. Ltd. (BGLC, a condom manufacturer).

Compliance with Grant Agreement and National/Internal PSM standards

119. The LFA assessment of the PR for Round 6 recommended capacity building, an assessment of the supply chain (CMSD store) to ensure appropriate storage of goods, a guide for procurement of pharmaceuticals, and SR training on the PSM plan. The Grant Agreement accordingly included Conditions Precedent requiring the PR to provide the Global Fund with proof that SCUSA had hired sufficient staff with the appropriate qualifications and experience to manage procurement and supplies, that staff had received training on Global Fund requirements for PSM and that there was a satisfactory supply chain and storage facilities to safeguard the quality of supplies distributed.

120. In October 2010, SCUSA informed the FPM that it had hired a new procurement manager to strengthen its PSM unit. However, the PSM unit in the HIV/AIDS division of SCUSA still only has one manager and remains quite small. One manager is barely sufficient to manage the first steps in the PSM cycle (clinical standards, quantifications, quality assurance), let alone conduct all procurement in-house. Moreover, quality assurance responsibilities should be segregated from procurement responsibilities rather than handled by one manager.

Recommendation 44 (Important):

SCUSA should hire sufficient resources with appropriate qualification and experience to manage procurement needs.

121. SCUSA has issued a draft PSM Manual and SOPs, however these are not aligned with one another. Typically, a Manual would stipulate the principles to be applied to procurement and supply, and the SOPs would describe the detailed procurement, logistics and the

logistics management and information system (LMIS) from receipt of supplies through distribution, including for quality assurance sampling.

Recommendation 45 (Important):

SCUSA should revise and finalize its Manual and SOPs (aligned to the former) and create an integrated comprehensive operational guide for PSM activities.

122. SCUSA is responsible for the Procurement and Supply Management (PSM) of health goods and for the management of national efforts against HIV/AIDS under policy maker NASP. At the time of the audit, SCUSA had not been assessed as a procurement agent, but the Global Fund Secretariat allowed it to contract for certain key health products such as condoms.

123. Under Round 2, the PSM activities of SCUSA were limited to procurement of non-health goods and services. In the Round 6 Phase 2 PSM plan, SCUSA proposed entering into a long-term agreement to act as the sole agent supplying condoms, though SCUSA would undertake to identify UN pre-qualified and cost-efficient sources to be taken into consideration as 'alternate sources' in the event that SMC did not perform as expected.

124. SCUSA provided the first PSM plan relating to the Round 6 program in early 2007, which included USD 9 million for the procurement of health products and pharmaceuticals, of which about USD 1 million was for ARVs. The plan anticipated that condoms and ARVs would be procured by UN agencies and that SCUSA would implement the necessary procedures for procurement of needles and syringes and general STI drugs. The Round 6 PSM plan was updated in November 2008 to include more forms of ARVs and to indicate that SCUSA would be responsible for procurement of ARVs according to Global Fund and WHO requirements.

125. In late 2008 the PR's first submission of a Manual for Procurement of Health Goods led to an extended review and revision process that lasted through most of 2010 because the PR and SCUSA had not been assessed to have the required capacity to conduct the necessary procurement in a transparent, fair and competitive manner and to have systems in place to ensure adherence to quality assurance principles.

126. Since 2008, neither the Round 6 PSM plans nor the SCUSA Manual has referred to specialized UN agencies as the preferred sources for procurement of ARVs and condoms as had been the case in the previous plan. The plans did not adhere to the rules set out in the grant agreements and Global Fund PSM guidelines that require 1) any PR who has not been determined to have the requisite capacity to procure health goods and pharmaceuticals to use an established (qualified/capable/recognized) regional or international procurement agent, and 2) grant funds to be used to procure health products other than pharmaceutical products only if they are selected from lists of prequalified products and comply with quality standards applicable in the country where such products will be used.

