THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

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

Annexes

GF-OIG-11-017
23 October 2012

Annex A: Abbreviations

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immunodeficiency Syndrome
ART	Anti-Retroviral Therapy
ARV	Anti-Retroviral
BCC	Behavior Change Communication
CBO	Community Based Organization
CE	Cost Estimate
CCM	Country Coordinating Mechanism
CCT	Country Coordinating Team
CDC	Centre for Disease Control and Prevention
CDR	Case Detection Rate
CNAO	Chinese National Audit Office
CNY	Chinese Yuan
CPA	Certified Public Accountant
CSO	Civil Society Organization
DFID	Department for International Development
DOTS	Directly Observed Treatment Short Course
EFR	Enhanced Financial Reports
EFLFV	Enhanced Field Level Verification
EQA	External Quality Assurance
FDC	Fixed Dose Combination (tablet)
FIFO	First-in-First-out
FPM	Fund Portfolio Manager
FSW	Female Sex Workers
GONGO	Government-Organized Non-Governmental Organization
GF	Global Fund
HIV	Human Immunodeficiency Virus
HP	Health Product
HSS	Health Systems Strengthening
ICE	In-Country Evaluation
IDU	Intravenous Drug User
IEC	Information, Education and Communication
INTOSAI	International Organization of Supreme Audit Institutions
LFA	Local Fund Agent

LLIN	Long Lasting Insecticide-treated Net
LMIS	Logistic Management Information System
MARP	Most-at-Risk Population
MDG	Millennium Development Goals
MDR-TB	Multi drug resistant tuberculosis
MET	Mid-Term Evaluation
MOH	Ministry of Health
MMT	Methadone Maintenance Theraphy
MSM	Men who have sex with Men
NAP	National Aids Program
NCAIDS	National Centre for AIDS/STD Control and Prevention
NCTB	National Center for Tuberculosis Control and Prevention
NIPD	National Institute of Parasitic Diseases
NMCP	National Malaria Control Programme
NPO	National Program Office
NSA	National Strategy Application
NTP	National Tuberculosis Program
OI	Opportunistic infection
OIG	Office of the Inspector General
OSDV	On-Site Data Verification
PE	Peer Educator
PET	Program Evaluation Tools
PFSCM	Partnership for Supply Chain Management
PLWHA	People Living with HIV/Aids
PHPM	Pharmaceutical and Health Product Management
PMTCT	Prevention of Mother-to-Child Transmission
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supplies Management
PU/DR	Progress Update and Disbursement Request
PQR	Price & Quality Reporting
QC	Quality Control
RCC	Rolling Continuation Channel
RDT	Rapid Diagnostic Test
SDA	Service Delivery Area
SLD	Second Line Drugs
SOP	Standard Operating Procedure
SRA	Stringent Regulatory Authority
SR	Sub-Recipient
SSF	Single Stream Funding
SSR	Sub-Sub-Recipient
SSSR	Sub-Sub-Sub-Recipient

STC	Save the Children
ST&C	Special Terms and Conditions
STI	Sexually Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TOR	Terms of Reference
TRP	Technical Review Panel
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nation Development Programme
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
USD	United States Dollar
VCT	Voluntary Counselling and Testing
VPP	Voluntary Pooled Procurement
WHO	World Health Organization
WPB	Work Plan and Budget

Annex B: Oversight Mechanisms

What were the oversight mechanisms in place?

1. As part of the Global Fund grant architecture, a Country Coordinating Mechanism (CCM) oversees the Global Fund programs in a country and a Local Fund Agent (LFA) provides informed and independent professional advice about the capacity of PRs to manage the implementation of the Global Fund grant programs.

2. The China Country Coordinating Mechanism (the China CCM) was established in 2002 with 54 members to oversee the national response related to the three diseases of HIV, malaria and tuberculosis and coordinate the efforts of all development partners in China. In February 2006, the 15th China CCM Plenary approved a revised China CCM Terms of Reference (ToR) which redefined the China CCM composition and reduced its members from 54 to 23.

3. By the end of 2011, the China CCM had held 39 plenary meetings. The China CCM has a secretarial function manned by 4 staff as at December 2011; the secretarial function is housed within UNAIDS office space. Development partners- UNAIDS, US-CDC, WHO, DFID & UNICEF are represented in the China CCM.

4. As per the 25th Global Fund Board decision[28], China will no longer be eligible to apply for renewal of existing Global Fund grants/SSFs, or for new funding from the Global Fund, including Transitional Funding Mechanism and Funding under Continuity of Services policy.[29] Therefore, the OIG review also focused on key risks due to the impact of the Board's decision, so as to minimise disruptions in the service delivery and to ensure that achievements made to-date are not lost.

Country Coordinating Mechanism

Future role of The China CCM

What are the risks relating to oversight of the program?

5. Following the Global Fund's Board decision, China was no longer eligible for phase 2 funding. Discontinuation of funding, regular interaction and involvement with Global Fund poses considerable risk to the future modus operandi of the China CCM. There is therefore a need to consider establishing a governance forum along the lines of the CCM to take its place

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

6. Beijing Zhongzheng Tiantong Certified Public Accountants Co. Ltd. performed the external audit of the Global Fund programs at the national level. OIG's review of the Terms of Reference (ToR) and the execution of external audit for 2010 prepared by the PR and the PR's external audit report for 2010 noted the following:

i. External audit scope as per the ToR did not include the review of grant compliance requirements and verification of foreign exchange rates;
ii. The external auditor did not provide an opinion on accounting standards used for preparing the financial statements and internal control environment of the PR such as sub-grant management,

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

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

recording and approval of expenses and maintenance of fixed assets records; and

Gap analysis between the Chinese CPA audit standards and International Organization of Supreme Audit Institutions (INTOSAI) and International Standards on Auditing (ISA) as recommended by the Global Fund was not performed.

7. OIG's review of the external audit arrangements and selection procedure of external auditor at provincial level downwards noted the following:

i. All SRs, SSRs and SSSRs did not follow a standard ToR for external audit, in line with the Global Fund's requirement for the annual audit of financial statements [Yunnan SR/SSSR M, Yunnan SR/SSSR HIV; Henan SSSR HIV];
ii. Competitive selection of external auditor could not be established;
iii. Competitive bidding procedures were not followed for selection of the external auditors at Yunnan SR M[30], Henan SSR/SSSR TB and Yunnan SSSR HIV ; and
iv. Documented evidence for competitive selection of the external auditor at Anhui SR/SSR TB and Henan SR TB were not available. In Henan SSR/SSSR HIV and Henan SR TB, bids were not received in writing. Further, in the case of Henan SR TB, documented evidence for comparative analysis and technical evaluation for selection of external auditor was not maintained.

8. Based on discussion with the PR and review of the external audit budgets at the locations visited, the OIG noted that the budget available at the Prefecture (SSR) and County (SSSR) level was not sufficient for adequate external audit coverage and competitive selection procedures. In the case of Henan SSR/SSSR HIV and Yunnan SSSR M, no budget was allocated for external audit fees in 2010. Further, Henan SSR TB had an annual external audit budget for 2010 of only USD 237 (CNY 1,612).

9. The China National Audit Office constitutional arrangement has 31 provincial, 434 Municipal and 3,075 County level audit offices with 80,000 nationwide audit staff. This gives CNAO unparalleled advantage over audit firms in terms of resource and coverage capacity. CNAO is experienced in carrying out audits of financial revenues and expenditures in connection with the projects for which aid or loans are provided by international organizations or governments of other countries. Furthermore, currently the Auditor General of China is serving in the United Nations Boards of Auditors. The China National Audit Office confirmed to the OIG its readiness to support the Global Fund program oversight as long as the relevant government agency requests them to do so.

PR feedback:

a) Given the past experience with selection of the external auditor, the PR was apprehensive about a re-audit for 2010. The PR however agreed to discuss with the Secretariat the need to fill the gaps in the 2010 external audit. The PR said that they were unable to directly approach CNAO but agreed to approach the Ministry of Health for further negotiation with the CNAO on their appointment as the external auditor for the Global Fund

[30] PR explained that there are only 2 audit firms in Pu'er City where the Yunnan SR M (YIPD) locates. And one audit firm is not open for the public institutions. Thus, after consulting the local audit bureau, another audit firm was recommended to conduct the audit.

programs in China.

b) If the CNAO does not agree to audit the Global Fund grant Programs, the PR requested the Global Fund Secretariat to appoint the external auditor for Global Fund grant programs. However, the PR agreed to the OIG recommendation to change the approach from location audits to grant audits, in concurrence with the Secretariat. The PR agreed to reassess, if required, the budget requirement for external audits at provincial level and below.

Use of grant dashboard by China CCM

10. There was an opportunity for China CCM to use the grant dashboard to improve its oversight responsibility by ensuring that oversight plans and other key decisions are made based on adequate and accurate information. The China CCM may also wish to put in place a periodic process to verify the integrity of the data that is used for dashboard monitoring. Sharing of dashboard report and input data with LFA and Secretariat may provide the opportunity of establishing data integrity.

The Global Fund Secretariat

LFA monitoring needs to be enhanced

11. The size of grant portfolio and the scope of grant coverage in China should have warranted extra scrutiny over financial management supervision and reporting. However, there were only two finance experts in the LFA team between January 2009 and December 2010 and this was considered inadequate This indicates that the Global Fund Secretariat did not adequately analyse the LFA capacity gaps.

12. Global Fund Secretariat had developed various tools for performance monitoring of LFA such as PET, In-Country Evaluations and Mid-Term Evaluations. The OIG noted that such tools were not fully utilised for China LFA as it did not identify the LFA capacity gaps

13. The Secretariat was not able to provide annual payments made to LFA by country. The information was intended to analyse the trend in LFA expense for China and determine its reasonableness vis-à-vis deliverables and team composition.

Role of development partners

14. For Global Fund grant program in China, the international organizations provided considerable support in proposal writing; monitoring and evaluation of grant implementation and technical support to the implementing entities when needed. Development partners in China were actively engaged in Global Fund programs through their involvement in the China CCM. Key development partners such as UNAIDS, US-CDC, WHO, DFID and UNICEF were represented in the China CCM. The working Groups for the three diseases were either chaired or vice-chaired by representatives of development partners.

15. In addition to their involvement in China CCM, development partners also provide other support such as UNDP manages China CCM funds, UNAIDS houses China CCM secretarial function, and CBO/SR review was being jointly sponsored by UNAIDS and Gates Foundation.

16. During the course of the review, the OIG team met with

representatives from Gates Foundation, UNAIDS, DFID, USAID, US-CDC, UNICEF, WHO and Clinton Foundation. The objective of the meetings was to get a better understanding about the program performance, key risks in the Global Fund Funded programs, level of involvement of development partners and identify opportunities for better coordination among the development partners.

Local Fund Agent

17. The current Local Fund Agent for China, UNOPS (United Nations Office for Project Services), has been providing service as LFA since the first Global Fund grant was signed in 2003. During the re-tendering process in 2008, UNOPS was re-selected for another period of 4 years. Another re-tendering was done in 2011 and due to the fact that no bids were received from the major audit firms, UNOPs was still selected as the LFA.

The LFA Human Resource capability needs to be strengthened

18. The LFA team comprised of 9 team members: 1 Team leader, 1 Portfolio Manager, 3 Finance Officers, 1 Programme Health Officer, 2 monitoring and Evaluation Experts and 1 Assistant, based out of Beijing. The in-country LFA team was supported by PSM and Financial Management System Specialist from India and Senior Program health/M&E expert from Sri Lanka. This composition was considered by the OIG to be insufficient in number and skills sets based on the scope and complexity of China Grant programs. As a result, some of the assignments had been outsourced due to limitation of staff numbers and capacity.

19. The OIG observed that in addition to the limitation of staff members, there was a concern of lack of capacity on financial management in the past. While action had been taken to improve the capacity by assigning a financial specialist (one of the CCT QA members) from India on part time basis, this did not sufficiently fulfil the need to have a full time key finance staff due to the complexity of the grant implementation. The CCT QA members of UNOPS who were responsible for quality assurance had multiple countries under their responsibilities. This poses a risk of LFA resources being over stretched and quality assurance being compromised. The situation becomes more serious when combined with the fact that the local LFA staff had weak capacity and were inadequately resourced.

The need for timely PU/DR reviews and submission

20. As per the LFA guidelines, PU/DR received from the PR should be reviewed and submitted to the Global Fund Secretariat within 10 working days. However, the OIG has noted delays ranging from 1 to 40 working days in submission of the PUDR for 31 Dec 2009 (R7TB, R8 TB, R3/R4/R5/R6AIDS, and R6 Mal) and 30 June 2010 (AIDS RCC).

The LFA's recommendations and communication need to be enhanced

21. The LFA is an important oversight model; based on whose work the Global Fund secretariat makes critical decisions regarding program performance and fund disbursements. The recommendations issued by LFA were noted to be lacking in SMART attributes, i.e. Specific, Measurable, Achievable, Result-oriented and Time-bound. For instance, the LFA recommended for re-audit for the period 2010 without critically considering absolute necessity, cost-benefit of re-audit, PR's capacity or even other more effective alternative mechanisms such as additional verification by LFA, PR's internal audit and follow-up by subsequent external audit.

22. The OIG noted that the LFA did not have a mechanism to follow up on the recommendations that it provided to the PR through the Global Fund Secretariat. There were also instances where the LFA notified the Secretariat by email, about the risks and recommendations but in un- coordinated fashion. This impaired the secretariat's capacity to understand and assess the risks in a comprehensive manner.

23. With instructions from the Secretariat, the LFA commissioned a special verification through a local accounting firm. The OIG noted that the LFA provided inconsistent directions regarding the objectives of the verification to the firm. Further, while it is normal for a draft report to gradually evolve by the time it is finalised, the OIG noted significant modification in the final report as compared to the draft shared by the accounting firm with the PR. The modified version of the report was not shared with the PR.

The LFA needs to proactively identify, analyse and report on emerging risks to the Global Fund Secretariat

24. The OIG reviewed highlighted the following:

i. Prior to 2010, the LFA did not identify anomalies in cash reconciliation which led to inaccurate cash balance being reported in the PU/DRs. This resulted in a material cash balance discrepancies at the time of grant consolidation and the issue is yet to be resolved.
ii. It was noted that LFA did not carry out a comprehensive assessment of the external audit arrangements at the SR level. Such assessment should include selection of external auditors, capacity of selected external audit and effectiveness of ToR for external audit. The LFA was also not able to obtain, review and provide analytical comment to Global Fund secretariat on the SR external audit reports. Review of audit reports is important to get assurance on program performance and effective fund management at SR level.
iii. The LFA reviews did not include the PR's monitoring and oversight plans over its SRs.
iv. The LFA had made recommendations to the PR through the Global Fund Secretariat after review of assessment reviews, financial spot checks, review of external audit reports and special purpose financial verification. However, many recommendations and action plans were still open after several correspondences between the PR, LFA and the Secretariat.
v. Coverage of sub-recipients before special financial verification was limited to one Province and two Counties in a year.
vi. The LFA manual and the Framework Contract between Global Fund and UNOPS require the LFA to review the external audit reports of sub-recipients. However, the LFA had not been regular in reviewing the external audit reports of the SRs. The PR was requested to provide the external audit reports of the SRs for the first time in 2011 after request from the Secretariat.

LFA feedback

The LFA informed that for PUDR reviews in 2009 and earlier, the PR had been reporting PUDRs in a consistent way and the LFA could only verify certain expenditures on a random sample basis due to staffing constraints. Since there were no feedback comments by the Global Fund on this way of reporting, they assumed that it was accepted. Following intensive training both by the Global Fund and UNOPS, as well as the

revised/updated LFA Guidelines in recent years, the LFA strengthened review of PUDRs and identified and reported such issues. The LFA indicated that they will further strengthen review of PUDRs with the addition of more professional and experienced financial officers in the new team.

Strengthening the scope and methodology for the proposed Enhanced Field Level Financial Verification 2012

25. In its latest proposal, UNOPS suggested to introduce "Enhanced Field Level Financial Verification (EFLFV)-2012" with the objective to expand focus to sub recipients' Financial Management at provincial level. The OIG believes it will be a value added service in China context. However, the scope of EFLFV should be strengthened in the following areas:

- The present proposal covers expenses incurred with effect from Q4 2011. This could be extended to the whole of 2011;
- Scope of review did not include assessment of SR's oversight mechanism over prefecture and county;
- Methodology for selecting sample locations (Provinces, Prefecture and County) and the sample size at each location was not defined;
- Proposed coverage did not clearly indicate the number of SSR (Prefecture) and SSSR (County); and
- Level of efforts required per quarter was not indicated.

26. The LFA did not follow-up on the recommendations of the external auditor of the PR. So much effort was being spent on appointment of external auditor but the real benefit of having external audit through recommendations for improvement was often neglected. The LFA did not have a mechanism to monitor PR's progress in implementing recommendations of its external auditor.

27. The OIG noted that at the time of the review, there were significant outstanding issues in relation to the PR's cash balance reconciliation, foreign exchange accounting, fixed asset management and expenditure mapping. These issues have been identified for quite some time and need to be addressed at the earliest[31].

28. In relation to the recent board decision, it is important for LFA and secretariat to get started with developing a grant closure plan with clear timelines and deliverables. This is essential considering the size of China portfolio and to avoid potential disagreements and/or legal situation such as on title of assets[32].

Scope for improving communication with in-country partners

29. Global Fund's communication protocol stipulates that the LFA needs to maintain good working relations with the PR without compromising their independence on fiduciary obligations to the Global Fund. The OIG noted instances of PR's dissatisfaction with the LFA communication especially in relation to special financial management verification exercise and external

[31] As at the time of finalizing this report in July 2012, PWC had submitted its report on foreign exchange accounting and no material exceptions were noted. The fixed assets verification and reconciliation had also been performed. Discussions between the Secretariat, the LFA and the PR had been made regarding reconciliation of Cash balances and accounts payables and PWC had been contracted to perform the work.

