



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

## **Diagnostic Review of Global Fund Grants to the Republic of the Union of Myanmar**

### **Annexes**

**GF-OIG-11-019**

**7 September 2012**

## Diagnostic Review of Global Fund Grants to Myanmar

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### ANNEXES

#### Annex A: Abbreviations

3DF	Three Diseases Fund
ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immunodeficiency Syndrome
ART	Anti-Retroviral Therapy
ARV	Anti-Retroviral
BCC	Behavior Change Communication
CCM	Country Coordinating Mechanism
CDR	Case Detection Rate
DOTS	Directly Observed Treatment, Short Course
EQA	External Quality Assurance
FDC	Fixed Dose Combination
FIFO	First-In-First-Out
FPM	Fund Portfolio Manager
FSW	Female Sex Workers
HIV	Human Immunodeficiency Virus
HSS	Health Systems Strengthening
IDU	Intravenous Drug User
IEC	Information, Education and Communication
ITN	Insecticide-Treated Net
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
MMK	Myanmar Kyat
MOH	Ministry of Health
MSM	Men who have Sex with Men
NAP	National Aids Program
NMCP	National Malaria Control Program
NTP	National Tuberculosis Program
OI	Opportunistic Infection
OIG	Office of the Inspector General
PE	Peer Educator
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

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PSM	Procurement and Supplies Management
PU/DR	Progress Update and Disbursement Request
QA	Quality Assurance
QC	Quality Control
RDT	Rapid Diagnostic Test
SOP	Standard Operating Procedure
SRA	Stringent Regulatory Authority
SR	Sub-Recipient
STC	Save the Children
STC	Special Terms and Conditions
STI	Sexually Transmitted Infection
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 Fund
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
VCT	Voluntary Counseling and Testing
VPP	Voluntary Pooled Procurement
WHO	World Health Organization

### Annex B: United Nations Office for Project Services (UNOPS)

What grants have been signed with UNOPS?

1. UNOPS signed three grant agreements in Round 9 (one each for HIV/AIDS, malaria and TB) amounting to USD 60.56 million for Phase 1, with USD 20.43 million disbursed as of 30 September 2011). UNOPS is implementing the three grants through 15 SRs (6 for HIV, 5 for malaria and 4 for TB). The total disbursements to the SRs up to 30 September 2011 amounted to USD 2.23 million.

2. The main objective of the HIV/AIDS and TB grants is to reduce the transmission of the disease. The main objective for the malaria grant is early diagnosis and effective treatment.

3. UNOPS is responsible for all procurement and supply management for all Round 9 grants in Myanmar (including grants signed by STC). UNOPS Myanmar Operation Center (MMOC), which is based in Yangon, procures health goods via UNOPS India Operations Center (IPO) in New Delhi, India for both UNOPS and STC and their respective SRs.

How does UNOPS go about procurement?

4. In year 1, the total approved PSM budget was USD 19.5 million. In year 2, the PSM budget increases to USD 24.3 million. Over these two years, UNOPS's planned PSM expenditures equal approximately USD 36 million (USD 28.2 million for UNOPS' SRs and USD 7.8 million for STC's SRs). UNOPS' PSM expenditures as of September 2011 were approximately USD 7 million, of which 90% was completed through IPO for pharmaceutical and health products. UNOPS charges a fee equal to 6.5% of the cost of procured goods to cover MMOC's operating costs and corporate overhead.

5. Though STC initially appointed UNOPS as procurement agent, because of delays in the procurement process at UNOPS in Year 1, STC is strengthening its own PSM unit. All stakeholders are aware that delays in the supply of key health goods have delayed program implementation on several levels.

What are the risks relating to procurement?

#### **The need to strengthen the PSM mechanism at the PR/UNOPS in year two to avoid delay in program implementation**

6. Prior to grant signing, the LFA reported deficiencies at UNOPS-IPO (Delhi, India) as a procurement agent for Myanmar (PR). However, IPO became the procurement agent for the Round 9 grants due to the limited amount of time to implement an alternative PSM structure at grant signing and the lack of PSM options available in Myanmar.

7. Both PRs and the SRs experienced delays in receiving procured goods, as set forth at Annex K. In addition:

- i) Combo-rapid tests for early detection of malaria were

- delivered to Yangon but had not yet been distributed by PR to implementing partners at the time of the OIG review.
- ii) The OIG team also noted that the size and color of LLINs that had been delivered to the community did not match the user specifications, which may result in reduced use/uptake by the community.
8. The OIG recommends that:
- a. UNOPS and SRs should put into practice plans on how to make up for delays in procurement and building their own capacity, including timely delivery of bed nets and re-impregnation tables in advance of peak malaria season in year 2;
  - b. UNOPS to ensure adequate resources to identify counterfeit antimalarial drugs, in partnership with 3DF/3MDG and neighboring country initiatives; and
  - c. The Global Fund Secretariat to encourage UNOPS to accelerate the recruitment of WHO TB and malaria coordinators and their deployment to the region and ensure an effective supervision and capacity building plan.

In respect to that the IPO Delhi as the procurement agent for MMOC, the OIG encourages the Global Fund Secretariat to recommend the PR UNOPS::

- a) Conclude on deliveries of goods in pipeline procured by IPO (contracts and awarded) and terminate all new (or not yet tendered/awarded) procurement via IPO;
  - b) Provide clear and accurate estimated times of arrival at Yangon and subsequent delivery to SRs and co-PR STC for all cases in the pipeline;
  - c) List the health goods not yet covered by IPO tenders, coordinate with year two and submit for quotation to UNICEF/IDA as agreed with the Global Fund Secretariat;
  - d) As UNOPS functions as LFA in other Asian countries with good performance, there must be ample PSM expertise in its organization and some of it should be deployed to MMOC for at least a year or two.
9. The Global Fund Secretariat should encourage UNOPS to draw on all lessons learnt from earlier PSM assessments by the LFA to prepare tender documents for three key health items so that no major mistakes in solicitation documents are made in bid openings, evaluation of responsive bids and awards of contract.

**Due to delays in procurement at UNOPS, most current stocks in the field have been procured and supplied via 3DF, Japan International Cooperation Agency (JICA) or WHO, which is not a sustainable solution**

10. At least two gaps were completed by 3DF for SRs during 2011:
- i. From April through August 2011, ARV, OI/STI, malaria and other essential drugs, HIV tests, RDTs, syringes/needles and

gloves, with a total value of USD 97,019, were procured by 3DF.

- ii. From August through December 2011, ARV supplies with a total value of USD 37,503 were procured by 3DF.

11. The OIG team observed that the Mingalardon Hospital, the central HIV/AIDS facility in Yangon, has been able to sustain supplies of ARV via 3DF but has small stocks to treat specific OIs/STIs. This forces patients to seek treatment in a nearby nongovernmental organization clinic, pay out of pocket for private sector care or forego treatment. Similarly, at a 300-bed hospital visited in Myitkyina (Kachin), supplies of medicines to treat STI covered only 30% of the real need leaving 2 out of 3 infections untreated.

12. The Global Fund Secretariat should encourage UNOPs to establish service agreements to support the year two plan.

13. In addition, the Global Fund Secretariat should encourage:

- a) Firmly implement an action plan to ensure PSM capacity in MMOC for year two, including the forecasting of orders with all SRs;
- b) Complete and validate the forecasting of year two with PSM experts from head office;
- c) List the health goods not yet covered by IPO tenders and submit for quotations to UNICEF/IDA; and
- d) Prepare in year two to either have full PSM, including procurement unit of adequate capacity in place, or alternatively have procedures established, ready and approved by the Global Fund for the selection and pre-qualification of an external agent for the procurement and supply of health goods.

### **The need to improve storage conditions for health products and to insure goods to avoid the loss of valuable assets**

14. Some physical storage infrastructures at government programs in Kachin, which keep larger state buffers of products, necessitates an upgrade or new construction for proper storage and security.

15. In general, goods held by UNOPS and its SRs are uninsured (which is not uncommon in Myanmar to date). These services are becoming increasingly available in the country, and UNOPS and its SRs should plan to insure all goods to prevent loss.

16. UNOPS is planning to use Round 9 funding for renovations and necessary upgrades of stores and tools. During 2011/2012 UNOPS successfully collaborated with the Japanese Embassy for the financing of new built store infrastructures. With specific back up fro, the CCM partners on bilateral levels further funds may be mobilized to strengthen the physical supply chain in the country to supplement Round 9 grant activities. In the interim, UNOPS should take precautions in cases where stores are not yet systematically

upgraded to ensure that goods are properly stored, quality is monitored and should follow-up that storage improvements are promptly made where these are feasible.

### **UNOPS/MMOC and the LFA/Secretariat have different opinions on effective PSM procedures**

17. UNOPS/MMOC and the LFA/Secretariat have different opinions on how PSM should be effectively implemented in line with both UNOPS' procurement policies and in a manner acceptable to the Global Fund.

18. The OIG team notes that MMOC should be more open to accepting constructive feedback from the LFA and Secretariat. However, the OIG team notes that UNOPS has submitted an action plan, which has been generally accepted by the Global Fund as the best way to procure supplies in year two.

19. The Global Fund Secretariat should encourage:

- a) Self-mediation between UNOPS and the LFA office in Yangon accepting each other's role and expertise or accept external mediation to resolve (CCM or Secretariat);
- b) UNOPS should display a pro-Secretariat and a more pro-LFA attitude and willingness to share based on equality/mutual respect; and
- c) For example, by inviting LFA to join the bid openings, evaluation committees and contract decision process as observer.

20. In addition, the Global Fund Secretariat to encourage UNOPS to report to the CCM Executive Working Group the final supply chain upgrade plans with the available budgets (or funding gaps) and explore the scope for alignment with future health strengthening system plans of 3DF (3MDG) and building on JICA support to build the basic supply chain infrastructure of the government.

### **The need to strengthen staff expertise in PSM, to avoid ineffective procurement mechanisms**

21. MMOC intends to recruit additional PSM staff (including a quality assurance officer) to strengthen PSM mechanisms.

22. The OIG team notes that the quality assurance expert needs to have adequate expertise and his or her role will need to be independent to express critical observations. In addition, the OIG team recommends that an international management level PSM position in MMOC should be filled by UNOPS for at least one to two years, in order for MMOC to develop into a qualified procurement agent compliant with MQAS.

23. The Global Fund Secretariat should encourage UNOPS to ensure that:

- a) The newly recruited QA Officer mitigates the quality risks, by

ensuring that he has independence in the PSM unit and demonstrates his capability and expertise to specify requirements in tender documents and approve or disapprove suggested sources/products in bids or quotations with adequate technical justification on grounds compliant with the QA policy of the Global Fund

- b) The Work plan for recruitment, induction and start of QA position in PSM unit to be established as earlier as possible and output to be evaluated by LFA in the first quarter of 2012

24. The PSM Manager and the new QA Officer need to:

- a) Draft a standard presentation template to provide (and internally evaluate) the features of the whole PSM cycle of MMOC to identify gaps and set priorities;
- b) Adapt the corporate UNOPS Procurement manual into a specific MMOC Procurement Policy/Manual (for health goods and non-health goods);
- c) Finalize the Logistics Manual consistent with the Procurement Manual (provide input for forecasting) as well as a sample system for monitoring of product quality in supply chain;
- d) Complete the Standard Operating Procedures (SOP) Manual (internal) in line with the MQAS for ATM medicines and use the WHO MQAS Manufacturer Questionnaire (MQAS annex 8) and the Inter Agency Product Questionnaire (MQAS annex 6) for non-ATM sourced from not formally pre-qualified sources. Review the offer from IPO for the part of the OI/STI drug order for QA acceptability;
- e) Complete the external SOP Manual for dissemination to SRs for logistics, selection, forecasting, ordering and distribution of health goods, procurement non-health goods, procurement of local services, and fixed asset management, including disposal.

### **The need to implement effective LMIS to avoid ineffective controls over distribution of products**

25. LMIS is the only mechanism to provide reliable and systematic feedback on stocks, consumption rates, stock outs and expired goods. This information is necessary to place future orders and prevent inadvertent loss, substitution of supplies with inferior or fake products and theft or supplies.

26. UNOPS has not implemented an effective LMIS or a minimum level of monitoring of the supply chain. As a result, there are no complete stock reports, calculations of average consumption rates or losses/adjustments in stocks available at UNOPS. Therefore, the effectiveness of controls to avoid the risk of possible overstocks and expired stocks and the risk of loss or misappropriation of goods could not be fully assessed.

27. The above means that UNOPS should implement an effective LMIS. The OIG team noted that UNOPS needs to display leadership and convince some SRs to participate in effective implementation of LMIS along the chain. In addition and as part of the PSM cycle,



UNOPS needs to develop plans to promote good dispensing practices, monitor and rationalize drug use, and collaborate with drug regulatory authorities to implement effective complaint handling/recall procedures and pharmacovigilance/ADR systems.

28. The Global Fund Secretariat to encourage UNOPS to build effective relations with all SRs to fully support MOC in its strategy for PSM, specifically standardizing selections, specifications, LMIS procedures and procurement SOPs for SRs to comply.

### **The need to strengthen controls over the vendor selection process for non-health products to avoid the risk of procurement through higher cost vendors**

29. UNOPS does not maintain a record of vendors from whom bids were received against a particular request for quotation (RFQ). As a result, the OIG team could not verify whether all bids received from vendors were considered during the vendor evaluation process.

30. The OIG team noted that UNOPS does not have a standard list of vendors for local procurement. The basis for the selection of vendors to whom RFQs were sent was not available for the OIG team's review. Furthermore, there were no clear guidelines for selecting or short listing suppliers for sending RFQs.

31. To strengthen controls over the vendor selection process, the Global Fund Secretariat to encourage UNOPS to:

- a) Prepare a quotation tracking sheet specifying the date of receipt of quotations, name of the vendor, prices quoted, source of receipt of information, etc.;
- b) A list of standard vendors should be prepared for local procurement; and
- c) In the absence of a list of standard vendors a justification note should be prepared justifying the reasons for selection of vendors for sending RFQs.

What strengths were identified with respect to financial management and controls?

32. UNOPS has established the SR oversight function by creating a unit for SR capacity building, monitoring and assurance. This unit is responsible for continued assessment and capacity building of SRs within the areas of financial management, budgeting, accounting, treasury and asset management. Additionally, this unit plans, organizes and undertakes SR capacity building in close coordination with the program team.

33. UNOPS has detailed documented policies and procedures on Financial Management, Compliance, Program Management, SR Management, Procurement and Asset Management.

34. UNOPS uses the accounting software 'Atlas' for recording its financial transactions. This accounting software supports separate recording and accounting for each of the three grants, which is further divided into the 13 cost categories. Furthermore, UNOPS has

created separate project codes for itself and for each SR in the accounting system.

35. UNOPS has good systems in place for the archival of financial documents. The transaction vouchers are systematically archived based on the unique voucher number assigned to each transaction.

What are the risks relating to the Funds Flow Mechanism (FFM)?

### **The need to strengthen control over operational advances to avoid misuse of program funds**

36. UNOPS developed and administers the FFM for the three National Programs. Although the National Programs are on a zero cash policy, they own and manage their activities and corresponding budgets. Budgetary decisions are primarily the responsibility of the National Programs, which are governed by the budget approved by UNOPS. UNOPS has established Fund Flow Units with Fund Flow Assistants (FFAs) in each region across the country.

37. According to the Global Fund approved financial policy for UNOPS (the Financial Management Policies and Procedures Manual (FPPM)), the operational advance limit for FFAs is to be fixed based on the needs of the program, as assessed by the International Financial Management Officer (FMO) & Program Coordinator. Following recommendation from the Program Coordinator, International FMO and Regional FMO, these limits are to be approved by the UNOPS Comptroller.

38. The OIG's review of the FFM highlighted the following:

Limits for operational advances have not been defined and approved by the UNOPS Comptroller as required by the FPPM.

According to management, UNOPS is following the UNOPS Financial Regulations and Rules (FRR) instead of the FPPM. The FRR requires approval from the UNOPS Comptroller only for the first advance given to a vendor/individual, even though subsequent advances might be of a higher value.

39. To mitigate the risk of misuse of program funds, the Global Fund Secretariat should encourage UNOPS to:

- a) Define maximum limit for operational advances for each FFA;
- b) Comply with the FPPM (approved by the Global Fund Secretariat) (approval of the Global Fund Secretariat to be obtained in case of noncompliance to the Global Fund approved FPPM);
- c) Define final settlement date at the time of giving an advance above the defined maximum limit; and
- d) Obtain approval of MMOC Director for advances above the defined maximum limit.

### **Irregular expenses claimed by the National Program may go undetected**

40. In its review, the OIG team noted that:

UNOPS has not provided training to the FFAs, such as coaching them in ways to detect irregularities in expense claims submitted by National Programs. The FFAs, however, have received induction training when joining UNOPS in April/May 2011.

41. The absence of FFA training and procedures for FFAs to share lessons learned may result in a failure to detect irregular expense claims by the National Programs. Furthermore, sharing lessons learnt provides a mitigating control to avoid re-occurrence of cases detected in other locations.

42. UNOPS management informed the OIG team that in addition to the induction training to FFAs and followed-up training, UNOPS will continue regular workshops for all FFAs, as well as the regular consultations between the Funds Flow unit and the FFAs, amongst other topic aim at improving the FFA's skills in detecting irregularities in expense claims submitted by National Programs.

43. To mitigate the risk of irregular expenses being charged to the Global Fund grants, the Global Fund Secretariat should encourage UNOPS to:

- i. Establish a process for sharing lessons learnt between the FFAs; and
- ii. Conduct trainings for FFAs on detecting irregularities in expense claims submitted by National Programs.

### **The need to put in place a rotation policy for FFAs to mitigate the risk of misappropriation of program funds**

44. UNOPS had allocated a particular region to each FFA to operate in. There was no process for rotating FFAs among different regions.

45. To mitigate the risk of misappropriation of program funds, the Global Fund Secretariat should encourage UNOPS to evaluate the possibility of implementing a rotation policy for FFAs. Under the rotation policy, FFAs should be rotated between different regions on a periodic basis. Otherwise, the PR in discussion with the Global Fund Secretariat should propose another way in which mitigate the risk.

### **The need to insure Cash-in-hand to mitigate the risk of loss**

46. Cash-in-hand is not insured by UNOPS. The absence of cash insurance poses the risk of loss of cash required for program implementation and increases the risk of loss of funds.

47. To mitigate the risk of loss of cash required for program implementation, the Global Fund Secretariat to encourage UNOPS to evaluate obtaining cash insurance for cash-in-hand available, considering the country context.

### **What are the other risks relating to financial management and controls?**

What are the other risks relating to financial management and controls?

#### **More timely disbursement of funds to SRs avoid delays in implementation of program activities**

48. SRs are required to submit requests for disbursement of funds to UNOPS along with the quarterly financial report and programmatic progress report within 30 days following the end of each quarter. The disbursement requests are based on the work plan, the detailed budget for the next quarter and the available cash balance.

49. The OIG team's review of disbursements made by UNOPS to SRs highlighted a lead time of 54 to 88 days in the second disbursement to 11 SRs. The OIG team was informed by the Financial Management Officer of UNOPS that disbursements to SRs were delayed on account of the following reasons:

- i. Time taken to verify financial and programmatic progress reports of SRs; and
- ii. Significant fluctuations in the MMK-USD conversion rate. Seven SRs requested the PR to delay the disbursement by one month in order to avoid losses they would have potentially incurred on account of the significant appreciation of the MMK relative to the USD.

50. In addition, on a visit to one of the SRs (Myanmar Medical Association), the OIG team was informed by the SR that it had obtained a loan from external sources to fund the Global Fund's programmatic activities while waiting for a disbursement from UNOPS.

51. To ensure that disbursements to SRs are processed in a timely manner for the SRs to implement program activities as per the approved work plan, the Global Fund Secretariat should encourage UNOPS to:

- i. Define lead times for disbursement of funds to SRs by UNOPS and ensure timely disbursement of funds to allow implementation of program activities in accordance with the approved work plan;
- ii. Seek the possibility with the Global Fund Secretariat to create a provision for foreign exchange fluctuation in year 2 budget; and
- iii. Discourage practice of borrowing funds from non-Global Fund programs to support Global Fund programs or vice versa.

#### **The need to establish a rationale for the allocation of shared costs to avoid a charge of higher (ineligible) amounts to program funds**

52. UNOPS charged a fixed percentage of total payroll costs for three shared employees and a fixed amount for shared operating costs (such as office rent and other overheads) to the Global Fund grants. The OIG team noted that the rationale for allocation of such expenses to the Global Fund grants has not been defined and documented.

53. To ensure that the Global Fund grants are charged a fair portion of shared operating/payroll costs, the Global Fund Secretariat should encourage UNOPS to define and document the rationale for allocation of these costs, which should be approved by the Global Fund Secretariat.

### **The need for Global Fund specific training to finance staff to avoid incorrect accounting and reporting to the Global Fund**

54. The finance staff at UNOPS received training on the Atlas accounting software used by UNOPS in March and July 2011. However, the finance staff did not receive any training on Global Fund specific requirements, such as accounting, budget monitoring and reporting.

55. To improve the management of the Global Fund grants, the Global Fund Secretariat to encourage UNOPS to provide training to key finance staff on Global Fund-specific requirements on accounting, budget monitoring, reporting, etc.

### **The need to establish a process for separately recording and claiming refund for taxes to avoid ineligible costs (taxes) being charged to the Global Fund grants**

56. UNOPS does not have a process in place to separately track and claim refunds for the taxes/duties paid using the Global Fund grants. The OIG team observed 2 instances in its sample where taxes paid on airfare were charged to the Global Fund grant.

57. To mitigate the risk of charging tax and duties to the Global Fund grants, the Global Fund Secretariat should encourage UNOPS to define the process for tracking and claiming refund of taxes and duties paid from the Global Fund grant. UNOPS should define a threshold for the minimum amount of tax paid on any transaction. Tax paid above the defined threshold should be accounted for separately in the books of account and refund of such tax paid should be claimed from the government.

### **The need for a mechanism to ensure expenses are charged to correct expense cost categories to avoid incorrect reporting to the Global Fund**

58. The OIG team noted that travel charges (relocation costs) paid to an international staff member of UNOPS had been wrongly accounted in the "Technical Assistance" cost category instead of

“Human Resource” cost category. Further, this cost was wrongly budgeted under “Planning and Administration”.

59. To ensure correct reporting to the Global Fund, the Global Fund Secretariat to encourage UNOPS to:

- i. Update the detailed budget by transferring the cost from “Planning and Administration” to “Human Resources”; and
- ii. Ensure that expenses are booked under the correct cost category as specified by the Global Fund.

**The need to report and explain all variances between actual and budgeted expenditures through normal reporting cycles or to obtain the necessary approvals prior to such variances to avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

60. The Global Fund budgeting guidelines provide that a PR may change the approved budget to respond to program realities up to a level that is not considered material (e.g., to reflect changes in unit costs of items being purchased). However, the PR must inform the FPM/Country Team of any non-material budget change through the normal reporting cycle (i.e. PU/DR). For material budget changes, a request to change the budget must be submitted to the Global Fund for approval and to the CCM for information. Furthermore, the guidelines specify that in specific situations (e.g. with a new PR, or a heightened risk of misuse of funds), the Global Fund reserves the right to require the PR to seek approval for all budgetary changes or may define a specific threshold for budget flexibility.

61. In the case of UNOPS, the Country Team has set a threshold for 5% budget flexibility of the annual approved budget line. The 5% flexibility does not apply to the following eight situations, where the Global Fund must be notified in advance prior to the change being made:

- i. Increases in the grades, numbers or level of effort of expatriate staff charged to the grant;
- ii. Increases in the numbers or grades of local staff employed by UNOPS, WHO, UNFPA and International Union Against Tuberculosis and Lung Disease (IUATLD);
- iii. Increases in the staff numbers or position types of national SRs (with the exception of technical staff identified through approved capacity building plans or PR assessments) or significant increases (20% or more) in the salaries for individual positions that are budgeted initially at more than USD 1,000 per month;
- iv. Increases in the approved budget for international travel;
- v. Introduction or modification of percentage-based overhead rates;
- vi. Increases in budget unit costs for reimbursement of patient user fees;
- vii. Increases in the number of vehicles (including motorbikes) budgeted for procurement or long-term rental; and
- viii. Introduction of new activities or cost types that have not been specified in the detailed budget.

62. The OIG team noted the following instances of unbudgeted costs, or costs in excess of approved budgets, that were charged to the Global Fund grants but not reported in the PUDRs:

- i. Unbudgeted training costs were incurred.
- ii. Two unbudgeted assets (security radios and security mobile kits for vehicles) were procured.
- iii. Per the approved detailed budget, an HR representative from the Regional Office of UNOPS was scheduled to visit Myanmar to recruit employees for UNOPS. However, UNOPS hired a consultant for a short-term period to recruit employees for UNOPS. The consultant charges were not budgeted, and the total excess cost amounted to USD 24,965.
- iv. Laptops, desktops, servers and flash drives were procured at a unit cost higher than that budgeted. The total cost of these assets exceeds the budgeted cost by USD 34,180.
- v. The salaries of 35 employees under individual contract agreements have been revised. Monthly salaries being charged to the Global Fund grants were in excess of the budgeted amount. The total budget overrun for salaries for Year 1 is expected to be USD 16,956.
- vi. The relocation cost of an M&E specialist was in excess of the approved budgeted amount.

63. UNOPS management informed the OIG team that budget overruns of up to 5% in the Service Delivery Area (SDA) category was approved by the Global Fund Secretariat in its email dated 24 March 2011. However, the OIG team noted that these overrun or unbudgeted expenses were not reported through the normal reporting cycle (i.e., PU/DR) as required by the Global Fund budget guidelines, and therefore could be considered ineligible expenses.

64. Furthermore, the OIG team noted that expenses that did not pertain to the implementation of the Global Fund grants were charged to the Global Fund. A review of sample transactions highlighted the following possibly ineligible expenses charged to the Global Fund grants:

- i. The cost of unbudgeted international travel for participation in a Round 11 proposal meeting in Kuala Lumpur was charged to Round 9 grants.
- ii. The salary for one UNOPS employee who was not working for Global Fund grants was charged to the Global Fund grants in April 2011. This cost had not been reversed at the time of the OIG review. While the OIG team noted that UNOPS has a process for monthly review of payroll cost charged to the Global Fund grants, it appears that this process could not properly identify the existence of non-Global Fund program staff under payroll of Global Fund program staff. Payroll costs of any employee not working on Global Fund grants but charged to the Global Fund grants are reversed during the month-end review.