127. In 2010 SCUSA entered into a long-term supply agreement with a WHO pre-qualified manufacturer of ARVs in India and a domestic manufacturer of latex condoms. The condom supply contract included the distribution of the condoms to drop-in centers (DICs) in the districts. SCUSA also established a framework of contracts to allow SRs to purchase needles, syringes and Cotrimoxazole tablets directly from domestic sources. SCUSA's PSM plan for the SSF grants was conditionally approved by the Global Fund from the beginning of the RCC grant in 2009, with a revision submitted in June 2010. During the first year of RCC, SCUSA as the Management Agent for the PR procured condoms and ARVs for emergency supply directly from suppliers on an exceptional basis approved (in emails) by the FPM.

128. The Global Fund Secretariat approved an emergency procurement of condoms and ARVs to sustain program implementation on 17 September 2010, but noted that the use of a pre-qualified procurement agent still needed to be discussed with SCUSA. The audit noted that throughout SCUSA's tenure as both management agent and PR, approvals and remarks on PSM matters have been made in email communications between the FPM and SCUSA's Director of HIV/AIDS, but that frequently these had not been acted upon or followed up. Along with the delays in finalizing the SCUSA Manual and standard operating procedures (SOPs), the lack of consistent follow-up contributed to the need for a number of emergency procurements.

129. SCUSA did not demonstrate to the satisfaction of the Global Fund Secretariat that it had sufficient capacity as an international procurement agent to allow it to conduct procurement on behalf of SRs. At the time of the audit, the PR had a relatively small procurement unit (compared to ICDDR, B or BRAC) and had employed no person with independent QA responsibility for pre-qualification. There existed no agreement with a certified laboratory for independent quality testing.

130. In the absence of a suitable procurement agent, good procurement practice would be to use VPP or one of the UN agencies until a PR has demonstrated appropriate systems, capacity and expertise to become a procurement agent.

Recommendation 46 (Critical):

The Global Fund Secretariat should take steps in accordance with its policies and procedures in order that:

- a. Procurement of ARVs, condoms and lubricant under the Global Fund HIV/AIDS SSF grant program should be done via VPP, a suitable external procurement agent acceptable to the Global Fund or a specialized UN agency; and*
- b. SCUSA builds the capacity of its PSM unit to include the appropriate pharmaceutical expertise to conduct local pre-qualifications.*

Achievement of competition, Value for Money and Transparency

131. The selection of the ARVs used in the SSF grant program conforms to the NASP national treatment guidelines, which were developed by national-level technical experts and HIV clinicians and based on WHO ART guidelines. The manufacturer used is in compliance with the Global Fund's QA policies.

132. Selection of OI, STI and other essential medicines is in accordance with the NASP national guidelines for STI management issued by NASP. In the National Medicine Policy (NMP 2005), the MOHFW reported that the percentage of sub-standard drugs is low, at about 2%.

133. There are 258 licensed pharmaceutical factories in Bangladesh producing a range of essential drugs; however, pre-qualification should still be in place given that the Bangladesh Medicine Regulatory Authority, the Department of Drug Administration (DDA) of the MOHFW, is not PICS prequalified for mutual recognition with a stringent regulatory authority.

134. A condom supply contract was awarded to manufacturer BGLC in August 2010; however, the OIG's review of SCUSA procurement files identified that checks were not conducted to validate the prequalification status of the condom factory or product. SCUSA has provided partial assurances regarding safeguards for future supplies, for example, through increased emphasis on lot testing by an independent qualified laboratory. However, the PR has not addressed this with respect to the existing contract with BGLC, whose supplier prequalification remained outstanding at the time of the audit.

135. ICDDR, B awarded a supply contract for latex condoms to the same manufacturer (BGLC). The process was robust in that ICDDR, B defined six lots for condoms and lubricants in an international competitive tender that separated supply from in-country distribution. ICDDR, B obtained a slightly better price than SCUSA did two months earlier. However, there had been no appropriate assessment of the production capacity of the domestic plant. Both ICDDR, B and SCUSA had used the same consultant to prepare the tender.