[32] As at the time of finalizing this report, the Secretariat informed the OIG that the closure plan for the NSA and round 6 malaria grants that closed in June 2012 was already developed and reviewed by the LFA and the Secretariat.

audit arrangement at the PR level. Further, the PR also expressed that they were not adequately briefed about the LFA assessments.

31. It was also noted that the LFA had limited interaction with in-country development partners. In OIG's opinion, the LFA could benefit from development partners' invaluable experience, knowledge, contextual factors and health sector developments which could be linked to its assessments.

Annex C: Chinese Centre for Disease Control and Prevention (China CDC) - PR

Who is the PR?

1. Chinese Centre for Disease Control and Prevention (China CDC) is the Principal Recipient (PR) of the Global Fund grants to China. China CDC is a non-profit institution established for disease control and prevention, public health management and provision of health services.

What Global Fund grants have been signed with China CDC?

2. The Global Fund had signed 14 grant agreements with China CDC for HIV/ AIDS, Malaria and TB amounting to USD 832 million, out of which USD 553 million had been disbursed as at 31 October 2011. In 2010, the grants (except Round 6 Malaria) were consolidated under Rolling Continuation Channel (RCC) for HIV, Single Stream Funding (SSF) for TB and National Strategy Application (NSA) for Malaria.

3. The total amount disbursed by the PR to the SRs since 2007 (for HIV/AIDS, TB and Malaria) until October 2011 was USD 418 million. For the implementation of the programs, funds were further disbursed by SRs to SSRs and by SSRs to SSSRs. Under the consolidated grants, HIV Program had 31 SRs (Provinces), 333 SSRs (Prefectures) and 2,077 SSSRs (Counties); TB Program had 31 SRs, 337 SSRs and 2,894 SSSRs; and Malaria Program had 20 SRs and 762 SSRs.

What did the OIG review cover?

4. The OIG selected a sample of two SRs per program (total six SRs) operating from three provinces – Anhui, Yunnan and Henan. The OIG also selected a sample of four SSRs (Prefecture) and 6 SSSRs (County) as detailed in the table below:

Province	Anhui	Yunnan	Henan
Prefecture	Bozhou (TB)	Kunming (HIV)	Zhumadian (Both TB and HIV)
County	Lixin (Both Malaria and TB)	Tengchong (Malaria) & Guandu (HIV)	Shangcai (Both TB and HIV)

5. The OIG reviewed the existence and effectiveness of controls over institutional arrangements, budgeting, reporting, financial accounting, cash and bank management, sub-recipient monitoring, assets management, procurement, human resources & payroll and grant compliance; to identify key risks to which grant programs were exposed and make recommendations for risk mitigation.

Institutional Arrangements

The need to strengthen internal and external audits

6. The Global Fund guidelines for the LFA require the PR to submit the audit reports of all SRs to the LFA for review. However, the OIG noted that the PR did not provide the SRs' audit reports for 2009 and 2010 to the LFA.

PR feedback:

The PR agreed to provide the SR audit reports to the LFA as per the timelines suggested by the Global Fund.

7. The PR had an internal audit team of 5 full time employees and 5 part time

employees working for the Global Fund programs. The OIG review of the PR's internal audit function highlighted the following:

i. The IA team did not follow a risk based approach to ensure optimum internal audit coverage with available resources. The details of provinces visited by the IA team during 2007-2010 are tabulated below:

Table 2: Internal audit coverage during 2007-2010

Disease	Year	# of Provinces	Coverage	% coverage
HIV	2007	21	5	24%
	2008	25	2	8%
	2009	25	3	12%
	2010	31	15	48%
Malaria	2007	17	0	0%
	2008	17	3	18%
	2009	7	1	14%
	2010	20	2	10%
TB	2007	30	0	0%
	2008	30	1	3%
	2009	30	4	13%
	2010	31	6	19%

Source: Information provided by the IA team

ii. The PR had issued regulations on the internal audit of the Global Fund grants. Those regulations include the responsibilities, powers, scope and procedures of the internal audit of the Global Fund grants. However, the regulations did not include guidelines on audit planning, sampling, preparation and documentation of working papers, internal review mechanism of working papers and reports.

iii. The scope of internal audit review did not adequately address some key areas in sub-grant management, grant compliance and reporting, such as joint review of financial and programmatic reports of sub-recipients, review of financial management at CBOs, incorporation of PR equivalent clauses in the sub-grant agreements, use of correct exchange rates for preparing PU/DR and EFR and reconciliation of PU/DR and EFRs with accounting records. The audit programs used by the internal audit team were not comprehensive and did not include the key risks and controls to be verified during each visit. Further, the Internal Audit reports did not clearly indicate the risk identified and the impact of the observations reported.

PR feedback:

a) The IA team indicated that considering the large number of provinces, cities and counties covered by the Global Fund grants, it may not be possible to cover all locations under the annual IA scope. Further, the IA Head indicated that it may not be feasible to significantly scale up the IA team due to the short tenure of the Global Fund Programs.
b) Given the above, the IA team had agreed to perform a risk assessment for all provinces, classify the provinces under high/medium/low risk categories and prepare an audit plan to cover all high risk locations on an annual basis. The PR shall obtain concurrence from the Global Fund Secretariat on the proposed scope of coverage.
c) The PR will assess the additional staffing requirements for the IA team to perform IA reviews based on the annual coverage agreed with the Secretariat.

Budgetary Control and Reporting

The need to strengthen recording and monitoring of expenses against budget

8. The OIG review of controls established by the PR for monitoring the budget highlighted the following:

- The accounting system used at different locations facilitates recording of expenses only at 'Service Delivery Area' (SDA) level instead of the 'Activity' level defined in the Global Fund approved Work Plan and Budget (WPB). In the absence of such a facility, monitoring of expenses against the budget at activity level could not be performed; and
- A formal process to compare the actual expenses against the budget on a periodic basis to identify variances if any, was not in place at the PR as well as the NPOs. The SRs were also not required to submit a variance report comparing expenses against budget. Of the 10 field offices visited by the OIG, only one (Henan SSSR HIV) performed budget verse actual variance analysis but at the 'objective' level.

9. The OIG review of expenses highlighted the following instances of unbudgeted expenditure:

i. Hiring for unbudgeted positions: At the National Institute of Parasitic Diseases (NIPD), salary of USD 7,260 (CNY 49,370) was paid to Finance Officer and Monitoring and Evaluation Officers during the period December 2010 to October 2011. These positions were not budgeted. However, the total salary payment was within the budget approved for Human Resources. The NIPD informed the OIG that additional Finance Officer and Monitoring and Evaluation Officers were hired to support the transition process.
ii. Bonus payment to employees without specific provision for such payment in the employment contract: The unutilized Human Resource budget was used to pay a bonus of USD 8,926 to the full time and part time employees at the Yunnan Malaria SR for the year 2008. The Provincial Office explained that this bonus was paid as 'achievement salary' to the staff, after regular assessment of performance and work burden for each staff. However, the OIG noted that all employees were assigned the same rating of '5'. Further, the employment contract did not provide for any achievement salary.
iii. Use of unspent budget for office equipment to purchase an additional printer (RCC HIV) for USD 791 (CNY 5,380). There was no evidence of approval from the CCM or Global Fund Secretariat for the shifting of unspent budget towards other activities.

PR feedback:

a) The PR indicated that it is feasible to add another 'Tier' under SDA for defining 'Activity' codes in the accounting software used by the PR and the NPOs. However, all locations do not use the same accounting software and the accounting software at some locations may not support addition of another 'Tier'. The PR also indicated that after the suggested changes are implemented, all locations will need to be trained to record and report expenses at activity level. Given the large number of counties in China, it may take almost a year to implement such changes and impart the necessary training.

b) The PR also indicated that the suggested changes (system and manual) may affect generation of financial statements and hence such changes should be implemented with effect from the new financial year. The OIG explained to the PR that the suggested changes will not affect the financial statements but only provide additional option to record and report expenses at activity level. The financial statements could still be generated on the 34 cost categories even under the revised scheme of recording transactions at activity level.

c) The PR agreed to introduce a formal process of performing budget vs. actual analysis at SDA level and document the reasons for variance, if any.

The need to match the Global Fund approved Work-plan & Budget (WPB) with the budget used by the PRs/SRs

10. On comparison of Global Fund approved WPB with the WPB across different levels the OIG noted the following anomalies:

i. In the RCC grant (NCAIDS), there were 14 cases of over allocation and 17 cases of under allocation of budget to provinces. The total under allocation (net amount) in year 2010 amounted to USD 24,868.[33]

ii. In the case of NIPD, the OIG noted[34]:
   a) 73 instances where the activity line number as per the Global Fund approved plans and the national plan were different;
   b) 4 instances where the amount as per SR budget under various activities was different from the Global Fund approved WPB; and
   c) 3 instances where the activity budgeted in the Global Fund WPB were cancelled.

iii. On comparison of SSR (Zhumadian) budget with SSSR's approved work plan budget at Henan for HIV, the OIG noted 12 activities amounting to USD 40,173 (CNY 273,175) which were originally budgeted at SSSR level that were reallocated to SSR without prior approval from SR[35]. The OIG was informed that the PR Finance Manual does not specify anything regarding approval of budget reallocation at city and county level and hence written approval was not obtained.

[33] The PR clarified that it disbursed the funding to the SRs strictly in accordance with the Global Fund-approved WPB, hence there is no over or under allocation. Actually, only three quarters of the budget had been allocated to provinces based on the approved WPB in year 2010, because the Global Fund didn't disburse budget for Q4 of Y2010 to PR

[34] The PR explained that 'all instances relate to Year 1 and the adjustments made by the PR did not exceed 10% of SDA budget. In Year 2, Chinese version of WPB was consistent with the English version of WPB approved by the Global Fund.

35 The PR explained that in real practice, implementing agency marked with SSR/SSSR in the approved WPB means that those activities could be implemented at SSR level or at SSSR level, which will be decided by the local situation. For instance, the MSM intervention activities were being undertaken by the SSR/city level, while some by the SSSR/county level.

PR feedback:

The PR agreed to ensure consistency in budgets going forward, and reinforce the requirement to obtain proper approvals for budget reallocations, if any.

More closely monitoring PU/DR and EFR compliance with the Global Fund guidelines

11. The Global Fund had issued guidelines to the PR for preparing 'Progress Update and Disbursement Request' (PU/DR) and 'Enhanced Financial Reports' (EFR). The OIG review highlighted the following instances of non-compliance to the Global Fund guidelines:

EFR Reporting

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

i. In NCTB Round 8, transportation and consulting cost amounting to USD 37,427 (CNY 254,503) were reallocated 50% to 'Planning & Administration' and 25% each to 'Monitoring & Evaluation' and 'Technical Assistance' on arbitrary basis; and
ii. At NCAIDS, research expenses of USD 1,446,418 (CNY 9,835,639) booked under 'Commission Operating Expenses' were reported under 'Planning and Administration' instead of 'Technical Assistance' in the EFR for December 2010.

PU/DR Reporting

13. The review of PU/DRs submitted to Global Fund noted the following:

i. At all three NPOs, a difference between cash inflows (plus opening cash balance) and closing cash balance was reported as expenses in the PU/DR. This resulted in inaccurate reporting of expenses for the PU period since the expense reported included the effect of foreign exchange fluctuation. However, in case of SSF (TB) this process of reporting the balancing figure as expenses was discontinued with effect from July 2010;
There were variances in expenses reported in the PU/DR vis-a-vis actual expenses as per financial records for the period January 2007 to December 2010 as summarized below:

Table 3: Differences in PU/DR and program financial records

Grant	Amount as per PU/DR (USD)	Amount as per Financial Records (USD)	Difference (USD)
Round 1 TB	5,231,308	5,312,339	(81,031)
Round 4 TB	6,010,736	5,808,177	202,559
Round 5 TB	6,566,683	6,310,153	256,530
Round 7 TB	619,355	619,642	(287)

Round 8 TB	427,147	463,422	(36,275)
Round 5 Mal	12,217,271	12,246,327	(29,056)
Round 6 Mal	2,284,745	2,262,500	22,245
Round 3 HIV	4,654,917	4,696,398	(41,481)
Round 4 HIV	8,213,939	8,236,339	(22,400)
Round 5 HIV	2,070,744	2,067,426	3,318
Round 6 HIV	532,298	545,586	(13,288)

iii. As per the Global Fund guidelines, exchange rate on the day of transaction or average exchange rate for the reporting period should be used while preparing the PU/DR. In SSF (TB), the OIG noted that the closing exchange rate was used by the PR for converting local currency transactions into reporting currency. This resulted in incorrect reporting of expenditure in the PU/DRs; and

SR disbursements were not correctly reported in the following instances:

Table 4: Differences in SR disbursements as per PU/DR and financial records

Grant	Period	Amount as per PU/DR (USD) (A)	Amount as per Financial Records (USD) (B)	Difference (USD) (A-B)	Reason for Difference
Round 1 Malaria	Jan 2007 to Jun 2008	675,265	693,127	(17,862)	Expenses on 'Health Products' incorrectly reported as 'SR Disbursement' in the PU/DR
Round 6 Malaria	Jan 2007 to Jun 2010	7,288,107	7,223,034	65,073	Local currency converted using closing rate
Round 5 TB	Jan 2010 to Jun 2010	2,160,079	2,176,515	(16,436)	Local currency converted using closing exchange rate
Round 8 TB	Jan 2010 to Jun 2010	763,220	745,683	17,537	Local currency converted using closing exchange rate

14. According to the grant agreement, the PR is required to submit PU/DR and EFR to Global Fund within 45 days after the end of each reporting period. However, the OIG noted the following:

i. 47 instances of delays ranging between 5 to 151 days (average delay of 29 days) in submission of PU/DR [NCTB and NCAIDS]; and

ii. 34 instances of delays ranging between 12 to 115 days (average delay of 43 days) in submission of EFR. EFR for year 2010 was not submitted to the Global Fund till date of the OIG review [All NPOs].

The PR explained that delays were caused by the consolidation and multiple reviews of financial reports[36].

PR feedback:

a) The PR agreed that reporting in 13 EFR cost categories would get corrected once the expenses are recorded at activity level.
b) The PR raised concern on the treatment of foreign exchange gain or loss in the accounting records. The OIG explained to the PR that the foreign exchange gain or loss computed above is only for the purpose of reporting in the PU/DR and will not have any impact in the accounting records of the PR.
c) The PR agreed in the future to try the best to adhere to the timelines for submission of PU/DR.

The need to improve cash forecasting in disbursement requests

15. The PR prepared the cash forecast in the PU/DR after making adjustments for cash in hand at the sub recipients and the catch up activities. The total amount of cash in hand reported by the SRs was reduced from the forecast amount and a lump sum amount towards catch-up activities was added. As per the PR, these were the activities budgeted in the 'Progress Update' period which were not performed but were expected to be performed /completed in the 'Disbursement Request' period.

16. The OIG noted that the PR did not have detailed breakdown for the total amount for 'catch-up' activities reported in the PU/DR. At times, the amount for 'catch-up' activities was equal to the unspent cash balance reported by the sub-recipients. The PR explained that details of 'catch-up' activities were not obtained from the sub-recipients to save time and the unspent cash balance was reported as 'catch-up' activities as an alternative.

PR feedback:

The PR agreed to maintain a breakdown of catch up activities at SDA level at all locations.

Financial Accounting System (including Cash and Bank Management)

The need to establish accurate opening cash balance for consolidated grants (RCC, SSF and NSA)

17. The Round based grants for HIV were consolidated under Rolling Continuation Channel (RCC) as of 01 January 2010. Similarly, the Round based grant for TB and Malaria (except Round 6) were consolidated under Single Stream Funding (SSF) and

[36] The PR further explained that a comprehensive internal review process of PU/DRs and EFRs has been established since 2007. However, the consolidation of the three disease grants in 2010 and the large number of counties (2,800) that needed to be consolidated presented challenges in meeting the set dateline of 45 days. The PR further indicated that this challenge had been discussed with the Global Fund Secretariat several times with the objective of extending the dateline, but this option was declined. The PR however indicated that measures to improve the situation including strengthening the financial training at all levels and developing internet –based financial reporting system to collect information but even then, the PUDR submission dateline of 45 days was still not met.

National Strategy Application (NSA), respectively, as of 01 July 2010. The PR could not establish the closing cash balance of these round based grants. In the absence of this information, the opening cash balance of the consolidated grants could not be determined. Accuracy of cash balance reported by the PR and accuracy /treatment of accounts payable adjusted by the PR from cash balance had not been concluded as at the time of the OIG review.

PR feedback:

The PR indicated that there had been several communications between the PR, LFA and the Secretariat for resolving the cash reconciliation issue however the PR still did not have clear instructions from the Secretariat on the methodology to be followed for computing the cash balance as on the date of consolidation. The PR asserted that they had provided all information requested by the LFA but still could not conclude the cash reconciliation issue. The PR has agreed to adopt a methodology to compute the cash balance on a cut-off date mutually agreed between the PR and the Global Fund Secretariat, but asserts that they should have information on ToR of the external consultant in order to ensure transparency and better coordination.

Avoiding commingling funds and improving controls over the bank reconciliations

18. The Global Fund guidelines require that the grant funds should be maintained in separate bank accounts. However, disease-wise dedicated bank accounts were not maintained for the Global Fund Grants. The OIG review noted the following instances of commingling of funds at PR and SR level:

Location	Bank account used for
PR (China CDC)	Procurement funds of all the Global Fund Grants, TB program activity funds and funds for PR management fees for all Global Fund grants provided to CDC
Henan SR TB	The Global Fund (Malaria and TB) and Government Grant funds
Anhui SR Malaria	Malaria and HIV program funds received from the Global Fund

The OIG was informed that according to the regulation of Ministry of Finance, an organization was not allowed to open multiple bank accounts

19. There was no defined basis for allocation of interest income among different grants, which may result in incorrect allocation of interest income to the Global Fund grants. The OIG noted that:

i. At the PR office, NCTB and NIPD interest income was credited based on period end balance instead of using the average bank balance;

ii. At Anhui Malaria SR and Anhui TB SR/SSR, the entire interest income of all grants was allocated under R3 HIV grant. Further, in case of Henan TB SR, interest income of alternate quarters was credited to TB SSF grant and Malaria NSA grant respectively; and

In Henan TB SSR, proportionate interest income was not credited to the Global

Fund grant. The Finance Officer explained that both bank interest and bank charges were booked under another project financed by World Bank. For the period January 2007 to November 2011 total interest income was USD 320 (CNY 2,176) and total bank charges were USD 321 (CNY 2,183).