65. To ensure that only eligible and budgeted expense are charged

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to the Global Fund grants, the Global Fund Secretariat should request UNOPS to:

- i. Ensure that the expenses charged to the grant are eligible (as per the approved grant budget) and all ineligible expenses should be refunded to the program;
- ii. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011 (available at the Global Fund website);
- iii. Comply with the specific guidance provided by the Global Fund Secretariat on Budget Flexibility (email from the Global Fund Secretariat, dated 24 March 2011);
- iv. Implement a process for verification of purchase requests against the available budget under each SDA line item prior to approval;
- v. Compare the salary costs charged to the program against the budget on a monthly basis. Approval from the Global Fund Secretariat to be obtained on a timely basis for any deviations from the detailed program budget; and
- vi. Seek clarification from the Global Fund on tolerance limits, which is not mentioned in the Guidelines for Budgeting released by the Global Fund on 15 August 2011.



What are the risks relating to asset management?

### **The need to insure assets to avoid the risk of loss of assets being charged to the Global Fund program funds**

66. The total value of assets procured by UNOPS from Global Fund grants amounts to USD 242,123, which has not been insured. Further, one instance of loss of a laptop amounting to USD 1,128 procured through Global Fund grant funds was not reported to the Global Fund Secretariat. Also, UNOPS has neither replaced nor refunded the cost of the lost asset to the Global Fund.

67. To mitigate the risk of financial loss in cash of theft, loss or damage to assets procured from Global Fund program funds, the Global Fund Secretariat should encourage UNOPS to:

- i. Consider the country context and evaluate options to insure the fixed assets procured from Global Fund grants; and
- ii. Report all losses/theft of Global Fund assets to the Global Fund Secretariat.

What are the risks relating to program implementation and reporting?

### **Delays in compliance or noncompliance to the terms of the grant agreement can adversely affect the implementation of program activities**

68. Per clause 16 of the Special Terms and Conditions of all three grant agreements, UNOPS was required to deliver to the Global Fund, not later than 30 June 2011, Standard Operating Procedures for the storage and distribution of health products and recording, reporting and utilization of information to manage the program. However, the OIG team noted that UNOPS had not fulfilled these conditions as of the date of review.

69. To mitigate this risk, UNOPS needs to develop a reporting calendar to monitor the timelines of reports to be submitted to the LFA and the Global Fund. The OIG team noted that PU/DRs for all three grants (TB, malaria and HIV) were submitted by UNOPS to the LFA with delays of 5 working days from the due date in both the first and second quarter.

70. To enable timely compliance with the terms and conditions of the grant agreement, the Global Fund Secretariat should encourage UNOPS to:

- i. Develop a tracker for all special terms and conditions of the grant agreement and monitor these timelines to ensure compliance on a timely basis; and
- ii. Obtain approval from the Global Fund Secretariat for any delays in compliance to special terms and conditions.

71. To monitor and ensure timely submission of reports to the LFA and Global Fund, the Global Fund Secretariat to encourage UNOPS to prepare a reporting calendar for monitoring the timelines of submission.

### **Correct expense reporting in PU/DR could avoid ineligible expenses being charged to Global Fund grants**

72. The OIG team noted that UNOPS does not have a process for reconciling expenses reported in the PU/DR with its financial records. For example, a comparison of accounting records with the second PU/DR (for the malaria grant) submitted by UNOPS to the LFA highlighted under-reporting of disbursements to SR-NTP.

73. To mitigate the risk of incorrect reporting to the Global Fund, the Global Fund Secretariat to encourage UNOPS to:

- i. Ensure that financial reports are prepared in accordance with the Global Fund's reporting guidelines; and
- ii. Improve the review procedures of financial reports submitted to the Global Fund.

What are the risks relating to SR monitoring?

### **Through audits, it is possible to effectively assess the capacity and internal controls of the SRs**

74. UNOPS is implementing the three grants through 15 SRs (6 for HIV, 5 for malaria and 4 for TB). UNOPS has created an Internal Compliance Unit (ICU) for the purpose of monitoring SRs. The ICU examines and evaluates the adequacy and effectiveness of the SRs' internal control structure, internal financial policies and procedures and the quality of performance of activities.

75. Per the audit plan approved by the Global Fund, the ICU was required to perform the audits of 11 SRs beginning in July 2011 (6 in the 3rd quarter and 5 in the 4th quarter). However, ICU had audited only 2 SRs as of October 2011.

76. To ensure effective monitoring and assessment of internal controls and capacity of SRs, the internal audit plan for review of SRs should be redefined based on risk assessment of all SRs. Approval from the Global Fund Secretariat must be obtained on the revised audit plan. In addition, the OIG encourages that the Internal Audit Unit at UNOPS' headquarters to perform internal audit of UNOPS Myanmar. UNOPS should obtain approval of the Global Fund Secretariat for the cost of an internal audit by UNOPS' headquarters.

What additional concerns exist?

77. Although without previous Global Fund PR experience, UNOPS is the executing agent of the Three Diseases Fund (USD 100 million), which was formed by a number of donors to fill the resource gap left by the termination of Myanmar's last round of Global Fund grants. This gives UNOPS a unique advantage, because the Global Fund-supported program employs a fund flow mechanism similar to that of the Three Diseases Fund.

78. The LFA's June 2010 capacity assessment reported that UNOPS met all minimum requirements as PR. The assessment also identified sub-recipient management and oversight as a relatively weak area. The OIG review team met with UNOPS program and M&E teams, who informed the OIG review team that both programmatic site visits and data quality spot checking were taking place for all three diseases. The OIG review team did not review examples of programmatic site visit reports or data quality spot checking reports. Based on the OIG review team's conversation with the program and M&E teams, OIG team felt reasonably assured that SR oversight and monitoring and evaluation are indeed taking place. However, the OIG team urges the Global Fund Secretariat to re-visit these issues with UNOPS in the second half of 2012.

### Annex C: National Tuberculosis Program (NTP)

What grants have been signed with NTP?

1. NTP was established in 1966 and functions under the Ministry of Health, Government of Union of Myanmar.
2. On March 21, 2011, NTP signed a Round 9 grant agreement with UNOPS to act as an SR for the TB program. The grant agreement provided for USD 14,455,552 in funds for NTP (with USD 261,391 disbursed as of 30 September 2011). The grant is scheduled to end on December 31, 2012.
3. The major service delivery areas include improving diagnosis, patient support, procurement of drugs and supplies, program management and administration, human resource development, MDR-TB treatment, TB care for high risk groups and infection control.

What strengths were identified with respect to financial management and controls?

4. The OIG team noted that NTP prepared quarterly dashboards (monitoring & evaluation reports) for monitoring the implementation of programmatic activities defined in the work plan approved by UNOPS. NTP's director reviews these dashboards.

What are the risks relating to financial management and controls?

**The need to establish a mechanism to manage the differences in budgeted foreign exchange rate and actual transaction rate to avoid exhaustion of the budget prior to completion of all budgeted activities**

5. NTP is on a "zero cash policy". All NTP expenses are recorded in UNOPS' books using the UN exchange rates.
6. UNOPS developed the Funds Flow Mechanism (FFM) and appointed Fund Flow Assistants (FFAs) in each region across the country. UNOPS deposits operational advances in the bank accounts of FFAs for making direct disbursements for activities carried out by the three National Programs.
7. In September 2011, the UN exchange rate was approximately 675 MMK/USD. However, the FFA disbursed funds to the National Programs at the rate of 1,000 MMK/USD. The accounting entry was recorded at 675 MMK/USD. For example, per-diem for training was budgeted at USD 15 per participant and accordingly 15,000 MMK (USD 15 @ 1,000 MMK/USD) per participant was disbursed. However, the expenditure was recorded in the books at USD 22.22 per-diem per participant (15,000 MMK @ 675 MMK/USD). This would result in the exhaustion of the budget (as budget is monitored in USD) prior to completion of all the budgeted training, monitoring and supervision activities of NTP.
8. To improve controls over program management and utilization of Global Fund grants:
  - a) UN foreign exchange rate for Myanmar to be used for making payments (National Programs); and

- b) The Global Fund Secretariat, if required, to discuss with UNOPS the possibility of creating a provision for foreign exchange fluctuation in the year two budget, so that the program implementation is not dependent on currency fluctuations.

**The need to operate in compliance with financial management policies to avoid ineligible expenditures that will need to be refunded to the Global Fund and UNOPS**

9. UNOPS' Field Level Standard Operating Procedures provide that Department of Health (DoH) officials and National Program managers have the authority and responsibility to verify and authorize payments requested by FFAs. However, DoH officials cannot authorize payment to themselves. Supervisors must authorize payments to DoH officials.

10. The OIG team's review of a sample of transactions highlighted that in 15 instances, DoH officials authorized payment to themselves. The respective supervisor did not approve these payments.

11. In addition, the OIG team's review of a sample transaction pertaining to refresher training of health facility staff for basic health services and management of TB, which was conducted from June 8 to June, 10 2011, highlighted that a per diem charge was paid to the Township Medical officer. However, his attendance is not marked in the participant list, in violation of UNOPS' Field Level Standard Operating Procedures.

12. To strengthen controls over payment processing and mitigate the risk of unauthorized/ ineligible expenses being charged to the Global Fund grants, expenditures incurred by DoH officials to be approved by the respective supervisor as required by Field Level Standard Operating Procedures for the Department of Health/UNOPS Funds Flow Mechanism (FFM).

13. To mitigate the risk of unauthorized expenses being charged to the Global Fund grants, NTP should reinforce adherence to Field Level Standard Operating Procedures for the DoH/FFM for payment of per diems.

**Correct reporting to avoid in ineligible expenses charged to Global Fund grants**

14. The OIG team's review of NTP's budgeted versus actual expenses, which was prepared by UNOPS, indicated that the foreign exchange losses were incorrectly reflected under the budget line item of fuel.

15. The OIG team was informed by the NTP Assistant Director that the budgeted versus actual expense report had not been reviewed by them, and that they would be unable to explain the budget variances.

16. To mitigate the risk of incorrect reporting to the Global Fund:

- i. The expenditures should be recorded by UNOPS personnel under correct budget line items; and
- ii. Trainings should be provided to NTP personnel to review budget vs. actual expense reports, identify variances and provide explanations.

**The need to report and explain all variances between actual and budgeted expenditures through normal reporting cycles or to obtain the necessary approvals prior to such variances to avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

17. The Global Fund guidelines for budgeting requires that a PR may make non-material changes to the budget to respond to program realities. For example, a PR may revise the budget to reflect changes in unit costs of items being purchased. The PR must inform the FPM/Country Team of non-material budget changes through the normal reporting cycle (i.e. PU/DR). A PR must submit requests to make material budget changes to the Global Fund for approval and to the CCM for information. The SR must request approval of the PR if the changes occur at the SR level.

18. The OIG team's review of a sample of training expenses indicated the following instances of budget overruns which were not reported at the normal reporting cycle:

- i. The cost of a training session for NTP employees was budgeted at USD 1,200 (860,400 MMK). However, actual expenses amounted to USD 1,322 (948,000 MMK), exceeding the budget by USD 122 (87,600 MMK).
- ii. The cost of travelling for an ACSM methodology workshop conducted from June 27 to June 29, 2011 was budgeted at USD 330, but actual expenses amounted to USD 463 (329,400 MMK).

19. To ensure that only budgeted expenses are charged to the Global Fund grants, NTP should:

- i. Ensure that the expenses charged to the grant are eligible (as per the approved grant budget) and refund ineligible expenses to the program; and
- ii. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011 (available on the Global Fund website).

What are the risks relating to procurement of non-health products?

**Unapproved modifications to the budget may be treated as unbudgeted expenses, and unauthorized changes to the quotes submitted by vendors may result in vendor favoritism, which may lead to the purchase of goods at higher costs**

20. The OIG team's review of a sample transaction pertaining to the procurement of bags for distribution to community health workers indicated the following:

- i. UNOPS raised a purchase order on behalf of NTP on May 26, 2011 for USD 37,483, relating to the procurement of bags. However, the budget for bags at the time of raising the purchase order was only

USD 6,913. The budget for training activities not conducted was reallocated to cover the purchase of the bags.

- ii. The dates specified in the quotations submitted by two vendors (Mahar Swe Advertising Company Limited and Vanquisher) were overwritten. The vendors did not authorize the change in dates.

21. In order to strengthen the procurement procedures adopted by UNOPS for procuring goods/services on behalf of NTP, the Global Fund Secretariat to encourage UNOPS to:

- i. Ensure that the budget holder checks the budget availability prior to release of the purchase order;
- ii. Ensure that budget reallocation (if required) is done prior to incurring the expenditure; and
- iii. Obtain fresh quotations in case there is any change /correction in the quotations submitted by the vendor or the change/correction should be authorized by the vendor.

### **The need to strengthen procedures to identify assets and to insure assets to avoid loss of program funds due to damaged or lost assets**

22. The OIG team's review of the management of program assets at NTP indicated the following:

- i. Policies and procedures on fixed asset management were not defined.
- ii. Fixed assets were not assigned and tagged with a unique identification number.
- iii. The location of fixed assets was not recorded in the Fixed Asset Register.
- iv. Fixed assets procured from the Global Fund grant were not insured by NTP.

23. To improve controls over program assets and to mitigate the risk of loss or damage of assets procured from Global Fund program funds, NTP should:

- i. Define and document policies and procedures for asset management including maintenance of Fixed Assets Register;
- ii. Tag all the fixed assets with unique identification number;
- iii. Ensure that the location of the fixed assets is captured in the Fixed Assets Register;
- iv. Evaluate obtaining an insurance policy for safeguarding the program assets considering the country context.

What are the risks relating to program implementation and reporting?

### **Timely submission of workplans to PR and their approval may avoid delays in program implementation**

24. The UNOPS Field Level Standard Operating Procedures define the due dates for submission of quarterly work plans by National Programs and for completion of review by UNOPS. The OIG team noted that:

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- i) NTP's submission of the third quarter workplan to UNOPS was delayed 22 days.
- ii) UNOPS' review of the fourth quarter workplan was delayed 14 days.

25. To mitigate the risk of delay in program implementation, NTP and UNOPS should develop a tracker and monitor the timelines defined in Field Level Standard Operating Procedures for the DoH/UNOPS FFM to ensure submission and review of quarterly work plans on a timely basis.



### Annex D: Myanmar Medical Association (MMA)

What grants have been signed with MMA?

1. MMA is a national professional membership organization established in 1949 and a registered NGO.

2. On May 29, 2011, MMA signed Round 9 grant agreements with UNOPS to act as an SR for the malaria and TB programs. The malaria grant agreement provided for USD 662,603 in funds for MMA for the malaria program (with USD 275,122 disbursed as of 31 October 2011). The TB grant agreement provided for USD 903,200 in funds for MMA for the TB program (with USD 91,613 disbursed as of 31 October 2011). The grants are scheduled to end on December 31, 2012.

3. The major objective of the malaria grant is to maximize utilization of ITNs/LLINs and diagnostic and treatment services by the public. The major objective of the TB grant is advocacy, communication, social mobilization and community based DOTS in hard-to-reach areas.

What strengths were identified with respect to financial management and controls?

4. MMA uses the accounting software 'ACE' for recording its financial transactions. This software supports separate recording and accounting for each of the two grants. In addition, actual expenses can be tracked against the detailed budget in ACE.

5. MMA has documented detailed policies and procedures on Human Resources, Cash & Bank and Procurement Management.

6. MMA has good systems in place for the archival of financial documents. The transaction vouchers are systematically archived based on the unique voucher number assigned to each transaction.

What are the risks relating to financial management and controls?

#### **The need to reduce and insure large, uninsured cash-in-hand balances to avoid the risk of loss of grant funds**

7. MMA has not adopted insurance coverage for cash-in-hand or cash-in-transit.

8. On August 26, 2011, the MMA Board decided that the amount of cash-on-hand that the malaria and TB program could each hold at the end of each month could not exceed USD 1,175 (1,000,000 MMK). However, the cash balance held by the TB program at the end of September 2011 was USD 3,079 (2,620,047 MMK), exceeding the limit by USD 1,904 (1,620,047 MMK).

9. To mitigate the risk of loss of cash and payment to unauthorized persons:

- i. MMA should evaluate obtaining insurance for cash-in-hand and cash-in-transit to cover the risk of loss of cash considering the country context; and
- ii. MMA should ensure that the defined cash ceiling limits are adhered to.

**The need to establish a process for verifying the identity of cash recipients to avoid the risk of making payment to unauthorized persons**

10. The OIG team noted that MMA does not maintain proof of identification or contact details of recipients of cash. The OIG team could not verify if cash payments were made to the intended recipient. Maintaining a copy of the beneficiary's ID card with contact detail together with the payment voucher will mitigate the risk of cash payments being diverted to non-intended beneficiary.

11. MMA should:

- i. Reduce cash payments to the maximum extent possible; and
- ii. Verify and document proof of identity of cash recipients along with their contact numbers.

**The need to establish a user manual for the accounting system to avoid in incorrect accounting and reporting**

12. The OIG team's review of MMA's financial accounting system (ACE) highlighted that a user manual for ACE had not been developed. The lack of a user manual may result in incorrect accounting and reporting to the Global Fund.

13. To mitigate the risk of incorrect accounting and reporting, MMA should develop a user manual for ACE to serve as a guide to MMA's personnel.

**The need to report and explain all variances between actual and budgeted expenditures through normal reporting cycles or to obtain the necessary approvals prior to such variances to avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

14. The grant agreement between UNOPS and MMA provides that any changes to the approved work plan can be implemented only after the written approval of UNOPS.

15. The OIG team's review of the MMA malaria grant highlighted that monitoring and supervisions expenses were incurred and charged to the grant in the third quarter, though budgeted for the fourth quarter. An MMA finance officer approved and processed the payment of these expenses without obtaining justification from the authorized manager for incurring the expenditure prior to the quarter for which it was budgeted. In addition, MMA did not obtain specific approval of this change from UNOPS, as was required by the grant agreement.

16. To strengthen the controls over budget monitoring, MMA should establish a mechanism to obtain approval from UNOPS in case of change in periodicity of budget activities.

### **Charging expenses to correct expense cost categories to avoid incorrect reporting to the Global Fund**

17. Under the TB grant, the procurement of a glucometer, stethoscope, bathroom scale and blood pressure set was budgeted under the cost category “Communication Material” instead of “Health Products and Equipment”.

18. To mitigate the risk of incorrect reporting, MMA, in consultation with UNOPS, should review the expense cost categories defined in the budget. Glucometer, stethoscope, bathroom scale and blood pressure set should be included under “Health Products and Equipment” cost category.

What are the risks relating to the procurement of non-health products?

### **The need to strengthen expertise of the procurement team to avoid procurement of sub standards goods, delay in procurement and procurement at a higher price**

19. MMA’s “Procurement Committee” procured non-health products, such as laptops, health education kits, stationery items, car hiring services, office furniture, bags, external hard drive and air conditioners. The cost of these goods amounted to less than USD 2,500. The committee consists of MMA’s Joint Secretary (General), Deputy Director (Program Management Department - PMD), Finance Manager (PMD) and Project Manager. These committee members did not have sufficient expertise in the purchase of such goods.

20. To mitigate the risk of procurement of sub-standard goods, delay in procurement and procurement at a higher price, training and capacity of the procurement team should be undertaken by MMA to build sufficient expertise. Also, assistance from UNOPS should be provided to build capacity at MMA.

### **The need to strengthen controls over vendor selection and payment processing procedures to avoid the risk of value for money not achieved by the Program**

21. The OIG team’s review of the vendor selection and procurement process highlighted the following:

- a) MMA does not maintain a list of empanelled vendors and does not monitor the vendors’ performance at regular intervals. Request for Quotations (RFQs) were sent to vendors based on experience and the judgment of the procurement committee.
- b) MMA does not maintain bid tracking sheet specifying the date of receipt of quotations, name of the vendor, prices quoted, source of receipt of information, etc.
- c) MMA does not specify the appropriate authority for signing vendor contracts on behalf of MMA.
- d) The members of the Procurement Committee did not submit “No Conflict of Interest” declarations.
- e) MMA does not track the status of open purchase orders.

22. The OIG team noted the following:
- I. Five instances where bids were not received as per the criteria specified in the applicable RFQ. However, these bids were included in the bid evaluation.
  - II. Four instances where payments were not approved as per MMA's defined authority matrix.

23. The OIG team's review of MMA's procurement procedures highlighted the following:

- a) Two instances where the vendor with a higher price bid was selected without justification.
- b) Four instances where competitive bidding procedures were not followed. Specifically MMA considered non-responsive bids in the bid evaluation, invited specific car brand quotations without justification and procured products without inviting the minimum number of quotations.
- c) In June 2011, a glucometer, bathroom scale, stethoscope and blood pressure set were procured by UNOPS on behalf of MMA on an emergency basis due to lack of clarity of the respective responsibilities of UNOPS and MMA on the procurement of health products with a value less than USD 2,500 during the initial period of the grant. This led to delay in distribution of such equipment.

24. To strengthen controls over vendor selection process, MMA should:

- i. Prepare an approved vendor list to identify vendors for goods/service regularly purchased and monitor the vendor's performance;
- ii. Prepare a bid tracking sheet specifying the date of receipt of quotations, name of the vendor, prices quoted, source of receipt of information, etc.;
- iii. MMA should define an authority matrix for signing the vendor contracts; and
- iv. MMA should obtain "No Conflict of Interest" declaration from members of the Procurement Committee.

25. In order to improve transparency and competitiveness in procurement and to achieve value for money to generate savings, MMA should:

- i. Provide justification in case the lowest quote is not selected;
- ii. Invite at least three competitive quotations as specified in MMA's Financial Management Guideline (FMG) and document the justification in case the minimum number of quotations as per FMG are not received;
- iii. Not consider the non-responsive quotations to the technical specifications as per request for quotation (RFQ) for bid evaluations;
- iv. Not specify the brand of goods/services in RFQ (unless otherwise necessary); and
- v. Communications between UNOPS and MMA should be improved to define the responsibility for procurement of

health products amounting to less than USD 2,500.

26. MMA should:
  - i. Accept the bids as per the criteria specified in RFQ;
  - ii. Maintain a tracker for purchase orders issued specifying the description of the goods/services, purchase order date, purchaser order amount, date of expected delivery, date of actual delivery, goods receipt note number, amount of invoice and name and designation of the person receiving the goods; and
  - iii. MMA to ensure that payments are approved as per the defined authority matrix.

What are the risks relating to asset management?

**The need to insure assets to avoid the risk of loss of assets being charged to the Global Fund program funds**

27. MMA did not insure assets that were procured as of 30 September 2011.

28. MMA should evaluate obtaining an insurance policy for safeguarding the program assets considering the country context.

**An appropriately detailed vehicle log book to strengthen controls over utilization of program assets**

29. The vehicle log book for the TB program does not include details such as distance travelled or purpose of using the vehicle. The vehicle logbook for the malaria program was not signed by the user of the vehicle.

30. MMA should update the vehicle log book with all the necessary details such as distance travelled, purpose for which the vehicles are used, signature of the user, etc.

What are the risks relating to human resources and payroll?

**The clarity on the personnel selection process to avoid a risk of non-transparency**

31. The OIG team's review of MMA's Human Resource Policy indicated that policies and procedures were not defined for the following:

- i. Minimum number of candidates to be interviewed for each position;
- ii. Documents to be obtained at the time of selection of an employee; and
- iii. Procedures to ensure data confidentiality and integrity, such as use of official emails addresses instead of personal email addresses.

32. The OIG team's review of the recruitment process also highlighted the following:

- i. Vacancy announcements were not published in the newspaper and/or internet, but instead were displayed only on the notice board on MMA premises.

- ii. Written tests and examinations were not conducted prior to recruiting an employee. Assessment was done based on verbal interviews only.
33. MMA should update the existing Human Resource policy to include the following:
- i. Minimum number candidates to be interviewed for each position;
  - ii. Documents to be obtained at the time of selection of employee; and
  - iii. Procedures to ensure data confidentiality, integrity and completeness, such as use of official email IDs, instead of personal email IDs.
34. MMA to make further efforts in:
- i. Identifying suitable candidates for recruitment from broad range of sources including newspapers/internet/recruitment agencies; and
  - ii. Conducting written examination as interview assessment criteria.

### **Payroll reconciliation could avoid risk of unauthorized or inaccurate payment going unnoticed**

35. MMA does not perform a reconciliation of the current month's payroll to the previous month's payroll to verify the accuracy of the current month's payroll processed.
36. MMA should reconcile the current month's payroll to ensure the accuracy of current month's payroll.
- i. Conduct performance appraisal of the employees as mentioned in MMA's Human Resources Policy; and
  - ii. Maintain the employee master to record employee related details, such as contact number, qualification, designation, department, date of joining, date of resignation and salary band of the employee.

### **MMA needs to maintain appropriate personnel records and to conduct performance appraisals of employees, which could avoid employing underperforming staff members**

37. MMA does not maintain personnel records to log employee details such as contact number, qualifications, designations, department, date of joining, date of resignation and salary band.
38. MMA does not conduct performance appraisals of employees, as mentioned in the Human Resource policy.
39. MMA should:
- i. Conduct performance appraisals of the employees as mentioned in MMA's Human Resources Policy; and
  - ii. Maintain the employee master to record employee related

details, such as contact number, qualification, designation, department, date of joining, date of resignation and salary band of the employee.

What are the risks relating to program implementation and reporting?

**Establishment of policies and procedures may avoid inconsistent procedures being followed by MMA employees with respect to financial and asset management, leading to an effective internal control system**

40. MMA's Financial Management Guidelines are not comprehensive. In addition, guidelines relating to asset disposal, obtaining insurance to safeguard program assets, vehicle management and usage monitoring are not defined.

41. MMA should define policies and procedures for disposal of assets, obtaining insurance to safeguard the assets, vehicle management and usage monitoring.

**Through audits and/or audit policies, it may be possible to effectively assess the capacity and internal controls of MMA**

42. The OIG team noted the following with respect to internal audit arrangements at MMA:

- i. MMA does not have an internal audit manual to guide the central internal audit unit.
- ii. No internal audit had been conducted as of the date of the OIG review.

43. MMA should:

- i. Define the guidelines/procedures for conducting the internal audit; and
- ii. Ensure that the central internal audit unit conducts internal audits at periodic intervals and that the audit plan is approved by UNOPS.

### Annex E: Save the Children – US (STC)

What grants have been signed with STC?

1. Save the Children - US (STC) has been working in Myanmar since 1995. In April 2006, STC began working with Save the Children, UK (STC – UK) and Save the Children, Japan under a single management structure called Save the Children in Myanmar, which is one of the largest NGO programs in the country. All three Save the Children organizations continue to fund activities in Myanmar and have separate Memoranda of Understanding (MoUs) with the Myanmar Ministry of Health (MoH). In November 2010, an MoU was signed between the MoH and STC that will remain in effect until November 2016 to provide a legal basis for STC to implement its humanitarian program in Myanmar.

2. STC signed three Round 9 grant agreements (one each for HIV/AIDS, malaria and TB) amounting to an aggregate of USD 44.71 million (with USD 16.52 million disbursed as of 30 September 2011).