136. The contract did not include a valid prequalification of the factory or ensure a sufficient level of quality assurance. Therefore, there exists a risk that the supplier may not be able to meet contractual obligations for both the SCUSA and ICDDR, B contracts or may compromise on quality in order to meet demand.

Recommendation 47 (Important):

In relation to condom procurement, the Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that the PRs:

- a. Follow an international competitive bidding process, in particular for condom supplies;*
- b. Ensure that if the contracts with BGLC remain in place, they are modified to require BGLC to comply with the latest WHO prequalification standards; and*
- c. Ensure that production capacity can meet the contract delivery schedules in consideration of the appropriate corrective measures to ensure quality (e.g. UNFPA pre-qualification).*

Quantification and forecasting

137. The OIG reviewed the way that the PRs quantified and forecast their requirements and noted a number of areas for concern, particularly around consumption data.

138. Condom requirements were based on a fixed number distributed per Drop-In Center (DICs) or catchment area per period. The calculated total corresponded closely to the output of the domestic factory, viz. more than 20 million condoms per year. This number implies that each of the 25,000 FSWs consistently used at least two condoms every day of the month and all 15,000 IDUs used on average ten condoms per month. In general, the audit team observed insufficient data regarding the actual use, product quality and satisfaction of condom end users to validate the purported need. Data were not sufficiently rigorous to justify the emergency orders placed and support the level of expenditure required.

139. AAS, a sub-recipient of SCUSA, was treating 461 patients with first-line drugs at the time of the audit. Forecasting took into account current stock levels and lead times to maintain an appropriate buffer throughout the year at the SCUSA store. Consumption patterns could be extracted from the computerized MIS. However, the MIS did not include pack size to ensure that appropriate quantities were ordered each quarter.

140. Quantification of STI medicines for Female Sex Workers (FSW) visiting DIC was based on historical consumption data at the peripheral level. At the time of the audit, the quantification of STI treatment needs of regular partners of FSW was not sufficiently rigorous.

141. Protective materials required in DICs (surgical gloves, facemasks and proper disposable containers) were not sufficient. In the DICs visited, the stock of these commodities was low and disposables were often re-used by medical assistants.

Recommendation 48 (Important):

The PRs should ensure that quantification and forecasting are improved, including:

- a. *Quantifying and validating the MIS for quantification of ARVs ensuring that product, names, pack sizes and units of measures are standardized and used systematically in the MIS to generate useful reports;*
- b. *Assessing whether it should re-quantify needs for STI medicines and condoms; and*
- c. *Ensures that quantification of protective supplies are appropriate.*

Quality Assurance and Control

142. Quality assurance of Global Fund-supported commodities was insufficient under the SSF program (for SCUSA this has been an issue since Round 6); for example:

- SCUSA: The first supplies of ARVs were submitted to testing in a certified laboratory and were found to be compliant with specifications. However, the samples were sent to the lab directly by the manufacturer; therefore this process did not provide assurance for the entire supply chain.
- SCUSA and ICDDR, B: As part of the tendering process, test certificates for condom lots were obtained from a third-party laboratory (SGS India), but sampling and testing had not been extended to include routine sampling of commodities downstream from the point of receipt (e.g. in the DICs prior to disbursement to end users). A good QA model should be able to detect defects and shortcomings in transport and storage conditions, and to differentiate between product-related and supply-chain-related issues.

Recommendation 49 (Critical):

The PRs should implement an effective and feasible model for QA sampling and testing by a certified laboratory throughout the supply chain.

Inventory Management, Storage and Distribution

143. The ARV supply chain under the SCUSA grant was appropriate, with buffer stocks held at central level and a relatively straightforward system to replenish stocks for dispensing by SRs in regional treatment centers. However, although SCUSA and its SRs had a computerized MIS in place for online stock management, this was still in development.