20. OIG's review of bank reconciliations highlighted the following weaknesses in the reconciliation process:

i. In two SRs and one SSR, bank reconciliations were not prepared on a monthly basis [Anhui SR M, Henan SR TB, Anhui SSR TB];
ii. In two SRs and one SSSR, there was no documented evidence of review of bank reconciliations by an independent person [Henan SR HIV, Yunnan SR HIV, Yunnan SSSR M]; and
iii. At NCAIDS, in one instance 'Balance as per accounting record' was underreported by USD 926 (CNY 6,299) in the bank reconciliation statement for January 2010.

PR feedback:

a) The PR informed that since the Ministry of Finance did not allow an organization to open multiple bank accounts, it was not possible to open a dedicated bank account for the Global Fund Grants. The OIG explained that it understands the constraint but suggested that given the substantial volume of funds handled by the PR, NPOs and Provincial levels, the PR should approach the Ministry of Finance to allow multiple bank accounts at these levels so that disease-wise dedicated bank accounts can be maintained for Global Fund grants;
b) The PR agreed to allocate interest among Grants on the basis of average bank balance instead of period end balance; and
***c)** The PR agreed that the Bank Reconciliation process required as per the Finance Manual shall be reinforced at all the locations. Going forward, Bank Reconciliations and their review shall be documented.*

Ensuring that expenses charged to the program have sufficient supporting documents or reasonable basis for allocation

21. The OIG review of expense transactions on a sample basis across locations highlighted:

i. 37 instances of expenses that were not adequately supported. The Secretariat, with the LFA, should explore the eligibility of the inadequately supported expenditure identified to ensure that all expenses are valid and in line with GF policies. Further analysis should be performed to establish whether other already incurred expenditure is ineligible, making recoveries as appropriate[37];

ii. At PR, NCTB and Yunnan SR M, supporting documents were not stamped "PAID" or cancelled to avoid duplicate processing/ re-submission of supporting documents; and

iii. At Henan SR TB, in three instances, payment of USD 103,879 (CNY 706,376) towards printing of promotional material was made prior to/without obtaining

[37]The PR explained that for the 37 instances identified by the OIG without adequate supporting documents, from our first view of these expenses, we think that some of them cannot be defined as 'not adequately supported'. For example, in the PR Financial Management Manual, it's not required to sign the attendance sheet every day for meeting/training/workshop. PR has requested the relevant SRs/SSRs/SSSRs to provide all the available documents. Now we are carefully reviewing these and will share our comments with you later. As suggested by the OIG, PR welcome and will work closely with the Secretariat and LFA to further verify these expenses.

delivery confirmation from the SSRs.

22. The rationale for allocating common costs such as rent, electricity and general administrative costs were not defined and documented. At NCTB's office, the OIG noted that the rent for the office premises was allocated to TB program based on budget availability, without a reasonable and documented basis for allocation. During 2009, 2010 and 2011, the proportion of office rent allocated to the TB program was 71%, 83% and 100% respectively.

PR feedback:

The PR acknowledged that recommendations suggested by the OIG team are required to be performed as per the Finance Manual and said that management would ensure reinforcement of defined policies/procedures at all levels. The PR also agreed to define and document the rationale for allocating common costs charged to the Global Fund grants.

Sub Recipient Monitoring

What were the risks related to monitoring of sub recipients?

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

23. For the purpose of preparing the PU/DR, the SSSRs, SSRs and SRs submit their cash-flow statement on semi-annual basis. Disbursement to SRs was made on the basis of this cash-flow Statement. The OIG review of this process highlighted the following:

i. At all SRs (except Anhui SR TB), joint review of financial and programmatic reports by the program and finance teams was not conducted to ensure that programmatic progress was in line with the expenses reported by the SSRs/SSSRs. Also, at NCAIDS and NCTB, there was no documented evidence of the review of the semi-annual expenditure reports submitted by the SRs.
ii. There was no process in place for submitting a "Funds Request" for disbursement of funds. Funds were disbursed to SRs/SSRs/SSSRs on the basis of their approved Work-plans & Budgets (WPB) instead of the actual cash requirement. No assessment was made for cash requirement based on activities to be performed in the disbursement period.

PR feedback:

a) As per the PR, submission of fund request using a bottom up approach (i.e. SSSR to SSR and SSR to SR and SR to PR) would be a time consuming process as the number of counties, cities and provinces is very large. This would lead to delays in disbursement of funds.
b) The PR informed that the Program Manager reviews the financial report and Finance Team reviews the program report but the review is not documented. Going forward, the financial and program reports would be jointly reviewed by program and finance team and evidence of review would be documented.

Improving financial monitoring of SRs/SSRs/SSSRs

24. The OIG review of financial monitoring by NPOs, SRs and SSRs over SRs, SSRs and SSSRs respectively highlighted the following inconsistencies which may impact the quality and effectiveness of financial monitoring visits:

Financial Monitoring Plan

i. At all three NPOs, three SRs and three SSRs, annual financial monitoring plan detailing the frequency, team composition and coverage for financial monitoring visits to provinces/cities/counties was not available. [All NPOs, Anhui SR TB, Yunnan SSR HIV, Henan SR/SSR HIV, Henan SR/SSR TB];
ii. The SR financial team at Anhui TB conducted financial monitoring visits only for 6 cities (3 each in 2009 and 2011) and 9 counties (5 in 2009 and 4 in 2011) out of total of 17 cities and 86 counties. No financial monitoring visits to SSRs were conducted in 2010 by Anhui SR TB and in 2011 by Henan SR TB; and
iii. On account of freezing of funds by the Global Fund during the period May 2011 to July 2011, 5 out of 6 program officers had resigned from NCAIDS and no M&E visits were conducted since then as new M&E staff had not been hired.

Scope of financial monitoring reviews

i. Finance Manual did not define the guidelines on sample size for testing transactions/vouchers for financial monitoring; and
ii. In Henan HIV SR and SSR, the financial monitoring checklist mentioned in the Finance Manual was not used for monitoring visits. A separate checklist was prepared and used to conduct the checks. However, this checklist did not contain checks on human resource, payroll and assets management. Also, for July 2010 visit, the checklist was not filled in by the SSR (at Henan) evidencing completion of all checks. The OIG also noted that results of checks performed were not documented in some locations. [NPOs, Anhui SR M, Anhui SR/SSR/SSSR TB].

Reporting for financial monitoring visits

i. At Henan SR HIV, recommendations on findings noted during the visits to the SSRs/ SSSRs were not provided in writing. At Henan SSR TB, written management responses and action plans were not obtained from SSSRs. In the case of Anhui SR Malaria and Anhui SSR TB, reporting template did not include time lines for implementation of recommendations; and
ii. At Henan SSR HIV, evidence of review of monitoring visit report by the Vice Director was not available for the visit conducted in July 2010.

PR feedback:

The PR informed that as per the revised guidelines, financial monitoring visits shall cover 15% of all locations. The PR agreed to maintain this sample coverage and implement the OIG recommendation to improve results of financial monitoring visits.

Visits to Community Based Organizations (CBOs)

25. SR Henan Provincial Health Bureau (HPHB) had issued a tender for funding to CBOs on 8 April 2010. In total 152 applications were received out of which 85 applications were selected. Total amount allocated to the 85 CBOs was CNY 3,096,000 out of which CNY 2,531,000 was paid by 5 December 2011. The OIG reviewed the process for selection of these CBOs at Henan province and also visited 11 sampled CBOs to review the documents related to expense incurred by them.

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

26. The OIG review highlighted the following:

Shortcomings in the selection of members for constituting the CBO Assessment Committee

i. The PR guidelines on CBOs requires that the Assessment Committee should comprise of AIDS experts (30%), experts from academic institutions (30%), experts from community (30%) and representatives from target population (10%). However, during the review it was observed that this guideline was not complied with. In total 16 persons were selected of which 7 (44%) were from local CDC offices who were selected as AIDS experts, 6 (38%) from community and 3 (18%) from the academic institutions. No member was selected from target population;

ii. A review of the selection procedure for experts from social organisations and academic institutions, noted that there were no documents such as curriculum vitae, interview notes and comparative sheets in respect of selection of experts. Further, the experts were selected by the program officer and written approval was not obtained from the SR head or Executive Director. The Program manager explained that experts from the community were selected from a list of experts obtained from the internet and experts from academic institutions were well known persons in the required field.

iii. Though the experts were paid honorarium for their services, the OIG noted that no contracts or conflict of interest statement were signed with the experts. Further, job responsibilities were also not defined for the experts.

Shortcomings in selection of CBOs

iv. The tender for applying for funds by CBOs and managing CBOs was issued on official website of Henan Provincial Health Bureau on 8 April 2010. It was not advertised in any other common media like newspaper with wide circulation. From the review and observations during field visit, most of the grass root CBOs did not have computers or internet connections. This could result in limited reach of the tender notice thereby restricting competitive selection of CBOs.

v. In 3 out of 82 assessment forms reviewed, some of the reviewers of applications were members of organisations that were being reviewed; hence there is potential conflict of interest in the review process. Amount allocated to these three CBOs was USD 17,647 (CNY 120,000).

Shortcomings in selection of the Financial Monitoring expert

vi. Only one application of the "Henan AIDS Society" was obtained in respect of management tender issued on the website on 8 April 2010 for management and supervision of activities conducted by CBOs. The Program Manager informed that Henan AIDS Society was the sole applicant. However, this fact was not documented in the selection note and no exception approval was obtained from senior management.

PR feedback:

The PR agreed to the OIG recommendations offered and informed that guidelines for selection of CBOs had been revised after the 2010 selection and the revised guidelines would ensure more competitive selection of CBOs going forward. The SR:

a) agreed to ensure compliance with guidelines in respect of composition of application assessment committee;
b) agreed to improve transparency in selection of experts;
c) In respect of issue of tender, informed that they themselves contact certain grass root CBOs to apply for funds. However, the SR agreed to issue tender in local newspaper so that tender reaches more grass root organisations and process of application is transparent;
d) agreed to the fact that there was a conflict of interest during review and care will be taken to avoid such conflicts in future; and

e) agreed to enter into contracts with experts and to get the Statement of no Conflict of Interest signed from them.

Actions on expert recommendations from on-site supervision visits to CBOs

27. The OIG review highlighted that no documents were available in respect of follow up action taken upon expert's comments provided during on-site supervision visits. As informed, only verbal discussions were undertaken with CBOs and guidance was given to them for improvement. In the absence of documented follow up action, timely resolution of issues noted during on-site visits could not be ascertained.

PR feedback:

The PR agreed to implement the OIG recommendation offered.

Documentation of expenses at the CBOs require strengthening

28. The OIG conducted visits to 11 CBOs during the period 30 November 2011 to 5 December 2011 in Zhengzhou and Kaifeng cities. However, only 3 out of the 11 organizations provided the financial documents to the OIG. One of the organizations informed the OIG that all relevant documents were 'stolen'. Review of the documents of 3 organisations highlighted instances where supporting documents for expenses incurred by the CBOs were either not available or not sufficient, making it difficult to assess the reasonableness of expenses charged by the CBOs:

PR feedback:

The PR agreed to implement the recommendation offered.

What were the risks related to assets management ?

Asset Management

Reconciling differences between Fixed Asset financial records, Fixed Asset Register and the physical count records

29. The special financial verification performed by the LFA highlighted significant variation between the PR's Asset Financial Records, Fixed Asset register and the audited financial report as at 31 December 2009. The Global Fund Secretariat issued a management letter requiring the PR to reconcile these differences, conduct a physical verification of assets and reconcile the physical records with the book records. The PR had submitted the latest reconciliation statement dated 23 November 2011 wherein the difference between Financial records and the Asset inventory records had come down to USD 65,441. However, the LFA could not validate the accuracy of the reconciliation statement with respect to the reconciling differences reported by the PR

30. The PR had also conducted physical verification at different locations and submitted some of the physical verification reports to the LFA. However, the LFA reported that they could not use the physical verification reports since the PR did not identify the location. The reconciliation between the Fixed Asset Register and the physical verification records was pending at the time of the OIG review. In the absence of the aforesaid reconciliations, it is difficult to assess the reasonableness of fixed asset expense charged to the Global Fund grants.

PR feedback:

The PR performed the reconciliation called for and reported the reconciling differences to the LFA. The PR is willing to provide all necessary information to resolve this issue. The PR also informed that a semi-annual process of conducting physical verification and reconciling the fixed asset records has been implemented.

Annex D: Procurement and Supply Chain Management

What are the risks relating to Procurement and Supply Chain Management?

1. Across all grants, the PR had spent roughly 22% of the total disbursed funds on procuring goods[38], of which approximate 65% was spent on drugs[39] and other health goods and 35% on non-health goods. The most recent PSM ratings based on LFA assessments were B1 for R3 AIDS RCC (May 2009); B1 for NSA Malaria (April 2010) and B1 for SSF TB (May 2010). No assessment had been done for Malaria R10[40], by the LFA.

There is scope for improvement in the coordination, implementation and oversight of PSM plans

Organizational responsibilities

2. In terms of organizational structure, the national offices of the three diseases part of the Chinese CDC (PR) structure on the central level i.e. not separate sub-recipients. The procurement department in the CDC depended on these offices for formulating PSM plans, not only the selection and quantification but also the actual planning of procurement activities. This weakens the validation and oversight of the PR's procurement unit. PSM plans should clearly allocate the responsibilities for managing Global Fund supplies as these key grant documents were required to indicate which entity or entities will implement relevant procurement and supply management activities including details about technical assistance required[41].

Compliance to approved plans

3. While procurement of health goods by each program office seemed more attractive to the programs, it foregoes benefits such as efficiency of centralized procurement planning and QA oversight (quality, and quantification). In PSM quantification/forecasting and planning for distribution, centralized procurement benefits from an independent (unbiased) review against past consumptions and actual morbidity patterns. Without a key role of PR to validate plans for program offices, programs risk incurring higher transaction costs along the PSM chain to monitor, correct and if needed reverse such plans if ineffective[42]. This is usually done by a procurement unit with M&E department and can be supported by an internal audit function (as the case is in CDC). However in the current context, the PR procurement department risks becoming more and more an outsider to the NPOs e.g. NCAIDS or National Institute of Parasitic Disease[43].

4. The PSM Manual[44] did not indicate clear segregation of duties, contract management and logistics management. This may result in delay or poor implementation of PSM systems.

[38] Including cost of clearance imports, agent fees, VAT paid to Government (Ministry of Finance) on domestic purchases.

[39] Costs of drugs include the direct payments by Global Fund to VPP (ARV drugs) and other procurement agents (second line TB drugs). The relative high cost of second line TB drugs under R5, R7 and SSF skew the percentages toward TB program.

[40] The first PU-DR for this grant is due to the LFA by no later than 15 August 2012.

[41] The PR explained that according to the requirement of Chinese Procurement Law, the function of planning and procurement should be separated. Thus, PR Procurement Department will only be responsible for the section of procurement.

[42] Ibid.

[43] The absence of planning in the PR department following the freeze of funding in 2011, led MOH to use government budget to ensure meanwhile pre-financing of key procurement for 2012.

[44] The procurement and supply management manual of PR was revised lastly in 2010 (5th edition).

What were the risks relating to health products?

Health Products

There is scope for improvement in the procurement of health products

Procurement Process

5. The OIG review of the procurement process for health products identified the following:

i. The PR procurement manual needs to be in compliance with national law[45] such as use of government-enlisted companies and national bidding via appointed bidding agents. These have resulted in single sourcing for example without advertising in national newspapers. Value for money may not be achieved when the PR uses private bidding agents in situations where there is frequent single sourcing[46];

ii. Cases of delay in deliveries by suppliers occurred (condoms and LLINs) that should have attracted penalties under the contract provisions[47];

iii. Domestic supplies are not VAT exempted[48] so through purchase of those supplies and the 'agent fees', some part of every external dollar spent to procure goods, flows directly to the government;

iv. The Government arranged channel to purchase ARV drugs ('buy 2 get 1 free') with branded drug manufacturers were done through single sourcing[49]. There were also instances of advance payments to suppliers made by the PR before receiving a financial security[50] that were not deemed justified;

v. Supply of WHO pre-qualified ARVs using external funds such as through Voluntary Pooled Procurement (VPP) can be received from foreign sources as a 'donation' to MOH for use in the public sector i.e. not procured by MOH. However, if such 'donation' is received through an outside agent (not MOH) which would open up a tender to more than one or two eligible sources only; they are often not considered for a waiver (SFDA), particularly so for specific key products (ARV, condoms, LLINs). Even where VPP was used (once) the VPP agent PFSCM chose to supply branded ARV products avoiding the risk of patent infringement.

vi. There is a budget for cotrimoxazol for prophylaxis of PCP infection in AIDS but RCC grant does not provide for procurement of drugs to treat opportunistic infections (OIs) such as isoniazid tablets for prevention of TB in HIV patients. On the other hand condoms procured annually have a limited impact for reason of small quantity in relation to the target group. Condoms in TB (SFF) grant have low value for money, as these are not used as intended[51, 52]. The question raised is whether in the limited time

[45] PR Procurement Manual: "Procurement carried out by China Global Fund Program shall comply with the Government Procurement Law, the Law on Tenders and Bids and the Contract Law of the People's Republic of China and other relevant laws and regulations". Though these rules protect the interests of the State they could potentially limit competition and do result in paying taxes (VAT).