3. The objectives of the three grants are as follows: (i) TB control to reduce morbidity, mortality and transmission of TB; (ii) malaria control through rapid and massive scale up of prevention, early diagnosis and effective treatment; and (iii) reduction of HIV transmission and HIV-related morbidity, mortality, disability and social and economic impact.

4. STC appointed UNOPS as the agent responsible for all procurement and supply management for STC's Round 9 grants in Myanmar. However, this arrangement has not been successful, and STC reversed its involvement in the proposed pooled procurement mechanism. STC is strengthening its own PSM unit to conduct procurement for its SRs, both directly through tenders and through UNICEF.

How is STC involved with procurement?

5. Procurement by Médecins Sans Frontières (Artsen zonder Grenzen Netherlands), an SR of STC, amounts to about USD 6.1 million over two years, and procurement by PSI, an SR of STC amounts to about USD 1.7 million. Separate PSM plans and budgets have been approved for these SRs under the HIV grant. NGOs under STC (such as MSF) ensure that the majority of ARV drugs (approximately 70% of the total), as well as the required diagnostics, are available.

6. The LFA needs to assess STC's PSM systems in early 2012 to report and advise on the strengthening measures being taken.

What are the risks relating to procurement?

#### **The PSM mechanism at STC is inadequate and needs to be strengthened**

7. STC is recruiting a capable procurement manager to establish good procurement practices at STC. Standard operating procedures and logistics manuals are available. STC is finalizing specific procurement procedures relating to effective product specifications, the use and role of the procurement committee and the training of staff. Standard operating procedures and logistics



manuals are available. However, the PSM team at STC is relatively inexperienced and leans on the STC – UK office and a part-time consultant.

8. STC should:

- i) Finalize recruitment of long-term PSM manager with skills and experience to set up the systems aligned with Global Fund PSM standards;
- ii) Standardize product lists and specifications, use Médecins Sans Frontières green list and 3DF product list as guidance, write SOP (or use SOP from 3DF) for establishing specifications to avoid additional requirements in specifications, which will make procurement unnecessarily complicated and possibly uncompetitive;
- iii) Update PSM plan for approval by the Global Fund and implement SOPs for procurement; and
- iv) Adopt the corporate procurement manual for specific procedures into an STC procurement and supply management manual in line with corporate policies as well as the Global Fund PSM policies and QA standards for procurement of key health products, inter alia, the Model QA System for Procurement Agents (MQAS). The SCIM PSM manual introduction should be clear on what steps of the PSM cycle STC aims to do in future as PR under Round 9, Phase 2 and which ones it intends to source out.

9. The OIG recommends that:

- i. A valid procurement framework must be set up in line with STC corporate procurement manual for year two per category goods and estimated values/thresholds, using appointed agents, for medicines as agreed with the Secretariat or doing national competitive tenders or depending on value estimated by RFQ method;
- ii. Finalize year two forecasting and procurement plan before December for Global Fund approval ensuring feasible deadlines in the planning;
- iii. Align items in orders (a) with UNICEF online catalogue (standard items) for which UNICEF should in principle be able to respond quickly with a cost estimate and (b) send remainder of items for a competitive quotation to IDA and IMRESS (and MEG) to build in some element of competition.
- iv. In the PSM planning, define exactly which office and which procurement methods (national/international and open/closed tender, request for proposal and direct purchase) are proposed per lot and verify compliance of this plan with applicable policies; and
- v. Seek agreement with UNICEF/IDA for receiving quotations, lead times and fees so that deliverables can reasonably be expected to arrive as planned

10. Use of the appointed procurement agents for year two is an interim measure exceptionally approved by the Secretariat. STC should prepare in year two (2011/2012) for Phase 2 to either have full PSM supported by a procurement unit with adequate capacity in place or alternatively have procedure ready and approved by the

Global Fund for the selection and pre-qualification of an external agent for procurement and supply health goods.

### **The need to implement effective LMIS, which may result in effective controls over products**

11. LMIS is the only mechanism to provide reliable and systematic feedback on stocks, consumption rates, stock outs and expired goods. This information is necessary to place future orders and prevent inadvertent loss, substitution of supplies with inferior or fake products and theft of supplies.

12. STC has not implemented an effective LMIS or a minimum level of monitoring of the supply chain i.e. sampling and testing. As a result, there are no complete stock reports, calculations of average consumption rates or losses/adjustments in stocks available at STC or data on potentially reduced stability of temperature/humidity sensitive product in the supply chain. Therefore, the effectiveness of controls to avoid the risk of possible overstocks and expired stocks and the risk of loss or misappropriation or deterioration of goods could not be fully assessed.

What strengths were identified with respect to financial management and controls?

13. SC has documented detailed policies and procedures on Financial Management, Program Management, Sub Recipient Management and Procurement.

14. SC is using the accounting software 'Sun Systems' for recording its financial transactions. This software supports separate recording and accounting for each of the three grants and is further divided into the 13 cost categories.

15. SC has good systems in place for the archival of financial documents. Transaction vouchers were systematically archived based on the unique voucher number assigned to each transaction.

What are the risks relating to financial management and controls?

### **The need to monitor foreign exchange rate quotes to avoid premature exhaustion of the budget and adequate supervision of the currency conversion process may avoid risk of misappropriation of funds**

16. The procedures for foreign exchange conversion approved by the Global Fund on May 05, 2011 provide that STC must ensure that currency exchange operations are in compliance with Country Team approved procedures for foreign exchange. In addition, the Country Director's office was to independently verify the rates obtained by the STC Finance Department.

17. However, the OIG team's review highlighted the following:

- i. The Country Director's office has not obtained foreign exchange rates since June 2011. As a result, independent monitoring of the exchange rates obtained by the finance department was not occurring.
- ii. Currency exchange should be conducted as per Country Team approved guidelines.

18. To ensure that STC obtains the most competitive exchange rates, enable adequate oversight over conversion of USD and minimize the risk of transactions with restricted personnel/organizations, STC should implement the following Global Fund Secretariat approved procedures on monitoring foreign exchange rates e.g. Country Director's office to independently monitor the exchange rates which are obtained by the finance department.

### **The need for Global Fund-specific financial training to avoid incorrect accounting and reporting the Global Fund**

19. The STC finance staff has not undergone any training on Global Fund-specific requirements, such as accounting, budget monitoring and reporting.

20. To improve the management of the Global Fund grants, STC should provide training to key finance staff on Global Fund-specific requirements on accounting, budget monitoring, reporting, etc.

### **The need for a process for verifying the identity of cash recipients mitigates the risk of making payment to unauthorized persons**

21. The OIG team noted that STC does not maintain proof of identification or contact details of recipients of cash. The OIG team could not verify if cash payments were made to the intended recipient.

22. To mitigate the risk of making payments to unauthorized persons and improve transparency, STC should implement additional controls of verifying identity proof of cash recipient and filing a copy of the verified identity proof and contact details of the recipient along with the payment voucher for future reference. Considering the risks associated with cash payments, maintaining copy of ID card with contact detail together with the payment voucher will mitigate the risk of cash payment to non –intended beneficiary.

### **The need for a process to settle advances to avoid excess payout to vendors on a timely basis**

23. The OIG team noted that STC made advance payments of USD 1.05 million to UNOPS for the procurement of health products had not been adjusted in STC's books for over 153 days.

24. To ensure accurate advances in the books of accounts, STC should strengthen their accounting process by timely recording of expenses and adjustment of advances (paid to UNOPS for health products) in the books.

### **Payment processing with appropriate supporting documentation may avoid ineligible expenses or excess payouts**

25. On review of a sample of transactions, OIG noted:
- i. In two instances, payments pertaining to travel for the family of an employee to Myanmar and MacAfee Antivirus renewal charges were processed without obtaining supporting documents such as an invoice and travel tickets.
  - ii. In four instances, payment requests and approval documents relating to expenses pertaining to airfare, visa charges and antivirus renewal charges were not available for OIG review.
  - iii. In four instances, a 'PAID' stamp was not affixed on the supporting documents (invoice and travel tickets).
26. To ensure that only eligible expenses are charged to the Global Fund grant funds, STC should:
- i. Obtain and verify the documents (e.g. invoice, travel tickets, etc.) supporting the expenses incurred;
  - ii. Ensure that payments are approved as per STC's defined authority matrix; and
  - iii. Ensure that supporting documents (invoice, travel tickets, etc.) attached with the payment voucher are stamped "PAID" or cancelled/scored out to avoid resubmission.

**The need of procedures to monitor expenses against the detailed budget may avoid a failure to identify or explain variances between actual and budgeted expenditures, which may avoid ineligible expenses being charged to the grants**

27. The Sun Systems accounting software in which STC records its expenses is only linked to the 13 cost categories defined in the budget and does not allow tagging of activity codes as defined in the detailed budget. This may result in a failure to track expenses in accordance with the detailed budget approved by the Global Fund.

28. To ensure that only eligible and budgeted expenses are charged to the Global Fund, STC should:

- i. Verify that expenses are booked against the activities defined in the detailed budget plan;
- ii. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011 (available at the Global Fund's website); and
- iii. Comply with the specific guidance by the Global Fund Secretariat on Budget Flexibility.

**The need for a rationale for the allocation of shared costs to avoid the charging of ineligible amounts to program funds**

29. STC charges a 15% percent of the total payroll cost for shared employees to the Global Fund grants. STC has not defined or documented the rationale for allocating these expenses to the Global Fund grants.

30. Expenses are allocated by STC to the three Global Fund grants based on the ratio of total budget of the three grants (65%, 25% and 10% for HIV, TB and malaria, respectively) instead of allocating the expenses as per the percentages defined in the approved budget.

31. To ensure that the Global Fund is charged a fair portion of shared operating/payroll costs, STC should define and document the rationale for allocation of these costs, which should be approved by the Global Fund Secretariat.

**The need to report and explain all variances between actual and budgeted expenditures through normal reporting cycles or to obtain the necessary approvals prior to such variances may avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

32. The Global Fund budgeting guidelines provide that a PR may change the approved budget to respond to program realities up to a level that is not considered material (e.g., to reflect changes in unit costs of items being purchased). However, the PR must inform the FPM/Country Team of any non-material budget change through the normal reporting cycle (i.e. PU/DR). For material budget changes, a request to change the budget must be submitted to the Global Fund for approval and to the CCM for information. Furthermore, the guidelines specify that in specific situations (e.g. with a new PR, or a heightened risk of misuse of funds), the Global Fund reserves the right to require the PR to seek approval for all budgetary changes or may define a specific threshold for budget flexibility.

33. The OIG team identified the following list of unbudgeted expenditures, or costs in excess of the approved budget, that were not adequately justified or approved and not reported through normal reporting cycles e.g. the related PU/DR:

- i. Entertainment expenses for a farewell party of an employee;
- ii. Accommodation expenses for a consultant who was not working for the Global Fund grants;
- iii. Six printers were budgeted for USD 1,200; however, one printer was purchased for USD 4,150, resulting in budget overrun of USD 2,950.

34. To ensure that only eligible and budgeted expenses are charged to the Global Fund grants, STC should:

- i. Ensure that the expenses charged to the grant are eligible (as per the approved grant budget) and all ineligible expenses should be refunded to the program;
- ii. Ensure refund of unbudgeted expenses to the program;
- iii. Ensure that expenses are approved by the respective budget holder prior to incurring such expenditure;
- iv. Obtain a written approval from the Global Fund Secretariat prior to incurring the expense, in case the expense exceeds the

- budgeted amount;
- v. Ensure that expenses are allocated to correct budget cost category; and
- vi. Seek clarification from the Global Fund on tolerance limits, which is not mentioned in “Guidelines for Budgeting” released by the Global Fund on 15 August 2011.

### **Charging expenses to correct expense cost categories to avoid incorrect reporting to the Global Fund**

35. Expenses relating to meal expenses for an M&E workshop were charged to the cost category ‘Communication Material’ instead of ‘M&E’, and office car rental expenses was charged to ‘Infrastructure & Equipment’ instead of ‘Planning & Administration’.

What are the risks relating to asset management?

### **The need for insurance of assets to avoid the risk of loss of grant funds**

36. The total value of uninsured assets procured from Global Fund grant funds amounts to USD 35,362.

37. To mitigate the risk of financial loss in case of theft, loss or damage to assets procured from Global Fund program funds, STF should consider the country context and evaluate options to insure the fixed assets procured from Global Fund grants.

What are the risks relating to program implementation and reporting?

### **The need for documentation with respect to employee recruitment to avoid a risk that unsuitable candidates may be hired**

38. While reviewing sample transactions, OIG noted that:

- i. In one instance, the evaluation sheet for a PSM manager position was not available for review.
- ii. In two instances, the evaluation sheet was not signed by any of the three interview panelists.
- iii. In two instances, interview panelists did not score the candidate on each parameter, and total score was not given in the evaluation sheet.
- iv. In two instances, evidence of reference checks was not documented.

39. To strengthen the controls over recruitment and selection process, STC should:

- i. Ensure that screening of candidate is performed in accordance with the parameters specified in interview points (score cards) by awarding scores for each parameter and interview panelist signing their respective interview points; and
- ii. Document of the reference check of the new joiners.

### **Timely selection of an external auditor and the submission of internal audit reports may result in effective assessments of STC’s operations**

40. Under the grant agreement, an external auditor should have been appointed for STC by June 30, 2011. At the time of the OIG review, the external auditor had not been appointed. However, the Global Fund approved the Terms of Reference for the external audit in September 2011.

41. Under the grant agreement, STC was required to share the findings of the internal audit with the Global Fund, including the responses to any recommendations made or weaknesses identified in the report. However, the internal audit reports were not made available to the OIG team for review. Therefore, the OIG team could not comment on the effectiveness of the internal audit arrangement and the implementation status of the recommendations. The OIG team also noted that the internal audit plan had not yet been finalized for STC.

42. To effectively monitor STC's operations and to comply with the special terms and conditions of the grant agreement, STC should prepare and document its internal audit plan. Both plan and scope of work to be shared with Global Fund for their approval.

43. STC should prepare and document its internal audit plan. The plan and scope of work to be shared with Global Fund for their approval.

### **A mechanism to ensure correct expense reporting in PU/DR could avoid ineligible expenses charged to Global Fund grants**

44. The OIG team noted that STC did not have a process for reconciling expenses reported in the PU/DR with its financial records. A comparison of accounting records with the second PU/DR (for all the three grants) submitted by STC to the LFA highlighted the following:

- i. SR disbursements, as reported in the PU/DR for malaria, exceeded the actual disbursements, as per the financial records, by USD 49,739.
- ii. PR expenses, as reported in the PU/DR for HIV, exceeded the actual expenses, as per the financial records, by USD 2,003.
- iii. STC expenses, as reported in the PU/DR for malaria, were less than the actual expenses, as per the financial records, by USD 11,816.

45. To mitigate the risk of incorrect reporting to the Global Fund, STC should:

- i. Ensure that financial reports are prepared in accordance with the Global Fund's reporting guidelines; and
- ii. Improve the review procedures of financial reports submitted to the Global Fund.

### **The establishment of minutes of meeting to avoid risk of no follow-up on actionable items**

What are the risks relating to SR monitoring?

46. The OIG team noted that minutes for the management meeting, conducted to review programmatic processes and financial updates, were not documented.

47. To mitigate the risk of absence of follow-up on an action points, minutes of management meetings should be prepared and formally documented to monitor the issues and actions decided.

**Through audits, it may be possible to effectively assess the capacity and internal controls of the SRs and SSRs**

48. The SR oversight team includes personnel from various functions including monitoring and evaluation, program and finance. This team is responsible for continued assessment and capacity building within the areas of financial management, budgeting, accounting, treasury and asset management. Additionally, this team is responsible for planning, organizing and undertaking SR capacity building.

49. An internal audit was not conducted for the STC SRs until the OIG review. The internal audit plan for SRs was prepared in June 2010 and subsequently submitted to the Global Fund and is being revised based on a risk assessment of the SRs.

50. STC did not provide the OIG with any documents that verify financial reports with the transaction listing submitted by SRs.

51. To ensure effective monitoring and assessment of internal controls and capacity of SRs, STC should:

- i. Finalize an internal audit plan for SRs and obtain approval of the Global Fund;
- ii. Conduct a joint review by program and finance team to ensure that programmatic progress is in line with the expenses reported by the SRs; and
- iii. Verify the quarterly financial reports and supporting documents submitted by SRs.

What are the risks relating to the procurement of non-health products?

**The need for controls over the vendor selection process for non-health products to avoid the risk of procurement through higher cost vendors**

52. STC's Procurement Policy governs the procurement of non-health products. The logistics department procures goods upon request from various STC departments.

53. The OIG's review of STC's procurement procedures and sample transactions highlighted the following:

- i. In two instances, vendors with higher price bids were selected without adequate justification.



- ii. In one instance, a bid was accepted after the bid submission deadline specified in the Request for Quotation (RFQ). In addition, the same vendor was awarded the contract.
- iii. In one instance, bids were rejected without adequate justification.
- iv. In one instance, an expired quotation was considered for vendor evaluation process.
- v. In two instances, the vendor did not submit a legal registration copy of the company, as required per the RFQ.
- vi. In two instances, the minimum numbers of quotations (as required by the policy) were not obtained.
- vii. In three instances, the RFQ was not raised by STC. Therefore, it cannot be ensured that same specifications, terms and conditions were communicated to all the vendors.
- viii. In one instance, a quote was received after the purchase order date. This vendor was later awarded the contract.
- ix. In six instances, neither the date of requisition nor the expected date for delivery of goods was mentioned on the purchase requisition raised by STC.
- x. In one instance, the date of advertisement was not agreed in the purchase order raised for an employment vacancy advertisement, leading to ambiguity in the delivery date of the service.
- xi. In nine instances, the description of the expense for recording the transaction in the account books was not adequate.
- xii. In one instance, the purchase order creation date was not mentioned; therefore delivery in accordance with the requisite timeline could not be verified.

54. To strengthen controls over the vendor selection process, STC should:

- i. Adopt good tendering practices to achieve value for money through transparent and competitive bidding by obtaining multiple vendor quotations in accordance with the policy;
- ii. Document the justification in case competitive quotes are not available or the lowest quote vendor is not selected; and
- iii. Document the RFQ with detailed specifications and ensure that the quotations considered for evaluation comply with the standard terms and conditions specified in the RFQ.

55. The OIG recommends that:

- i. Purchase requisition should be dated to ensure procurement of goods within requisite timeframe;
- ii. Purchase order should clearly define the standard terms and conditions (like expected date of delivery, quantity, unit rate, etc.) in order to avoid ambiguity and ensure timely and effective procurement;
- iii. STC should incorporate expense description in the books of accounts instead of giving a generic description for all expenses incurred for month to ensure efficient control over the expense incurred and accounted for; and
- iv. Purchase order should be dated to ensure timely delivery of goods.

What additional concerns exist?

56. STC has Global Fund PR experience in Bangladesh and Nepal. The LFA capacity assessment done in June 2010 showed that STC meets the minimum requirements as a PR. The assessment identified sub-recipient management, particularly HIV and TB program monitoring, as relatively weak. The OIG review team met with STC program and M&E teams and was given a demonstration (supported by examples of program field trip reports and data quality spot-checking reports) on the latest development in these areas. The M&E system has since been strengthened to ensure close working relationships between PR's program, finance and M&E teams during regular reporting cycles by SRs and data quality spot-checking system (Random Data Quality Assessment) to encourage SRs to maintain high data quality at all times. STC's M&E team is now fully staffed, and team members demonstrated strong M&E knowledge and a good understating of how to work with program and finance teams to ensure that the best possible programmatic outcomes and impact could be delivered with the support of M&E team's work.

### Annex F: International Organization for Migration (IOM)

What grants have been signed with IOM?

1. The International Organization for Migration (IOM) has been operational in Myanmar since 2005. IOM focuses on providing health services to migrants and mobility impacted communities in collaboration and in accordance with a Memorandum of Understanding (MoU) with the Myanmar Ministry of Health (MoH). The MoU was signed in February 2010 and terminates after two years. IOM is an intergovernmental organization established in 1951, with headquarters in Geneva. It is represented in Southeast Asia by the regional office in Bangkok and in Myanmar by its head office in Yangon.
2. IOM has signed three Round 9 grant agreements with Save the Children – US to act as SR for the HIV/AIDS, malaria and TB programs. Under the agreements, a total of USD 5.25 million in grant funds has been made available to IOM (with USD 1.97 million disbursed as of 30 September 2011).
3. The main objectives of these three grants are: (i) TB control to reduce morbidity, mortality and transmission of TB; (ii) malaria control through the rapid and massive scale up of prevention, early diagnosis and effective treatment; and (iii) the reduction of HIV transmission and HIV-related morbidity, mortality, disability and social and economic impact.

What strengths were identified with respect to financial management and controls?

4. IOM has documented detailed policies and procedures on Financial Management, Program Management, Sub-Recipient Management and Procurement.

5. IOM uses the accounting software 'PRISM' for recording its financial transactions. This software supports separate recording and accounting for each of the three grants and is further divided into the 13 cost categories.

What are the risks relating to financial management and controls?

**Single bank account for receipt of funds from each donor to avoid risk commingling of funds and interest income not adequately credited to the Global Fund program**

6. IOM's headquarters deposits funds received from different donors in a single bank account and disburses the funds to its local office in Myanmar on the basis of monthly requests. The OIG team noted that IOM had not accounted for the bank interest in their books of accounts.

7. To mitigate the risk of commingling of funds and not accounting for bank interest, IOM should maintain a separate interest bearing bank account for managing the Global Fund grant and the interest income should be accounted in the books and reported in quarterly reports submitted to STC.

**Payment processing with obtaining appropriate supporting documentation and adequate controls around payment processing may avoid ineligible expenses or excess payouts**

8. On review of sample transactions, the OIG team noted that in two instances relating to construction and renovation of medical labs, there were no supporting documents, such as an invoice or statement of work completion. However, IOM paid these vendors a total of USD 1,451 in the absence of supporting documents.

9. The OIG team also noted that there were no controls in the PRISM software to prevent the processing of duplicate invoices.

10. The accounting system in Yangon does not generate advance ageing reports. Finance staff prepare a manual advance ageing report on a monthly basis. Based on this report, IOM's back office prepared and forwarded the details of long aged advances to Yangon, however, the criteria and periodicity to extract the report were not defined.

11. To strengthen controls over payment processing and mitigate the risk of unauthorized/ineligible expenses being charged to the Global Fund grants, IOM should obtain and verify the documents, i.e. invoice, work completion document, etc., supporting the expenses incurred.

12. To mitigate the risk of excess payout to the vendors and delay in settlement of advances, IOM should:

- i. Define system controls to avoid processing of duplicate invoices

- in the accounting system (PRISM); and
- ii. Ensure that PRISM at Yangon supports generation of ageing report for outstanding advances. Process should be defined for periodicity and criteria for review of outstanding advances. The advance ageing report should highlight the outstanding advances to vendors and the number of days since when it is pending to be adjusted in the books of accounts.

### **Stronger foreign exchange controls and cash-in-hand guidelines may avoid misuse of program funds and loss of funds**

13. The OIG team noted that certain critical policies and procedures were not documented, such as procedures for foreign exchange and policies for minimum and maximum cash-in-hand.

14. To mitigate the risk of misuse/loss of program funds, IOM should document and policies and procedures for the following:

- i. Foreign exchange conversion with guidelines on obtaining bids by a person independent of the finance department and conducting background checks of the money exchangers; and
- ii. Minimum/maximum limit for cash in hand.

### **Providing adequate rationale for the allocation of shared costs may avoid charging of unreasonable amounts to the Global Fund programs**

15. IOM charges a percentage of total payroll cost for shared employees to the Global Fund grants. OIG noted that rationale for the percentage allocated to the Global Fund grants had not been defined and documented.

16. IOM does not allocate the cost of assets (such as office furniture and telephones) to the donor for which the assets were used. Assets purchased under the Global Fund grants were used for other programs.

17. To ensure that the Global Fund is charged a fair portion of shared payroll costs, IOM should define and document the rationale for allocation of this cost, which should be approved by the Global Fund Secretariat.

18. To ensure that the Global Fund is charged a fair portion of the cost of assets, IOM should define and document the rationale for allocation of cost of fixed assets to various donors based on the actual usage of the assets. This rationale should be approved by the Global Fund Secretariat.

### **Accurate accounting records may avoid ineligible expenses charged to Global Fund grants**

19. The OIG team noted that cash transactions amounting to USD 5,623, for the period October 11, 2011 to October 19, 2011, were recorded in a cash register maintained in Excel but were not updated

in the PRISM accounting software.

20. To mitigate the risk of inaccurate accounting records, IOM should ensure timely recording of cash transactions in the books of account (PRISM).

### **The need for cash insurance to avoid the risk of loss of cash**

21. IOM has not obtained cash-in-hand and cash-in-transit insurance. The absence of cash insurance poses the risk of loss of cash required for program implementation and increases the risk of loss of funds.

To mitigate the risk of loss of cash, IOM should evaluate obtaining insurance for cash-in-hand and cash-in-transit considering the country context.

### **The need to strengthen process for verifying the identity of cash recipient mitigates the risk of making payment to unauthorized person**

22. OIG noted that IOM did not maintain proof of identification of the recipient of cash along with contact details. OIG could not verify if the cash payments were made to the intended recipient.

23. To mitigate the inherent risk of making cash payments to unauthorized persons and improve transparency, IOM should implement additional controls of verifying identity proof of the cash recipients and filing a copy of the verified identity proof and contact details of the recipient along with the payment voucher for future reference.

### **The need to report and explain all variances between actual and budgeted expenditures through normal reporting cycles or to obtain the necessary approvals prior to such variances to avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

24. The Global Fund guidelines for budgeting requires that a PR may make non-material changes to the budget to respond to program realities. For example, a PR may revise the budget to reflect changes in unit costs of items being purchased. The PR must inform the FPM/Country Team of non-material budget changes through the normal reporting cycle (i.e. PU/DR). A PR must submit requests to make material budget changes to the Global Fund for approval and to the CCM for information. The SR must request approval of the PR if the changes occur at the SR level.

25. OIG noted instances of costs in excess of approved budgets that were charged to the Global Fund grants:

- i. In 13 cases, salary payments exceeded the budget.
- ii. Reimbursement of travel cost exceeded the approved budget.
- iii. The per diem allowance for attending antiretroviral training

exceeded the approved budget.  
iv. The renovation cost of the medical labs exceeded the approved budget.

26. These budget variances were approved by the budget controller and authorized by the Program Manager and Resource Management Officer at the Yangon office. The variances were not approved by STC.

27. To ensure that only eligible and budgeted expenses are charged to the Global Fund grants, IOM should obtain a written approval from STC prior to incurring the expense, in case of budget overruns.

What are the risks relating to the procurement of non-health products?