144. There were storage facilities at three levels: (1) at the central level in Dhaka for both SCUSA and AAS; (2) with partner NGO offices; and (3) at peripheral DIC store rooms in districts. The SCUSA and AAS central stores for ARVs were in an acceptable condition, with secured access, air conditioning and appropriate inventory management. Stock and bin cards were present and data entered traceable in the MIS. However, at the DIC level the physical storage standards were more basic (windows were left open, no temperature controls were present, condoms were stored in direct sunlight and records were manual and therefore difficult to reconcile).

Recommendation 50 (Important):

SCUSA should improve storage conditions and procedures in Drop-in-Centers and to the extent an appropriate monitoring protocol is in place, further strengthens systems through training of field staff, establishment of SOPs for logistics, and periodic review of storage conditions.

Malaria

Background

145. There were two PRs for Global Fund malaria grants to Bangladesh: ERD (for whom NMCP implements program activities), and BRAC. BRAC has a large network of partner NGOs and health workers and volunteers, with a presence in 59 districts. Through 400 small

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laboratories, BRAC provides more extensive health services for TB and malaria than could be reached through the government or private sector alone. BRAC has set up seven district stores in malaria-prone areas to allow the program to distribute health products.

146. The goals of the Round 6 malaria program were to:

- Scale up malaria control activities and provide quality diagnosis and effective treatment to 80% of the cases in all 13 endemic districts by 2012; and
- Break the transmission cycle by promoting the use of LLINs and providing for selective IRS for containment of outbreaks.

147. The proposal for Round 9 led to an SSF grant intended to build on Round 6 achievements and follow through on the National Strategic Plan towards 2015, as well as to address the gaps and challenges identified from Round 6. The objectives were to:

- Expand coverage of LLINs to at least two impregnated nets in each household in the three highly endemic districts (Rangamati, Bandarban, Khagrachari), while maintaining use of ITNs in at least 80% of households in the other 10 districts; and
- Improve diagnostics and treatment to cover 90% of malaria cases.

Compliance with Grant Agreement and National/Internal PSM standards

148. Malaria procurement included: ACT blisters, rapid diagnostic tests, Artesunate powder for injection, LLINs¹⁶ and insecticide. More than 1.7 million LLINs have been distributed by BRAC in CHT communities, while the supply and distribution of insecticide kits for impregnating bed nets has continued in other malaria-endemic districts. LLINs and insecticide continue to be distributed under the malaria SSF grant.

149. PSM responsibilities are shared as follows:

- M&PDC (a section of the DGHS in the MOHFW) is responsible for malaria control activities and policy making on behalf of the ERD;
- NMCP is responsible for implementation in the 13 malaria districts;
- NMCP and BRAC collaborate via the District health authorities (Upazila Family Planning Officers (UH&FPO) and the Civil Surgeon Office (CSO));
- ERD, with support from WHO, is in charge of procurement of key supplies;
- BRAC carries out supply logistics and facilitates the implementation of the program in the districts for NMCP; and
- BRAC has an extensive network of NGO SRs in the districts and has established storage facilities in seven districts to hold buffer stocks of drugs, rapid diagnostic tests, insecticide and LLINs.

150. This complex relationship has given rise to a number of vulnerabilities that require mitigation. The government PR is responsible for procurement and supply of all key health commodities while BRAC is responsible for transport, storage and distribution via the CSO to NGO partners in the districts. Therefore, RDT availability in the communities, prompt treatment with ACTs and distribution of LLINs and insecticide impregnation kits are all dependent on the performance of both PRs.