[46] The PR explained that according to the Chinese Procurement Law, the agents should issue the notice for all the domestic biddings in the Chinese Government Procurement website (http://www.ccgp.gov.cn/). All the major suppliers know this regulation and will get the information from this website.

[47] The PR explained that most of the goods were delivered as agreed in the contracts. Few cases of delay in delivery of goods were mainly due to sudden natural disaster, not well-prepared storage & installation conditions.

[48] A recurring issue since 2004; LFA reported that PR has not done enough effort to get exemption from VAT; in March 2011, the Ministry of Finance finally ruled that such exemption will not be made available to goods and services procured with Global Fund funds.

[49] Earlier HIV rounds (3) used funds to procure two ARV from multinationals via their agents (single sourcing)

[50] For instance in RCC there was an advance payment of 30% to the supplier of EFV tablets (value app 9 million CNY) despite PR delaying the shipment because of concurrent supply of the same product by the same source to Government

[51] Government funds pay already for bulk of the condoms supplies in the public health sector. HIV prevention and condom promotion is extremely important but within RCC grant for 2012 the budget for condoms *as it is*, is recommended to be used instead for certain anti-fungal Opportunistic Infection drugs such as amphotericine B and itraconazole to increase survival rates of AIDS patients on ARVs or INH tablets for TB prophylaxis.

remaining (RCC 6 months) the impact of approximately USD 1.4 million is more effective when treating patients clinically for infections compared to 1 year of behavioral change activities with MSM and CSW target groups[53];

vii. In the review of pesticide procurement, the OIG observed incomplete traceability of item description to WHOPES specifications. The risk of substandard or fake products could potentially remain undetected under the 'resistance denominator'.

Strengthening the capacity of LMIS system to inform decision-making at the PR and NPOs

Supply Chain (Field Visits)

6. The OIG visited two provinces in southern/south-west China and the central ARV warehouse (Daxing County, Beijing). The OIG observed the following:

i. **Paper-Based Logistic Management Information System**. Overall it appeared that inventory records at base level are properly filled in and numbers match; stocks were verified physically and in the locations visited there were no discrepancies between the records and physical stocks. However logistics information is managed in a paper-based system and despite detailed record keeping down to county level, there is little real time and complete overview at the PR office or national disease program offices of stocks or consumption rates, expiries at SR, SSR and SSSR level or in the procurement department to inform the annual quantification, planning and decision making.

ii. **Lack of coordination for goods ordered**. Overstocks could easily occur where supplies come at the same time via two channels i.e. NCAIDS and PR. The PR placed an ARV order under RCC grant for three ARV products in 2010 via VPP and supplies were received in 2011 from PFSCM (VVP agent) for a value of USD 3.8 million (excluding freight) [54], [55]. Ideally, this supply should have covered 6 months treatment for 4,960 patients without calculating a buffer stock. The LFA reported an inventory of ARV in central warehouse[56] showing a ratio TDF (30 pack size) to LPV/r (120 pack size) was 3 to 1 (by end 2010 in months' of use). These two drugs are normally used on a ratio of 1:1, hence there was an overstock of TDF which does not seem to have been corrected in this new order. The stock of 3TC serves both first and second line treatment. Possibly the surplus of TDF tablets was used in first line treatment which is then via RCC partly funded by Global Fund as well.

iii. **Need assessment on drugs distribution to avoid drug expiry**. The cost of second line TB drugs (imported from a QA accepted source) was high. From Rounds 5, 7 and SSF until date of OIG review, the total cost was approximately USD 15 million[57]. By the end of 2010 a total of 5,217 patients

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[52] (LFA report December 2010 Procurement Review for 3 new grants-NSA Malaria, SSF-TB, RCC-HIV/AIDS).

[53]The PR explained that due to the limitation of funding, GF program can not cover all the HIV/AIDS service delivery areas, including OI treatment. We fully agree that OI is a key component of HIV/AIDS prevention and care, but we also believe that , even though just as demonstration, the condom promotion still have impact on HIV/STI prevention to the target group.

[54] (Aluvia® 29,760x120 tablets; Viread® 29,760x30 tablets and Epivir® 300mg 29,760 x 30 tablets)..

[55] (During OIG mission stocks inspected at Meheco warehouse in Daxing; status: under testing/clearance)

[56] LFA physical stocks verification conducted on 8th March 2011: for Government purchased and Global Fund supplies totaled (TDF 90,755 packs (30's) LPV/r 53,870 packs (120's), and although full verification for the drug was not conducted, there were at least 172,348 packs 3TC tablets (30's) reported in stock on 8 March 2011.

[57] In past rounds up to date the following is noted: under TB Round 5 the TB program procured nine Second Line Drugs for 3 million USD, six second line drugs with Global Fund grants in TB Round 7 for app 1,2 million USD, eight drugs in TB SSF grant (2011) for app 0.5 million USD and another eleven second line drugs including amikacine as substitute for

in 41 prefectures of 12 provinces across China were approved by Green Light Committee (GLC) for treatment with second line drugs. Quantification of these second line drugs was not adequately supported by past consumption data reconciled with data on patients enrolled per province for treatment of MDR or XDR TB. Unless the targeted number of patients are identified and accelerated on treatment in the next three to six months, the risks of overstocks appear likely while stock-outs could easily happen at other levels. From analyzing stocks, distributions and consumption rates there is a need to urgently plan for redistribution of several of these drugs between SRs. Rather than having stocks expire in the 12 Global Fund supported provinces (pending enrolment), it should be allowed that stocks are re-distributed to provinces where there is need and where use is (ideally) based on Drug Susceptibility Testing (DST). One key condition for distribution outside the 12 provinces currently supported by the SSF grant is that the province hospitals fully align their management of TB and MDR (XDR)-TB, especially treatment adherence to national protocols, with the TB centers of the NCTB. The program need to monitor usage of drugs and treatment outcomes and all re-distribution should be kept traceable and part of the quality monitoring of supply chain.

iv. **Mixed distribution system**. Distribution is centrally managed and top down based on the number of cases registered (reported and subsequently allocated per province for next period). No data were noted at SR level to inform recipients when their next supplies were expected but in general, we observed that ad hoc order requisitions that were submitted were fulfilled by the central level to the provinces and from provinces to SSR in counties. Of what has been 'decided to be available' there had not been instances of stock-out reported at the service delivery line. The PULL (requisition) within a PUSH (allocation) framework seems to work but mixing these systems in one chain is in general not advisable. The central PUSH system in addition results in risks of not meeting the demand from service providers for fixed dose combinations in treatment of HIV, tenofovir in first line and the need for more protease inhibitor HIV drugs in the second line.

v. **Opportunity to include Quality Monitoring System at different levels**. The locations visited did not raise specific concerns about storage conditions currently, though timely upgrade of infrastructures to ensure adequate space and conditions for keeping and rotating of stocks in the longer term are recommended per province. Locations within provinces are many and distances are large. The OIG was informed that reaching some counties is not always feasible by road, so the 'last mile' often requires most of the effort (on foot) to get supplies to medical outposts in townships/villages. Vice versa it can be challenging to refer patients or transport sputum or other samples for lab tests back to the provincial capitals. As part of supply chain management in this context it is of great importance that there is a Quality Monitoring System in place to assure the quality of products in the supply chain across different levels.

7. Second line TB drugs distribution data showed that during round 5 and round 7, samples were taken for Quality Control purposes. But a Quality Monitoring system was not found in place at PR level for key health products to ensure usability during shelf life as well as to detect substandard or fake products in the supply chain[58].

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kanamycine, and 3 antibiotics (amoxi-clav, clarithromycine, moxifloxacine) in TB SSF (pipeline) for almost 10 million USD.

[58] The PR provided a (draft) SOP describing the procedure that ought to in place, but the document is more a general narrative than a SOP detailing step-wise instructions for implementation. For QC testing the PR has commissioned Beijing Institute for Drug Control to conduct drug sampling, inspection and testing. According document provided CNAS-PD19/06-A/2 the Beijing Institute passed ISO17025 certification

8. At the time of drafting the PSM plans for the consolidated grants in 2010, the PR issued a "Pharmaceutical and Health Product Management Country Profile" describing the county context, stakeholders and PSM systems that need to be in place. The LFA submitted comments to Secretariat but according to information provided to the OIG, there has not yet been a follow-up in 2011.

SR feedback:

During field de-briefings the program offices agreed that for the Logistics Management Information System to be useful, it should be computerized and web-based. A web-based system can in future provide real time distribution planning to the provinces to ensure appropriate stock levels, monitor expiry dates, overstocks, reporting of sampling, and quality control results.

Scope to secure lower prices for HIV drugs

9. In the key health products categories, the expenditure across all grants was approximately USD 58 million and is largely dominated by the costs of pharmaceutical products, specifically ARVs and second line TB drugs.

Anti-retroviral drugs

10. **Few local manufacturers of HIV drugs**: Based on statements made by the PR, the OIG understands that, only four off-patent HIV drugs are currently manufactured domestically in China (zidovudine, nevirapine, stavudine and lamivudine). Some of the formulations were used in the National HIV program for first line treatment regimen, with the advantage of short lead times from factory to patient. These drugs paid for by the government were SFDA registered. Costs for Nevirapine (NVP) tablets and Stavudine (d4T) (15 mg) appeared to be in line with international pricing for such products. Only the NVP tablets manufactured by Zhejing were pre-qualified by the World Health Organization[59].

11. **Use of branded ARV drugs**: Global Fund grants were used to make branded ARV drugs available to a targeted (i.e. limited) number of patients in first line and RCC especially second line and paediatric drugs whereas national funds were generally used to purchase generic drugs and branded drugs as well mutually supplementing GF's funding gap. Branded drugs were comparatively more expensive than equivalent compounds available in other countries, although it is unclear if the PR could in fact have negotiated prices with right holders or imported generic products. Under HIV R3, five types of ARVs were procured for approximately USD 20 million. The largest part (80%) was spent on boosted lopinavir (LPV/r) for second line treatment and efavirenz (EFV) tablets for first line and both were procured from original manufacturers. Protease inhibitor lopinavir boosted with ritonavir (LPV/r 200+50mg) was the key component in the second line regimen and provided life-saving support for about 10,000 patients at the time of OIG review. Dosed 4 tablets a day, it was also the most expensive one among the three branded ARV drugs. The other two products are TDF 300mg and 3TC 300mg (daily doses).

12. **Subsequent events:** In May 2012, China amended parts of its intellectual

[59] Where countries like Zimbabwe, Kenya and factories in Uganda are starting to appear on the WHO PQ list, there are in total only 6 products originating from China which are WHO pre-qualified; 4 antimalarial from Guilin, 1 ACT from Novartis and one Chinese ARV tablet (NVP).

property regulations to clarify the compulsory licensing provisions applicable to patented pharmaceutical products[60]. The amended text enables compulsory licensing to eligible companies to produce or import versions of patented drugs during state emergencies, or unusual circumstances, or in the interests of the public.

Treatment standard and access

13. The PR stated that some ARV drugs available as generics in some countries could not be imported or manufactured in China due to patent restrictions and the absence of licensing agreements. While no market verification could be done to confirm at what price equivalent branded drugs could be purchased on the market, or indeed if such drugs were registered with NDRA, this was most likely a leading factor in the sustained use of the ARV drugs which could be domestically manufactured, particularly d4T, in routine HIV treatment protocols. The OIG believes a more thorough analysis of available treatment options could have been done by the PR to demonstrate that quality-assured drugs were purchased at the lowest possible price. The OIG reviewed patient data per province and observed that the current dual supply mechanism also leads to inequality of treatment across different provinces[62].

14. Based on data provided by NCAIDS, over past years since the start of the RCC grant in 2010, there were trends in the right direction63. The PR explained that since 2011, it required time to revise the existing ARV treatment protocol from 2nd to 3rd version of the WHO recommended ARV new treatment protocol. Preparatory works including issuing the official announcement or promulgation, providing special training for medical practitioners and stocking for sufficient drugs were required before the rapid rolling out of the new treatment protocol.

15. Using international (multi-source) price references, the cost of drugs needed for second line treatment (approximately USD 700/patient year) for approximately 2500 patients would amount to USD 2 million. Compared to the USD 3.8 million paid by the PR via VPP for branded products, this is about half of the cost. Counting on meeting the real needs, the costs of second line HIV treatment using these unit prices is bound to fluctuate over the next three years[68].

16. Comparing the proposed paediatric regimens and projected case numbers, shows that more than half of the treatment is based on lamivudine/nevirapine with either zidovudine or stavudine. If quality-assured fixed dose combinations available in some markets, were available on the Chinese market, the treatment needs of the majority of HIV positive children could be met for approximately USD 60,000 and USD 136,000 per year respectively; based on prices available in other markets; such fixed-dose combinations are typically easier to manage for the

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

[62] These differences seem only partly explainable by divers epidemiological trends in provinces e.g. between Henan and Guangxi. Absence of the required lab (diagnostic) infrastructure in certain (poorer) provinces may also play a role in the choice of ARV regimen as well as the fact that follow-up service is not free (pay out of pocket/cost sharing) which works out differently per province.

[63] There is a nation-wide trend (32 provinces) to put most of the patients on standard triple therapy of zidovudine, lamivudine with either nevirapine or efavirenz but tenofovir is typically absent in first line. It is expected that in next years the % requiring TDF+3TC (or FTC)+EVF (or NVP) will increase from 8% (2011) to 60% (2015). The proportion on ABC+3TC/FTC+EFV/NVP similarly is expected to increase from 0% (2011) to 7% (2015).

[68] The current RCC funded 2nd line regime is standard TDF+3TC+LPV/r. By 2015 there will be an estimated more than 18,000 patients in need of these drugs as well as combinations consisting of more specific atazanavir, darunavir and saquinavir formulations

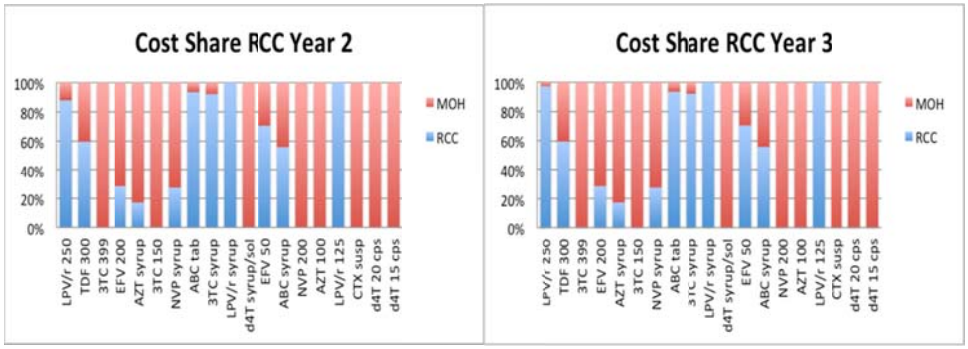
prescriber/patient (and supply chain) and less costly.

17. **Subsequent events:** In May 29, 2012, China MOH amended its treatment guidelines to replace the use of the more toxic d4T ARVs with the WHO recommended TDF in its first-line ARV regimen[69].

Cost sharing arrangement for 2nd line ARV drugs

18. The updated HIV PSM plan for RCC Y2 and Y3 contains 3 second-line ARV for adults and 16 paediatric formulations (including abacavir tablet and oral solution) and cotrimoxazol oral suspension[70].

19. The breakdown of cost for the next two years as agreed with the Global Fund in 2011 is presented below. The overall cost to procure ARV is approximately USD 8.7 million for Year 2 (88% of total budget) and increases to approximately USD 12 million for Year 3 (97% of total budget). As can be expected TDF300 tablets and LPV/r tablets together represent the largest part (>80%) in terms of value as these are from the patent holders. RCC grant contributes a large part of total ARV budget based on generic price levels agreed between the Secretariat and the PR.



20. For the RCC grant in 2012 it is reasonable to consolidate procurement of the same ARVs at the central level for the national program from the same sources between the PR and NCAIDS. These supplies will also be delivered to the same import agent (MEHECO) for import testing, storage/release and distribution. Another valid reason brought forward by NPO and the Secretariat is that the same medicine will be consistent in the supply chain/dispensing and use (same brand named, origin, carton, label).

21. MEHECO employs qualified pharmacists, which adds value to the process of importation, storage and distribution. The OIG read the LFA report (Physical stock verification April 2011) and visited their warehouse[71] and had no specific concern other than ensuring batch traceability and segregations of stocks and potential

[69] *National Guideline on Free ARV Treatment (2012) (The third version).* http://www.chinaids.org.cn/n16/n1133/n827769.files/n827768.pdf

[70] LPV/r 250mg tablet in 120 pack is mentioned under both adults and children, it is still called 'kaletra' and not correctly abbreviated (KLC). The costs are expressed inconsistently i.e. per person per year (first three lines) and per pack unit (for the rest).

[71] Apart from a City warehouse in Beijing (Office), the main warehouse is located in Daxing County, Beijing; it consists of 6 stores comprising a general warehouse of 1600 m2 without air-conditioning; warehouse B is of the same size with air-conditioning and humidification; and warehouses C1-4 are 160 m2 each in size and the temperature is constantly kept between 15-30 °C. All the warehouses are equipped with ventilation and fire distinguishers. All the drugs are in the package and placed 10-15 cm off the ground on supporters.

COI. Using MEHECO as an agent to import other pharmaceutical products would allow economies of scale and efficiency gains through consolidation, if the firm is willing to take on such a mandate.

22. Though all prices have to be reported to the Secretariat retroactively, the cost sharing agreement does not include a proactive mechanism to follow international price level developments during the grant implementation and anticipate on potential savings[74]

Procurement of Non Health products

Making the selection of vendors/ bidding agents competitive

23. The OIG's review of the vendor/ bidding agents selection procedures highlighted the following instances where the selection procedures/ documentation were not sufficient to ensure competitive selection and value for money:

What were the risks relating to Non-health products?