### **The need for controls over vendor selection and ordering processes to avoid the risk of procurement through higher cost vendors**

28. IOM's Procurement Policy details the procurement procedures that need to be followed. The OIG team noted the following instances where the tendering practices followed by IOM did not ensure value for money:

- i. In seven instances (relating to the purchase of a TV, DVD player, amplifier, sound box, generator, LCD projector, second hand bicycle, rice and oil), amounting to USD 34,309, Requests for Quotations (RFQs) were not sent to the vendors.
- ii. In three instances (relating to the purchase of a TV, DVD player, amplifier, sound box, generator, LCD projector, and second hand bicycle), amounting to USD 22,491, a vendor other than the least cost vendor was selected without a documented justification.
- iii. In two instances, IOM rejected vendors (for rice and oil) because the vendors had bid for only certain items and not all. IOM selected the vendor with the consolidated bid, resulting in excess expenditure of USD 1,511.
- iv. IOM had not defined the timelines for vendors to submit quotations in response to RFQs.
- v. In one instance (relating to renovation of medical labs), there was no technical evaluation performed prior to selection of the vendor.

29. To strengthen the controls over vendor selection and ordering processes, IOM should:

- i. Adopt good tendering practices, to achieve value for money through transparent and competitive bidding and document the justification in case lowest quote vendor is not selected;
- ii. Define the timelines for vendor to respond to RFQ;
- iii. SLAs for various activities in procurement like raising a purchase order, receiving the material and delivery of the material to the user to be defined; and
- iv. Define the basis of evaluating the vendors, including technical and commercial evaluation. All competing vendors should be evaluated using the approved basis.



What are the risks relating to human resources and payroll?

### **Regular payroll reconciliation to avoid the risk of inaccurate payroll processing**

30. IOM processes salaries on a monthly basis. The monthly salary report is reviewed and approved by the Program Director and Resource Management Officer. The OIG team noted that IOM does not perform a reconciliation of the current month's payroll to the previous month's payroll to verify the accuracy of the current month's payroll processing. Further, the reconciliation of net-payable salary with actual payments was not done.

31. To improve controls over payroll processing:

- i. IOM to perform month to month payroll reconciliation; and
- ii. Reconciliation between net payable salary and payments processed.

### **Adequate segregation of duties may result in improved internal control**

32. The OIG team noted conflict in segregation of duties in one instance. A recipient, who had taken the advances for procurement of material for renovation of the lab, had also purchased the material and received materials by himself.

33. To mitigate the risk of weak internal controls in the procurement process, IOM should following segregation of duties as per the policy avoiding overlapping of the functions.

What are the risks relating to asset management?

### **The need to insure assets to avoid loss of grant funds due to damage or loss of assets**

34. The total value of uninsured assets procured by IOM from Global Fund grants amounts to USD 20,550.

35. To mitigate the risk of financial loss in case of theft, loss or damage to assets procured from Global Fund program funds, IOM should evaluate obtaining an insurance policy for safeguarding the program assets considering the country context.

What are the risks relating to program implementation and reporting?

### **Timely submission of programmatic and financial reports to avoid delays in reporting to the Global Fund**

36. The OIG team noted delays in IOM's submission of financial reporting and programmatic reporting to STC. The first quarter report was delayed five working days, and the second quarter report was delayed three working days.

37. To mitigate the risk of delay in reporting, IOM should:

- i) Ensure that financial reporting and programmatic reports are submitted to STC within the due dates; and
- ii) Prepare a reporting calendar for reports to be submitted to STC to monitor timely submission.

**The need for adequate assessments of IOM's internal controls and filling vacancies in critical position may improve program implementation**

38. The OIG team noted that IOM had not developed a formal internal audit plan, and the position of Program Head was vacant.

39. To mitigate the risk of inadequate coverage and assessment of internal controls, IOM should:

- i) Develop an internal audit plan and coordinate with its headquarters to conduct the audit at periodic intervals; and
- ii) Ensure organizational structure adequately supports the management of the grants by filling the vacancy of Program Head position as per the approved budget.

### Annex G: Médecins du Monde (Mdm)

What grants have been signed with Mdm?

1. Médecins du Monde (Mdm) in Myanmar is a part of Médecins du Monde, France, a non-governmental humanitarian aid organization. Mdm has implemented a comprehensive approach to HIV/AIDS in Myanmar since 1994 and has developed prevention and care services for sex workers, men having sex with men and drug users.

2. Mdm signed a Round 9 grant agreement with Save the Children to act as an SR for the HIV/AIDS program. The grant agreement provided for USD 4.94 million in funds for Mdm, with USD 1.1 million disbursed as of 30 September 2011.

3. The activities performed by Mdm as SR include distributing condoms and lubricants to FSWs and MSM and creating awareness about HIV/AIDS among FSWs and MSM.

4. Mdm has documented detailed policies and procedures on Financial Management, Program Management, Sub Recipient Management and Procurement.

5. Mdm is using the accounting software 'SAGA' for recording its financial transactions. The accounting software supports separate recording and accounting for each grant or donor and is further divided into the 13 cost categories

What strengths were identified with respect to financial management and controls?

6. Mdm has internal controls in place for monitoring and timely settling employee advances. Mdm records details of advances to employees in a manual register and all employee advances are settled within a month.

7. Mdm has good systems in place for the archival of financial documents. The transaction vouchers are systematically archived based on the unique voucher number assigned to each transaction.

What are the risks relating to financial management and controls?

#### **Complete and accurate bank reconciliations to avoid misuse of funds**

8. Mdm holds Global Fund grant funds in two bank accounts: one at HSBC in Bangkok; and one at Myanmar Foreign Trade Bank in Yangon. The bank reconciliation statements of these two bank accounts are prepared and documented by the accountant. However, there is no documented evidence of an independent review of the bank reconciliations by senior finance personnel.

9. To mitigate the risk of incomplete and inaccurate bank reconciliations, Mdm should ensure that the bank reconciliations are independently reviewed and documented by a senior finance personnel.

### **The need to reduce a large number of cash transactions, to insure cash-in-hand and to establish a process to identify cash recipients to avoid the risk of loss of program funds and payments to unauthorized persons**

10. Mdm made all vendor and salary payments by cash. It converted US dollars to local currency to fund program activities.

11. The OIG team noted seven instances, amounting to USD 8,494, where Mdm did not maintain proof of identification or contact details of the recipient of cash. OIG could not verify if the cash payments were made to the intended recipient.

12. Mdm has not obtained cash-in hand or cash-in-transit insurance.

13. To mitigate the risk of loss of program funds and payment to unauthorized persons, Mdm should:

- i. Reduce cash payments to the maximum extent possible; and
- ii. Implement additional scrutiny controls on supporting documentation to support cash payments (e.g., copy of ID and contact number of cash recipient to be verified and documented).

14. Mdm should evaluate obtaining insurance for cash-in-hand and cash-in-transit considering the country context.

### **Unauthorized expenses were charged to Global Fund grants**

15. Mdm's finance manual requires that all expenses be approved by an authorized person prior to processing payment. OIG noted three instances, where expenses were incurred without obtaining approval.

16. To mitigate the risk of unauthorized expenses being charged to the grant, Mdm should ensure that the expenses are approved as per the authority matrix before processing payment.

### **The need to ensure accurate accounting records to avoid ineligible expenses charged to Global Fund grants**

17. Mdm began using the accounting software 'SAGA' for recording its financial transactions in September 2011. The OIG team noted that the user manual for the software had not been developed, and the system did not generate ageing report of advances to provide monitoring of the advance payments.

18. To mitigate the risk of incorrect accounting and reporting and to effectively monitor advances, Mdm should:

- i. Develop an user manual for the accounting software 'SAGA' to provide technical guidance to the finance staff; and

- ii. Explore the possibility of generating advance ageing report from 'SAGA'. The advance ageing report should highlight the outstanding advances to vendors and the number of days since when it is pending to be adjusted in the books of accounts.

### **Holding funds from each donor in a single different bank account to avoid a risk of commingling funds and interest income not being adequately allocated to Global Fund grants**

19. Mdm's headquarters holds funds from different donors in a single bank account and disburses the funds to Mdm in Myanmar on the basis of monthly requests. The OIG team noted that Mdm had not accounted for the bank interest in their books of accounts as of the OIG's review.

20. Mdm should maintain separate interest bearing bank accounts for managing Global Fund grants and the interest income should be accounted and reported.

### **Payment processing followed by defacing the supporting documentation to avoid the risk of duplicate payments**

21. The OIG team noted that vendor invoices were stamped with a "PAID" seal upon payment. However, other supporting documents attached with the payment voucher (such as vendor quotes and purchase order) were not stamped "PAID", which increases the risk of resubmission of such documents for payment.

22. All supporting documents attached with the payment voucher (such as vendor quotes, purchase orders, etc.) should be stamped "PAID" or cancelled to avoid resubmission.

### **The need for a mechanism of a rational for allocating shared costs to avoid charging unreasonable amount to grant funds**

23. Mdm allocates the salary cost of shared staff on the basis of allocation percentages approved by Mdm's Country Representative on a monthly basis. However, these percentages were defined based on management's sole judgment, and the rationale for such allocation was not documented.

24. Mdm should define and document the rationale for the percentage of salary cost allocated to the Global Fund grants.

### **Obtaining the necessary approvals prior to variances between actual and budgeted expenditures to avoid possible ineligible and unbudgeted expenses being charged to the Global Fund grants**

25. The Global Fund guidelines for budgeting requires that a PR may make non-material changes to the budget to respond to program realities. For example, a PR may revise the budget to reflect changes

in unit costs of items being purchased. The PR must inform the FPM/Country Team of non-material budget changes through the normal reporting cycle (i.e. PU/DR). A PR must submit requests to make material budget changes to the Global Fund for approval and to the CCM for information. The SR must request approval of the PR if the changes occur at the SR level.

26. Mdm prepared an annual budget for Global Fund activities, which was approved by STC. The Mdm Finance Coordinator prepares a budget variance report on a monthly basis. Department personnel document the reasons for budget variances. All expenses are approved by authorized personnel and by budget holders prior to processing a payment or creating a purchase requisition.

27. The OIG noted that total actual expenses exceeded the approved budget in two cases:

- i. 'Infrastructure and Other Equipment' for USD 14,983 resulting in a 24% budget overrun.
- ii. 'Living Support to Clients/Target Population' for USD 1,954 resulting in a 6% overrun.

28. The OIG team noted two instances, amounting to USD 4,352 (3,758,000 MMK), where expenses pertaining to the budget line item "Overheads" were wrongly charged to the budget line item "Infrastructure and other equipment".

29. Per the procurement policy, the budget holders are responsible for ensuring budget availability before approving purchase requisitions. The OIG team noted that budget activity codes were not documented in the purchase requisitions for verification of budget availability.

30. Mdm should:

- i. Ensure that all budgetary variances are identified and approved by STC;
- ii. Ensure that the expenses are charged under the correct budget code; and
- iii. Establish a documented mechanism to verify the purchase request against the available budget under each budget line item prior to approval.

### **The need to strengthen controls over the vendor selection process to avoid the risk of procurement at higher cost**

31. STC was responsible for procuring health products on behalf of Mdm. Procurement of non-health products was governed by the procurement policy issued by Mdm's headquarters. Mdm's logistics department procured goods upon request from user departments. The OIG team's review of the procurement procedures followed by Mdm and sample procurement transactions highlighted the following:

What are the risks relating to procurement non-health products?

- i. Mdm does not have a standard list of vendors for local procurement. There were no clear guidelines for selecting or short listing suppliers for sending Requests for Quotations (RFQs).
- ii. Purchase orders issued by Mdm to suppliers did not contain the standard terms and conditions.
- iii. There were ten instances, amounting to USD 23,067 (19,379,850 MMK), where RFQs were not sent to vendors. Instead, vendors were ASKED for quotes over phone.
- iv. There were three instances, amounting to USD 3,035 (2,567,700 MMK), where the minimum of three quotes, as prescribed by Mdm's procurement policy, were not obtained.
- v. There were three instances, amounting to USD 4,767 (3,587,600 MMK), where quotes obtained from the vendors were neither on the vendor's letterhead nor stamped.
- vi. There were two instances, amounting to USD 1,522 (1,194,800 MMK), where the invoice amount was higher than the purchase order. However, no further approval had been obtained prior to processing the vendor payment.
- vii. There were ten instances, amounting to USD 13,483 (11,061,300 MMK), where purchase orders were not prepared.
- viii. There was one instance, amounting to USD 2,995 (2,245,850 MMK), where the purchase order was raised after receipt of the goods.
- ix. There were five instances, amounting to USD 2,936 (2,390,300 MMK), where goods receipt notes were not prepared upon receipt of goods.

32. Mdm should ensure that:

- x. RFQs are documented with detailed specifications and sent to the vendors;
- xi. Minimum number of quotes to be obtained as per Mdm's procurement policy;
- xii. All quotes obtained from the vendor are on vendor's letterhead and stamped;
- xiii. Approval from the authorized person who initially approved the purchase order is obtained prior to vendor payment in case the invoice amount is higher than purchase order;
- xiv. Purchaser orders are prepared for all purchases except petty cash purchases; and
- xv. Goods receipt note is prepared for all goods received.

33. Mdm should update the procurement policy relating to RFQ method of procurement to incorporate the following controls:

- i. A list of standard vendors should be prepared for local procurement;
- ii. In the absence of a list of standard vendors, a justification note should be prepared justifying the reasons for selection of vendors for sending RFQ.

34. Mdm should include the standard terms and conditions as a part of purchase orders to safeguard Mdm's interest.

What are the risks relating to program implementation and reporting?

### **Monthly payroll reconciliation to avoid the risk of inaccurate payroll processing**

35. Monthly payroll workings for local employees are reviewed by the Mdm Finance Coordinator and approved by the Country Representative before payment. Salary processing and payment for expatriate employees are done at Mdm's headquarters in Paris.

36. The OIG team noted that Mdm does not perform a reconciliation of the current month's payroll to the previous month's payroll to verify the accuracy of payroll processing.

37. Mdm should reconcile the current month's payroll with the previous month's payroll to ensure accuracy of current month's payroll.

### **A process for conducting reference checks and verifying experience of new hires to avoid a risk of unreliable employees**

38. Evidence of reference check and proof of experience is not documented for newly hired employees.

39. Mdm should document the evidence of reference checks and experience proof for new joiners to ensure that right candidates are selected for the right job.

### **Regular audits to avoid ineffective assessments of Mdm's operations**

40. Mdm's headquarter-based Internal Audit Department conducted an internal audit of Mdm - Myanmar in August 2011. However, Mdm did not develop a formal Internal Audit plan to ensure that internal audits are conducted at regular intervals.

41. Mdm should develop an internal audit plan and coordinate with its headquarters' internal audit department to conduct the internal audit at regular intervals.



What are the risks relating to asset management?

### **The need for insurance to avoid the risk of loss of program funds due to damaged or lost assets**

42. Mdm follows the Fixed Asset Management Policy issued by its headquarters for the usage and disposal of fixed assets. Mdm maintains an asset register indicating the unique identification number, value and physical location of all assets purchased under the grant. All assets are tagged using the unique identification number. However, the OIG team noted that Mdm did not obtain insurance cover for the fixed assets purchased from the Global Fund grants, with a value of USD 39,544.

43. Mdm should evaluate obtaining insurance for fixed assets procured from Global Fund grants considering the country context. Alternatively, Mdm may ensure that these assets are insured under its global insurance coverage.

**Annex H: The International HIV/AIDS Alliance in Myanmar (Alliance Aid)**

What grants have been signed with Alliance Aid?

1. The International HIV/AIDS Alliance in Myanmar (Alliance Aid) is headquartered in the UK. Alliance Aid started its work in Myanmar in 2004. Alliance Aid signed a Round 9 grant agreement with Save the Children – US to act as SR for the HIV/AIDS program. Under the grant agreement, USD 2.3 million was made available to Alliance Aid, with USD 0.62 million disbursed as of 30 September 2011.
2. Alliance Aid implements Global Fund activities through 15 Sub-Sub-recipients (SSRs).

**The need to strengthen controls over the process of verifying expenses submitted by SSRs to avoid in excess pay out**

What are the risks relating to program implementation?

3. SSRs provide patient care and support services, such as home visits. Alliance Aid reimburses the outreach workers' expenses at a fixed rate. However, OIG noted that there was no mechanism:
  - i. to ensure that all beneficiaries who were supposed to receive services had actually received the services. Only a sample of beneficiaries was verified to identify if they had received services.
  - ii. to communicate the schedule of the services to the beneficiaries.
4. To mitigate the risk of excess payout to SSRs:
  - i. The monitoring and evaluation officer of Alliance Aid to verify the actual number of days on which the services were provided to the beneficiary in the respective period; and
  - ii. Alliance Aid should build awareness by sharing the schedule for these activities with the beneficiaries.

What are the risks relating to SSR monitoring?

**The need to strengthen controls over cash and grant fund management to avoid ineligible expenses charged to the Global Fund grants**

5. A review of advances given to SSRs by Alliance Aid highlighted the following:
  - i. An authorized employee of the MCC Myanmar Council of Churches -DIC gave a Project Officer (PO) a blank signed check to facilitate the withdrawal of money for program use. The PO withdrew 8 million MMK (USD 10,667) from the project account, delivering 4 million MMK (USD 5,333) for program activities and retaining 4 million MMK (USD 5,333) for himself.
  - ii. An Alliance Aid SSR Healthy Living and Helping Society (HLHS) withdrew the entire quarterly advance amount as soon as the advance was transferred to its bank account rather than making monthly withdrawals based on activities planned. The practice of withdrawing the entirely quarterly advance amount at once occurred for each quarter since January 2011 despite two verbal and one written warning issued by Alliance Aid.

iii. An Alliance Aid finance officer reviewed the financial records of MCC Myanmar Council of Churches – DIC on 5 October, 2011. According to the SSR's cashbook, the SSR should have held a balance of 2,563,460 MMK (USD 3,418). Physical verification of the cash available at the SSR highlighted a shortfall of 308,710 MMK (USD 412). The officer of MCC – DIC assured the Alliance Aid Staff that he would promptly return the money. However, as of November 2, 2011, these funds had not been returned.

6. To mitigate the risk of misappropriation/loss of program funds, Alliance Aid should:

- i. Ensure that the maximum amount that can be withdrawn through a blank check should be mentioned on the check;
- ii. Establish controls of monthly liquidation of expenses for high risk SSRs;
- iii. All key communications with SSRs will be documented;
- iv. Ceiling limits for cash withdrawal to be defined for SSRs;
- v. Alliance Aid to recover/adjust the shortfall of cash identified during the physical count at MC – DIC;
- vi. Periodic physical cash verification to be conducted by the SSRs. Alliance Aid to perform surprise physical verification for such high risk SSRs.

**Adequate of documented results of monitoring and evaluation (M&E) activities to avoid the risk of actionable points not being followed up.**

7. Alliance Aid has an approved M&E plan for monitoring its SSRs on a periodic basis. The Alliance Aid Country Director informed the OIG that M&E activities were performed by Alliance Aid for the SSRs but were not documented by the M&E team in the first two quarters of 2011. Alliance Aid started documenting M&E visits in August 2011.

8. To mitigate the risk of absence of follow-up on actions points, Alliance Aid to monitor the activities of SSRs by developing policies and implementing the M&E plan approved by STC.

9. The M&E activities performed should be documented and the lessons learnt should be shared with other related staff such as program officer, finance officer, etc

**Processing payments with appropriate supporting documents and with authorized approval to avoid the risk of unauthorized expenses being charged to the Global Fund grants**

10. A review of sample of transactions highlighted the following:

- i. Instances where acknowledgements of receipt of cash payments

were not attached with the payment vouchers.

- ii. SSR HLHS did not submit itemized break-up of telephone expenses.
- iii. Invoices that were not stamped or signed by the vendors had been submitted as supporting documents.
- iv. SSR MCC-DIC did not attach death certificates for expense claims pertaining to funeral support.
- v. Instances where payment vouchers submitted by HLHS, MCC-DIC and NLFS were either not approved by individuals with proper authority or supposedly approved by individuals that were potentially absent on the date of approval.
- vi. SSRs were provided travel and refreshment allowance for workshops conducted in the same city (Yangon). The Program Officer told the OIG that SSRs were informed that transportation charges were to be claimed for workshops that would be conducted outside of Yangon.

11. To ensure that only eligible and authorized expenses are charged to the Global Fund grants, Alliance Aid should:

- i. Provide additional trainings for strengthening the financial and programmatic capacity of Alliance Aid and SSRs;
- ii. Train finance staff to review the SSR's expense reimbursements in a judicious and effective manner;
- iii. Reconcile the attendance list of the SSRs prior to processing their expense claims pertaining to travel and per diem;
- iv. Obtain death certificates for all cases where funeral support is being provided;
- v. Build awareness within Alliance Aid and its SSRs to identify and address conflicts of interest and segregation of duties; and
- vi. Ensure that facilitator and participant allowances are justifiable.

What are the risks relating to financial management and controls?

**A process to verify the identity of cash recipient reduces the risk of making payment to unauthorized person**

12. Alliance Aid does not maintain proof of identification of the cash recipient or his or her contact details. The OIG team could not verify if cash payments were made to the intended recipient.

13. To mitigate the risk of making cash payments to unauthorized persons and to improve transparency, Alliance Aid should implement additional controls to confirm the identity of the cash recipient and filing a copy of the verified identity proof and contact details of the recipient along with the payment voucher for future reference. Maintaining a copy of the ID card with contact details together with the payment voucher will mitigate the risk of cash payment being diverted to non –intended beneficiary.

### Annex I: Oversight Mechanisms

#### The Myanmar Country Coordinating Mechanism

What is the Myanmar Country Coordinating Mechanism?

1. The Myanmar Country Coordinating Mechanism (CCM) was established in October 2008 to oversee the national response to HIV, malaria and tuberculosis and coordinate the efforts of all partners. The CCM has a broad mandate as a national coordinating body responsible for coordinating efforts of all partners. The CCM is mandated to develop and submit grant proposals to the Global Fund and to provide effective grant oversight and support the implementation of grants that are funded by the Global Fund. The CCM plays a broad role in Myanmar because it is not solely intended for work with the Global Fund but also for other health programs being implemented in the country, including by the GAVI Alliance.

What is the CCM's mandate?

2. One of the key elements in the Global Fund structure, the CCM is central to the Global Fund's commitment to local ownership and participatory decision making in the management of grant funds.

3. The CCM's key responsibilities include the following:

- i. Ensure that the funding application process is transparent, documented and engages a broad range of stakeholders;
- ii. Establish a mechanism for a transparent, documented process for selection of PRs;
- iii. Develop, formally approve, and implement a Conflict of Interest policy;
- iv. Oversee grant implementation through an oversight plan to ensure program objectives are met by PRs;
- v. Maintain an appropriate member representation in the CCM, particularly with representation of people living with or affected by HIV, TB and malaria and youth representation; and
- vi. Ensure that non-governmental CCM members are selected by their own constituencies in a transparent and documented manner.

What are the Myanmar CCM's strengths?

4. The OIG team notes that the Myanmar CCM is one of the best CCMs that the OIG has observed. Among the key achievements and good practices of the Myanmar CCM are the following:

- i. An effective CCM Executive Working Group and multiple Technical & Strategy Groups (TSG) for each of the three diseases support the CCM in its decision making process. The mandate of these groups is to provide technical

guidance in the development of the disease-specific national strategies, to provide coordination among partners and to provide clarity on major technical and policy issues. Each TSG is supported by multiple Working Groups.

- ii. The existence of the Governance Manual, which includes mitigation control to avoid conflict of interest. For example, the manual stipulates that the PRs' membership on the CCM is mainly as an observer. The Governance Manual was endorsed by the CCM as a guideline and reference and is binding upon the Secretariat and Executive Working Group of the CCM, the CCM Chair and Vice Chair, all members of the CCM, all PRs and all SRs in relation to the implementation of the Global Fund grants in Myanmar. The Governance Manual details the Terms of Reference for various TSGs.
- iii. The Minutes of the Meetings of CCM and various TSGs are well documented, and the decisions made are recorded. Such meeting minutes are published on the CCM website ([www.myanmarccm.org](http://www.myanmarccm.org)).
- iv. A strong CCM Secretariat support function (with dedicated staff from UNAIDS) serves as a model for other countries.
- v. Overseeing grant implementation is a core responsibility of the CCM. Dashboards and other management tools have been developed and implemented to strengthen oversight.

What are the opportunities for improvement and related recommendations?

### **The need for declaration of Conflict of Interest statement could avoid the risk of non-identification of violations/conflicts**

5. The Conflict of Interest function is to prevent, monitor and address any violations committed by CCM members, including the Chair, Vice Chair, Executive Working Group Secretary, PRs and SRs. The Conflict of Interest function seeks to ensure fairness and transparency in CCM decision making and to protect its integrity, reputation and interests. This function seeks to ensure broad public trust and confidence in CCM decision making and grant implementation activities. The Conflict of Interest policy has been developed but is not fully operational because CCM members have not officially declared their conflicts by signing the 'Declaration of Conflict of Interest' statement.

6. The OIG recommends that:
  - i. Needs to develop signed “Conflict of Interest” declaration statements by CCM members.
  - ii. The CCM, as part of its oversight responsibility, needs to monitor the implementation of the Conflict of Interest policy and the associated safeguards.

### **Involvement of PRs in selection of SRs to avoid the risk of lack of accountability of PRs for the selected SRs**

7. The CCM directly selects the SRs without prior consultation with the PRs. This may result in the PR not taking responsibility in the event of non-performing SRs.
8. The CCM should consider involving the PRs in the selection process of the SRs because the PRs are accountable for the actions of the SRs.

### **Participation of CCM members in LFA meetings to avoid non-receipt or delay of strategic information by the CCM which could affect the achievement of program objectives**

9. The LFA and the Myanmar CCM, through the CCM Secretariat, should exchange information on a periodic basis without compromising or diminishing the independence of either party. This approach would add value from the LFA to the program and ensure that the much-needed strategic information is provided to the CCM on a timely basis.
10. The OIG recommends that the CCM consider participation of a CCM member in the LFA debrief meetings with the PRs as part of the CCM’s monitoring function. Such meetings would assist in providing strategic information to the CCM.

### **Local Fund Agent**

Who is the LFA in Myanmar?

11. The Swiss Tropical & Public Health Institute (STPH) is the LFA in Myanmar. The LFA is the “eyes and ears” of the Global Fund in country, providing access to the Global Fund to local knowledge that is relevant to grant performance.

What is the LFA’s mandate?