151. Incompletely defined responsibilities in the supply chain have created ambiguity and may lead to weak oversight of the total supply chain.¹⁷ For example:

¹⁶ valued at USD 13.63 million, or 37% of total Malaria disbursements

¹⁷ This has resulted in at least one complex Condition Precedent for BRAC in the SSF agreement in an attempt to mitigate the situation: “*The Principal Recipient understands and acknowledges that, throughout the program term of this Grant Agreement, it shall institutionalize and assure an effective oversight of Sub-recipients including management of Health Products across the supply chain. This shall include, but is not limited to, development of annual monitoring plan, coordination of Sub-recipient monitoring activities, constitution of a*

- Both BRAC and NMCP informed the OIG that they are responsible for transport of LLINs to districts;
- The OIG observed that some steps in the PSM plan are omitted in practice. For example, LLINs do not always enter the CMSD store in Chittagong physically but go straight via CSO to BRAC stores for distribution. The information given to the OIG by the CSO and BRAC offices was not aligned;
- There was no standard procedure to describe the actual distribution of health commodities to the districts to the patient/end user.

152. A joint PSM working group had been set up by DGHS in February 2009 to manage the PSM arrangements. The two PRs created a joint plan based on their respective PSM plans for Round 6 Phase 2. However, the PSM working group has not effectively met since the end of Phase 1. One of the actions to be implemented was to have monthly meetings on performance of malaria control activities at the upazila level¹⁸; however, the review could find no documentation of such meetings taking place.

153. The procurement of key products by the government PR via VPP (with BRAC handling the logistics) has functioned satisfactorily; however, there have been delays in supply due to the late initiation of procurement.

154. The actual supply chain management functions were based on localized (district) arrangements. The pivotal point in the supply chain of malaria commodities was the civil surgeon's office in each district, where the malaria supplies are received from BRAC in its role as distributor, allocated and returned to BRAC in its role as implementer, and approval given for further requisitions based on reported results and stock reports from each of the upazilas.

155. Several LFA assessment reports documented gaps in PSM capacity, which resulted in a condition precedent or special condition to the Grant Agreement. At the time the Round 9 Proposal was approved, the outstanding PSM issues seemed to have been addressed in the Standard Operating Procedures (SOP) for Managing Drugs and Supplies.

Recommendation 51 (Important)

BRAC and NMCP should actively participate in the joint action plan and PSM working group to jointly implement activities and outcomes; this should include ensuring that procurements are initiated on a timely basis.

Achievement of competition, Value for Money and Transparency

156. The MOHFW signed a memorandum of understanding with WHO to the effect that the latter would support the NMCP with technical assistance and the M&PDC with implementation support via one procurement assistant and one national procurement consultant from September 2009 to May 2012. However, at the time of the audit, the WHO was in the process of recruiting new staff to support M&PDC, which still had minimal procurement capacity.

technical working group/coordination committee tasked with overseeing the supply chain, ensuring the routine submission of patient- and inventory- related information, implementing regular supervision site visits of the Sub-recipients responsible for the receipt and management of health products, ensuring that storage conditions meet the minimum requirements in terms of good storage practices, and implementing corrective monitoring and supervision of the project activities to address any gaps identified."

¹⁸ The activities to be coordinated between the government and BRAC include: mapping needs, distribution and reporting of stocks of LLINs and KOTab for planning net dipping sessions in communities, reporting on the use of RDTs and quality assurance of microscope (blood slide) diagnosis performed, treatment of uncomplicated malaria cases and reporting on use of ACTs and stocks and referral of severe malaria cases.

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157. The VPP arrangement was appropriate to ensure supply of key products (RDTs, ACTs and LLINs) from accepted sources provided that orders were placed on time and annual forecasts were correct. However, VPP did not provide quantification and forecasting support, which made it important that the government PR, with the assistance from WHO, filled the current forecasting and quantification vacancies in the PSM unit.

Recommendation 52 (Important):

The Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that the PRs improve capacity by:

- a. Proceeding to fill all vacancies in the PSM unit and the long-term technical assistance from WHO and providing timely updates to the Global Fund regarding staffing matters; and*
- b. Procuring all non-VPP health products through the CMSD arm of the MOHFW, based on the LFA assessment of the required systems and capacity to procure for NMCP in a reasonable time.*

Quantification and forecasting

158. The OIG noted a number of areas for concern around quantification and forecasting including:

- A discrepancy between the data entered in the database and amounts disbursed directly to VPP; and
- A number of stock-outs in the records of Bandarban and Cox's Bazar.