Selection by PR

i. In two instances amounting to USD 231,279 (CNY 1,572,700), quotations were invited from the vendor for specific brands of car and laptop without any documented justification[75];

ii. PR had selected private bidding agents for procurement of non-specified goods (goods not included in the government catalogue list) amounting to CNY 1.2 million (USD 176,471) or more. The following weaknesses were noted in the selection of the private bidding agents[76]:
   a) Guidelines on selection procedures of the private bidding agents were not defined;
   b) Selection of agents was done through limited tendering procedures. Quotations from 8 agents were invited and 6 were selected; and
   c) Justification for the evaluation ranking of the bidding agents was not documented.

iii. Procurement of non-health specified goods (goods included in the government catalogue list) amounting to less than CNY 1.2 million (USD 176,471) was done through government empanelled vendors. The following weaknesses were noted in the procurement conducted through these vendors[77]:
   a) Rationale for considering the vendors from the empanelled list for procurement of these specified goods was not documented; and
   b) Prices were negotiated verbally with these vendors.

Selection by NPO/SR/SSR/SSSR

24. The OIG review of a sample of procurement transactions at SR/SSR/SSSR level highlighted the following:

i. At Yunnan SR M, in 2 instances for purchase of canvas bags and T- shirts amounting to USD 143,823 (CNY 978,000), the bid for higher price was selected without any documented justification resulting in an excess payment of USD 74,926 (CNY 509,500).

[74] The Secretariat agreed to pay:
- 5 million USD for LPV/r tablets (Y2) and 7 million USD (Y3) based on unit price of 63 USD/120 tabs which by 2011 appears twice the price offered today by e.g. Matrix in India
- 1 million and 1.5 million respectively for TDF300 mg tablets based on a cost of 160 USD per person/year. The international price reference for TDF
shows that this figure came down below 100 USD already since June 2009.

[75] The PR explained that the government will negotiate with the vendors for the products in Government Procurement Lists every year and get a competitive price. Then, the potential vendee can sign the agreement with the vendors directly. This is also agreed by the Chinese Procurement Law.

[76] All the agents selected by PR have got A-class certification in the areas of government procurement which was issued by the Ministry of Finance. And the process for selecting the agents strictly follows the Chinese Procurement Law.

[77] The PR explained that this is also agreed by the Chinese Procurement Law.

ii. 15 instances amounting to USD 129,532 (CNY 880,815) where minimum 3 quotes were not obtained for procurement of goods and services [NIPD,Henan SR/SSR TB, Henan SR HIV, Yunnan SR HIV/M].
iii. Two instances at Anhui SR TB where documented evidence for competitive selection of vendor for printing of 'play cards' and 'patient curing management record book' amounting to USD 57,485 (CNY 390,900) was not available;
iv. Six instances at Anhui SSR TB amounting to USD 13,610 (CNY 92,546) where documents relating to negotiation/selection of the Hotels were not maintained;
v. One instance at Yunnan SR M where Requests for Quotations and purchase requisitions were not documented for printing jobs amounting to USD33,824 (CNY 230,000); and
vi. One instance at Henan SR HIV amounting to USD 30,809 (CNY 209,500) where specification (such as size, colour, and paper quality) of brochures was not mentioned on the bids received for cost comparison.

PR feedback:
Procurement by CDC

a) The NPO had specified the item description in the request for quotation due to which specific items were purchased. Going forward, a written justification would be obtained from the NPOs in case a brand is specified in the Request for Quotation.
b) Guidelines on selection of bidding agents would be formulated.
c) The process for selecting the government empanelled vendor has been changed from July 2011 and now CDC cannot directly negotiate with the vendors. The PR had to inform government and government will select one vendor and will also specify their prices which cannot be negotiated further.

Procurement by SR/SSR/SSSR
a) At Yunnan SR M, with effect from 2011, a third party bidding agency is doing procurement on behalf of YIPD as per the provincial government requirement. All the recommendations of the OIG team shall be implemented by this bidding agency.
b) SR/SSR will follow the guidelines issued by the PR on bidding and selection [All except Henan SR/SSR TB and Yunnan SR M].
c) For 2 instances of Henan TB, goods were purchased from old vendor in 2007 so selection procedures were not followed in 2009.
d) At Yunnan SR M, with effect from 2011, a third party bidding agency is doing procurement on behalf of the SR as per the provincial government requirement.
e) Anhui SR TB was not able to show the documents because the concerned persons were not available.
f) At Anhui SSR TB documents were not maintained. Going forwards, proper documentation shall be maintained.

Improving documentation of receipt of goods purchased.

25. The OIG review of control over receipts of goods and services highlighted the following instances where timeliness of receipt or distribution of goods could not be established:

i. One instance in Henan SSR TB where delivery note evidencing distribution of books and play cards amounting to USD 3,114 (CNY 21,175) was not available;
ii. In 30 instances at CDC amounting to USD 3,130,477 (CNY 21,287,243), the

date of arrival of goods was not indicated in the Goods Receipt Notes (GRN); and

iii. In two instances at CDC amounting to USD 267,194 (CNY 1,816,920) Goods Receipt Notes was not stamped or signed by the authorized person. Hence, receipt of goods by the authorized person could not be established.

PR feedback:

a) *This transaction pertains to year 2007. However, the process suggested by the OIG team has been followed by the SSR now.*
b) *We will request all the recipients to include the date of receipt of material and sign/ stamp the Good Receipt Notes.*

Selection of vendors, placing orders and delivery of goods

26. The OIG review of the purchase ordering and delivery procedures followed at the PR/SR/SSR/SSSR highlighted the following:

i. The Procurement and Supply Management (PSM) manual indicates that the timeline for submission of requests for purchase of non-health specified goods by the NPOs was two months prior to requirement of these goods. However, in practice it takes five to six months to procure these goods. The OIG was informed that the timeline needs to be revised in the manual;
ii. In one instance relating to procurement of 107 vehicles amounting to USD 2,092,794 (CNY 14,231,000) the Purchase Order creation date and date of purchase request was not mentioned. In the absence of this information, the OIG could not verify the timeliness of delivery of these goods;
iii. Purchase Order/contract entered into with the vendor did not include all required details:
    a) Timeline for bidding and selection of vendors by the private agent was not specified in the bidding agent contract;
    b) One instance in Henan SR TB amounting to USD 3,348 (CNY 22,768) where size, type of advertisement (colour/B&W) and page of publication was not mentioned in the contract; and
    c) In two instances at Anhui SR TB amounting to USD 95,069 (CNY 646,472), penalty clause mentioned in the contract did not specify the penalty amount. Delay in delivery of the goods ranged from 10-24 days.

    Four instances at CDC amounting to USD 2,543,474 (CNY 17,295,620) where the delivery of the goods was delayed by the vendor ranging from 17 days to 210 days but no penalty was imposed as specified in the contract.

PR feedback:

Management has agreed to implement all recommendations of the OIG team.

Performance evaluation of bidding agents is required

27. The OIG review of the process of evaluation of bidding agents highlighted that:

i. CDC did not follow the process of conducting the performance evaluation of the bidding agents. There were no documented guidelines to this effect;
ii. Preferred bidding agents were not defined for key items procured. Also, rationale for allocating the procurement services among the bidding agents was not defined; and

iii. No tracking sheet was maintained to capture the number of biddings performed by each bidding agent.

In the absence of proper evaluation and tracking, the PR may not be able to the identify bidding agents that did not provide quality service

PR feedback:
Going forward, CDC will initiate the performance evaluation of the bidding agents.

Annex E: Program Implementation

What are the risks relating to Program implementation?

1. Given China's recent consolidation in 2010 of previous grants into three grants (one for each of the three diseases), disbursement disruptions between Q4 2010 and Q3 2011 and the Global Fund board's November 2011 decision not to renew China's grants after phase 1, the diagnostic review took a rather capacity-building approach, which seek to identify potential programmatic risks for the national programs to consider after Global Fund's withdrawal in June 2012 for Malaria NSA, December 2012 for HIV RCC and June 2013 for Tuberculosis SSF.

2. To gain a more in-depth understanding of how Global Fund programs were implemented in China at different levels, the provinces of Guizhou (a poor province in Southwest China affected by all three diseases) and Henan (an agricultural province in Central China with a relatively high burden of MDR-TB) were visited over a period of 10 days. We visited hospitals, clinics and laboratories and interviewed community-based organizations, MARPs, patients and program and medical staff at the provincial (Guizhou, Henan), city (Guiyang, Zhengzhou), county (Xingyi, Ceheng, Xinmi) and village (Sugaci, Hongqi) levels. While in Beijing we also interviewed China CDC (PR) officials of all three national programs, the local fund agent (UNOPS), development partners (UNAIDS, WHO, UNICEF, Gates Foundation, DFID, USAID, USCDC, USDHHS) and community-based organizations (PLHIV, MSM).

3. We also reviewed the three consolidated grants' program documents (proposals, progress update and disbursement requests (PU/DR), revised budgets as of October 2011, program implementation plans), China's national treatment guidelines and various reviews commissioned by the Global Fund Secretariat. While in the field we made a special effort to verify the paper records of a few randomly chosen cases (2-3 cases for each of the three diseases) against the data captured at all levels (village, county, city, province, national) in the national health information database, on which the country's PU/DRs to the Global Fund are based. And we noted no discrepancies between the paper records and corresponding information in the national health information database.

Sustaining Global Fund Program Achievements for HIV, TB and Malaria Grants, a transitional risk

Global Fund board decision on withdrawal

4. As China was no longer eligible for phase 2 funding of its three consolidated grants, with the phase 1 funding will be ending in December 2012 for HIV RCC and June 2013[78] for TB SSF while the Malaria NSA funding ended on 30 June 2012. The Government's initial response to the Global Fund's withdrawal decision indicating it will fill the funding gap after Global Fund's departure, for HIV/AIDS in particular[79] was encouraging. However, there were three programmatic risks we identified as most critical to the successful transition of the Global Fund programs to the Government:

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

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

Limited time for the Government to plan and budget for the funding gap after Global Fund grant programs closures

5. Considering the fact that all three grants will be closed in 2012-2013, the limited timeframe and considerable effort associated with the transition, the Government runs the risk that it may not be able to ensure continuity in provision of all services that are critical in fighting the three diseases. All three Global Fund grants were designed to complement the national programs, including budgeting. With a large country like China which has a highly complex and layered administrative structure, there may not be enough time for the entire government structure (at all levels) to re-allocate resources to ensure program implementation continuity.

Sustaining CBOs funding and service quality after Global Fund grant programs end

6. Despite Global Fund's support for Civil Society Organization (CSO) development since Round 6, there was still no strong and sustainable national funding mechanism[80] and service quality support put in place to support CBOs, which were key to prevention, treatment, care and support among MARPs.

7. The first year (July 2010 – June 2011) of the HIV RCC grant saw a huge increase in the number of CBOs but many of these groups quickly dissolved by the end of the year when funds disbursement was temporarily withheld. Furthermore we observed in the field that the quality of prevention by both CBOs and Government-Organized Non-Governmental Organization (GONGO) groups varies widely. There was a lack of standards for basic prevention service such as high quality community-based peer-led outreach and pre-test and post-test counselling. We also observed that the current capacity building delivery model tends to be based on classroom lectures rather than mentoring, which many CBOs reported as a more effective means of improving their program quality.

8. This suggests the current project-based funding mechanism for CBOs still lacked sustainability and falls short on program quality directly undercutting the country's response to HIV/AIDS. The taking over of Global Fund grant programs by the government after HIV RCC phase 1 represents a good opportunity to identify a smaller but manageable number of competent and committed CSOs (CBOs and GONGOs) for both long-term funding (including organizational overheads) and capacity building (mentoring to improve program quality and financial management). It is important for the country to learn from the experience with previous Global Fund grant programs to enable them to focus more on program quality rather than just the quantity of output.

9. While CBOs have contributed in many ways to the fight against HIV/AIDS but rarely have the extent and specific contribution made have been documented systematically. It is important for both CBOs development and the country's national response to HIV/AIDS to have such strategic information readily available to maximize civil society's contribution to the fight against

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

HIV/AIDS.

10. CBOs have in the past been limited by the lack of registration mechanism within the country's current administrative system. However there are already signs the Government was moving to relax registration requirements creating more space for CBOs in social development[81].

11. Thus with a more manageable number of CBOs, mentoring-oriented capacity building, improved program quality, documented impact and more streamlined CBOs registration process, CBOs would contribute even more to China's response to HIV/AIDS in the long run.

Strengthening PR capacity to analyse M&E data at provincial levels

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

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

13. The Multi Drug Resistant Tuberculosis (MDR-TB) program components such as human resources structures, treatment and diagnostic capacities were weak and required well-planned human resources and capacity building support. At the early stage of Single Stream Funding (SSF) grant implementation, SSF grant Program Office (PO) hired dedicated staff for managing MDR-TB program at all levels from national to county levels. The better approach, however, could be hiring these staff through NCTB (National Center for Tuberculosis Control and Prevention). Actually, the fragility of this approach was evident when Global Fund suspended funding in 2011 when many of those staff left creating significant challenges to program implementation, even though the scope of activities was significantly reduced under.

14. In parallel to the SSF grant PO staff, there were limited numbers of NCTB staff members responsible for MDR-TB program activities. The OIG observed that in the field, the roles and responsibilities of PO and NCTB staff were not clearly defined. The SSF grant PO developed the training plan for scaling up MDR-TB program, focusing on both clinical (lab diagnosis, treatment) and management (program management, M&E) aspects of the program. However a number of shortcomings were observed by the OIG. Namely, there was no comprehensive training needs assessment conducted, objectives, learning outcomes, training methodology were not well elaborated. Most importantly it did not include a financial gap analysis to make sure that the Government covers the needs beyond what is covered by SSF grant.

[81] "NGOs get more leeway in Guangzhou" China Daily (25 Nov 2011) - http://www.chinadaily.com.cn/china/2011-11/25/content_14158553.htm

15. Implementation of Global Fund consolidated Rolling Continuation Channel (RCC) program started in January 2010, which integrates all of the Global Fund HIV/AIDS programs (Rounds 3, 4, 5, 6 and 8) in China. The program had an ambitious goal to scale up HIV/AIDS prevention, treatment and care in China to achieve universal access for Most-at-Risk Populations (MARPs) and People Living with HIV/AIDS (PLHIV).

16. Taking into account that each of these grants were targeting specific MARPs on a limited regional basis, and the majority of these populations had not been reached nationwide outside specific regions, the RCC program had been designed to implement relevant strategies and activities. Furthermore, there was significant progress in rolling out some interventions such as Methadone Maintenance Therapy (MMT), Prevention of Mother-to-Child Transmission (PMTCT) and Anti-Retroviral Therapy (ART). However, there were several components of the program including supporting policy environment and quality of services for HIV prevention, treatment and care that needed to be improved to accomplish the RCC program objectives and anticipated results.

Limitations of the policy and funding for access to the treatment and care on ARV

What were the risks related to the HIV program?

17. National insurance coverage was limited for PLHIV, particularly outpatient services and tests. Hence although ART was free, PLHIV still had to pay user fees for many laboratory tests such as complete blood count and biochemistry as well as for treatments such as OIs and side effects. Some of these could be quite costly, particularly for the poor in the rural areas. This therefore poses a considerable risk to treatment adherence as well as achieving good outcomes of ARV treatment.
It is encouraging that the national insurance scheme was running a pilot to increase benefit level for OIs[82]. A successful pilot would be extremely important in the enhancement of ARV treatment outcomes for the country in the future.

Utilization of Voluntary Counselling and Testing (VCT) services, particularly by MARPs at local level

18. The number of clients receiving voluntary counselling and testing in the health facilities and centers at district-level CDCs and Sexually Transmitted Infection centers visited by the OIG at province and county levels (Province: Guizhou and Henan; County: Xingyi and Xingmi) was very low. The OIG noted that PLHIV were not eligible to get health certificates which often requires a negative HIV test result, does significantly hindering their chances of employment[83]. This was particularly critical for migrant population, who were usually not eligible for health and social benefits provided by the local governments. This, taken together with HIV-associated severe stigma, may significantly contribute to fear and unwillingness among MARPs to get tested for HIV. Weak CSO response, including inconsistent quality of outreach and counselling provided by CBOs and GONGOs as described above, may also contribute to underutilization of Voluntary Counselling Testing.

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

83 The OIG interview (1 December 2011) with Xingyi STD center (AIDS program site), ART clinic, at Guizhou province.

Quality of treatment, care , support and secondary prevention services to PLHIV

19. The OIG observed that PLHIV often started treatment late, which was related to a number of factors including delay in diagnosis due to fear of stigma and discrimination among MARPs related to HIV positive status and thus low utilization of VCT service as well as poor knowledge among health care providers to suspect and test for HIV infection. At the local level, clinical monitoring was not done according to the national protocol on treatment related laboratory testing for biochemistry and haematology; not enough consideration was given by health care providers to ART failure and there were also some limitations in sample transportation from county to province level for viral load testing. The OIG observed that there was a weak management practice for laboratory network at local level.

20. Treatment of OIs including Isoniazid Preventive Treatment (IPT) was inadequate as only Co-trimoxazole (CTX) was available at ART sites visited by the OIG, but it was not prescribed to eligible patients. As for IPT, it was largely missing due to the fact it was not part of national treatment policy. While great need for psychosocial support among PLHIV exists, the OIG did not find adequate support being provided. There were few or no CSOs or self-support groups funded by the RCC grant or state/municipal budget to provide such support to PLHIV at local level. There was also increasing evidence of HIV drug resistance in the country[84], whereas there was a serious limitation in the second line ARV treatment mainly due to unavailability of second line ARV drugs as noted in the PSM section above.