12. The LFA is contracted to provide independent, professional and informed advice to the Global Fund relating to grants and recipients in the country. The LFA performs the following key activities:

- Assesses financial management and administrative capacity of

PRs during grant negotiation;

- Undertakes verification activities and evaluation of performance of PRs and SRs, if requested by the Global Fund, during grant implementation;
- Reviews the CCM's request for continued funding, assesses grant performance and makes a funding recommendation to the Global Fund;
- Plays a key role in identifying risks to grant implementation, including risk of fraud; and
- Sends reports to the Global Fund, which may contain recommendations regarding decisions that may need to be made by the Global Fund, such as whether to approve a further disbursement regarding a particular grant, or whether the requested disbursement is for an appropriate amount. The LFA does not make managerial decisions

What are the LFA's strengths?

13. Key achievements of the LFA include the following:

- Independent monitoring of daily foreign exchange rates, which help in benchmarking rates used by the PRs and SRs;
- Participation of LFA team members in Global Fund specific trainings related to finance and monitoring and evaluation;
- Good procedures on archiving of documents; and
- Other key assessments/reports completed by the LFA, in addition to the review of PU/DRs.

What are the opportunities for improvement and related recommendations?

### **Adequate and compliance of the LFA staff requirement, as agreed with the Global Fund, to avoid delay program implementation**

14. The LFA is expected to support the Global Fund Secretariat in providing solutions for any PSM bottlenecks, which may hinder program implementation. However, the OIG team observed that the LFA Human Resources capacity was inadequate, leading to unresolved program barriers such as PSM capacity. The OIG team observed that the long-term PSM position in the local team was vacant. Recruitment of a qualified PSM expert in country is found to be "extremely difficult", and the LFA internal policy is not flexible on short-term recruitment. Experts fly in to do assessments and review from the head office. Both previous and current proposed PSM experts have work experience with UNOPS.



15. The in-country finance staff needs to be increased to carry out field visits for SR monitoring. Currently, there is only one in-country finance staff member with support of two off-site personnel.

16. The LFA needs to adequately staff its local team at the Yangon office and demonstrate capability and leadership. In-country presence of the LFA team needs to be strengthened, given the current work responsibilities and complexity of the grants in Myanmar. The Global Fund Secretariat should request the LFA to provide an action plan with a time line on how to improve the performance of the LFA.

### **Compliance to the reporting requirements could avoid delay the program implementation**

17. There have been delays in the LFA's review of PU/DRs for both PRs. There was a delay of up to 33 working days for PU/DR#1 and 42 working days for PU/DR#2, in excess of the defined lead-time of 10 days. The PU/DR#2 for STC for HIV and TB had not been reviewed by the LFA as of the date of the OIG's review.

18. The LFA should turn around the reviews within the stipulated time as agreed in the Terms of Reference and alert the Global Fund Secretariat of any delays in the submission of reviewed PU/DRs.

### **Adequate fraud and irregularity training may increase the LFA's ability to identify the risk of irregularity in high-risk transactions**

19. In Myanmar, the majority of transactions occur through cash, which presents a greater risk of irregularities. Currently, the LFA team is not trained to identify irregularities or fraud.

20. The LFA should undergo trainings on identifications of irregularities and fraud, especially given the country context, where the majority of payments are cash transactions.

Note: The OIG would be pleased to offer such training

### **Adequate assessment of potential Conflicts of Interest could avoid risk to the program**

21. The LFA has not assessed or communicated the results of Conflict of Interest reviews to the Global Fund with respect to:

- i. Membership composition of the CCM and its Sub Committees;
- ii. SR selection;
- iii. Recruitment of staff under Global Fund funded programs; and
- iv. Selection of external auditors by PRs and SRs.

22. LFA personnel have not signed the declaration of “Conflict of Interest” statement. In the absence of non-identification of conflict of interest cases, it may be possible that biased decisions are made, which are likely to benefit the individual’s or organization’s own direct interests.

23. The LFA should proactively identify and communicate Conflict of Interest cases to the Global Fund in relation to membership composition of the CCM and its Sub Committees; SR selection; recruitment of staff under Global Fund funded programs; and the selection of External Auditors by PRs and SRs. All members of the LFA should sign “Conflict of Interest declarations” as it conducts a range of activities as approved by the Global Fund Secretariat.

### **Adequate risk assessment at SR level could avoid risk to the program**

24. The LFA has not identified high-risk SRs to prioritize monitoring of financial management of these SRs.

25. The LFA should:

- i. Identify high risk SRs and accordingly prioritize monitoring of financial management of these SRs;
- ii. Identify country specific oversight gaps in Global Fund funded programs and develop a PR/SR/SSR monitoring and oversight plan;
- iii. Provide readily implementable and actionable recommendations to the Global Fund on the PRs’ capacity to manage SRs; and
- iv. Develop a mechanism to proactively keep the Global Fund Secretariat informed about emerging risks due to a changing environment.

### **Adequate access for the LFA could avoid risk to its oversight role**

26. Current communications between the LFA and UNOPS is not collaborative. The LFA team does not have adequate access to verify UNOPS’ operations. The Terms of Reference (ToR) for UNOPS’ verification have been established but need further deliberation based on the challenges faced by the OIG for the diagnostic review, which include the following:

- v. the term “Management” mentioned in the ToR needs to be defined;
- vi. the limit on the selection of samples for review needs further clarification. Per the ToR, the limit on the selection of up to 65 samples is per grant. However, UNOPS management interprets the total of 65 samples to be spread across all the three grants (HIV, TB and malaria).
- i. the limit of 65 samples should not include Journal Entries

(JE), or the base voucher along with supporting documentation should be provided for the respective JE;

- ii. the restriction on 10 samples per expenditure category is not reasonable as there might be certain activities with fewer transactions in a given period.

27. LFA needs to develop a communication protocol with the PRs, especially UNOPS. The communication should be collaborative to help achieve program objectives. The LFA should increase visibility with the PR's senior management to bring out serious issues that are pervasive in all programs.

### **Adequate LFA peer review of its assessments could avoid reputational risk to the Global Fund**

28. The LFA conducted an assessment of UNOPS Myanmar Operation Center (MMOC) procurement unit and provided a 'C' rating. The OIG's review of this assessment highlighted that the LFA did not provide a solution on how to resolve the PSM issues and to avoid program implementation being affected due to this adverse rating. The OIG further noted that the overall rating of 'C' does not seem to be reasonable due to:

- i. Insufficient period for conducting the review (only 2 months);
- ii. Certain weaknesses noted by the LFA were based on 'good practices' rather than minimum standards;
- iii. The standard policies and procedures exist. Capacity is not an issue; instead, the issue is compliance to the policies;
- iv. The review did not consider the existence of other UNOPS offices, which can support the procurement of MMOC such as 3DF, the Regional Office in Bangkok and the Copenhagen office;
- v. Recommendations included in the assessment, such as 'procurement to be put on hold', are not feasible, as it would delay program activities.
- vi. The expertise of the PSM expert is as a pharmacist and not a procurement specialist. Furthermore, the PSM manager in charge had previously worked in operational activities at UNOPS;
- vii. In the event of a below average rating, a peer review was not conducted to confirm the results of the assessment.

29. The LFA should provide readily implementable and actionable recommendations on PSM for UNOPS. In the event of a below average rating, a peer review should be conducted to confirm the results of the assessment.

30. In line with the Global Fund guideline on countries under the Additional Safeguard Policy (ASP), the Global Fund Secretariat has played its role of close oversight of Myanmar grant implementation. This should be a model for other countries on how the Global Fund Secretariat should act on the emerging risks of each country under ASP.

31. The OIG team noted the frequent visits to the country by the Global Fund Country Team and the timely feedback provided to the country when required. One example of good practices followed is the Global Fund Country Team approach as a mediator to provide advice when there is a communication problem amongst the implementers or with the LFA.

What are the opportunities for improvement and related recommendations?

### **Appropriate prioritization of risk and adequate follow-up of LFA assessment could increase value for money**

32. The OIG team noted certain improvement opportunities such as:

- i. The Secretariat needs to establish priority on LFA work, taking into consideration the LFA's capacity. The OIG team observed that the LFA was requested to conduct a number of assessments in a short period, with no guidance from the Secretariat on the basis for which the assessments would be considered as a high, medium or low priority.
- ii. The Secretariat should provide the LFA with clarification on the ToR for UNOPS verification in order to ease the LFA's access to conduct their independent review of UNOPS' operations.
- iii. The Secretariat should ensure that the CCM is copied on key communication sent by the Global Fund to PRs and the LFA so that the CCM is aware of strategic information regarding program implementation.

## Annex J: Recommendations and Management Action Plan

The Diagnostic Review recommendations have been prioritized as follows:

- (a) **Critical:** There is a material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization interests, erode internal controls, or jeopardize the achievement of aims and objectives. It requires immediate attention by senior management.
- (b) **Important:** There is a control weakness or noncompliance within the system, which presents a significant risk. Management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization’s interests, weaken internal controls, or undermine achievement of aims and objectives.

### I. United Nations Office for Project Services (UNOPS)

S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment where required
1	Risk: Delays in coordinator recruitment and bed nets distribution and counterfeit malaria drugs could potentially derail gains in malaria control in recent years	<p>Malaria</p> <p>PRs &amp; SRs to put into practice plans on how to make up for delays in procurement and building their own capacity, including timely delivery of bed nets and re-impregnation tablets in advance of peak malaria season in Y2. [Important]</p> <p>PRs to ensure adequate resources to identify counterfeit antimalarial drugs, in partnership with 3DF/3MDG and neighboring country initiatives. [Important]</p> <p>The Global Fund Secretariat to encourage PR-UNOPS to accelerate the recruitment of WHO TB and malaria coordinators and their deployment to the regions and ensure an effective supervision and capacity building plan. [Critical]</p>	<p><u>Delay in LLIN delivery:</u> UNOPS agrees with the observation and has taken necessary steps to build in-house capacity in PSM management. A Procurement Management Action Plan was developed and approved by the Global Fund (GF) and being executed continuously. For Year 2, this particular procurement of LLINs has been successfully conducted by the Principal Recipient (PR) with GF consent. The procurement process was reviewed and approved by GF in time for the LLINs to arrive well before the Malaria transmission season.</p> <p><u>Counterfeit malaria drugs:</u> UNOPS takes note of the observation but wishes to clarify that such responsibility and power rests with the National Drug Regulatory Authority and MOH to create a regulatory environment conducive to such effect as recommended, to eliminate counterfeit drugs from the market. UNOPS as the PR has taken responsibility to implement a well-defined grant in Round 9 with its described activities as per the approved proposal and has neither the capacity nor the mandate and authority to deliver on this recommendation alone. However UNOPS has already conducted several high level meetings and discussion with MOH and the NDRA and has set up a joint task force to ensure the quality of drugs in the supply chain. This work will be further expanded through synergies of the efforts of the malaria national campaign and empowerment of the NDRA to take the necessary measures to address this situation.</p> <p><u>Delay in recruitment of malaria coordinators:</u> UNOPS agrees with the observation and has ensured that the recruitment, which is conducted by one of its Sub-Recipients (SRs), has received the necessary priority. WHO has since managed to complete the recruitment process and has, together with the PR, designed a management plan with the aim of structuring support to and oversight of these coordinators, to benefit from the contribution of these coordinators integrated into</p>	

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			the National Malaria Control Programme.	
2	Risk: Weak control over operational advances for each FFA could pose risk for misuse of Global Fund program funds	<p><u>Field Finance Assistants (FFAs)</u> To mitigate the risk for misuse of program funds, the Global Fund Secretariat should encourage the PR-UNOPS to:</p> <ol style="list-style-type: none"> <li>i. Define maximum limit for operational advances for each FFA.</li> <li>ii. Comply with the FPPM (approved by the Global Fund Secretariat) Approval of the Global Fund Secretariat to be obtained in case of noncompliance to the Global Fund approved FPPM.</li> <li>iii. Define final settlement date at the time of giving an advance above the defined maximum limit.</li> <li>iv. Obtain approval of MMOC (Myanmar Operations Centre) Director for advances above the defined maximum limit.</li> </ol> <p>[Critical]</p>	<p>UNOPS disagrees with the observation, and wishes to reiterate that the policy document governing the management of operational advances is the UNOPS Financial Regulations and Rules. According to the Grants agreements, UNOPS, as the PR, shall follow its Financial Regulations and Rules (FRRs) when administering the Global Fund grants. Under this policy, the approval of operational advances is under the authority of the Comptroller. Such authority can be delegated to designated officials through the existing “Delegation of Authority” mechanism for finance practitioners. To operationalize the policy, procedures have been developed by UNOPS requiring that:</p> <ul style="list-style-type: none"> <li>• In establishing operational advances, a request shall be prepared by the requesting Programme, in this case the PR.</li> <li>• If at USD 2,500 or below, the request shall be approved by the Regional Financial Management Officer, under the delegation of authority granted by the Comptroller.</li> <li>• If above USD 2,500, the request shall be approved by the Comptroller.</li> <li>• All subsequent replenishments of approved operational advances shall be approved by the Regional Financial Management Officer, under the delegation of authority granted by the Comptroller.</li> <li>• Personnel given operational advances shall submit monthly disbursement statements.</li> <li>• All operational advances shall be reconciled on a monthly basis by 15th of the following month.</li> <li>• All operational advances shall be settled before the end of 90 days.</li> </ul> <p>In addition to the above, UNOPS has implemented a number of additional controls in its funds flow mechanism, to control and safeguard the use of funds disbursed through operational advances. Some of these controls are:</p> <ul style="list-style-type: none"> <li>• Detailed step-by-step Standard Operating Procedures for the Funds Flow Mechanism</li> <li>• Designated roving FFAs appointed as alternative bank signatory to each FFA bank account.</li> <li>• Month-end submission from each FFA to the Yangon based Funds Flow Unit of supporting documentation such as operational advance ledger, monthly cash control sheet, bank statements, advance money register and monthly bank reconciliation.</li> <li>• Settlement of all operational advances within a maximum of 90 days or as soon as the activity is completed, whichever comes earlier.</li> </ul>	<p>UNOPS comment is included in the body of the report (See Paragraph 51 and Annex B Paragraphs 36 and 37).</p> <p>OIG agrees with UNOPS PR for the need of an alignment of the FPPM to the UNOPS Financial rules and regulations to avoid confusion.</p>

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			<ul style="list-style-type: none"> <li>• Cash safe provided to each FFA for safeguarding cash on hand.</li> <li>• Maximum amount of cash to be kept in safe is MMK 2,500,000 (USD 3,000) covering 4-5 days of operation.</li> </ul> <p>While the above extensive control framework was explained several times during the OIG diagnostics mission, UNOPS agrees that the FPPM developed for the PR is not fully aligned with UNOPS Financial Regulations and Rules, which understandably has resulted in some confusion. UNOPS will thus take the necessary action, together with the Global Fund Secretariat, to align the FPPM with UNOPS FRRs.</p>	
3	<p>Risk: In the absence of process for FFAs to share the lessons learnt and training to FFAs it is possible that irregular expenses claimed by the National Program go undetected. Furthermore, sharing lessons learnt provides a mitigating control to avoid re-occurrence of cases detected in other locations.</p>	<p>To mitigate the risk of irregular expenses being charged to the Global Fund grants; the Global Fund Secretariat should encourage the PR-UNOPS to:</p> <ol style="list-style-type: none"> <li>establish a process for sharing lessons learnt between FFAs; and</li> <li>Conduct trainings for FFAs on detecting irregularities in expense claims submitted by National Programs.</li> </ol> <p>[Important]</p>	<p>UNOPS disagrees with the OIG's observation that UNOPS does not have a process/platform for FFAs to share lessons learnt from job experiences with other FFAs. Upon joining UNOPS in April/May 2011, all FFAs received induction training at the PR office in Yangon. Throughout Q3 and Q4 2011, this training was followed up with ongoing consultations between the Funds Flow unit in Yangon and the FFAs in the field. In addition, UNOPS had scheduled a follow-up training and knowledge sharing workshop for all FFAs in November 2011. This information was shared with the OIG during their visit. Further to that, UNOPS will continue to facilitate regular workshops for all FFAs. The first regular workshop took place in January 2012 and second was conducted in May 2012. The intention is to repeat these workshops on a bimonthly basis. The workshops, as well as the regular consultations between the Funds Flow unit and the FFAs, amongst other topics aim at improving the FFAs' skills in detecting irregularities in expense claims submitted by National Programs.</p>	<p>The report is updated for a greater clarity</p>
4	<p>Risk: Absence of a rotation policy of FFAs increases the risk of misappropriation of Global Fund program funds</p>	<p>To mitigate the risk of misappropriation of program funds; the Global Fund Secretariat should encourage PR-UNOPS to evaluate the possibility of implementing a rotation policy for FFAs. Under the rotation policy, FFAs should be rotated between different regions on a periodical basis.</p> <p>[Important]</p>	<p>UNOPS takes note of the observation and will work with the GF Secretariat on reviewing the feasibility and possible impact of a rotation policy for FFAs throughout 2012.</p> <p>It is imperative to note, that the funds flow scheme was designed to provide efficient work processes and effective controls mechanisms together with efficiencies in the costs of managing the scheme.</p> <p>The FFAs are to a large extent recruited from the locality of the expected operations catchment area. This allows the PR to attract, and even more significantly retain, competent personnel as the FFAs have the possibility of being in the same area as the families leading to a healthier work-life balance; it ensures that the PR can capitalize on investment in training as turn-over of personnel is low; it ensures that the FFAs have knowledge about local conditions, which is essential when assessing the eligibility of reimbursement claims; it reduces office operating cost as FFAs can operate from home; and it minimizes the per diem travel allowances.</p> <p>In the analysis of the recommendation throughout 2012, the benefits of rotation, being only one of many controls in the funds flow scheme, will be measured against potential negative impact of the recommendation deriving from the resignation of FFAs put on rotation, difficulties in recruiting people willing to rotate on a</p>	

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			recurring basis, increased training cost due to increased turn-over of personnel, bottlenecks occurring from delays in reimbursements due to increased turn-over, loss of institutional knowledge, errors in reimbursement due to limited knowledge about local conditions, increased office management cost and increased cost for per diem travel allowances.	
5	Risk: Absence of cash insurance poses the risk of loss of cash required for program implementation and increase risk of loss of fund for both PR and Global Fund	<u>Insurance</u> To mitigate the risk of loss of cash required for program implementation, the Global Fund Secretariat to encourage PR-UNOPS to evaluate obtaining cash insurance for cash-in-hand, considering the country context. [Important]	<u>Insurance</u>  UNOPS takes note of the observation and will assess the possibility of obtaining cash insurance within Myanmar.	
6	Risk: Delay in disbursement of funds to the SRs can lead to delay in implementation of program activities	<u>Foreign exchange fluctuation, Define lead times for disbursement of funds to SRs by PRs</u> To ensure that disbursements to SRs are processed in a timely manner for the SRs to implement program activities as per the approved work plan, the Global Fund Secretariat to encourage PR-UNOPS to: i. Define lead times for disbursement of funds to SRs by PR and ensure timely disbursement of funds to allow implementation of program activities in accordance with the approved work plan. ii. Seek the possibility with Global Fund Secretariat to create a provision for foreign exchange fluctuation in year 2 budget. iii. Discourage practice of borrowing funds from non-global fund program to support Global Fund programs or vice versa. [Critical]	<u>Foreign exchange fluctuation, Define lead times for disbursement of funds to SRs by PRs</u> I. UNOPS agrees with the observation and will take necessary steps to define lead times for disbursement of funds to SRs.  II. UNOPS takes note of the observation but wishes to clarify that such provision will still be available from the same budget and hence do not represent additional resources. Existing flexibility in budget management and reprogramming of the budget already provides ample tools to adjust the work plans to adapt to the realities of the implications deriving from exchange rate fluctuations. The GF Secretariat would be expected to provide guidance on the details of this recommendation if implementation is deemed necessary.  III. UNOPS agrees with the observation and will take necessary steps to discourage SRs from borrowing funds from non-Global Fund sources.	
7	Risk: Absence of rationale for allocation of shared cost can lead to charging of higher (ineligible) amount to the Global Fund program funds	<u>Shared cost</u> To ensure that the Global Fund grants are charged a fair portion of shared operating/payroll costs; the Global Fund Secretariat to encourage PR-UNOPS to define and document the rationale for allocation of these costs which should be approved by the Global Fund Secretariat. [Important]	UNOPS takes note of the observation and wishes to reiterate that the current cost sharing arrangements were negotiated with the Global Fund Secretariat as part of the Grants negotiations in 2010.	
8	Risk: Absence of Global Fund specific training to the Finance staff may lead to incorrect accounting and reporting to the Global Fund	<u>Global Fund specific training</u> To improve the management of the Global Fund grants, the Global Fund Secretariat to encourage PR-UNOPS to provide training to key Finance staff on Global Fund specific requirements on	UNOPS agrees with the observation, but not with the risk assessment made by the OIG, categorizing the observation as "Critical".  UNOPS has implemented the actions recommended by the OIG in cooperation with the GF Secretariat.	The OIG stands by the "Critical Rating"



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		accounting, budget monitoring, reporting etc. [ Critical]		
9	Risk: Absence of process for separately recording and claiming refund for taxes can lead to ineligible costs (taxes) being charged to the Global Fund grants	<u>Taxes and duties paid using Grant funds</u> To mitigate the risk of charging tax and duties to the Global Fund grants; the Global Fund Secretariat should encourage PR-UNOPS to define the process for tracking and claiming refund of taxes and duties paid from the Global Fund grant. PR-UNOPS should define a threshold for the minimum amount of tax paid on any transaction. Tax paid above the defined threshold should be accounted for separately in the books of account and refund of such tax paid should be claimed from the government. [ Important]	UNOPS agrees with the observation and will develop a system for tracking and claiming refunds from the Government of taxes and duties paid from the Global Fund grants. As part of the system, UNOPS will define a threshold for the minimum amount of taxes and duties to be claimed.	
10	Risk: Charging of expenses to incorrect expense cost category leads to incorrect reporting to the Global Fund	<u>Expense cost category</u> To ensure correct reporting to the Global Fund; the Global Fund Secretariat to encourage PR-UNOPS to: i. Update the detailed budget by transferring the cost from "Planning and Administration" to "Human Resources". ii. Ensure that expenses are booked under the correct cost category as specified by Global Fund. [Important]	UNOPS agrees with the observation and (i) has already taken necessary steps through the Year 2 reprogramming exercise to make the relevant budgetary corrections, and (ii) will further strengthen the system in place for monthly expenditure review and correction.	
11	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund.	<u>Budgetary control</u> To ensure that only eligible and budgeted expenses are charged to the Global Fund grants; the Global Fund Secretariat should request PR-UNOPS to: i. Ensure that the expenses charged to the Grant are eligible (as per the approved Grant budget) and all ineligible expenses should be refunded to the Program. ii. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011. (Available at the Global Fund website). iii. Comply with the specific guidance provided by the Global Fund Secretariat on Budget Flexibility (email Global Fund Secretariat, 24 March 2011). iv. Implement a process for verification of purchase requests against the available	I. UNOPS takes note of the observation and has obtained post facto approval from the GF to the referred travel cost of USD 1,380. In addition, UNOPS has reversed the referred salary cost of USD 349, and wishes to reiterate that it continues to strengthen the monthly expenditure review to detect any cost charged to the GF grants in error.  II. UNOPS agrees with the observation and has taken necessary steps to implement new Global Fund Guidelines for budgeting from Year 2 going forward.  III. UNOPS takes note of the observation but wishes to reiterate that it complies with the specific guidance provided by the Global Fund Secretariat on budget flexibility (email from the Global Fund Secretariat, 11 November 2010). UNOPS always seeks approval from the Global Fund when it anticipates material budget changes which will exceed the defined threshold of 5% per Cost Category and SDA of the Phase 1 Summary Budget as instructed by the Global Fund Secretariat through email of 11 November 2010.  IV. UNOPS takes note of the observation and wishes to clarify that it has a process of verifying purchase requests against the available budget under each SDA line item prior to approval.	