Recommendation 53 (Important):

The Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that the PRs improve quantification and forecasting by:

- a. Actively seeking out and providing timely information to NMCP when stocks are low or out;*
- b. Confirming the complete and correct entry of all ACTs and LLINs procured via VPP or otherwise, i.e. via WHO for the malaria grants; and*
- c. Ensuring an appropriate buffer of products is maintained to prevent stock-outs.*

Quality Assurance and Control

159. The OIG noted that NMCP and BRAC did not have any SOPs covering quality assurance for malaria products.

Recommendation 54 (Important):

NMCP and BRAC should establish and agree SOPs that provide for sampling of ACTs, RDTs and LLINs in the supply chain and by entering into a service agreement with a qualified quality control laboratory within or outside of Bangladesh for testing.

Inventory Management, Storage and Distribution

160. The SOPs for health product management had not been finalized at the time of the audit. To support the PSM plans, M&PDC issued draft SOPs in December 2010 that documented procedures for forecasting, storage and inventory management and distribution. The M&PDC sent a revision to the Global Fund in March 2011. A second revision followed in April 2011.

161. Using the Pharmaceuticals and Health Products Management (PHPM) country profile template to describe the whole system could be useful to help the PRs to reach consensus. The draft submitted in December 2010 was written by a national consultant attached to the TB program without close collaboration with BRAC. The SOP largely repeats the TB Manual,

which may not be appropriate for the distribution of malaria commodities. This suggests little to no ownership by either malaria PR in the procedures and processes. The OIG views the SOP drafting process as a good opportunity for collaboration between the PRs as it necessitates consensus and allocates responsibilities.¹⁹

Tuberculosis

Background

162. The Round 3 TB grant aimed at scale-up of activities, expansion of diagnostic services and quality assurance of smear microscopy. Round 5 aimed at increasing detection rates and successful treatment outcomes and strengthening service delivery. Round 8 aimed to scale up control activities for MDR-TB, ACSM and TB/HIV collaboration, introduce the practical approach to lung health (PAL) and continue further health system strengthening (HSS) activities.

163. The NTP and its partners achieved 100% DOTS coverage in 2007. The program has established 850 DOTS centers and over 1,000 smear microscopy centers in the districts and upazilas, including peripheral laboratories equipped for TB diagnosis. Since then, the detection rates in programmatic results have reportedly been above 70% (sputum positives) and treatment success rates are well above 85%.

Compliance with Grant Agreement and National/Internal PSM standards

164. NTP has published two manuals for TB control, one for first line treatment and one for MDRTB, as well as an SOP for procurement and logistics. First-line drugs were procured via the Global Drug Facility (GDF).

165. The TB drug requisition forms (NTP format) in use in districts were outdated and used inconsistently by different districts, CSOs and BRAC.

Recommendation 55 (Important):

The SOP Manual issued by NTP should be revised and updated every two years to reflect practices and lessons learned in the field. The revised version should be used for re-training in districts and upazilas and replace previous versions. This should be actively used to create PSM plans, and training should be given in districts and to ensure that it is used consistently by CSOs and NGO partners.

Achievement of competition, Value for Money and transparency

166. The OIG found that the procurement of non-pharmaceutical health products had scope for improvement and staff were insufficiently experienced in PSM. The audit team documented conflicts of interests in the tender evaluation process that influenced the choice of suppliers and risked incomplete delivery of goods as well as inflated prices for items purchased with Global Fund support. The tendering process by the procurement agent was not fully transparent and the agent did not have the capacity for independent procurement of health goods in an international context.

167. Medicines were procured via GDF and GLC using specialized procurement agents such as Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and IDA Foundation. The OIG found the following exceptions in the PSM plans:

¹⁹ The OIG understands that after the date of the audit fieldwork, BRAC finalized its SOPs for Distribution, Issue and Use of Malaria Commodities in collaboration with NMCP; this was approved by the Global Fund Secretariat in May 2011.