Improving M&E of national responses to HIV

21. A national HIV M&E plan was still pending as it was waiting for endorsed national HIV action plan for 2011-2015. The M&E plan in use from 2007 is a more general framework, and it does not present enough details on indicators, data management systems, data quality assurance mechanisms, standard format of data analysis, dissemination and use for decision making, timeframes for planned surveys, program evaluations, national program reviews and operations research. It did not include a costed implementation plan and operational manual. These shortcomings were identified through a comprehensive assessment of Chinese HIV monitoring and evaluation system which was conducted in 2009.

22. The RCC grant M&E plan had not been finalized as it was waiting for completion of the national HIV M&E plan. While reviewing the draft RCC M&E plan, the OIG observed that MARPs indicators were not well defined and required further elaboration to be aligned with the existing national M&E plan 2007, which defines MARPs indicators appropriately[85],. There were some methodological limitations in HIV surveillance guidelines on Injecting Drug User/IDU definition, sampling among IDUs and MARPs size estimation methods.

[84] Surveillance carried out in the seven Round 3 provinces in 2007 found high prevalence of drug-resistant mutations (24%), China RCC program proposal, 2008

[85] The PR stated that the current indicator set for MARPs intervention is a consensus reached from rounds of detailed discussions with the Global Fund Secretariat in terms of the accountability, availability and timeliness of data collection and analysis. It has been proved effective throughout the implementation over the resumption of RCC program.

23. The OIG also observed that HIV M&E data was not adequately used for decision making at local level. For instance, targets for MARPs was mainly set at a province level, whereas NCAIDS or RCC program staff at county level were not involved in the planning process and had poor understanding of the data used for decision making.

Tuberculosis Grant Risks, Improving National Response and Quality of Services

24. SSF program implementation started in July 2010 by incorporating Round 9 TB-HSS, Round 4 RCC, Round 5, and Round 7 grants into a single framework and by covering all 31 provinces. As the country has already achieved universal coverage with DOTS strategy, SSF program is striving towards more comprehensive TB control, namely: by improving the quality of basic DOTS, introducing and scaling up the enhanced model of programmatic management of MDR-TB, improving TB control among migrant population, and strengthening collaboration between TB and HIV programs. All this components are critical and require significant effort for successful implementation. However, introducing and scaling up of the MDR-TB program seems to be the most ambitious task, requiring development and putting in place proper national policies and guidelines as well as strengthening human resource capacity at all levels including on clinical aspects of MDR-TB and program management, which is a huge effort considering the size of country and target groups to be covered by training.

25. There were a number of critical components that were either missing or required significant improvement for successful TB control in China. For instance there was no MDR-TB program implemented in prisons; there was a lack of adequate regulation of Second Line Drugs which result in the creation of MDR/XDR-TB; and infection control in TB facilities was not adequate. Taken together if not addressed, it would be difficult to attain one of the main goals of SSF program of reducing the morbidity and mortality from MDR-TB in China.

What were the risks related to TB Program?

National MDR-TB strategy

26. The China national MDR-TB action plan was still under development and the draft was also not available for review by the OIG. Similarly, the MDR-TB action plans at province level were not available for review by the OIG. Taking into account considerable scope of activities of SSF program to introduce and scale up MDR-TB program nationwide as well as overall level of the needed effort, there is need for well-coordinated planning and implementation work, which can be hardly achieved without proper guidance provided by the national action plan.

MDR-TB program in prisons

27. MDR-TB program was not in place in prisons, which poses significant risk to MDR-TB control in the country. The data on MDR-TB epidemiology among prisoners was lacking in China. Taking into account that China had the second largest MDR-TB burden in the world[86] as well as internationally accepted approach urging all high burden countries to achieve universal access to diagnosis and treatment of MDR-TB by means of developing a comprehensive framework for management and care of MDR-TB among

[86] WHO 2011: "Global TB Control Report 2011 – Annex 3: Table A3.7 testing for MDR-TB and number of confirmed cases of MDR-TB, 2005-2010 (p242)"

vulnerable groups such as prisoners[87] it was not clear why SSF program did not plan for MDR-TB program implementation in prisons.

Two units under Ministry of Justice, Prison Management Bureau and Re-education Center Management Bureau have been involved in SSF program as SRs beyond China CDC system. However there were no definitive plans in terms of introducing MDR-TB program in prisons. On the other hand, SSF grant could provide good opportunity and help NCTB to design and implement the pilot in selected prisons/provinces.

Policy and funding for anti TB treatment

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

29. It is encouraging that the national insurance scheme was running a pilot to increase benefit level for MDR-TB88. A successful pilot would be extremely important in the enhancement of MDR-TB treatment outcome for the country in the future.

Improving infection control in TB facilities

30. While visiting selected infectious disease hospitals in the field, the OIG observed that the existing practice of hospitalization of TB/MDR-TB patients as well as TB suspected patients poses significant risk to intra-hospital TB/MDR-TB transmission. Although criteria for hospitalization of TB patients had been included in the Implementation Guidelines for Nation TB Control Program developed by NCTB in 2008, this guideline was not strictly followed as the OIG observed that mostly TB patients or even TB suspects were hospitalized. However according to the national policy MDR-TB patients were eligible for inpatient treatment and "only TB patients with complications" can be hospitalized.

31. There was a national policy on TB infection control; however challenges exist with implementation at facility level. The OIG observed shortage of personal protective equipment such as respirators at visited facilities. Though some clinical staff were trained in TB infection control, there was no good understanding of the training needs for all hospital staff.

What are the risks related to the Malaria program?

Malaria Grant- Improving National Response and Quality of Services

32. All malaria-related activities implemented in China had been consolidated into the Malaria "single-stream" agreement through the NSA starting from mid June 2010. The Round 6 grant contained a significant number of activities implemented by an international NGO-SR (Health Unlimited) in four Special Regions of Myanmar, overseen by the Chinese

[87] M/XDR-TB 2010 Global report on Surveillance and Response. Annex 1: Sixty-Second World Health Assembly Resolution WHA62.15 - Prevention and control of multidrug-resistant tuberculosis and extensively drug-resistant tuberculosis.

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

authorities from within Yunnan province, across the border (and with China CDC as PR). This component of the grant was maintained as "standalone" agreement due to its specific geographical scope and because it could not be considered constitutive of China's "national" malaria strategy. However malaria control activities in areas bordering Yunnan, due to the high number of border-crossers, are considered essential to malaria elimination strategies in China.

33. The Round 6 agreement was due to expire in July 2012 and the Round 10 agreement was the continuation and expansion to an additional Special Region of the Round 6 grant. Although the Round 10 agreement started on 1 January 2012, the two grants have not been consolidated, considering that the overlap period is only six months. The Phase 1 of Round 10 amount is approximately USD 5 million.

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

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

35. The OIG also noted that doctors in remote villages visited were not trained yet in Rapid Diagnostic Test (RDT) and anti-malaria treatment. As village doctors in the past performed only the observation of the patients taking anti-malarial drugs and not trained in prescribing and storing anti-malarial drugs, the arrival of RDT requires that they be trained in both using RDT and prescribing and storing anti-malarial drugs.

Counterfeit or sub-standard anti-malarial drugs

36. China has been part of the regional Mekong Roll Back Malaria Initiative to combat the disease since 1999, including participating in joint-investigation and prosecution of counterfeit drug manufacturing facilities in China[89]. The availability of counterfeit or sub-standard (with less active ingredients) drugs in Myanmar may potentially lead to drug-resistant strains in the border region where many of "non-immune" Chinese migrant workers from Yunnan go for logging and mining work and return to Yunnan. This represents significant drug resistance risks for Yunnan.

[89] WHO 2010 "Malaria in the Greater Mekong Sub-Region: Regional and Country Profiles" p.10.

F: Recommendations and Management Action Plan

A. China Country Coordinating Mechanism

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
<u>Transition of Global Fund grants</u> There is a risk the Government may not have enough time to plan and budget for the funding gap after Global Fund grants close.	<u>Recommendation 1</u> To ease the transition, the CCM should: a) Support the Government's plan to include Global Fund phase 2 budget in the Government's national health budget; and b) For the NSA-based SSF Malaria grant and the RCC-HIV grant, consider the possibility for up to one-year of transition funding for the next implementation period (phase 2).	<u>Secretariat: Agreed with comments</u> a) The appropriation discussions between the ministries of Health and Finance are on-going and the Secretariat has a limited, if any, leverage or role in that discussion. **b)** The CCM has declined requesting the additional year of funding it is entitled to for its RCC-HIV and NSA malaria grants and the decision is irreversible. The CCM will consider over summer whether to consider a no-cost extension for the RCC Program.		CCM	
<u>Sustainability of CCM</u> There is a risk that the role of the CCM may not be sustained after the closure of	<u>Recommendation 2</u> The Global Fund Secretariat should engage with the CCM and assess the impact of the grant closure and evaluate the future CCM strategy. The discussions	<u>Secretariat: Agreed</u> The Secretariat is already engaged with the CCM and particularly with UNAIDS on the need to sustain the CCM structure in one form or the other after grant closure. However, once the entire portfolio is closed,		Secretariat and CCM	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
the Global Fund grants.	could include the following: a) Engaging with the Ministry of Health to develop a transition plan including the commitment of funds to bridge the funding gap; b) Exploring possibilities of future collaboration with the Global Fund; c)Identifying a suitable structure to continue being involved in the 3 disease programs; and d) Exploring other innovative oversight mechanisms based on country context, such as Provincial level oversight committee.	the leverage of the Global Fund in that domain will be obviously limited			
<u>CBOs funding and service quality</u> There is a risk that the CBOs funding and service quality may not be sustained after Global Fund grants end.	<u>Recommendation 3</u> a) The CCM should endorse the 2012 CBOs funding mechanism and mentoring plans to ensure a strong focus on program quality. b) The PR should implement the 2012 CBOs funding and mentoring plans once they are endorsed by CCM.	<u>Secretariat: Agreed</u> The CCM recommended an amount of USD 18.1 million for CBOs in late April 2012 which was approved by the Secretariat on 8 May 2012. A CBO-SR capacity gap analysis was conducted by the LFA in May 2012 based on which a capacity building plan will be completed within three months. The CCM will monitor the CBOs contributions to the country's HIV response. The ministries of	<u>PR: Agreed.</u> The CBO-SR capacity building plan has also been approved by the Secretariat on 5 Sept. 2012, which is being well implemented. And to improve service quality of CBOs, PR has already developed a guideline on HIV/AIDS prevention and care for CBOs.	CCM PR	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	c) The CCM should monitor the CBOs contributions to the country's HIV response. d) The CCM should advocate for the government to register and to provide long-term funding support for CBOs.	Health and of Finance are currently discussing the future appropriation of funding by the Government of China for CBOs.			

B. Local Fund Agent – United Nations for Project Services - Beijing

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
LFA Human Resource capacity There is a risk that the LFA may not adequately monitor the grants due to inadequate human resource capacity	Recommendation 1 The Global Fund Secretariat should ensure that the LFA: a) Conducts gap analysis between its current capacity verses the expected roles and responsibilities in the context of current risk environment, and develop a comprehensive human resource plan in response that includes clearly identified number of permanent and part-time staff and consultants that will be assigned to China portfolio. b) Realistically evaluate the volume of portfolios/ countries assigned to its CCT QA experts to avoid their expertise being too thinly spread across the countries. Roles and responsibilities of CCT QA experts in PR assessment, PUDR/EFR, OSDV, PSM verification, PSM assessments, M&E reviews should be clearly defined.	Secretariat: Agreed The LFA contract for China was retendered in May 2012 and UNOPS was successful again considering that firms such as KPMG and PWC did not apply. In addition: a) The LFA was reconfigured and is now composed of 13 qualified staff, five of them with a focus on financial matters. b) This has been done and Sudir Muralidharan is now the CCT focal point for China.		LFA	
PU/DR reviews There is a risk of late detection of risks, errors and	Recommendation 2 The PR should submit the PU/DR to the LFA on time and the LFA should then review and submit to the Secretariat on time.	Secretariat: Agreed	PR: With the consolidation of three diseases	PR	

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
irregularities due to delays in review of PU/DRs			grants since 2010 which covered all the provinces and over 2800 counties, the situation has changed greatly. PR strongly recommends extending the deadline for the submission of PU/DRs from current 45 days to maximum 90 days, similar with the NSA malaria grant.	LFA	
<u>LFA recommendations</u> There is a risk that appropriate corrective measures	<u>Recommendations 3</u> The Global Fund Secretariat should review all LFA recommendations and ensure that: a) They are cost effective and supported by detailed analysis and clear description of cause and effect of the issues	<u>Secretariat: Agreed.</u>		Secretariat	

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
may not be taken due to weak or inappropriate recommendations by the LFA.	identified; b) The findings and recommendations are shared with auditees for confirmation of facts and clarification of responses to issues raised; c) There is acceptance and buy-in by the auditees to recommendations to increase chances of implementation; and d) Periodic follow-up on the implementation status is done and reported to the Secretariat.				
<u>Emerging risks</u> There is a risk that emerging risks may materialize due to lack of proactive identification, analysis and reporting by the LFA.	<u>Recommendation 4</u> The Global Fund Secretariat should ensure that the LFA: a) Periodically review and provide analytical comment to Secretariat on the SR external Audit reports; b) Recommends risk mitigating measures that are Specific, Measurable, Attainable and Timely; c) Proactively provide support to the PR in implementing recommendations from external audits, assessments and its reviews; d) Strengthens review procedures to timely detect and report inaccuracies in the financial reports submitted by the PR; and e) Increase focus in reviewing at all levels (provincial, prefecture and county) of sub-recipients' Financial	<u>Secretariat: Agreed with comments</u> We agree with the OIG on this recommendation. However, the National Audit Office of the People's Republic of China was requested but declined to conduct the audit of the PR and SR financial statements moving forward.		LFA	

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	Management framework.				
<u>Enhanced Field Level Financial Verification 2012</u> There is a risk that the EFLFV may not effectively mitigate identified LFA weaknesses	<u>Recommendation 5</u> The Global Fund Secretariat should ensure that: a) The new LFA ToR and future Work Order adequately addresses country specific risk in light of the OIG diagnostic review. In consultation with the secretariat country team, LFA should develop a follow-up plan for the risks identified and related recommendation made by the OIG. b) The, LFA should: i. Expand the scope of EFLFV by including transaction samples from Round based grants (merged) and active grants prior to Q4 2011, taking into consideration the cost-benefit analysis; ii. Include assessment of SR's oversight mechanism in provinces and counties; iii. Merge financial spot check activities with proposed EFLFV and include higher samples for substantive testing; iv. Comprehensively describe the methodology for selecting sample locations (Provinces, Prefecture and County) and the sample size at each location;	<u>Secretariat: Agreed</u> This was recently discussed with UNOPS for inclusion in the 2012 work order but the Secretariat questions the utility and feasibility of including transaction samples from Round-based grants (merged) and active grants prior to Q4 2011, especially for grants closing by 30 June 2012. As a caveat, the Secretariat would like to know from UNOPS first what could be the budgetary implications of such a comprehensive exercise before agreeing fully to the overall recommendation.		Secretariat LFA	

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	v. Comprehensively describe methodology to identify the risks at the sub-recipient levels to be covered, indicate the number of SSR (Provinces/Cities) and SSSR (Counties), focused on high risk; and vi. Work out estimated level of efforts required per quarter and submit to Global Fund secretariat. c) The LFA follow-up on the implementation status of recommendations from the external audits of PR and SRs. This should ideally be completed before the start of the next external audit so that comparative analysis could be undertaken with the new recommendations to identify improvements and weaknesses. d) LFA should focus in facilitating closure of key Management Letter issues to which the OIG has input; especially cash balance reconciliation, foreign exchange accounting, fixed asset management and expenditure mapping. In the event of third party being contracted for these issues, LFA should play an important role by providing relevant background information, technical guidance and maintaining effective communication with PR, China CCM, Secretariat country team and contracted consultants. e) In light of the recent Board decision for Global Fund funding phase out from China, the LFA should, in consultation with Secretariat country team, develop a grant	c) It may be difficult for the LFA to make a comparative analysis since the National Audit Office of China of the People's Republic of China declined recently to conduct the 2012 audits considering we are already in			

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	closure action plan.	June 2012. d) UNOPS has sub-contracted PWC to start work on the cash balances pre-consolidation as per the TORs agreed between the PR, UNOPS and the Secretariat. The TORs include the description of the methodology to be followed including the agreed cut-off date (31/12/2012) and the sampling modus-operandi. e) Grant closure plans were developed for the NSA and Rounds 6 grants by the PR and were reviewed by the LFA. It is still too premature to develop such closure plans for the RCC-HIV and TB-SSF grants.			
Communication with in-country partners There is a risk that ineffective	Recommendation 6 The Global Fund Secretariat should ensure that: a) LFA develops a communication plan for providing periodic updates to the China CCM through the Secretariat about	Secretariat: Agreed The Secretariat has already requested the LFA to brief development partners about		LFA	

Risks Identified	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
communication with in-country partners could impair the effectiveness of the LFA.	latest developments, its key assessment outcomes and Global Fund grant risk environment; and b) LFA identifies key development partners that are relevant for Global Fund grant programs and establish periodic communication so as to benefit the grants from their expertise and suggestions.	important decisions or developments.			