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		<p>budget under each SDA line item prior to approval.</p> <p>v. Compare the salary costs charged to the program against the budget on a monthly basis. Approval from the Global Fund Secretariat to be obtained on a timely basis for any deviations from the detailed program budget.</p> <p>vi. Seek clarification from Global Fund on tolerance limits, which is not mentioned in 'Guidelines for Budgeting' released by the Global Fund on 15 August 2011. [Critical]</p>	<p>V. UNOPS takes note of the observation but wishes to reiterate that the detailed program budget is not part of the Grants agreements signed between UNOPS and the Global Fund. The 5% flexibility is on the summary budget level and UNOPS always seeks approval from the Global Fund when it anticipates material budget changes which will exceed the flexibility.</p> <p>VI. UNOPS take note of the observation but wishes to reiterate that it already received clarification on tolerance limits from the GF through email of 11 November 2010.</p>	
12	Risk: Absence of insurance of assets poses the risk of loss of assets being charged to the Global Fund program funds	<p><u>Program Assets</u> To mitigate the risk of financial loss in case of theft, loss or damage to assets procured from Global Fund program funds, the Global Fund Secretariat should encourage PR-UNOPS to:</p> <p>i. Consider the country context and evaluate options to insure the fixed assets procured from Global Fund grants.</p> <p>ii. Report all losses/ theft of Global Fund assets to the Global Fund Secretariat. [Important]</p>	<p>I. UNOPS agrees with the observation and will evaluate options available in Myanmar for insuring assets procured with Global Fund grants.</p> <p>II. UNOPS agrees with the observation and will ensure that any future losses of GF assets will be reported to the GF Secretariat.</p>	
13	Risk: Delay in compliance/ noncompliance to the terms of the grant agreement can adversely affect the implementation of program activities	<p><u>Global Fund Grant Agreements</u> To enable timely compliance with the terms and conditions of the grant agreement; the Global Fund Secretariat should encourage PR-UNOPS to:</p> <p>I. Develop a tracker for all special terms and conditions of the Grant agreement and monitor these timelines to ensure compliance on a timely basis.</p> <p>II. Obtain approval from the Global Fund Secretariat for any delays in compliance to special terms and conditions. [ Important]</p>	<p>UNOPS agrees with the observation and will take necessary steps to put in place a system to record and track all CPs and obtain written approval from GF for delays.</p>	
14	Risk: Non-compliance to reporting requirements as per Grant Agreement (article 13)	<p><u>Reports to the LFA</u> To monitor and ensure timely submission of reports to the LFA and Global Fund, the Global Fund Secretariat to encourage PR- UNOPS to prepare a reporting calendar for monitoring the timelines of submission. [Important]</p>	<p>UNOPS agrees with the observation and will take necessary steps to avoid delays.</p>	
15	Risk: Incorrect reporting to	<p><u>Reporting guidelines of the Global Fund</u></p>	<p>UNOPS takes note of the observation regarding an immaterial underreporting of</p>	

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	the Global Fund	<p>To mitigate the risk of incorrect reporting to the Global Fund; the Global Fund Secretariat to encourage PR-UNOPS to:</p> <ol style="list-style-type: none"> <li>I. Ensure that financial reports are prepared in accordance with the Global Fund's reporting guidelines.</li> <li>II. Improve the review procedures of financial reports submitted to the Global Fund.</li> </ol> <p>[Important]</p>	<p>disbursements to SRs of USD 60 (sixty), and wishes to reiterate:</p> <ol style="list-style-type: none"> <li>I. that UNOPS always prepares financial reports in accordance with Global Fund guidelines; and</li> </ol> <p>that UNOPS will continue to improve the review procedures of financial reports submitted to Global Fund.</p>	
16	<p>Risk: In the absence of audits it may not be possible to effectively assess the capacity and internal controls of the SRs</p>	<p><u>SR monitoring</u> To ensure effective monitoring and assessment of internal controls and capacity of SRs, the internal audit plan for review of SR's should be redefined based on risk assessment of all the SRs. Approval from the Global Fund Secretariat must be obtained on the revised audit plan. Additionally, OIG encourages that the Internal Audit Unit (IAIG) at UNOPS Head Quarters to perform Internal Audit of UNOPS Myanmar (PR). UNOPS should obtain approval of the Global Fund Secretariat for the cost of internal audit by Head Quarters. [Critical]</p>	<p>UNOPS agrees with the observation regarding delay in implementing of the annual verification plan, but wishes to remind the OIG of the justification for the same was shared with the OIG during their mission together with a revised verification plan.</p> <p>In addition, UNOPS wishes to reiterate that, in order to ensure effective monitoring and assessment of internal controls and capacity of SRs, the PR has established a Capacity Building, Monitoring and Assurance Unit and recruited Finance Officer since pre-grant stage for effective monitoring and assessment of internal controls, and capacity building of the SRs. This Finance Officer routinely visits all SRs and reports the observations to the PR Financial Management Officer. After visiting each SR, a follow up action plan is prepared and discussed with the respective SR management for corrective action to be taken. This follow up action plan is reviewed and validate by Finance Officer during the next visit.</p> <p>Finally, UNOPS wishes to reiterate that an annual audit of the PR and all SRs will be undertaken in accordance with the Grants agreements as discussed with the OIG during their mission. The OIG has itself provided no-objection to the selected audit firm.</p>	<p>OIG considers that in addition to the External Audit as per the agreement, involvement of the UNOPS IAIG will further strengthen the grant oversight.</p>
17	<p>Risk: Absence of controls over vendor selection process poses the risk of procurement through higher cost vendors being charged to Global Fund program funds</p>	<p><u>Vendor enlistment/ evaluation process</u> To strengthen controls over the vendor selection process, the Global Fund Secretariat to encourage UNOPS to:</p> <ol style="list-style-type: none"> <li>I. Prepare a quotation tracking sheet specifying the date of receipt of quotations, name of the vendor, prices quoted, source of receipt of information etc.</li> <li>II. a list of standard vendors should be prepared for local procurement.</li> <li>III. in the absence of a list of standard vendors a justification note should be prepared justifying the reasons for selection of vendors for sending RFQ.</li> </ol> <p>[Critical]</p>	<p>It is worthwhile to note that the OIG PSM expert has not asked for the documentation referred to and commented on in some of the observations made, and did not allocate ample time to comply with the protocols shared with OIG for requesting documentation from UNOPS. Consequently some observations are based on limited familiarity with the systems and practices in place and observed.</p> <p>I. UNOPS takes note of the observation but wishes to clarify that the quotation receipt report is always prepared providing the details of the suppliers, date and time when it was received, name of the person who submitted the quote and contact details. All quotations in hard copy or soft copy, if submitted through e-mail, are received by a designated officer appointed to receive bids/quotes/submission in the procurement unit and he/she prepares the receipt report, signs and provides it to the evaluation panel. This practice has been institutionalized and followed.</p> <p>II. UNOPS takes note of the observation, and wishes to clarify that a vendor list/local roster already exists in UNOPS for suppliers in Myanmar, containing some 400 vendors, listed and grouped per product/area of commodities specialized in. Vendors are selected based on the past experience of UNOPS,</p>	<p>When the review was undertaken, the PR/UNOPS did not provide us a list of empanelled vendors. Also list of vendors from who bids were solicited and received were not maintained by the PR. The OIG was informed that local vendors were selected based on experience and research.</p>

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			market research, and using this vendor list that incorporates the Suppliers Roaster of other UN agencies as well. A local roaster for MMOC including GFATM Procurement in Myanmar will also be maintained in the UNGM website. III. UNOPS takes note of the observation and wishes to clarify that such practice is in place in all procurement actions and such justification, if and when necessary, are included in the documents/procurement files.	
18	Risk: IPO Delhi as the Procurement Agent for MMOC Myanmar	<p>A - Conclude on deliveries of goods in pipeline procured by IPO (contracts awarded) and terminate all new (or not yet tendered/awarded) procurement via IPO</p> <p>B - Provide clear ETA (Estimated Time of Arrival) Yangon to SR and co PR SAVE for all cases in the pipeline (said to be done on weekly basis but so far OIG has not seen clear detailed lists with items and quantities/sources and unit prices for such updates)</p> <p>C - List the health goods not yet covered by IPO tenders, consolidate with Y2 and submit for quotation to UNICEF/IDA as agreed with Global Fund Secretariat.</p> <p>D - As UNOPS functions as LFA in other (Asian) countries with good performance, there must be ample PSM expertise in its organization (or which can be mobilized) and some of it should be deployed to MMOC for at least a full year if not two.</p> <p>[Critical]</p>	<p>A. UNOPS had taken note of the observation and taken necessary steps. All pending health products from Year 1 are procured by the PR through solicitation methods approved by the GF and through UNICEF/IDA</p> <p>B. UNOPS takes note of the observation but wishes to clarify that status update of all procurement processes are shared with Save The Children on a weekly basis. Furthermore for 2012, a tracking sheet recording details of each Procurement and Logistics action, detailed per product and per SR, is published with a weekly update on the UNOPS partnership website for all stakeholders to monitor progress.</p> <p>C. UNOPS takes note of the observation but wishes to clarify that all pending health products from Year 1 are procured by the PR through solicitation methods approved by the GF. Pooling with Year 2 requirements would have further delayed the delivery of such goods.</p> <p>D. The UNOPS Asia and the Pacific Regional Office has ample expertise to provide guidance and oversight as well as engaged in approvals and controls are per the Procurement Management Action Plan details, approved by GF. Additional expertise was mobilized from Headquarters providing on-the-job training and review of the QA documentation prepared by the PR. Furthermore, additional expertise in QA has been recruited and added to the PR PSM Unit.</p>	
19	RISK: PSM focus on transactional procurement (tenders, RFQ contract award etc.)	<p>The Global Fund Secretariat should encourage PR-UNOPS for:</p> <p>A - The newly recruited QA Officer will mitigate the Quality risks potentially provided that this new officer has independency in the PSM unit and will demonstrate his capability and expertise to specify requirement in tender documents and approve or disapprove suggested sources/products in bids or quotations with adequate technical justification on grounds compliant with the QA policy of GF</p> <p>B - Work plan to be established this month and output to be evaluated in Q1 2012.</p> <p>The PSM Manager and new QA Officer need to: C – draft a standard presentation template to</p>	<p>A. UNOPS as the PR has taken the necessary steps to ensure a timely recruitment of the QA Specialist. The QA officer has joined the PR in March 2012.</p> <p>B. UNOPS agrees. Year 2 work plan for the PSM team and for each individual within the team has been developed</p> <p>C. UNOPS agrees with the observation and has taken necessary steps to ensure a timely implementation of this recommendation. Such presentation summarizing the PR procurement processes and practices has been developed and shown to LFA.</p> <p>D. UNOPS agrees with the observation and will take necessary steps to ensure a timely implementation of this recommendation. UNOPS, as detailed in the GF approved Procurement Management Plan, committed to develop corporate guidelines complementing the UNOPS Procurement Manual to detail the processes and practices applied in</p>	

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		<p>provide (and internally evaluate) the features of the whole PSM cycle of MMOC to identify gaps, and set priorities</p> <p>D - adopt the corporate UNOPS Procurement Manual into a specific MMOC Procurement Policy/Manual (for health goods and non-health goods)</p> <p>E - finalize the Logistics Manual consistent with the Procurement Manual (provide input for forecasting) as well as a sample system for monitoring of product quality in supply chain</p> <p>F - complete the SOP Manual for MMOC (internal) in line with the MQAS for ATM medicines. Especially use the WHO MQAS Manufacturer Questionnaire (MQAS annex 8) and the Inter Agency Product Questionnaire (MQAS annex 6) for non-ATM sourced from not formally pre-qualified sources. Review the offer from IPO for the part of the OI/STI drug order for QA acceptability</p> <p>G - complete the external SOP Manual for dissemination to SRs for logistics, selection, forecasting, ordering and distribution of health goods, procurement of non-health goods, procurement of local services, and fixed asset management including disposal. [Critical]</p>	<p>procuring health products, including all aspects of QA/QC. Such work is progressing with UNOPS HQ experts leading the development of such guidelines, consulting all UNOPS operations about specific needs and challenges in different country contexts. The Final draft of the QA manual has already been circulated internally for comments and is expected to be in force by end of July 2012.</p> <p>E. UNOPS agrees with the observation and has taken necessary steps to ensure a timely implementation of this recommendation. The LMIS Manual has been submitted to GF on 29 February 2012. Its completion was delayed due to lengthy negotiations with stakeholders to secure buy-in of all SRs, particularly that of the Ministry of Health. Details of the recommendation are an integral part of the LMIS.</p> <p>F. UNOPS agrees with the observation and will take necessary steps to ensure a timely implementation of this recommendation. SOPs have been reviewed and submitted to LFA. IPO procurement has been reviewed with required QA standards in mind. All pending OI drugs from Year 1 are procured by the PR through procurement agents approved by the GF, in full compliance with GF QA standards.</p> <p>G. SRs capacities in PSM is addressed though intensified capacity building efforts of the PR. Refresher trainings are being conducted collectively and one-to-one guidance on-the-job is also part of these efforts in 2012. As part of this comprehensive effort, a Manual explaining all steps in the PSM cycle was prepared and shared with all SRs.</p>	
20	Risk: Optimistic planning by PR leading to unrealistic expected delivery times	The Global Fund Secretariat to encourage PR - UNOPS to establish service agreements to support Y2 plan [Critical]	UNOPS takes note of the observation but notes that the initial action is incumbent upon the Global Fund Secretariat.	
21	Risk: Change Management process.	The Global Fund Secretariat to encourage PR-UNOPS to build effective relations with all SRs to fully support MMOC in its PR strategy for PSM specifically standardizing selections, specifications, forecasting, LMIS procedures and procurement SOPs for SRs to comply with (non-health) [Critical]	<p>The LMIS Manual has been submitted to GF on 29 February 2012. Its completion was delayed due to lengthy negotiations with stakeholders to secure buy-in of all SRs, particularly that of the Ministry of Health. Details of the recommendation are an integral part of the LMIS.</p> <p>UNOPS has conducted physical inventory of TB central and 3 regions warehouses. SRs are submitted the central level stock reports and are being followed up to provided stock reports from other warehouses</p>	
22	Risk: An impaired working relationship with the LFA could result in delays in periodic reviews and communication gaps in feedback	The Global Fund Secretariat to encourage PR-UNOPS for: Self-mediation between PR and LFA office in Yangon accepting each other's role and expertise or accept external mediation to resolve (CCM or Secretariat) The PR UNOPS should display a pro-Secretariat	UNOPS takes note of the observation and has taken necessary steps to address communication gaps and general relationship with LFA. With additional resources recruited in the LFA and a mutual progress in familiarization with the roles and responsibilities by all actors as well as with the details of the Grants, Significant progress has been made and the PR perceives the present relationship as collegial and mutually respectful and constructive.	

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		and a more pro-LFA attitude and willingness to share based on equality/mutual respect.  For example in the way of inviting LFA to join the bid openings, evaluation committees and contract decision processes as observer. [Critical]		
23	Risk: outcome of the upcoming tenders as a condition to take on more procurement in MMOC next year	The Global Fund Secretariat to encourage UNOPS to: Draw on all lessons learnt from earlier PSM assessments (LFA) to prepare the tender documents for three key health items so that no major mistakes in solicitation documents (ITB/RFQ) are made in bid opening, evaluation of responsive bids and awards of contract. [Critical]	UNOPS had taken note of the observation. The successful procurement of LLINs, Condoms, RDTs and Methadone has proved this.	
24	Risk: new delays in supplying health product for Year 2	The Global Fund Secretariat to encourage PR-UNOPS to: A -Implement Action plan firmly to ensure PSM capacity in MMOC for Y2 including the forecasting of orders with all SRs. B - Complete and validate the forecasting for Y2 with PSM experts from Head Office C - List the health goods not yet covered by IPO tenders and submit for quotation to UNICEF/IDA [Critical]	A. UNOPS had taken note of the observation and taken necessary steps.  B. UNOPS takes note of the observation, but wishes to clarify that Y2 forecasting has been already submitted to GF and approval received. With the QA officer in place, the PSM unit will now has the full capacity and expertise to complete and validate the forecasting of Phase II.  C. UNOPS had taken note of the observation and taken necessary steps. All pending health products from Year 1 are procured by the PR through solicitation methods approved by the GF and through UNICEF/IDA.	
26	Risk: using UNICEF (with IDA as back-up) for Y2 as interim measure delays selection/pre-qualification of a commercial agent	Prepare in Y2 (2011/12) for Phase 2 to either have full PSM including Procurement unit of adequate capacity in place or alternatively have procedure established, ready and approved by GF for the selection and pre-qualification of an external agent for procurement and supply health goods [Critical]	As UNOPS agrees with the observation and will take necessary steps to ensure a timely implementation of this recommendation. UNOPS, as detailed in the GF Procurement Management Plan, committed to develop the PSM capacity. The successful procurement of LLINs, Condoms, RDTs and Methadone has proved this. A workshop was conducted to train and finalize the phase 2 forecasting.	
27	Risk: CCM oversight on PSM inadequate leading to delayed anticipation on upcoming delays and corrective measures	The Global Fund Secretariat to encourage PR-UNOPS to: A - Report to CCM ExWg the final supply chain upgrade plans with the available budgets (or funding gaps) and explore scope for alignment with future HSS plans of 3DF(3MDG) and building on JICA support to build the basic supply chain infrastructure for Government [Critical]	UNOPS takes note of the observation and will take necessary actions.	

### II. Sub Recipient: National Tuberculosis Program

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG Comment when required
1	Risk: Lack of mechanism to manage the differences in budgeted foreign exchange rate and actual transaction rate may result in utilization of the budget (monitored in US\$) prior to completion of all budgeted activities and may affect the program implementation	<p><u>Foreign exchange fluctuation</u> To improve controls over program management and utilization of Global Fund grants:</p> <p>(a) UN foreign exchange rate for Myanmar to be used for making payments (National Programs). (b) The Global Fund Secretariat to discuss with UNOPS the possibility to a create provision for foreign exchange fluctuation in year 2 budget, so that the program implementation is not dependent on currency fluctuations. [Critical]</p>	<p>I. UNOPS takes note of the observation but wishes to reiterate that using UN foreign exchange rate has demotivational consequences on the DOH officials. When the Phase I budget was prepared all the per diems for the DOH officials were budgeted using UNDP rates in Myanmar for national counterparts which were denominated in Myanmar Kyats and converted to the budget currency (USD) at 1 USD=1000 Myanmar Kyats. Paying the DOH officials at UN foreign exchange rates resulted in paying less money to the DOH officials which was not in line with what other UN agencies were paying their national counterparts. This not only has a demotivating impact and consequently can lead to under-achievement of programme targets but goes against the budgeting guidelines (15 August 2011 edition) of the Global Fund on Travel and Subsistence Costs (ref: Module 15: Budgeting for Travel and Subsistence Costs section 268) which affect for standardization of in-country per diems.</p> <p>II. UNOPS takes note of the observation but wishes to clarify that such provision will still be available from the same budget and hence do not represent additional resources. Existing flexibility in budget management and reprogramming of the budget already provides ample tools to adjust the work plans to adapt to the realities of the implications deriving from exchange rate fluctuations. The GF Secretariat would be expected to provide guidance on the details of this recommendation if implementation is deemed necessary.</p>	In order to overcome the issue of motivation, recommendation (b) is provided with the consultation with the GF Secretariat. The possibility of underachievement of program targets, UNOPS should in consultation with the Global Fund Secretariat create provision for foreign exchange fluctuation. The risk that the PR runs here is that ultimately they will run out of funds prior to completion of all the planned program activities.
2	Risk: Failure to operate in compliance of financial management policies such as the Field Level Standard Operating Procedures for the Department of Health/UNOPS Funds Flow Mechanism (FFM) may result in ineligible expenditures that will need to be refunded to the Global Fund /Principal Recipient.	<p><u>Expenditure of DoH officials</u> To strengthen controls over payment processing and mitigate the risk of unauthorized/ ineligible expenses being charged to the Global Fund grants; expenditure incurred by Department of Health (DoH) officials to be approved by the respective supervisor as required by Field Level Standard Operating Procedures for the Department of Health/UNOPS Funds Flow Mechanism (FFM). [Critical]</p>	UNOPS agrees with the observation and wishes to note that it has already taken steps to strengthen its monitoring and verification process through recruitment of additional staff in Funds Flow Unit and undertaking more FFM field verification missions. Further to this, UNOPS is also organizing various platforms with the DOH officials to disseminate the Field Level Standard Operating Procedures for the DOH/UNOPS FFM and also present the exceptional findings of the FFM verifications.	
3	Risk: Failure to operate in compliance of financial management policies such as the Field Level Standard Operating Procedures for the Department of Health/UNOPS Funds Flow	<p><u>Per diem payments</u> To mitigate the risk of unauthorized expenses being charged to the Global Fund grants; NTP should reinforce adherence to Field Level Standard Operating Procedures for the Department of Health/UNOPS Funds</p>	UNOPS takes note of this observation but wishes to state the response is the same as 2 above.	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG Comment when required
	Mechanism (FFM) may result in ineligible expenditures that will need to be refunded to the Global Fund /Principal Recipient.	Flow Mechanism (FFM) for payment of Per diems. [Important]		
4	Risk: Incorrect reporting to the Global Fund	<u>Budget monitoring</u> To mitigate the risk of incorrect reporting to the Global Fund: (a) The expenditure should be recorded by the PR (UNOPS) personnel under correct budget line item. (b) Trainings should be provided to NTP personnel to review Budget vs. Actual expense reports, identify variances and provide explanations. [Critical]	UNOPS agrees with the observation and will continue to strengthen its expenditure verification system to ensure that expenditures are recorded under correct budget line item. UNOPS agrees with the observation and will continue to conduct bi-monthly meetings with the National Programme Managers where such trainings will be offered.	
5	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund/Principal Recipient	<u>Budgetary variances</u> To ensure that only budgeted expenses are charged to the Global Fund grants; NTP should: I. Ensure that the expenses charged to the Grant are eligible (as per the approved Grant budget) and refunded to the Program. II. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011. (Available on the Global Fund website). [Important]	UNOPS takes note of the observation but wishes to reiterate that it reports all budget variances through the PU/DR in the Enhanced Financial reporting template. It also wishes to reiterate that it respects the budget flexibility approval given on October 2010 which is at the SDA or Cost Category level for the entire Phase I grants.  UNOPS agrees with the recommendation but wishes to state that it will implement the Guidelines from Phase 2 as there is already a negotiated flexibility in Phase 1.	
6	Risk: i. Unapproved modifications/reallocation to the budget may be treated as unbudgeted expenses and SR will need to refund such expenses to the PR; and II. Unauthorized changes or modifications to the	<u>Procurement procedures</u> In order to strengthen the procurement procedures adopted by the PR (UNOPS) for procuring the goods/services on behalf of NTP; the Global Fund Secretariat to encourage UNOPS to: i. Ensure that the budget holder checks the budget availability prior to release of the Purchase Order.	UNOPS takes notes of the observation. However, UNOPS wishes to clarify that budget holders were always informed and approval was taken before issuing the purchase order.  UNOPS agrees and will take necessary actions for concerned procurement case. UNOPS takes note of the observation and wishes to clarify that such practice is in place in all procurement actions.	



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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG Comment when required
	<p>quotes submitted by the vendors may result in vendor favoritism, which may lead to purchase of goods and services at high cost.</p> <p>III. Risk: Unauthorized manual changes or modifications to the quotes submitted by the vendors may result in vendor favoritism, which may lead to purchase of goods and services at high cost.</p>	<p>ii. Ensure that budget reallocation (if required) is done prior to incurring the expenditure.</p> <p>iii. Obtain fresh quotations in case there is any change /correction in the quotations submitted by the vendor or the change/correction should be authorized by the vendor.</p> <p>[Critical]</p>		
7	<p>Risk: Inadequate process of identification of asset and lack of insurance cover may result in loss of program funds due to damage or loss of assets.</p>	<p><u>Assets Management</u> To improve controls over program assets and to mitigate the risk of loss / damage of assets procured from Global Fund program funds; NTP should:</p> <p>i. Define and document policies and procedures for asset management including maintenance of Fixed Assets Register (FAR).</p> <p>ii. Tag all the fixed assets with unique identification number.</p> <p>iii. Ensure that the location of the fixed assets is captured in the Fixed assets register (FAR).</p> <p>iv. Evaluate obtaining an insurance policy for safeguarding the program assets considering the country context.</p> <p>[Important]</p>	<p>UNOPS takes note of the observation but is surprised to note that it doesn't know the basis of making this observation. The National Programmes assets started arriving in the country in November, after the OIG Diagnostic Review. Further to this, no clarification was sought from UNOPS on the matter. This said, UNOPS has set up the following processes for managing national programme assets:</p> <p>(a) A Finance Officer has been recruited and posted to Nayptaw to support the National Programmes in physical assets tagging and verification.</p> <p>(b) On a quarterly basis reconciliation between the Asset Registers and UNOPS records is done and any arising discrepancies resolved.</p> <p>(c) UNOPS will evaluate options available in Myanmar for insuring assets procured with Global Fund grants.</p>	<p>UPS were procured by the National Program in August 2011. These UPS's were not tagged. Also, their location was not recorded in the FAR.</p> <p>This issue was discussed with NTP management and UNOPS during the pre-debrief meeting.</p>
8	<p>Risk: Delay in submission of workplans to PR and its approval may delay the program implementation</p>	<p><u>Quarterly workplans</u> To mitigate the risk of delay in program implementation, NTP and the PR (UNOPS) should develop a tracker and monitor the timelines defined in Field Level Standard Operating Procedures for the Department of Health/UNOPS</p>	<p>UNOPS agrees with the observation and will take necessary steps to put in place a system to record and track all timelines as per Standard Operating Procedures.</p>	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG Comment when required
		Funds Flow Mechanism (FFM) to ensure submission and review of quarterly work plans on a timely basis. [Important]		

### III. Sub Recipient: Myanmar Medical Association (MMA)

S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
1	Risk: Large cash in hand balances and absence of cash insurance poses the risk of loss of cash and funds for both PR and the Global Fund	To mitigate the risk of loss of cash and payment to unauthorized person: <u>Insurance Policies</u>  (a) MMA should evaluate obtaining insurance for cash-in-hand and cash-in-transit insurance to cover the risk of loss of cash considering the country context. <u>Cash ceiling limits</u> (b) MMA should ensure that the defined cash ceiling limits are adhered to  [Important]	<u>Insurance Policies</u>  MMA would like to explain that there is still no existing and practicing Insurance policy in the Republic of Union of Myanmar, to cover the risk of Cash in the office and Cash-in-transit.  <u>Cash ceiling limits</u>  MMA agrees with the observation but will review and revise the cash ceiling and have it approved by MMA Central Executive Committee (CEC).	Considering that the economy of Myanmar is now opening up and new insurance companies would likely enter the market in future, MMA should then explore the possibility of obtaining cash insurance.
2	Risk: Absence of user manual for accounting system may result in incorrect accounting and reporting.	<u>Accounting system</u>  To mitigate the risk of incorrect accounting and reporting; MMA should develop a user manual for the accounting system (ACE) to serve as a guide to the SR's personnel. [Important]	MMA has developed its User Manual for ACE and did submit to a staff of OIG at the Chatrium Hotel in Yangon, when asked for during OIG's visit.	MMA management had informed OIG that a draft manual shall be prepared. No such document was shared with any of the OIG team members.
3	Risk: Absence of process of verifying the identity of cash recipient increases the risk of making payment to unauthorized person	<u>Cash Payments</u>  MMA should (a) reduce cash payments to the maximum extent possible; and (b) verify and document proof of identity of cash recipients along with their contact numbers.	a. MMA would like to explain that cash payment is a common-ritual practice in the Republic of Myanmar, and would have difficulties to change the practice to cheque payment.  b. MMA agrees with the observation and will pay attention to it.	Given the risk of cash payment, OIG reiterate that the MMA should reduce cash payment to the maximum extent possible.