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- In Round 5, BRAC issued only a short procurement plan (2006-2011) as guidance for SRs;
- In TB Round 8 it was not clear which of the PRs was responsible for inventory management, product selection, forecasting and LMIS;
- Distribution was generally described in the PSM plans, but the OIG observed that some steps were not followed and the OIG was given inconsistent information in different offices on procurement processes; and
- The PSM plans referred to the IDA Foundation quality assurance system, but did not address the quality assurance of the program supply chain.

Quantification and forecasting

168. NTP's forecasting of TB drugs was heavily dependent on a visiting GDF consultant and GLC missions to Bangladesh. Yearly quantification by GDF was based on morbidity. There was no capacity beyond one local PSM consultant to manage forecasting and monitoring the supply chain locally in the NTP office. The fifth joint review mission reported a lack of aggregate data at the central level regarding the outcome of retreatment cases.

169. While most goods were procured from abroad and distributed to districts from CMSD, some single formulations were purchased locally through CMSD. There had been problems in supply forecasting and the OIG observed multiple stock-outs of key products at the central level despite the fact that a 100% buffer was used to forecast.

170. In April 2011, NTP stated that 26,902 TB cases had been reported. This total was compiled from the manual requisition forms submitted to the NTP office in Dhaka. These totals represented 24,858 category I regimes, 1,433 category II regimes and 611 pediatric regimes. However, there were inconsistencies in the classifications, as well as in the numbers of cases and quantities of tablets requested. It was not clear who in the NTP consolidated the case and drug requisition data into the quarterly/annual database. The reliability of these data as a basis for quantification was questionable.

171. NTP stated that there were supply problems in 2010 because of flooding and a global shortage of quality-assured streptomycin, as well as due to disagreements between governmental entities about payments of customs duties and taxes. These upstream supply problems had not been anticipated or mitigated by the international procurement agents (GDF and GIZ) and their suppliers.

172. Quantification was also affected by corrections in the number of patients on each regimen, some of whom had been misclassified. Though patients in the periphery had been put on waiting lists, the NTP had mitigated the supply problems by intermittent purchases from domestic factories. For example, the Shamoli stock register shows about 9 million 4DFC tablets supplied from local factories using government funds during the second half of 2010. Such intermittent government-funded supplies from domestic factories that do not produce WHO pre-qualified anti-TB drugs may compromise the overall impact of the Global Fund-supported programs.

173. The Shamoli central stock register did not capture all receipts and issues of stock on date of receipt or issue and did not adhere to the First Expired First Out principle. Stock and inventory management was prone to major errors. The inventory data numbers reviewed by the OIG did not reconcile. Based on requisitions, stocks records and receipts, buffers were depleted and key medicines such as FDC tablets and streptomycin were chronically in short supply.

Recommendation 56 (Important)

The Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that the PRs strengthen their quantification and forecasting by:

- a. *Working with NTP to utilize experienced staff for drug and lab commodity quantification, as well as analysis and consolidation of quarterly requisitions;*
- b. *Maintaining ongoing control of buffer stocks at central (Shamoli) and district (BRAC/CSO) stores and anticipating potential stock-out situations;*
- c. *Requiring more active and timely feedback regarding low stocks and stock-outs in districts;*
- d. *Ensuring that NTP maintains technical assistance from WHO for the time being and insists on effective transfer of skills; and*
- e. *In addition to providing for extensive lead times through GDF, annual planning should consider timely disbursements according to the approved PSM plans and budgets and anticipate importation and customs clearance delays.*

Quality Assurance and Control

174. The QA text in the PSM plan refers to QA by supplier, but says little about the NTP QA system. GDF invoices show that the actual costs paid out of the grant for upstream QA were significant.²⁰ Few defects have been reported or products rejected, but the test results per consignment and batch had not been actively reviewed. There were no funds committed in grant budgets for quality assurance of TB drugs downstream from point of arrival in Bangladesh, where quality problems were more likely to occur.