C. Principal Recipient: Chinese Centre for Disease Control and Prevention (China CDC)

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	FINANCIAL MANAGEMENT				
External audit scope Inadequate scope of external audits poses the risk of false assurance.	Recommendation 1 The PR should: (a) Evaluate the need and scope of re-work for the 2010 external audit, taking into consideration the work being performed by other external consultants such as verification of foreign exchange rates by PWC or even the 2011 external audit. (b) Review the scope and terms of reference for the external audits and also engage the relevant government agency to facilitate the appointment of the China National Audit Office (CNAO) as the external auditor for the Global Fund grants in China. (c) Ensure improvement of the external audits at Provincial level and below by appointment of CNAO for the Global Fund grants. (d) Promote a risk-based audit approach for optimum use of audit resources. (e) Based on the results of negotiation with the CNAO and the approach for grant audit, re-assess the requirement for additional budget, if any, to ensure comprehensive	Secretariat: Agreed with comments a) The Secretariat is of the opinion that there is little value in re-working the 2010 audit gaps but that the external auditors should focus on auditing promptly the 2011 financial statements now that the NACO declined to audit the portfolio. b)-e) A team from the Secretariat met with the National Audit Office of the People's Republic of China on 15 April 2012 in Beijing and agreed on the scope of the audit to be performed this year and on the format to be used - which is similar to that used to audit the World Bank and the	PR: Agreed. 1) PR will continue to work closely with the Secretariat to find a solution to complete the Y2011 audit ASAP. 2) PR developed the Y2012 internal audit plan on the risk-based approach, which was approved by the Secretariat and being implemented as scheduled.	Secretariat PR	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	external audits at provincial level and below.	Asian Development Bank foreign loans to China. The agreement was formalized by the exchange of a letter in May 2012. However, in late June the CNAO surprisingly declined to audit the Global Fund grants because of the workload it entails. This also applies to the audit in 2013 of the 2012 Financial Statements.			
Submission of SR external audit reports Non submission of SR external audit reports to LFA poses the risk of weak understanding of financial performance of grant programs at the SR level	Recommendation 2 The PR should submit the SRs' audit reports to the LFA and Secretariat as required.	Secretariat: Agreed	PR: Agreed. All the SRs' Audit reports of Y2011 have been provided to the LFA.	PR	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
Internal Audit scope The internal audit plan and coverage was not adequate for the complex operating environment of the PR and the risks associated with managing the Global Fund grants.	Recommendation 3 The PR's internal audit function should: *a)* Develop a comprehensive risk-based Internal Audit plan for 2012 categorizing the locations as 'High'/ 'Medium'/ 'Low' risks and ensure coverage of all the 'High' risk locations on an annual basis. *b)* Update the regulations on internal audit to include guidelines on audit planning, sampling methodology and comprehensive audit programs clearly indicating risks and expected controls to facilitate internal audit reviews in the field.	Secretariat: Agreed with comments a) This was discussed with the PR in April 2012 in Beijing. b) It may be difficult or unnecessary from the PR's point of view to update its guidelines just a few months before the withdrawal of the Global Fund funding	PR: Agreed with the Secretariat.	PR	
Budget monitoring There is a risk of overspending due to inadequate recording and monitoring of expenses against budget.	Recommendation 4 The PR should: *a)* Explore different options for recording and reporting of expenses at 'Activity' level depending on the nature of accounting system in use. *b)* Provide the necessary training, either through web-based modules or on-site, on the required changes for recording and reporting of expenses at activity level. *c)* Define and communicate to all levels the responsibility for	Secretariat: Agreed	PR: 1) PR has started the recording and reporting of expenses at 'Activity' level (only at national level) since 2012. 2) If all the SRs, SSRs, and SSSRs should also do so, it will be a long-term	PR	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
	performing budget vs. actual expense analysis at 'Activity' level and variance explanations, if any; and *d)* Obtain prior approval from the secretariat for budget overruns exceeding 10% of SDA line item budget. Budget overruns within 10% of the SDA line item budget should be reported in the PU/DR to facilitate review by the LFA and the Secretariat.		project with huge budgetary implications. PR will further communicate this with the Secretariat.		
Work-plan and budget There is a risk of non-achievement of objectives due to mismatch between Global Fund approved Work-plan & Budget (WPB) and the budget used by the PRs/SRs	Recommendation 5 The PR should: *a)* Review the provincial level budget and ensure consistency with the Global Fund approved budget; *b)* Clearly define the guidelines relating to approval of budget reallocations and ensure they are followed by the NPOs, SRs and SSRs; and *c)* Provide instructions to the NPOs, SRs and SSRs to explain the above requirements.	Secretariat: Agreed	PR: Agreed. The approval of budget reallocations has already been clearly stated in the Finance Management Manual.	PR	
PU/DRs and EFRs Submission of PU/DR and EFR to	Recommendation 6 The PR should: *a)* Comply with the guidelines for preparing and submitting	Secretariat: Agreed	PR: Agreed. Since 2011, PR has used the method	PR	

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
the Secretariat that do not comply with the Global Fund guidelines relating to preparation and submission of those reports poses the risk of inadequate financial monitoring.	PU/DRs and EFRs especially with respect to the following: i. Exchange rate valid on the date of transaction or average exchange rate during the reporting period should be used to convert the expenditures into the reporting currency; ii. Exchange difference from converting (a) opening cash balance, (b) cash inflows, and (c) expenditures into reporting currency should be considered when calculating total foreign currency gain or loss. Such exchange gain/loss should be reported in the PU/DR; iii. Reporting the disbursements made to SRs using the exchange rate on the date of transferring the funds from foreign currency bank account to CNY bank account. *b)* Perform a comprehensive review of the PU/DR and EFRs and reconciliation with the accounting records before submission. Evidence of review should be documented; *c)* Define timelines for internal reviews of PU/DR and EFR by NPO and internal audit unit to avoid delays in submissions; and *d)* Prepare a reporting calendar to monitor submission of financial reports. Delays beyond defined timelines should be reviewed and escalated to the designated authority for follow-up.		(same as the OIG's recommended) to convert the different currencies when preparing the PUDRs/EFRs.		

Risks	Recommendation(s)	Comments and Agreed Actions		Responsible Party	Due Date
		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
Cash forecasting and disbursements There is a risk of over disbursement due to insufficient evidence-based cash forecasting for disbursement requests.	Recommendation 7 The PR should prepare a detailed breakdown of "catch-up" activities (at SDA level) are maintained at all locations and reported accurately in the PU/DR. These should be provided to the LFA upon request.	Secretariat: Agreed This is now being implemented for the disbursements currently being reviewed by the Secretariat which has now at its disposal the completed list of catch-up activities for each disbursement. Catch-up activities are now reviewed in detail by the LFA and by the Secretariat.	PR: Agreed.	PR	
Opening cash balances There is a risk that cash balances reported are incorrect due to inability to confirm the opening cash balances for consolidated grants	Recommendation 8 The PR should perform the following steps to compute the correct opening cash balance for the consolidated grants: *(a)* Agree with the Secretariat the 'Cut-off Date' of 31 December 2011 and report the cash balance as on the 'cut-off'; *(b)* Compute the correct cash balances on the 'cut-off date' by making following adjustments from the cash balance reported for each grant at the time of consolidation: i. **Deduct:** Actual expenses (which were shown as	Secretariat: Agreed with comments The cut-off date has been agreed as 31 December 2011. If some accounts payables are related to contracts that go over 31/12/2011 (operational research for example), then those should be payable after 31 December 2012, when	PR: Agreed. The anomalies mainly came from the different understanding on the cut-off date for cash balance (TB grants) and cash-based or accrual-based	PR	

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(RCC, SSF and NSA)	Accounts Payable) incurred under round based grants from date of consolidation to the cut-off date; ii. **Add**: Actual receipts from Accounts Receivable (AR) reported as on the date of consolidation; and iii. **Add**: Unspent balance of PR management fee of USD 293,910 (CNY 1,998,588) relating to round based grants. *(c)* Identify account receivables (AR) still recoverable as on the cut-off date. *(d)* Report breakdown for point (b) & (c) separately *(e)* Agree with the Secretariat the detailed Terms of Reference and guidelines for appointing an external consultant to do substantive verification of cash balance on a sample basis as follows: i. Verify bank statement and bank books/ledgers; ii. Verify expenses adjusted from the cash balance after the date of consolidation; and iii. Verify AR recovered and AR outstanding as on the cut-off date.	properly documented	reporting		
<u>Commingling of funds</u> Commingling of funds and weak controls over the	<u>Recommendation 9</u> The PR should: *a)* Engage with the Ministry of Finance to allow at least the PR, NPOs and SRs (provinces) implementing the Global	**S**<u>ecretariat: Agreed with comments</u> The likelihood of having the Ministry of Finance agree to open separate banks account	<u>PR: Agreed.</u> 1) PR, NPOs and SRs have already opened dedicated GF grant bank accounts to	PR	

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bank reconciliations poses the risk of use of Global Fund grant funds on non-grant activities.	Fund grants to maintain dedicated Global Fund grants bank accounts for each disease; *b)* Ensure the allocation of interest income among Grants on the basis of average bank balance instead of period end balance. *c)* Reinforce at all levels, preparation and documentation of the bank reconciliations on a monthly basis and reviews are performed by an independent person.	per disease just a few months before the Global Fund withdrawal is very slim.	safeguard the grant funds. And PR submitted the request for opening bank accounts for each disease to the Ministry of Finance in late April, which is being under approval. 2) The interest income has been allocated to different grants as recommended by the OIG. 3) The bank reconciliation has been clearly stated in the Financial Management Manual. PR will continue to strengthen this work,		

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			including at SR/SSR/SSSR levels.		
Errors in expenses and financial reports There is a risk of inaccurate financial statements due to errors in expense recording and financial reports submitted by the sub-recipients.	Recommendation 10 The PR should: *a)* Ensure an independent person verifies accuracy of financial reports and books of accounts prior to submission. Evidence of review should be documented; *b)* Ensure the SRs report expenses for preparation of PU/DR using cash basis of accounting; and *c)* Ensures expenses are correctly and timely recorded in the cost categories and SDAs. *d)* Explore the possibility of integrating 'Financial Reporting System' with the 'Financial Accounting Software' to reduce manual efforts at all levels.	Secretariat: Agreed	PR: Agreed. Since 2011, the expenses in the PUDR have been reported on cash basis. And this is also a key component to be verified during PR's audit and financial spot check.	PR	
Supporting documents There are risks arising from expenses which are not adequately supported.	Recommendation 11 The PR should strengthen controls over expenses charged to the Global Fund grants by : *(a)* Maintaining adequate supporting documents of expenses at each location. For example: i. Patient charges should be supported with patient's signature on the register; Acknowledgement from the	Secretariat: Agreed The Secretariat will work with the LFA to confirm whether or not the expenditures identified in the OIG sample are inadequately supported before requesting the Legal and	PR: 1) Following the Financial Management Manual, all the expenses should be supported by the	PR	

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	doctor for cash payments of allowances and Master list of patient to track the treatment status; ii. Training and meeting expenses should be supported with daily attendance sheet. *(b)* Stamping "PAID" or cancelling the supporting documents to avoid duplicate processing. *(c)* Making payments to vendor after confirmation of delivery of goods. *(d)* Defining and documenting the rationale for allocating common costs charged to the Global Fund grants. *(e)* Further analysing the expenditure already incurred to establish whether there are other unsupported costs. The Secretariat, with the LFA should ensure that all expenses charged to the grant are in line with the approved work-plans unless otherwise approved by the Secretariat. If the Secretariat working with the LFA confirm that the expenditure identified in the OIG sample is inadequately supported, appropriate recoveries should be made.	Compliance Department to provide comments to the OIG as to whether the Global Fund is entitled to make a claim for recovery	original copy of relevant documents. But for the procurement/service contract, PR will make the payment in accord with the contract, generally including first and second payments. PR will stamp 'PAID' on the payment vouchers instead of the supporting documents. 2) For most of the contracts, once they are singed, the first payment will be made. This is a common practice.		
Alignment of disbursements and	Recommendation 12 The PR should:	Secretariat: Agreed	PR: This is a very good	PR	

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<u>implementation</u> There is a risk that the disbursements of funds to the SRs/SSRs/SSSRs are not aligned with programmatic performance.	*(a)* Require the NPOs and SRs to perform and document joint review of financial and programmatic reports by Finance and Program Teams; and *(b)* Make disbursement to SRs/SSRs/SSSRs based on submission of a fund requests along with the fund utilization report. SRs/SSRs/SSSRs should submit the fund request considering future projected activities of the disbursement period, catch up activities and unspent cash balance as on the last date of previous disbursement period. The PR should ensure that disbursements are not made prior to liquidation of previous advances.		suggestion. And it's also a must requirement to meet the Global Fund's principle of Performance-based Funding. But it's nearly infeasible in reality as the grants have wide coverage of over 31 provinces and over 2800 counties. It's impossible for PR to collect this information with the verification at all levels and submit the reports within 45 days after the ending of reporting period. Secondly, the imbalance of capacity between different SRs/SSRs/SSSRs		

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			poses a great challenge for this. And failure by even one county (SSSR level) to provide the report, the PR will not be able to submit the PUDR to the Secretariat/LFA.		
Sub-recipient financial monitoring Inadequate financial monitoring of SRs/SSRs/SSSRs may adversely affect program implementation.	Recommendation 13 *a)* The PR/SR/SSR should prepare a financial monitoring plan based on the following: i. Financial monitoring guidelines prescribed as per the Finance Manual; ii. Risk assessment and internal audit plan prepared by the CDC Internal Audit team; iii. Number of financial monitoring visits required as per the Global Fund approved budget; and iv. Financial monitoring plan should provide details relating to frequency, team composition and coverage. *b)* NCAIDS should reconsider the M&E plan for year 2012 and the staff requirement. Approval should be sought from the Secretariat to hire new M&E staff, if not budgeted.	Secretariat: Agreed	PR: During 2007-2011, PR financial department conducted 74 site visits to the SRs (7 in 2007, 38 in 2008, 2 in 2009, 2 in 2010 and 25 in 2011). Considering that the PR internal audit department strengthened the audit to the SRs (one audit at least to each	PR	

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	c) The NPO/SR/SSR should use financial monitoring checks mentioned in the Finance Manual for financial monitoring. This checklist should be documented and retained for each financial monitoring visit. *d)* The updated Finance Manual should include guidelines on sample size for expenditure testing during financial monitoring visits. *e)* The PR should ensure the financial monitoring reports are prepared in accordance with the guidelines defined as per the Finance Manual.		province) since 2009, PR financial department changed the strategy with a focus on priority provinces and also increasing the training for SRs, which greatly improved the capacity of financial management at SRs/SSRs level. In 2012, PR will continue to conduct the site visits covering 15% of SRs. And now, PR Financial Dept. is developing the guidelines on sampling. Also, RCC NPO (NCAIDS) has updated M&E plan	NCAIDS NPOs, SRs, SSRs	

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			for Y2012. The monitoring and supervision has been strengthened and being well implemented now.		
<u>Sub-grant agreements</u> There is a risk of non-compliance to grant terms and provisions as they were not replicated in sub-recipient agreements	<u>Recommendation 14</u> The PR should ensure that the terms and provisions of the grant agreement between the PR and the Global Fund are incorporated in the sub-grant agreement between the PR and the SRs. For the active grants, additional clauses should be agreed with the SRs through an addendum to the original sub-grant agreement.	<u>Secretariat: Agreed</u>	<u>PR: Agreed.</u>	PR	
<u>Non-compliance with the PR guidelines</u> There is a risk on of selecting CBOs without implementing	<u>Recommendation 15</u> The CCM and the PR should ensure that CBOs selection is competitive by: *a)* Ensuring compliance with guidelines in respect of composition of application assessment committee; *b)* Ensuring selection of experts through interviews and	<u>Secretariat: Agreed</u> The bidding process was launched and was matched with an impressive response beyond expectations. The process is overseen by the CCM-TWG on HIV and is	<u>PR:</u> PR will explore a feasible system for the selection of experts.	CCM PR	

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capacity, due to non-compliance with PR guidelines for transparent selection.	ranking system; *c)* Making advertisements inviting applications from CBOs in local newspaper or other local media; *d)* Ensuring specific reasons for rejecting applications are documented and approval from management is obtained; *e)* Maintaining documentation for selected as well as rejected applicants; *f)* Avoiding conflict of interest at the time of assessment of applications. Require the members of the assessment committee to sign the Statement of no Conflict of Interest; *g)* Complying with guidelines related to minimum number of reviewers per application; and *h)* Ensuring recommendations of reviewers are implemented.	viewed as fair and transparent			
<u>Implementation of on-site visit recommendations</u> There is a risk of weaknesses not being corrected due to insufficient follow-up and implementation of recommendations	<u>Recommendation 16</u> The PR should ensure that SRs maintain a tracking system to monitor the actions taken to implement the recommendations made by the technical experts during the on-site supervision visits to CBOs.	<u>Secretariat: Agreed</u>	<u>PR: Agreed.</u> A management system to track the activities has been comprised by the CBO-SR/SSRs throughout the country to ensure the program implementation and	PR SRs	

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made during on-site supervision visits to CBOs.			funding security.		
Documentation of CBO expenses There is a risk of ineligible expenses being charged to the grants due to lack of or insufficient supporting documents for expenses incurred by the CBOs.	Recommendation 17 The PR should ensure that the CBOs maintain adequate supporting documentation of their grant expenses.	Secretariat: Agreed	PR: Agreed. The CBO-SR has developed and circulated the "CBO program management manual". PR and CBO-SR will strengthen and standardize the CBO financial management so as to mitigate the mentioned risks at most.	PR CBOs	
	ASSETS MANAGEMENT				
Reconciliation of asset' records	Recommendation 18 The PR should:	Secretariat: Agreed. a) This exercise was	PR: Agreed.		