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
		[Important]		
4	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund/Principal Recipient	<u>Budgetary Control</u>  To strengthen the controls over budget monitoring; MMA should establish a mechanism to obtain approval from the PR (UNOPS) in case of change in periodicity of budget activities. [Important]	MMA agrees with the observation and has developed a mechanism of obtaining prior approval from PR.	
5	Risk: Charging of expenses to incorrect expense cost category leads to incorrect reporting to the Global Fund	<u>Expense cost categories</u>  To mitigate the risk of incorrect reporting; MMA in consultation with PR (UNOPS) should review the expense cost categories defined in the budget. Glucometer, stethoscope, bathroom scale and blood pressure set should be included under "Health Products and equipment" cost category. [Important]	MMA has initiated to review the expense cost category as defined in the Budget Health Items viz: Stethoscope, Pressure Sets, etc. MMA TB Project has been asked to review the expense cost category for the forthcoming phase II (GF) proposal.	
6	Risk: Absence of expertise of the procurement team may result in procurement of sub standards goods, delay in procurement and procurement at a higher price	<u>SR Procurement team</u>  To mitigate the risk of procurement of sub standards goods, delay in procurement and procurement at a higher price; training and capacity building of the procurement team should be undertaken by MMA to build sufficient expertise. Also, assistance from PR should be taken to build capacity of SR. [Critical]	MMA Procurement Committee members have the expertise and experience in the field of health, finance, administration and management disciplines. MMA Joint Secretary General Dr. U Khine Soe Win, Deputy Director (PMD), Dr. U Tin Aye, and respective Project Managers, are from the fields of Health and Administration disciplines and the Finance Manager Daw Mya Mya Thein is from the fields of Finance and Management.  MMA agrees to the subject on Electronics/Electrical and their related goods to acquire the opinion/suggestion/recommendation, from the respective expertise in the purchasing process of such goods and services.  MMA also welcomes the suggestion on training course for capacity building in procurement, and shall negotiate for assistance from UNOPS.  MMA would like to clarify that the Logistics Officer is well pronounced in the SOP, but due to budget limitation, the said post is unable to be recruited.	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
7	Risk: Weak controls over vendor selection process poses the risk of non-compliance with the procurement procedures and value for money not achieved	<p><u>Vendor enlistment/ evaluation</u></p> <p>To strengthen controls over vendor selection and payment process, MMA should:</p> <p>(a) prepare an Approved vendor list to identify vendors for goods/service regularly purchased and monitor the vendor's performance; and</p> <p>(b) prepare a Bid tracking sheet specifying the date of receipt of quotations, name of the vendor, prices quoted, source of receipt of information etc.</p> <p><u>Authority matrix</u></p> <p>(c) MMA should define an authority matrix for signing the vendor contracts</p> <p><u>"No Conflict of Interest" declaration</u></p> <p>(d) MMA should obtain "No Conflict of Interest" declaration from members of the Procurement Committee.</p> <p>[Important]</p>	<p><u>Vendor enlistment/ evaluation:</u> MMA agrees observations (a) and (b) and will implement them.</p> <p><u>Authority matrix:</u> Authority matrix has been reviewed and the authority has been allocated as follows: For Contract, Lease, and Rental Agreements, the authority for the President of MMA is unlimited: the authority for Program Management Department (PMD) is up to MMK twenty lakhs (20,00000), and that of the respective Project Manager is up to MMK ten lakhs (10,00000), only.</p> <p><u>"No Conflict of Interest" declaration:</u> All members of the Procurement Committee have already signed "No Conflict of Interest" Declaration.</p>	
8	Risk: Weak controls over procurement process may result in value for money not achieved	<p><u>Need for greater focus on value for money to generate savings</u></p> <p>In order to improve transparency and competitiveness in procurement and to achieve value for money to generate savings, MMA should:</p> <p>(a) provide justification in case the lowest quote is not selected;</p> <p>(b) invite at least 3 competitive quotations as specified in the SR's Financial Management Guideline (FMG) and document the justification in case minimum number of quotations as per FMG are not received ;</p> <p>(c) not consider the non-responsive quotations to the technical specifications as per RFQ for bid evaluation; and</p>	<p><u>Need for greater focus on value for money to generate savings</u></p> <p>MMA understands and agrees to the call for greater focus on value for money:</p> <p>(a) MMA will provide justification in case the lowest quote is selected.</p> <p>(b) As suggested by OIG, MMA invites at least three competitive quotations, as specified in MMA Financial Management Guideline.</p> <p>(c) As suggested by OIG, MMA will not consider the non-responsive quotations.</p> <p>(d) Unless otherwise necessary, MMA will not specify the brand of goods/service in RFQ.</p>	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
		<p>(d) not specify the brand of goods/ services in RFQ (unless otherwise necessary).</p> <p><u>Communications between SR and PR (UNOPS)</u></p> <p>(e) Communications between the PR (UNOPS) and SR should be improved to define the responsibility for procurement of Health products amounting to less than US\$2,500.</p> <p>[Critical]</p>	<p><b><u>Communications between SR and PR (UNOPS)</u></b></p> <p>MMA agrees to develop better communication and cooperation with its PR in regard to procurement of Health products amounting to less than US\$2,500.</p>	
9	Risk: Absence of controls over vendor selection and payment processing process poses the risk of value for money not achieved by the Program	<p><u>Procurement procedures</u></p> <p>MMA should:</p> <p>(a) accept the bids as per the criteria specified in RFQ; and</p> <p>(b) maintain a tracker for Purchase Orders issued specifying the description of the goods/ services, PO date, PO amount, date of expected delivery, date of actual delivery, Goods Receipt Note number, Amount of Invoice, name and designation of the Person receiving the goods.</p> <p><u>Approval Authority matrix</u></p> <p>(c) MMA to ensure that payments are approved as per the defined authority matrix.</p> <p>[Important]</p>	<p><u>Procurement procedures</u></p> <p>(a) MMA will accept bids as per criteria specified in RFQ.</p> <p>(b) MMA will maintain a tracker for purchase orders issued, specifying the description of goods/services, purchase order date, purchase order amount, expected date of delivery, actual delivery date, and goods receipt number, amount of invoice and name and designation of the person receiving the goods.</p> <p><u>Approval Authority matrix</u></p> <p>(c) MMA ensures that payments for procurement are approved per defined authority matrix and the authority is given to the President of MMA as of MMK above twenty lakhs (&gt;20,000,000), to PMD MMK five lakhs to twenty lakhs (5,000,000 to 20,000,000) and respective Project Managers MMK less than five lakhs (&lt;5,000,000)</p>	
10	Risk: Lack of policies and procedures may result in inconsistent \procedures being followed by the employees and this may lead to an ineffective internal control system	<p><u>Policies and procedures</u></p> <p>MMA should define policies and procedures for disposal of assets, obtaining insurance to safeguard the assets, vehicle management and usage monitoring.</p> <p>[Critical]</p>	MMA has initiated to review and revise its policies and Procedures.	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
11	<p>Risk:</p> <ul style="list-style-type: none"> <li>Absence of insurance cover may result in loss of program funds due to damage or loss of assets</li> <li>Lack of vehicle log book weaken the controls over utilization of program assets</li> </ul>	<p><u>Program assets</u></p> <p>(a) MMA should evaluate obtaining an insurance policy for safeguarding the program assets considering the country context <u>Vehicle log book</u></p> <p>(b) MMA should update the vehicle log book with all the necessary details such as distance travelled, purpose for which the vehicles were used, signature of the user, etc.</p> <p>[Important]</p>	<p><u>Program assets</u></p> <p>MMA has obtained the Assets Insurance since 23, May 2012.</p> <p>MMA will define the guideline related to asset disposal in the procurement policy.</p> <p><u>Vehicle log book</u></p> <p>MMA has initiated as suggested by OIG team and personnel of the project will be assigned for the usage, monitoring and management of vehicles.</p>	
12	<p>Risk: Lack of clarity on selection process poses a risk of non-transparent selection process</p>	<p><u>Human Resource policies and procedures</u></p> <p>MMA should update the existing Human Resource policy to include the following:</p> <p>(a) minimum number of candidates to be interviewed for each position;</p> <p>(b) documents to be obtained at the time of selection of employee;</p> <p>(c) full and final settlement; and</p> <p>(d) procedures to ensure data confidentiality, integrity and completeness such as use of official email ids instead of personal email ids.</p> <p>[Critical]</p>	<p>MMA has initiated to review and revise its HR Policies and Procedures to include the suggested OIG recommendations.</p>	
13	<p>Risk: Weak controls over recruitment procedures poses the risk of non-identification and selection of the right candidates for the job</p>	<p><u>Recruitment process</u></p> <p>MMA to make further efforts in:</p> <p>(a) Identifying suitable candidates for recruitment from broad range of sources including newspapers/ internet/ recruitment agencies; and</p> <p>(b) Conducting written examination as interview assessment criteria.</p> <p>[Important]</p>	<p>MMA has initiated to review and revise the Recruitment process to include the suggested OIG recommendations.</p>	
14	<p>Risk:</p> <p>(a) Absence of payroll reconciliation could</p>	<p><u>Payroll processing</u></p> <p>MMA should:</p> <p>(a) reconcile the current month's payroll with the previous month's</p>	<p>(a) MMA performs a reconciliation of the current month's payroll to the previous month's payroll and also reconciles them with the approved budget.</p> <p>(b) MMA is conducting performance appraisal of the project staff</p>	

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S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
	<p>pose risk of unauthorized payment going unnoticed/inaccurate processing of payroll</p> <p>(b) In absence of employees' defined evaluation procedures, it is difficult to identify performance improvement opportunities of employees for better implementation of the grant</p>	<p>payroll to ensure the accuracy of current month's payroll;</p> <p>(b) conduct performance appraisal of the employees as mentioned in MMA's Human resource Policy; and</p> <p>(c) maintain the employee master to record employee related details such as contact number, qualification, designation, department, date of joining, date of resignation and salary band of the employee.</p> <p>[Important]</p>	<p>(c) MMA maintains the staff master file, with detailed records of the staff.</p>	
15	<p>Risk: Inadequate coverage and assessment of internal controls of the SRs operations</p>	<p><u>Internal Audit</u> MMA should:</p> <p>(a) define the guidelines/procedures for conducting the Internal Audit; and</p> <p>(b) enforce that the Central Internal audit unit conducts internal audit at periodic intervals and that the audit plan is approved by the PR (UNOPS).</p> <p>[Critical]</p>	<p>MMA has initiated to recruit an Auditor for internal auditing purposes after acquiring the approval from MMA, Central Executive Committee (CEC).</p>	

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### IV. Principal Recipient: Save the Children USA (SC USA)

S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
1	Risk: Delays in coordinator recruitment and bed nets distribution and counterfeit malaria drugs could potentially derail gains in malaria control in recent years	<p>Malaria</p> <p>(a) Ensure the timely delivery of bed nets and re-impregnation tablets in advance of peak malaria season in Y2</p> <p>[Important]</p> <p>(b) Ensure adequate resources to identify counterfeit antimalarial drugs in partnership with 3DF and neighboring country initiatives</p> <p>[Important]</p>	<p>1(a): Forecasting for year 2 was submitted to GFATM /LFA 30<sup>th</sup> November 2011 and approved by GFATM 1<sup>st</sup> of February 2012. Immediately after, a final quotation from IDA was requested (LLiN and KO-Tabs) by SC USA and approved by SRs and PR. SC USA has transferred funds to the IDA account to initiate the procurement.</p> <p>1(b): This needs to be discussed within the malaria Technical working group as well as in the M-CCM. This priority also requires extra funds.</p>	
2.	Risk: Absence of monitoring of the Forex quotes may result in lower amount being available for implementation of program activities. Furthermore, due to the inherent risk of this transaction, inadequate supervision may pose risk of misappropriation of fund.	<p><u>Foreign Exchange Rates</u></p> <p>To ensure that SC obtains the most competitive exchange rates, enable adequate oversight over conversion of USD and minimize the risk of transactions with restricted personnel/organizations; SC should implement the following Global Fund Secretariat approved procedures on monitoring foreign exchange rates:</p> <p>I. Country Director's office to independently monitor the exchange rates which are obtained by the finance department.</p> <p>II. Companies/ individuals from whom large transfers are processed need to be verified against list of terrorists/blacklists.</p> <p>[Critical]</p>	<p>I. Agree and is being done</p> <p>II. SRs are checked, need to put in place plan and process for companies</p>	
3.	Risk: Absence of Global Fund specific training to the finance staff may lead to incorrect accounting and reporting to the Global Fund	<p><u>Global Fund specific training</u></p> <p>To improve the management of the Global Fund grants; SC should provide training to key Finance staff on Global Fund specific requirements on accounting, budget monitoring, reporting etc.</p> <p>[Important]</p>	<p>Completed - Training conducted by GF Secretariat to PRs end of January</p> <p>Save the Children conducted workshop to transfer some of the training topics to the SRs.</p> <p>Save the Children conducted a finance workshop (for key PR and SR finance and program staff) in April 2011 covering finance, budgeting, financial monitoring requirements.</p> <p>The Finance Manager and Compliance Manager attended a seminar on international financial reporting conducted by Myanmar Institute of Certified Public Accountants and IFRS Foundation, in August 2011.</p>	



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4.	Risk: Absence of process of verifying the identity of cash recipient increases the risk of making payment to unauthorized person	<p><u>Cash payments</u> To mitigate the inherent risk of making payments to unauthorized persons and improve transparency; SC should implement additional controls of verifying identity proof of the cash recipient and filing a copy of the verified identity proof and contact details of the recipient along with the payment voucher for future reference. [Critical]</p>	In the field it is not possible to copy and keep on record identify proof (identity proof is not available to all within Myanmar). For larger transactions PR will record contact information and proof of identification when possible.	
5.	Risk: Absence of process of timely settlement of advances may result in excess payout to the vendors	<p><u>Settlement of advances</u> To ensure accurate advances in the books of accounts; SC should strengthen their accounting process by timely recording of expenses and adjustment of advances (paid to UNOPS for health products) in the books. [Important]</p>	Agree. Advance payments to UNOPS for all procurement items that were received by the SRs have been adjusted to expenses. We will monitor and make future adjustments quarterly.	
6.	Risk: Payment processing without obtaining appropriate supporting documentation may pose the risk of disallowance of the expenses by the Global Fund	<p><u>Payment Processing</u> To ensure that only eligible expenses are charged to the Global Fund grant funds; SC should:</p> <ol style="list-style-type: none"> <li>I. Obtain and verify the documents (e.g. invoice, travel tickets etc.) supporting the expenses incurred.</li> <li>II. Ensure that payments are approved as per the PR's defined authority matrix.</li> <li>III. Ensure that supporting documents (invoice, travel ticket etc.) attached with the payment voucher are stamped 'PAID' or cancelled / scored out to avoid resubmission.</li> </ol> <p>[Important]</p>	SC PR finance is reviewing expenses charged to GF grants.	
7.	Risk: Absence of procedures to monitor the expenses against the defined detailed budget may lead to a failure to identify or explain/justify variances between actual and budgeted expenditures, which increases the risk that the Principal Recipient must refund such amounts to the Global Fund.	<p><u>Budget Monitoring</u> To ensure that only eligible and budgeted expenses are charged to the Global Fund; SC should:</p> <ol style="list-style-type: none"> <li>i. Verify that expenses are booked against the activities defined in the detailed budget plan.</li> <li>ii. Implement the new Global Fund Guidelines for Budgeting, issued on 15 August 2011. (Available at the Global Fund website).</li> <li>iii. Comply with the specific guidance by the Global Fund Secretariat on Budget Flexibility.</li> </ol> <p>[Critical]</p>	<p>SC has established the procedure to monitor expenses against activities defined in the detailed budget.</p> <p>SC is studying the new Global Fund Guidelines for budgeting.</p> <p>SC complies with specific guidance by the Global Fund Secretariat on budget flexibility.</p>	
8.	Risk: Absence of rationale for the allocation of shared costs can lead to charging of higher (ineligible) amount to the Global Fund program funds	<p><u>Allocation of Cost</u> To ensure that the Global Fund is charged a fair portion of shared operating/payroll costs, SC should define and document the rationale for allocation of these costs which should be approved</p>	<p>a) Allocation of costs per budget are based on percentage of the disease budget to the total budgets. For year 2 SC will allocate according to 50%, 30%, 20% as in approved budget.</p> <p>b) PR will implement a reasonable methodology to allocate</p>	

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		by the Global Fund Secretariat. [Important]	costs that are percentage of payroll costs shared between GF grants and other donors.  The rationale for allocating PR shared costs among the 3 grants (HIV, Malaria, TB), which was shared with the OIG team during the visit, was based on the proportion of the budget of each grant to the combined total budget of the 3 grants. The total HIV budget for Phase 1 is 65% to the combined total budget of the 3 grants, Malaria is 25%, and TB is 10%. Being the PR, the majority of SC costs under the Global Fund grants are related and are chargeable to all 3 grants. The allocation ratio in the approved budgets (50% for HIV, 30% for Malaria, 20% for TB) was established at the start of the proposal process when the originally drafted budgets for the 3 grants were about 50/30/20 for the 3 grants. Due to the OIG recommendation, SC reverts 2012 costs back to the 50/30/20 ratio of the originally approved budget.	
9.	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund.	<p><u>Ineligible/ unbudgeted expenses</u> To ensure that only eligible and budgeted expenses are charged to the Global Fund grants; SC should:</p> <ol style="list-style-type: none"> <li>I. Ensure that the expenses charged to the grant are eligible (as per the approved grant budget) and all ineligible expenses should be refunded to the Program.</li> <li>II. Ensure refund of unbudgeted expenses to the Program.</li> <li>III. Ensure that expenses are approved by the respective budget holder prior to incurring such expenditure.</li> <li>IV. Obtain a written approval from the Global Fund Secretariat prior to incurring the expense, in case the expense exceeds the budgeted amount.</li> <li>V. Ensure that expenses are allocated to correct budget cost category.</li> <li>VI. Seek clarification from Global Fund on tolerance limits, which is not mentioned in 'Guidelines for Budgeting' released by the Global Fund on 15 August 2011.</li> </ol> <p>[Critical]</p>	<p>I. Entertainment expenses and consultant expenses which were not part of GF grant have been recoded and removed from GF expenses</p> <p>II. There will be some unbudgeted costs that are directly program related. These costs will be charged to program but within the budget and SDA flexibility provided by GF Secretariat</p> <p>III. Agree</p> <p>IV. There is a 10% budget flexibility provided by GF Secretariat for Cost Category and SDA. SC will continue to follow the budget flexibility guidance.</p> <p>V. Agree</p> <p>VI. GF Secretariat has provided guidance of 10% flexibility</p>	
10.	Risk: Absence of insurance of assets poses the risk of loss of assets being charged to the Global Fund program funds	<p><u>Insurance of the Program Assets</u> To mitigate the risk of financial loss in case of theft, loss or damage to assets procured from Global Fund program funds; SC should consider the country context and evaluate options to insure the fixed assets procured from Global Fund grants.</p> <p>[Important]</p>	Will reassess and see what assets makes sense to insure according to Myanmar context and what insurance is available considering the International sanctions which are in place.	

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11.	Risk: Absence of documentation related to a selected candidate's qualifications or evaluation during the recruitment process a risk that such candidates may not be suitable for the position.	<p><u>Recruitment Process</u> To strengthen the controls over recruitment and selection process; SC should:</p> <p>(a) ensure that screening of candidate is performed in accordance with the parameters specified in interview points (score cards) by awarding scores for each parameters and interview panelist signing their respective interview points. (b) document of the reference check of the new joiners. [Important]</p>	<p>a) Agree b) Agree, will follow up with record keeping</p>	
12.	Risk: Delay in the selection of external auditor it may not be possible to effectively assess and monitor the PR's operations / Non-compliance to special terms and conditions imposed by the Grant Agreement	<p><u>Appointment of Independent External Auditor</u> To effectively monitor the PR's operations and to comply with the special terms and conditions of the Grant Agreement, SC should prepare and document its Internal Audit plan. Both plan and scope of work to be shared with Global Fund for their approval. [Critical]</p>	<p>External Auditor is being conducted in June and July 2012.  SC has completed the tendering process for hiring an external audit firm, GF approved process, Mazar external audit firm was selected and will complete audit mid July.</p>	
13.	Risk: In the absence of audits it may not be possible to effectively assess and monitor the PR's operations / Non-compliance to special terms and conditions imposed by the Grant Agreement	<p><u>Internal Audit</u> SC should prepare and document its Internal Audit plan. The plan and scope of work to be shared with Global Fund for their approval. [Critical]</p>	<p>Internal Audit TOR provided to GF and comments were provided. Internal Auditor arrived in Myanmar to conduct Internal Audit in March 2012.  PR also has a compliance manager and is in the process of hiring another compliance person. These managers will take the leading role in financial and administrative compliant oversight with the SRs.</p>	
14.	Risk: Incorrect reporting to the Global Fund	<p><u>Global Fund guidelines on reporting</u> To mitigate the risk of incorrect reporting to the Global Fund; SC should:</p> <p>i. Ensure that financial reports are prepared in accordance with the Global Fund's reporting guidelines. ii. Improve the review procedures of financial reports submitted to the Global Fund. [Critical]</p>	<p>Agree, the training provided the GF Secretariat has assisted SC in understanding PUDR report.  The PU/DR process has been changed to involve more staff, and to include additional review and verifying mechanisms.</p>	
15.	Risk: Lack of minutes of meeting poses risk of no follow-up on actionable items	<p><u>Management Meetings</u> To mitigate the risk of absence of follow-up on action points, minutes of management meetings should be prepared and formally documented to monitor the issues and actionable decided. [Important]</p>	<p>PR keeps minutes for certain meetings. It is not realistic and not desirable to have minutes for all the meetings carried out within the PR or between the PR and SRs. This will imply a considerable time of PR/SR staff preparing and reviewing minutes rather than focusing on implementation.  Rather than minutes we the PR has a section of conclusions in its regular monitoring reports (RDQA, field program reports, warehouse assessment, etc...). These reports include sections with specific follow up actions that are shared and monitored by PR and</p>	<p>In addition to the M&amp;E visits, quarterly management meetings were conducted by the PR to discuss the program, financial reports and the M&amp;E visit reports.</p>

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			<p>SR staff in subsequent weeks/months.</p> <p>The finance review has created forms for feedback to SRs.</p>	<p>The action arising out of these quarterly meetings were not being documented. In order to mitigate the risk of not following up on the action required. OIG reiterates its recommendation of documenting the minutes of the quarterly management meetings or action plans resulting from these meeting at the least.</p>
16.	<p>Risk: In the absence of audits and monitoring plans, it may not be possible to effectively assess the capacity and internal controls of the SRs and the SSRs</p>	<p><u>Monitoring &amp; Evaluation of SRs and SSRs</u>            To ensure effective monitoring and assessment of internal controls and capacity of SRs; SC should:</p> <ul style="list-style-type: none"> <li>(a) finalize an internal audit plan for SRs and obtain approval of the Global Fund.</li> <li>(b) conduct a joint review by program and finance team to ensure that programmatic progress is in line with the expenses reported by the SRs.</li> <li>(c) verify the quarterly financial reports and supporting documents submitted by SRs.</li> </ul> <p>[Critical]</p>	<ul style="list-style-type: none"> <li>a) Compliance Manager has a monitoring plan which they implement directly; within Myanmar SC does not have an internal audit unit, but monitoring and compliance follow up is conducted by Program, Compliance Unit, M&amp;E, and procurement. Information is shared across units for overall view.</li> <li>b) Program team is in the field on a regular basis, finance team will have more opportunity for field visits with the revised reporting schedule. Program, M&amp;E and Finance all conduct field monitoring visits;</li> <li>c) Verification is currently be conducted on a quarterly basis</li> </ul>	
17.	<p>Risk: Absence of detailed justifications over vendor selection process may result in vendor favoritism resulting in procurement through higher cost vendors, being charged to Global Fund program funds</p>	<p><u>Bidding and evaluation process</u>            To strengthen controls over the vendor selection process; SC should:</p> <ul style="list-style-type: none"> <li>(a) adopt good tendering practices, to achieve value for money through transparent and competitive bidding by obtaining multiple vendor quotations in accordance with the policy.</li> <li>(b) document the justification in case competitive quotes are not available or the lowest quote vendor is not selected.</li> <li>(c) document the RFQ with detailed</li> </ul>	<p>a-c) will follow up and tighten procurement procedures</p>	

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		<p>specifications And ensure that the quotations considered for evaluation comply with the standard terms and conditions specified in the RFQ.</p> <p>[Important]</p>		
18.	Risk: Weak controls in the purchase requisitioning and ordering process may result in inefficiencies in procurement and may impact program implementation	<p><u>Purchase Requisitioning and Ordering</u></p> <p>(a) Purchase requisition should be dated to ensure procurement of goods within requisite timeline.</p> <p>(b) Purchase Order should clearly define the standard terms and conditions (like expected date of delivery, quantity, unit rate, etc.) in order to avoid ambiguity and ensure timely and effective procurement.</p> <p>(c) SC should incorporate complete expense description in the books of accounts instead of giving a generic description for all expenses incurred for month to ensure efficient control over the expense incurred and accounted for.</p> <p>(d) PO should be dated to ensure timely delivery of goods.</p> <p>[Important]</p>	PR will continue to provide guidance to Procurement Unit and making sure forms are filled out with the information required for purchases and compliance.	
19.	Risk: Change Management	<p>Build effective relations with all SR to fully support SAVE in its PR strategy for PSM specifically standardizing selections, specifications, forecasting, LMIS procedures and procurement SOPs for SR to comply with (non-health)</p> <p>[Critical]</p>	<p><b>Comments on Risk(s) Identified,</b></p> <p>We agree with the OIG statement: “Fund recipients have to shift from a light in-country GF version (the 3DF) back to the more full-fledged GF mechanism including coping with GF regulations and policies and LFA assessments. For PR SAVE and the INGO partners the need for the shift is even more acute since procurement responsibility was transferred back to SAVE by co-PR UNOPS”.</p> <p>This is one of our objectives not only for PSM but also for M&amp;E, program monitoring and Finance. In the specific area of PSM we have already hired an additional international staff to make sure that Save the Children and SRs follow GFATM PSM policies and guidelines. One more PSM officer is plan to be recruited in year 2 to specifically monitor procurement of non-health products by PR and SRs</p> <p><b>Comments on Recommendation(s).</b> SC USA and SRs have:</p> <ol style="list-style-type: none"> <li>Standardized the list of health products to be procured (standardization was coordinated in year 1 with UNOPS. Also in year 2 we have updated this standard list given updated protocols and lessons learned from year 1. thus we consider that no further action is needed in this area</li> </ol>	

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			<ol style="list-style-type: none"> <li>2. As much as possible specifications have also been standardized in year 2 in agreement with SRs. In some cases it has not been possible as we also want to be flexible with the specific needs of each SR.</li> <li>3. Forecasting for year 2 has been coordinated with all SRs. All information has been compiled by the PR team in a single harmonized tool sent to LFA November 30<sup>th</sup> 2011.</li> <li>4. LMIS system was developed June-July 2011. P4 will be the first PU/DR in which we collect and centralize information through stock and assets reports. Given P4 experience we are willing to improve in this area.</li> </ol>	
20.	Risk: Not having recruited a full time capable PSM Manager will continue making procurement unit dependent on consultant and part time logistics manager	<p>A – Finalize recruitment of long term PSM Manager with skills and experience to set up the systems aligned with GF PSM standards</p> <p>B - Standardize product (item) lists and specifications. Use MSF green list and 3DF product list as guidance. Write SOP (or use SOP from 3DF) for establishing specifications to avoid additional requirements in specifications, which will make procurement unnecessarily complicated and possibly uncompetitive</p> <p>C – Update PSM plan for approval by GF and implement SOPs for procurement</p> <p>D- Adopt the corporate Procurement Manual for specific procedures into a PR Procurement and Supply Management (PSM) Manual in line with corporate policies as well as GF PSM policies and QA standards for procurement of key health products inter alia the Model QA system for Procurement Agent (MQAS). The SCiM PSM Manual introduction should be clear on what steps of PSM cycle the PR aims to do in future as PR under 9 phase 2 and then R11, etc., and which ones it intends to source out. [Critical]</p>	<p>A. SC USA has assumed new responsibilities in procurement and as a result an additional PSM international manager has joined the PR team as of February 6<sup>th</sup> 2012.</p> <p>B. MSF standard list has been used as one of the reference list for our standard list of health products [see also comment above: 19. 2. (1)]</p> <p>C. PSM play for year 2 was approved end of Feb 2012</p> <p>D. SC has worked with GF and has received approval for phase 2 procurement process. SC will tender for a procurement agent for core products and then use a variety of procurement agents for the remaining health products that are procured in a smaller number.</p> <p>SC received duty free status and license to import year 2 health commodities.</p>	
21.	Risk: protracted delays in receipt of pending Y1 goods and new delays in Y2 supplies without safety net (3DF), except MSF	<p>A- A valid procurement framework must be set up in line with SAVE corporate Procurement Manual for Y2 per category goods and estimated values/thresholds, using appointed agents, doing national tenders or RFQ</p> <p>B - Finalize Y2 Forecasting and Procurement plan before December for GF approval ensuring feasible deadlines in the planning</p> <p>C - Align items in orders 1) with UNICEF online catalogue (standard items) for which UNICEF should in principle be able to respond quickly with</p>	<p><b>Comments on Risk(s) section.</b></p> <p>SCUS SRs are currently facing a shortage of OIs for year 2.</p> <p><b>Comments on Recommendation(s)</b></p> <p>A. Local Procurement was procured in line with SC USA policies. The PR will follow up year 2 procurement of non-health products to</p>	<p>Additional clarification for recommendation 21. D as requested:</p> <ul style="list-style-type: none"> <li>• specify clearly [in the PSM plan] the entities responsible for and methods used in</li> </ul>