Recommendation 57 (Critical)

The Global Fund Secretariat should take steps in accordance with its policies and procedures to ensure that the PRs jointly draft a procedure and schedule for sampling, including the steps for getting samples from districts back to the central level, and seek to contract a certified laboratory to run the QA testing post-landing.

Inventory Management, Storage and Distribution

175. BRAC promoted awareness, diagnosis and treatment of suspect cases via their offices in districts, with managers, program organizers, health workers and volunteers in the communities. BRAC provided diagnostic services to the NTP through a network of 307 peripheral laboratories in approximately 45 districts, 32 laboratories in district sadars, 21 laboratories in academic institutions, 21 external quality assurance (EQA) laboratories in districts for QA of smear microscopy and 2 laboratories in prisons.

176. One crucial role for BRAC as PR for the TB program was to ensure accurate consolidated reporting of needs, receipts, consumption and usable stock balances consolidated for all districts on a monthly basis in collaboration with the CSOs in each district. The Civil Surgeon in each district was responsible for receiving two months of working stock plus buffer for the district and allocating a part to BRAC for distribution to upazila and DOTS community providers and endorsing the next requisition based on quarterly case reports and stocks.

177. The tracking of stock positions was performed manually via the CSO and was generally effective, however the OIG identified the following areas for concern:

- The quarterly requisitions form (TB-08) confused users regarding whether calculations were for two or three months and did not include a line for expiry dates;
- In Cox's Bazar, stock registers from 2008 to 2011 displayed discrepancies between the total number of 2FDC tablets received and the total issued to upazilas; and

²⁰ Under Round 3, USD 125,000 and under Round 5, USD 318,000 were spent for quality control of first-line drugs pre-shipment from pre-qualified sources. This represents an acceptable percentage of total value for quality control; unfortunately the results were not properly reviewed and value for money could therefore not be guaranteed.

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- A requisition from the Rajshahi district requested first-line drugs from Global Fund stock for 20 MDR patients, who should have received MDR-TB treatment.

178. BRAC and other NGOs were responsible for transporting and keeping physical stock at the upazila level. Storage arrangements in districts varied regarding whether all stock was kept in a BRAC or district reserve store. For example, in one district, receipt, physical storage and record keeping was split between government and NGO facilities. The implementers considered this approach a flexible and efficient way to organize logistics; however, this meant that BRAC was keeping records on behalf of government facilities.

179. The OIG found storage conditions varied considerably depending on the level in the supply chain; for example:

Shamoli central NTP store:

- The 'old store' was a basic store situated in the TB clinic. Air conditioning and fans were not used; however, a thermometer was used to monitor and record ambient temperature. Bin cards on shelves were used appropriately except where batches were lumped together under one expiration date;
- Space was limited for bulk goods in the old store. For instance, sputum containers were stored in numerous different places in the clinic and the adjacent hospital; and
- The 'new store' on first floor of the newly built TB hospital had air conditioners, but these were only used intermittently.

CSO and CDC stores:

- In general, these were not appropriate in terms of space, store organization, infrastructure and record keeping; there was little monitoring of storage conditions and insufficient training of store staff.

BRAC (seven districts) and Upazilas:

- These had more acceptable standards and record keeping; however, the OIG observed expired 4FDC tablets in the DOTS corner of the store. The quantity of expired tablets was small, but it was not clear if these tablets were being used or how they would be disposed of.

180. Despite the CSOs in districts and the Chest Disease Clinics (CDCs) providing conflicting information about the flow of goods, the OIG noted efficient collaboration between government offices and the NGOs in the field. Stock registers in the field showed that exchanges among districts occurred when needed.

Recommendation 58 (Important)

The PRs should review their storage facilities to ensure that medicines and other products are kept in adequate conditions that meet the minimum standards required by the Global Fund. Consideration should be given to computerizing logistics data where feasible.