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There is a risk of loss of grant assets due to un-reconciled differences between Fixed Asset financial records, Fixed Asset Register and the physical count records.	a) Conduct a physical count of assets at all locations and reconcile the financial records, inventory records and physical count records before the annual external Audit for 2011; and b) Perform periodic reconciliations to ensure accuracy of program assets on an on-going basis as required by the Finance Manual.	completed for all grants. b) This is also now being conducted by the PR.		PR	
Asset records There is a risk that incomplete or un-update assets records could result in improper accounting for grant assets.	Recommendation 19 The PR, NPO, SR, SSR and SSSR should: *a)* Ensure that the assets information in the Fixed Assets Management System are reconciled with the accounting system records. *b)* Tag assets with a unique identification code and update FAR on timely basis with all required details; *c)* Maintain consolidated list of fixed assets transferred to SSRs; and *d)* Record assets in accounting records on a timely basis.	Secretariat: Agreed	PR: Agreed.	PR, NPO, SRs, SSRs SSSRs	
	PROCUREMENT AND SUPPLY CHAIN MANAGEMENT				
Co-ordination and oversight of PSM	Recommendation 20	Secretariat: Agreed	PR:		

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activities There is a risk of incurring higher transaction costs along the PSM chain by the NPOs due to inadequate coordination and oversight by the PR's procurement unit.	The PR should ensure that there is adequate segregation of duties in the procurement process, with the co-ordination and oversight role of the procurement Office in CDC being given the required prominence.		According to the requirement of Chinese Procurement Law, the function of planning and procurement should be separated.	PR	
Compliance to approved PSM plans There is a risk of delay or poor implementation of PSM activities due to inadequate clarity on segregation of duties in contract and logistics management procedures in the	Recommendation 21 The PR should: *a)* Update the procurement manual with a section that defines procurement responsibilities in the PR's procurement department, CDC internal audit office and the national program offices to enable it to effectively and efficiently guide PSM activities; and *b)* Review and validate all procurement plans (items/quantities) at start and during the implementation of the grants.	Secretariat: Agreed	PR: Agreed. PR had a workshop in early September to discuss the update of Procurement Manual.	PR CDC	

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PSM manual					
<u>LMIS system</u> There is a risk of overstocks or stock-outs due to a manual paper-based LMIS at base level.	<u>Recommendation 22</u> The CDC should prioritize computerization of inventory management across levels (counties, provinces) to make data useful and practical for decision-making at the central level.	<u>Secretariat: Agreed with comments</u> The computerization of inventory management across levels (counties, provinces) would entail a huge budgetary impact. Whether it is computerized or paper-based, the system is able to capture patient and inventory related information. While it is desirable to have real time information to make decisions, LMIS information submitted monthly or quarterly suffices most of the time in enabling decision making in the supply chain like redistribution, resupply of commodities etc. Quantification is not done perpetually but at agreed points in time and requires not	<u>PR:</u> PR had developed a proposal aiming to establish an internet-based program management information system, which includes the LMIS. This proposal was submitted to the Secretariat for approval on 6 May 2011, but no response was made from the Secretariat.	CCM PR	

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		only LMIS data but HMIS data			
Impact of condom use There is a risk of low value for money on purchase of condoms due to the low quantity compared to target groups and lack of treatment for opportunistic infections.	Recommendation 23 The Global Fund Secretariat should evaluate the proposed re-allocation of condoms budget to purchase of anti-fungal OI drugs to increase survival rates of AIDS patients and for increased impact of Global Fund money in the short time remaining.	Secretariat: Agreed This is a valid concern that the Secretariat will share with the PR	PR: PR will discuss the possibility with the Secretariat.	Secretariat	
Pesticide traceability There is a risk of substandard or fake products which could potentially remain undetected under the 'resistance denominator' due to	Recommendation 24 The PR should ensure that in the Malaria grant: *a)* There is linkage in solicitation of bids and traceability in bids to valid specifications issued by the WHO; *b)* Domestic suppliers of LLIN and insecticides are monitored for compliance to specifications; and *c)* Random quality control monitoring of these supplies are	Secretariat: Agreed The Round 6 and NSA malaria grants closed on 30 June 2012 so this recommendation may not be relevant for Global Fund grant.	PR: This suggestion will be very useful for the CDCs in future procurement.	PR	

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incomplete traceability to WHOPES specification in pesticide procurement.	done in provinces and counties.				
Quality Monitoring System There is a risk of substandard or fake products in the supply chain not being detected at different levels due to lack of quality monitoring system for key health products.	Recommendation 25 The PR should: *a)* Implement a system of random (or targeted) sampling for inspection and Quality Control (of goods in the supply chain). The draft SOP should be reviewed by LFA for implementation; and *b)* Ensure that the laboratory proposed for sampling and testing should be ISO17025 certified and on that basis be recommended to obtain WHO prequalification.	Secretariat: Agreed	PR: Agreed. PR has already developed disease-specific proposal of random sampling for inspection and quality control, which were submitted to the Secretariat and LFA for approval. This exercise will have material budgetary implications.	PR	
Scope to secure lower prices for HIV	Recommendation 26	Secretariat: Agreed	PR:		

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<u>drugs</u> There is a risk that the HIV treatment will not be sustainable in the future or lags behind international standards due to high prices of drugs.	The CCM and PR should: a) Pursue maximum transparency in prices to reflect the real unit cost; b) Ensure more access to TDF and EFV in first line as well as use of fixed dose combination tablets for adults and children whenever possible; and c) Within the limits of national legislation, explore available means to ensure that the lowest possible price for quality assured drugs is achieved ;	In May 29, 2012, China MOH amended its treatment guidelines to replace the use of the more toxic d4T ARVs with the WHO recommended TDF in its first-line ARV regimen	The procurement of 2-nd line ARV drugs is undertaken through open tendering in 2011-2012 through the way of "co-financing" to best complement the national response to treat patients.	CCM PR	
<u>Distribution of HIV drugs</u> There is a risk of not meeting the demand from service providers for fixed dose combinations in the treatment of HIV due to central allocation of drugs instead of need-	<u>Recommendation 27</u> The PR should promote a move from a 'PUSH" to "PULL" supply system for ARVs through: *a)* Implementing an integrated (computerized) inventory management system across CDC levels; able to generate on-line reporting per level in supply chain as systematic input for forecasting; *b)* Centrally keeping buffer stocks of imported life-saving medicines such as ARVs; and *c)* Actively promoting a more national standardization of HIV regimes across provinces (standard treatment guidelines).	<u>Secretariat: Agreed</u> There may be little time left to implement such a recommendation.	<u>PR:</u> The distribution of ARV drugs is based on the local application made on a quarterly basis in terms of remaining stock, expected consumption in the next quarter and with certain proportion of buffer. This is a	PR	

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based requisition.			process of "bottom up" to response the real need to prevent overstock and stock-out. Currently, a computerized LIMS system is being developed and will be finalized to function.		
<u>Second Line TB drugs</u> There is a risk of overstocks and also stock-outs of the costly second line TB drugs (SLD) due to long lead times and the procured quantities that were not supported by	<u>Recommendation 28</u> The PR should ensure that: *a)* The tools and implementation of (rapid) MDR TB diagnosis in (all) provinces is accelerated; *b)* The SLD supply chain is strengthened and the lead-time is stabilized with a sole supplier, to better predict availability of the right stocks of the right drugs to support treatment plans including using 'treatment kits' as count unit; and *c)* Current stocks between provinces are rationalized based on patient numbers and defined treatment protocols.	<u>Secretariat: Agreed</u>	<u>PR:</u> The plan for forecasting and procurement of the last batch has been submitted on 1 August and the forecast is dependent primarily on the enrolment patient numbers on PMDT PR will develop the	PR	

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evidence-based drug selection and DST-based treatment protocols.			drug expired early warning and inter-province and provincial allocation mechanism to prevent short apply and out-of-date drugs.		
	PROCUREMENT OF NON-HEALTH PRODUCTS				
Selection of vendors There is a risk of not achieving value for money due lack of competitive procedures for selection of private bidding agents.	Recommendation 29 The PR should ensure that: *a)* Justifications for inviting quotations specific brands or single sourcing are documented at all levels; *b)* CDC define policy and procedures, including tendering method for hiring of bidding agents; *c)* Rationale for selecting the government empanelled vendors is defined and documented; and *d)* SR/SSR/SSSRs adopt competitive bidding procedures to achieving value for money in procurement of goods and services as per the CDC Procurement and Supply Management manual. These should include: i. Documenting the justification in case competitive quotes are not available or the lowest quote vendor	Secretariat: Agreed	PR: Agreed.	PR	

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	is not selected; ii. Maintaining supporting documents evidencing competitive bidding; and iii. Considering specification of items being procured for cost comparisons.				
Receipt of goods There is a risk of payment for goods or services not received due to inadequate documentation of the delivery of goods	Recommendation 30 The PR should ensure that at all levels: a) Evidence of delivery of goods is obtained and documented; and b) Goods Received Notes include the date of receipt of goods and signed and stamped by the authorized personnel.	Secretariat: Agreed	PR: Agreed.	PR	
Selection of vendors and placement of orders There is a risk of late implementation of activities due to delay in the selection of vendors, placement of orders and receipt of goods.	Recommendation 31 The PR should ensure that: *a)* The timeline for submission of request for purchase of specified goods in the Procurement and Supply Management Manual is revised to reflect the practice; *b)* All required terms and conditions are incorporated in the vendor contract/PO; and *c)* Regular follow-up of vendors is done to ensure timely delivery of goods. Penalty defined in the contract may be imposed in case of significant delays.	Secretariat: Agreed	PR: Agreed.	PR	

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Bidding agents evaluation There is a risk of engaging non-performing agents due to absence of documented performance evaluation of bidding agents.	Recommendation 32 The PR should: *a)* Conduct periodic performance evaluation of the bidding agents; *b)* Identify a preferred agent for key items out of the selected approved agents. *c)* Define and adhere to the rationale for allocation of procurement among the agents; and *d)* Prepare a tracker for capturing the number of biddings performed by the bidding agents to facilitate proper monitoring of their performance.	Secretariat: Agreed	PR: Agreed.	PR	
	PROGRAM IMPLEMENTATION				
	National HIV Program				
Policy and funding limitations to access to treatment and care There is a risk that access to the treatment and care on ARV may be	Recommendation 33 The PR should work with in-country partners to advocate for government commitment to strengthening service provision to PLHIV patients possibly through national urban and rural insurance scheme coverage or additional medical aid for PLWHAs.	Secretariat: Agreed This is beyond the scope of the RCC-HIV grant in China and likely of the mandate of the CCM Technical Working Group on HIV/AIDS	PR: Since China "4 free and 1 care" policy issued in 2004, free ARV treatment are made available for those who meet the medical criteria of	CCM PR	

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limited by current policy and funding arrangements through the National Insurance Scheme.			ARV treatment. Recently, China is striving to expand the coverage of free ARV treatment with particular effort focused on where have been heavily impacted by HIV epidemic. There is growing number of AIDS patients enrolling in the ARV treatment.		
<u>Utilization of VCT services</u> There is a risk of underutilization of VCT services, particularly by MARPs at local level.	<u>Recommendation 34</u> The PR should: *a)* Promote the strengthening of local enforcement of the National Regulation on AIDS prevention and control that forbids discrimination against PLWHAs such as HIV testing for job-related health certification; and *b)* Ensure improvement of the quality of outreach and counselling provided by CBOs and GONGOs to MARPs.	<u>Secretariat: Agreed</u> The recently approved CBO budget of USD 18.1 million attempts to precisely address this issue.	<u>PR:</u> VCT sites have been established throughout the country. The use of this service varied greatly among locations. PR will further strengthen the utilization of VCT	PR	

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			service.		
Quality of treatment and care There is a risk that the quality of treatment, care and support and secondary prevention services to PLHIV is low.	Recommendation 35 The PR should: *a)* Improve ART clinical monitoring at county level (supportive supervision, on-going technical support from upper level); *b)* Strengthen prophylaxis and treatment for OIs including Isoniazid Preventive Treatment (PSM, training of providers); *c)* Enhance laboratory network management at province level (provincial lab network management plans); and *d)* Strengthen care and psychological support to PLHIV (e.g. provide financial support to PLHIV self-support groups)	Secretariat: Agreed	PR: Agreed.	PR	
Analysis of M&E data There is a risk of inadequate program planning due to Inadequate PR capacity to analyse M&E surveillance data and use in the	Recommendation 36 The PR should ensure that there is adequate capacity to carry out analytical review of M&E data that it collects and has a mechanism for feeding the analysis into the planning process so as to strengthen the planning approach and budgeting for future activities and interventions required.	Secretariat: Agreed	PR: Agreed.	PR	

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planning process.					
<u>M&E of national responses to HIV</u> There is a risk that the M&E plan used for national responses to HIV is not adequate	<u>Recommendation 37</u> The CCM and PR should: *a)* Accelerate development of a national HIV M&E plan which corresponds to the best international standard, i.e. include costed implementation plan as well as operational manual; *b)* Finalize RCC grant M&E plan, and ensure that MARPs indicators are defined well and are in line with national indicators; *c)* Update national HIV surveillance guidelines. The development partners are also encouraged to provide support; and *d)* Improve use of M&E data for decision making at local level.	<u>Secretariat: Agreed</u> The M&E National Plan for HIV will be submitted as planned by 31 August 2012.	<u>PR: Agreed.</u> The National HIV Action Plan for 2011-2015 has been issued by the State Council in January 2012. Based on this action plan, the national HIV M&E framework will be updated.	CCM PR	
	National TB Program				
<u>Analysis of M&E data</u>	<u>Recommendation 38</u> The PR should ensure that it has adequate capacity to carry out	<u>Secretariat: Agreed</u>	<u>PR: Agreed.</u>		

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There is a risk of inadequate program planning due to Inadequate PR capacity to analyse M&E surveillance data and use in the planning process	analytical review of M&E data that it collects and has a mechanism for feeding the analysis into the planning process so as to strengthen the planning approach and budgeting for future activities and interventions required.			PR	
National MDR-TB strategies There is a risk that the grant implementation may not be aligned with the National MDR-TB strategy as the strategy has not been endorsed so as to provide appropriate guidance to grant	Recommendation 39 The PR should work with the in-country partners to advocate for endorsement of MDR-TB national and provincial action plans to provide proper guidance to SSF program in introducing and scaling up of MDR-TB program nationwide.	Secretariat: Agreed	PR: Agreed. On 17 November 2011, the National Tuberculosis Prevention and Control Plan (Y2011-2015) were issued by the State Council, which clearly specified the working contents and objectives for MDR-TB prevention and control. The	CCM PR	

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implementation.			provincial level is developing local plan following the national guideline. And in February 2012, the Chinese Centre of Disease Control and Prevention issued the National Prevention, Control and Management Protocol for MDR-TB Patients.		
<u>MDR-TB program in prisons</u> There is a high risk to MDR_TB control in the country as the MDR_TB program is not implemented in the prisons.	<u>Recommendation 40</u> The CCM and the PR should consider providing MDR-TB services in selected prisons.	<u>Secretariat: Agreed</u> This is a policy decision supported by the Secretariat although it is doubtful the Secretariat can have an influence on this issue as the Global Fund grant focusing on MDR-TB will expire on 30 June 2013. However, the Secretariat will work with the	<u>PR:</u> Because of many challenges encountered during the implementation of the current grant, there will be no opportunity to start tailored PMDT	CCM PR	

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		upcoming GLC monitoring mission to be deployed in September 2012 in China to ensure this recommendation is addressed.	programs in prisons but inmates will still have access to MDRTB services in selected GF supported PMDT sites.		
National Policy and Funding The National insurance coverage that excludes treatment of TB related costs poses considerable risk to treatment adherence.	Recommendation 41 The PR should advocate for government commitment to strengthening service provision to TB/MDR-TB patients possibly through national urban and rural insurance scheme coverage.	Secretariat: Agreed This recommendation mirrors the GLC recommendation of September 2011 indicating that MDR-TB patients should not be required to pay for their treatment in order to ensure adherence to treatment. A plan is being developed under the new rural health insurance initiative that will aim at covering 80% of MDR-TB care while 10% will be covered by local initiatives and 10% still by patients. The PR is working with the Gates Foundation and WHO on a pilot project	PR: Agreed. The National Tuberculosis Prevention and Control Plan (Y2011-2015) issued by the State Council clearly specified to raise funds mechanism for government investment as the mainstay, levels of responsibility, the various channels, and put tuberculosis control funds into the	PR	

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		exploring how an insurance scheme could fund care under a standardized management package.	government budget.		
Infection control There is a risk of infection at some TB facilities due to inadequate infection control	Recommendation 42 The PR should: *a)* Promote the implementation of the criteria for hospitalization of TB patients, that was developed by NCTB in 2008; and *b)* Support developments of individual infection control plans for TB facilities tailored to local context.	Secretariat: Agreed	PR: Agreed. On July 2011, TB infection prevention and control manual has been issued by State Council. In order to as a basis effectively guide the all levels institutions for the TB prevention and control to develop appropriate infection control plan, CDC is drafting the Guidelines for TB infection control in China.	PR	

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	National Malaria Program				
Prevention, diagnosis and treatment There is a risk of underutilization of the LLINs and inadequate technical capacity on Rapid Diagnostic Testing and treatment in remote villages.	Recommendation 43 The PR should ensure that: *a)* LLINs recipients receive instructions on how to use them and that their actual usage is followed up by program staff; and *b)* Doctors in remote locations receive RDT and anti-malarial drug storage and treatment training.	Secretariat: Agreed The NSA and Round 6 malaria grants closed on 30 June 2012	PR: Agreed. a) This situation has been improved in 2012. The LLINs of NSA malaria program have been distributed as scheduled before end of June 2012. Health education on LLIN usage guideline has been enhanced. And instruction posts have been sent out when distributing LLINs. After the LLINs were distributed, the actual usage of nets has been followed up. CDC will track the usage of LLINs after the Global Fund	PR	

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			close. b) Transfer payment from central government of Year 2012 has been increased to carry out these training activities. The training also will be strengthened with local government support.		
Counterfeit/sub-standard drugs There is a risk of drug resistance due to counterfeit or sub-standard anti-malarial drugs.	Recommendation 44 The PR should continue engagement with the regional initiative to combat counterfeit and sub-standard anti-malarial drugs.	Secretariat: Agreed	PR: Agreed. PR appreciates this recommendation although no drug resistance case has been reported so far in China. We will continue to coordinate local FDA to carry out monitoring the	PR	

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		Global Fund Secretariat **(Responsible for ensuring that the recommendation is implemented)**	**CCM and PR** **(Responsible for the actual implementation of the recommendation)**		
			quality of counterfeit and sub-standard anti-malarial drugs in border areas in Yunnan.		