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		<p>a Cost Estimate and 2) send remainder of items for a competitive quotation to IDA and IMRESS (and MEG) to build in some element of competition. Both PA's are having LTA with UN agencies like UNDP and UNFPA as an assurance of quality product and reliable service.</p> <p>D - Define exactly which office and which procurement methods (national/international and open/closed tender, request for proposal and direct purchase) are proposed per lot and verify compliance of this plan with applicable policies.</p> <p>E- Seek agreement with UNICEF/IDA for receiving quotations, lead times and fees. [Critical]</p>	<p>ensure that we adhere to LFA PSM assessment comments of 2011.</p> <p>B. Forecasting approved February 1<sup>st</sup> 2012 by GFATM</p> <p>C. MOUs/contracts with IDA, IMRES and UNICEF have been signed with SC USA. All this agencies have QA assurance practices in place. Quotations and lead times are currently being negotiated with PAs</p> <p>D. Can OIG please clarify what this is referred to?</p> <p>E. See comment 3-22C above</p>	<p>procurement of drugs, health products/services and non-health products/services.</p> <ul style="list-style-type: none"> <li>So that GF can assess/confirm by review that most efficient and the reliable supply mechanisms are being implemented</li> </ul>
22.	<p>Risk: using UNICEF (with IDA as back-up) for Y2 as interim measure delays selection/pre-qualification of a commercial agent</p>	<p>Prepare in Y2 (2011/12) for Phase 2 to either have full PSM supported by a Procurement unit with adequate capacity in place or alternatively have procedure ready and approved by GF for the selection and pre-qualification of an external agent for procurement and supply health goods. [Critical]</p>	<p>Our preferred option is to select PAs using the same rationale as year 2 and have agreements with the MOH-CMSD-Ministry of Commerce to bring imported health products in country. Also having also an agreement/MOU with UNOPS as consignee will facilitate alternatives arrangements for the procurement of health products. (MOU between UNOPS and SCUS is currently under discussion).</p> <p>Please also note that Selected PAs in year 2 are highly known PAs which GFATM is also sub-contracting to carry out procurement under VPP.</p> <p>We are currently coordinating with MOH for SCUS to obtain a similar status than UN for the importation of GFATM health products to Myanmar.</p> <p>(Please clarify if we have understood this specific OIG point (22). we will be happy to clarify further if needed).</p>	<p>PR is requested to have a formal approval [by GF] of the rationale used for selection of the two PA's for phase 2 i.e. without a open/transparent and competitive selection process which would give opportunity to competing agents to participate in a bidding. Such [international] bidding should be restricted to qualified agents (i.e. MQAS compliance)</p>

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### V. Sub Recipient: International Organization for Migration

S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
1	Risk: Single bank account for receipt of funds from all donors poses risk commingling of funds and interest income not adequately credited to the Global Fund program	<p><u>Interest bearing bank account</u> To mitigate the risk of commingling of funds and not accounting for bank interest; IOM should maintain a separate interest bearing bank account for managing the Global Fund grant and the interest income should be accounted in the books and reported in quarterly report submitted to the PR. [Important]</p>	<p><u>A separate bank account.</u> During the DR, it had been clarified that since the Global Fund's contributions and expenses are tracked comprehensively through a separate and distinctly identifiable project codes, and on this basis, the funding agreement with the PR allowed IOM to follow its Organization's procedures in this regard.</p> <p><u>Interest</u> The interest income for period 1 Jan 2011-31 Dec 2011 has been accounted and will be included in the P6 report.</p>	<p>IOM has a fund accounting system but the interest earned on the contributions from the Global Fund had not been credited to the grant until the time of the OIG review.</p> <p>OIG recommends that IOM should:</p> <ol style="list-style-type: none"> <li>1. define a scientific method for calculation of interest amount attributable to the Global Fund grant and get it approved by the PR which is very difficult and still results in the comingling of funds or</li> <li>2. maintain a separate bank account for the Global Fund grant.</li> </ol> <p>The PR needs to discuss with the</p>



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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
				GF Secretariat whether the need for the SR with significant grant amounts to open a separate bank account for GF Grants based on the risk assessment done.
2	Risk: Payment processing without obtaining appropriate supporting documentation poses a risk of unauthorized or ineligible expenses being charged to the Global Fund grants	<u>Payment Processing</u> To strengthen controls over payment processing and mitigate the risk of unauthorized/ ineligible expenses being charged to the Global Fund grants; IOM should obtain and verify the documents i.e. invoice, work completion document etc. supporting the expenses incurred. [Important]	They are strictly followed. This particular finding was related to the lacking of the Statement of Service Completion for two cases of lab renovation, where the local vendor in a remote area could not provide such a statement.  However, IOM staff did inspect the service to ensure the completion before release the payment and the relevant supporting document (e.g. inspection email report) was attached for verification before release the payment.	
3	Risk: Inadequate foreign exchange guidelines may result in misuse of program funds and loss of funds	<u>Policies and Procedures</u> To mitigate the risk of misuse /loss of the program funds; IOM should document the policies and procedures for the following: Foreign exchange conversion with guidelines on obtaining bids by a person independent of the finance department and conducting background checks of the money exchangers. Minimum/maximum limit for cash in hand. [Important]	For Myanmar specific guidelines in light of the particular situations of the country have been further specified since.	
4	Risk: Inadequate rationale for the allocation of shared costs may lead to charging of unreasonable amount to the	<u>Allocation of cost</u> To ensure that the Global Fund is charged a fair portion of shared payroll costs; IOM should define and document	Under the Organization's policies and procedures, staff (as well as office and operational costs) are charged to projects to which they relate on the basis of time spent on a given project and based on the analysis is done in a fair and equitable manner to all projects.	

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
	Global Fund programs	the rationale for allocation of this cost which should be approved by the Global Fund Secretariat. [Important]	The principle of concept has been generally acknowledged during the SR Assessment by PR/LFA in early 2010	
5	Risk: Inaccurate accounting records	<u>Cash transactions</u> To mitigate the risk of inaccurate accounting records, IOM should ensure timely recording of cash transactions in the books of accounts (PRISM). [Critical]	It is normally followed. During the DR, due to the staff absence (on leave), the other Finance staff could not work to replace her due to the segregation of duties. Such situations are avoided now.	
6	Risk: Absence of cash insurance poses the risk of loss of cash required for program implementation for both PR and the Global Fund	<u>Cash Insurance</u> To mitigate the risk of loss of cash; IOM should evaluate obtaining insurance for cash-in-hand and cash-in-transit considering the country context. [Important]	This service is not available in the current context of the country then, and can be addressed when the relevant development takes place.	
7	Risk: 1. Excess pay out due to processing of duplicate invoices 2. Weak monitoring may result in delay in settlement of advances	<u>Accounting Software</u> To mitigate the risk of excess payout to the vendors and delay in settlement of advances; IOM should: (a) Define system controls to avoid processing of duplicate invoices in the accounting system (PRISM). (b) Ensure that accounting software (PRISM) at Yangon supports generation of ageing report for outstanding advances. Process should be defined for Periodicity and criteria for review of outstanding advances. The advance aging report should highlight the outstanding advances to vendors and the number of days since when it is pending to be adjusted in the books of accounts. [Important]	(a) As clarified then, for all Procurement and Purchase with PO, PRISM can detect and alert the duplicate invoices before release the fund. (b) As clarified then, the periodic review of outstanding advance has been in place through the internal systems, on a weekly basis by the assigned accountant, and on a monthly basis by the Resource Management Officer (RMO) and the Manila Regional Accounting Support.	
8	Risk: Lack of segregation of duties may result weak internal controls	<u>Segregation of duties</u> To mitigate the risk of weak internal controls in the procurement process; IOM should follow segregation of duties as per the policy avoiding overlapping of the functions. [Critical]	IOM has a very strong policy on the segregation of duties and internal control process to ensure that the payment has been made in accordance with IOM policies as well as those by donors. This finding was related to one specific case of the materials purchase for lab renovation in a remote village.	

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
9	Risk: Lack of rationale for the allocation of shared costs may lead to charging unreasonable amount to the Global Fund program funds	<u>Allocation of Program assets</u> To ensure that the Global Fund is charged a fair portion of the cost of assets; IOM should define and document the rationale for allocation of cost of fixed assets to various donors based on the actual usage of the assets. This rationale should be approved by the Global Fund Secretariat. [Important]		
10	Risk: Inadequate process of verifying the identity of cash recipient increases the risk of making payment to unauthorized person	<u>Cash payments</u> To mitigate the inherent risk of making cash payments to unauthorized persons and improve transparency; IOM should implement additional controls of verifying identity proof of the cash recipients and filing a copy of the verified identity proof and contact details of the recipient along with the payment voucher for future reference. [Critical]	The system/procedure has been in put place since the DR.	
11	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund/Principal Recipient	<u>Budget monitoring/overrun</u> To ensure that only eligible and budgeted expenses are charged to the Global Fund grants; IOM should obtain a written approval from the PR (SC) prior to incurring the expense, in case of the budget overruns. [Critical]	This is now being followed. During the DR, the certain items of expenditures had been incurred according to the revised budgets that were under consideration.	
12	Risk: Absence of controls over vendor selection and ordering processes poses the risk of procurement through higher cost vendors being charged to Global Fund program funds	<u>Transparent and competitive bidding</u> To strengthen the controls over vendor selection and ordering processes; IOM should: a) Adopt good tendering practices, to achieve value for money through transparent and competitive bidding and document the justification in case lowest quote vendor is not selected.	The enhanced system/procedure has been put in place since, in line with the Organizational procedures as well.	

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
		b) Define the timelines for vendor to respond to RFQ. c) SLA's for various activities in procurement like raising a PO, receiving the material and delivery of the material to the user to be defined. d) Define the basis of evaluating the vendors including technical & commercial evaluation. All competing vendors should be evaluated using the approved basis. [Important]		
13	Risk: Absence of payroll reconciliation poses the risk of inaccurate payroll processing	<u>Payroll processing</u> To improve controls over payroll processing; (a) IOM to perform: Month to month payroll reconciliation (b) Reconciliation between net payable salary and payments processed [Important]	The salary reconciliation sheet has been implemented since.	
14	Risk: Absence of insurance cover may result in loss of program funds due to damage or loss of assets	<u>Insurance of Assets</u> To mitigate the risk of financial loss in case of theft, loss or damage to assets procured from Global Fund program funds IOM should evaluate obtaining an insurance policy for safeguarding the program assets considering the country context [Important]	This service is not available in Myanmar, except car.	
15	Risk: Delay in submission of programmatic and financial reports by the SR may result in delay in reporting of PR to the Global Fund	<u>Financial reporting</u> To mitigate the risk of delay in reporting, IOM should: I. IOM should ensure that financial reporting and programmatic reports are submitted to the PR within the due dates. II. IOM should prepare a reporting calendar for reports to be submitted to the PR (SC) to monitor timely submission.	This has been improved since based on the better understanding of certain requirements of reporting.	

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
16	<p>Risk:</p> <p>i. Inadequate coverage and assessment of internal controls of the SRs operations and non-compliance with the special terms and conditions of the Grant Agreement;</p> <p>ii. Program delivery and quality may be adversely affected due to vacancy of critical position (as per the approved budget).</p>	<p>[Critical]</p> <p><u>Internal Audit and Program Head to be appointed</u></p> <p>To mitigate the risk of inadequate coverage and assessment of internal controls, IOM should:</p> <p>i. Develop an internal audit plan and coordinate with its Head Quarters to conduct the audit at periodic intervals.</p> <p>ii. Ensure organizational structure adequately supports the management of the grants by filling up the vacancy of Program Head position as per the approved budget.</p> <p>[Critical]</p>	<p>i. During the DR, it was awaiting guidance as the overall audit planning is coordinated by PR (for external audits to be arranged). It will be planned.</p> <p>ii. The position had been under process (both selection and visa) and filled since.</p>	

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### VI. Sub Recipient: Médecins du Monde (MmM)

S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
1	Risk: Incomplete and inaccurate bank reconciliations	<u>Bank reconciliations</u> To mitigate the risk of incomplete and inaccurate bank reconciliations; MmM should ensure that the bank reconciliations are independently reviewed and documented by a senior Finance personnel. [Critical]	The Finance Officer/Accountant prepares the bank/cash reconciliations which is checked by the Administrative Coordinator and signed by both parties. The format we received from HQ did not initially have a place to sign, and the accountant never altered the format. We have now changed that and all bank reconciliations are signed. Responsible: Administrative Coordinator	
2	Risk: The practice of physically withdrawing and transferring large sums of cash to fund program activities, poses a risk of loss of program funds	<u>Strengthen the funds transfer procedures</u> To mitigate the risk of loss of program funds; MmM should request its Head Quarters to transfer the funds to their US dollar bank account in Yangon, Myanmar. [Critical]	We note that the auditors write: MmM is expected to establish another mechanism to avoid this risk. However the "expected mechanism", which should be feasible, practical, and both acceptable to GF donors and legal in Myanmar, is not specified.  This risk is borne by MmM and the GF will not be charged should any loss occur in the future. Responsible: Administrative Coordinator and General Coordinator	Considering the limit on the amount that can be withdrawn from the MFTB account, MmM should explore the possibility of opening a bank account with another bank in the country or explore the option of opening another account with MFTB which allows larger withdrawal limits. Also none of the other PR/SRs we had visited had this issue or were following this procedure to withdraw cash  Even though MmM would cover any loss that could occur in future, it will affect the program activities for a significant period of time.
3	Risk: 1. Large number of cash transactions poses the risk of loss of program funds	<u>Cash payments</u> To mitigate the risk of loss of program funds and payment to unauthorized persons; MmM should: (a) reduce cash payments to the maximum extent possible.	Since January 2012, MDM has started paying rental fees for cars in Yangon through cheques. These are the first steps to move towards payments through bank transfers.  In addition to this, before making large payments to suppliers, the accountant asks for ID card of the person receiving the money. We are following closely the bank regulations to switch to paying salaries by cheque when this	

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
	2. Absence of process for acknowledgement of cash receipt and verifying the identity of cash recipient increases the risk of making payment to unauthorized person	(b) implement additional scrutiny controls on supporting documentation to support cash payments [e.g.: copy of ID and contact number of cash recipient to be verified and documented]. [Critical]	will be feasible. For the time being, less than 10% of our staff do have a bank account or would be able to cash a cheque easily. Responsible: Administrative Coordinator and General Coordinator	
4	Risk: Unauthorized expenses being charged to the Global Fund grants	<u>Payment processing</u> To mitigate the risk of unauthorized expenses being charged to the grant; Mdm should ensure that the expenses are approved as per the authority matrix before processing the payment. [Important]	MDM keeps an updated Approval Matrix and carries out regular visits to the field offices to make sure the expenses are approved based on the AAM Responsible: Administrative Coordinator	
5	Risk: 1. Incorrect accounting and reporting 2. Weak advance monitoring procedures may result in delay in settlement of advances	<u>Accounting Software</u> To mitigate the risk of incorrect accounting & reporting and to effectively monitor advances; Mdm should: (a) develop an user manual for the Accounting Software "SAGA" to provide technical guidance to the finance staff. (b) explore possibilities of generating Advance ageing report from accounting software 'SAGA'. The advance aging report should highlight the outstanding advances to vendors and the number of days since when it is pending to be adjusted in the books of accounts. [Important]	a. SAGA Manual has been developed by HQ and has been distributed to MDM worldwide on January 1 <sup>st</sup> .  b. The rule in the field is that all advances are cleared for monthly accounts closures. This rule is enforced and only exceptionally are advances carried over from one month to the other (on average one every two months and generally just in exceptional cases). SAGA allows the follow-up of uncleared advances from one month to the other.  Responsible: Administrative Coordinator	c.
6	Risk: Absence of cash cover may result in loss of program funds required for implementation for both PR and Global Fund	<u>Cash insurance policy</u> Mdm should evaluate obtaining insurance for cash-in-hand and in-transit considering the country context. [Important]	Mdm looked in the past for potential insurance but was never successful in finding the appropriate one. We would be highly grateful if you would advise on the insurance for cash-in-hand and in-transit used by OIG. Again currently any loss would be covered by Mdm. Responsible: Administrative Coordinator and General Coordinator	Considering that the economy of Myanmar is now opening up and new insurance companies would enter the market, Mdm should explore the possibility of obtaining cash

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
7	Risk: Single bank account for receipt of funds from all donors poses a risk of commingling of funds and interest income not adequately allocated to the Global Fund Program	<u>Interest bearing bank accounts</u> Mdm should maintain separate interest bearing Bank account for managing the GF grant and the interest income should be accounted and reported. [Important]	The "difficulties in tracking receipt of GF funds" are not identified. Funds received have been tracked properly to GF in HQ accounts.  It was agreed with PR prior to signature of the grant agreement that MDM will use its current bank account in USD in Paris to receive the GF funds and it was made clear in writing that this bank account does not bear interest – this is a worldwide policy from MDM	insurance.
8	Risk: Payment processing without defacing the supporting documentation poses the risk of duplicate payments	<u>Verification of supporting documentation</u> All supporting documents attached with the payment voucher (such as vendor quotes, purchase order, etc.) should be stamped "PAID" or cancelled to avoid resubmission. [Important]	Since 1st Jan 2012, all the receipts, quotations, bills, are stamped "paid".  Responsible: Administrative Coordinator	
9	Risk: Failure to report and explain all variances between actual and budgeted expenditures through normal reporting cycles such as PU/DR or to obtain the necessary approvals prior to such variances may result in possible ineligible and unbudgeted expenses being charged to the Global Fund grants which would require a refund of such amounts to the Global Fund/Principal Recipient	<u>Budget monitoring</u> Mdm should (a) ensure that all budgetary variances above 10% of the annual budget at an SDA level are identified and approved by PR. (b) ensure that the expenses are charged under the correct budget code (c) establish a documented mechanism to verify the purchase request against the available budget under each budget line item prior to approval. [Critical]	a) We strongly disagree with the wording of this recommendation, which leads to the conclusion that any variance, at any time (variance against quarterly budget ? against each budget line? against cost categories or SDA 2 year- budget) must be cleared in advance with the PR. Given the complexity of the budget and of the context of operation, it is not realistic to expect that all variances will be approved by PR in advance.  The rule circulated in writing by the PR about variances is that variances are acceptable within the limit of 10% of the <b>annual budget</b> for a cost category or for a SDA.  It has taken more than 9 months (Sep'11 to May'12) to the PR to review and get approval on a budget revision, and with these delays, it is unrealistic to expect that all variances will be pre-approved.  b) With the new SAGA software, we are now able to implement better and more thorough checkup of our accountancy.  c) Since January 2012, we have re-enforced more systematically the budget codes and budget lines coding of mission orders, prior to approval. Responsible: Administrative Coordinator and General Coordinator	Recommendation updated
10	Risk: Weak controls over vendor selection, ordering, receiving and vendor payment process poses the risk of procurement at higher cost and also unauthorized expenses being charged to Global Fund grants	<u>Procurement process</u> Mdm should ensure that: (a) RFQs are documented with detailed specifications and sent to the vendors. (b) minimum number of quotes to be obtained as per Mdm's procurement policy. (c) all the quotes obtained from the vendor are on vendor's letterhead and stamped.	a. Our procurement procedures have been validated by the PR, and do not require formal RFQ for purchases under 250 USD. Formal RFQ will therefore not be sent for purchases below 250USD b. Agreed. c. For specific items (IT consumables, stationary), we will keep accepting prices lists from vendors as quotations. Those are often photocopied, but do bear the letterhead of the vendor. d. Agreed e. Purchase orders are now prepared for all orders above 250USD f. GRN are now prepared for all orders above 50USD Responsible: Logistics Coordinator	



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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
		<p>(d) approval from the authorized person who initially approved the purchase order is obtained prior to vendor payment in case the invoice amount is higher than purchase order.</p> <p>(e) Purchase Orders are prepared for all purchases except petty cash purchases.</p> <p>(f) Goods Receipt Note is prepared for all goods received.</p> <p>[Important]</p>		
11	Risk: Absence of guidelines and controls over vendor selection process poses the risk of procurement at higher cost	<p><u>Vendor enlistment/ evaluation process</u> Update the procurement policy relating to RFQ (Request For Quotes) method of procurement to incorporate the following controls:</p> <p>a) A list of standard vendors should be prepared for local procurement.</p> <p>b) In the absence of a list of standard vendors a justification note should be prepared justifying the reasons for selection of vendors for sending RFQ.</p> <p>[Important]</p>	MDM will consider this issue when updating next its Myanmar procurement procedure. Responsible: Logistics Coordinator	
12	Risk: Absence of standard terms and conditions in the Purchase Order may result in unresolved dispute with the vendors	<p><u>Standard terms and conditions in PO</u> MdM should include the standard terms and conditions as a part of Purchase Order to safeguard MdM's interest.</p> <p>[Important]</p>	MDM has included this in the next order of PO, thus increasing significantly the cost of printing the PO. Responsible: Logistics Coordinator	
13	Risk: Absence of rationale for allocation of shared cost may lead to charging unreasonable amount to the Global Fund program funds	<p>Allocation of cost MdM should define and document the rationale for the percentage of salary cost allocated to the GF grants.</p> <p>[Important]</p>	The basis for establishing the allocation board will be documented and archived with the allocation boards. Responsible: Administrative Coordinator	
14	Risk: 1. Absence of process for conducting reference check and verifying experience proof of new joiners poses a risk on reliability,	<p><u>Recruitment &amp; payroll process</u> MdM should define and document the rationale for the percentage of salary cost allocated to the GF grants.</p> <p>(a) document the evidence of reference check and experience proof for New Joiners to ensure that right candidates are selected for the right job.</p> <p>(b) reconcile the current month's payroll with the previous month's payroll to ensure accuracy of current month's</p>	<p>a. We have launched a proper documentation of our recruitment process after the OIG visit, and now collect all necessary documents for personnel files in each location. However given the context it is sometimes difficult to obtain reliable references.</p> <p>b. We do not see a need in monthly reconciliation of salaries with previous month, as all differences between actual salary paid and theoretical monthly net salary is properly documented in the monthly statements. The "risk of inaccurate payroll processing" was not substantiated with errors identified in the payroll by auditors.</p> <p>Responsible: Admin Coordinator</p>	OIG agrees that no errors were identified in the monthly payroll processed. However, there is a risk of unauthorized changes/ errors in the payroll going unnoticed. Thus, OIG reiterates its

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S. No	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
	trustworthiness and credibility of employees 2. Absence of month to month payroll reconciliation poses the risk of inaccurate payroll processing	payroll. [Important]		recommendation to reconcile the current month's payroll with the previous month's payroll
15	Risk: Absence of insurance cover poses the risk of loss of program funds due to damage or loss of assets	<u>Safeguarding of Program assets</u> Mdm should evaluate obtaining insurance for fixed assets procured from GF grants considering the country context. Alternatively, Mdm may ensure that these assets are insured under its global insurance coverage. [Important]	Mdm has explored in the past the possibility to contract insurance for its fixed assets in the field but we have failed to find a comprehensive solution. We would be highly grateful if you could advise on the insurance for program assets by OIG. In the absence of such insurance, assets are safely kept and so far, no loss or theft has been observed in Myanmar. Responsible: Logistics Coordinator and Admin Coordinator	Considering that the economy of Myanmar is now opening up and new insurance companies would enter the market, Mdm should explore the possibility of obtaining insurance for all assets.
16	Risk: In the absence of regular audits it may not be possible to effectively assess and monitor the SR's operations	<u>Internal audit</u> Mdm should develop an internal audit plan and coordinate with its Head Quarter's Internal Audit Department to conduct the internal audit at regular intervals. [Critical]	There is no HQ Internal audit department per se and Mdm is not considering creating an Internal Audit function. The internal control function is held by the Finance Officer who visits each mission every 18 months on average and fills in on each visit an Internal Control Questionnaire. All recommendations are then shared with the mission and with the working group created to follow up audit recommendations. Responsible: HQ	

### VII. Sub Recipient: The International HIV/AIDS Alliance in Myanmar (Alliance Aid)

S. No.	Risk(s) Identified	Recommendation(s)	Country Response, Action Plan, Responsible and Completion date	OIG comment when required
1	Risk: Weak controls over the process of verifying the expenses submitted by the SSRs may result in excess payout	<u>Program Implementation and Monitoring</u> To mitigate the risk of excess payout to SSRs; (a) The Monitoring & Evaluation officer of the SR to verify the actual number of days on which the services were provided to the beneficiary in the respective period.	(a) Either the PO or the M&E officer spot-checks services and beneficiary satisfaction. (b) Alliance is working with SSRs on accountability, including informing beneficiaries of services they will get and on what schedule. It was reiterated to SSRs, during the Financial Management workshop that they are accountable to beneficiaries. We are now working on operationalizing accountability, for example, during gatherings, beneficiaries share information. Some partners also print and post the services they provide on their office wall so clients can see. In addition FO, PO and M&E all meet together to verify expenditure reports against project activities	

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		(b) The SR should build awareness by sharing the schedule for these activities with the beneficiaries. [Important]		
2	<p>Risk:</p> <p>i. Weak controls over cash withdrawals and check stationary poses the risk of misappropriation of program funds;</p> <p>ii. Unauthorized use of grant funds for purposes other than activities approved by the Global Fund;</p> <p>iii. Absence of periodic/surprise physical cash verification poses a risk of misappropriation of cash; and</p> <p>iv. Absence of prompt cash recovery procedures may result in loss of program funds. The above may lead to refund of funds by the SR to the PR.</p>	<p><u>Advances to SSRs</u></p> <p>To mitigate the risk of misappropriation/loss of program funds; Alliance Aid should:</p> <p>(a) Alliance Aid should ensure that the maximum amount that can be withdrawn through a blank check should be mentioned on the check</p> <p>(b) Establish controls of monthly liquidation of expenses for high risk SSRs.</p> <p>(c) All key communications with SSRs will be documented.</p> <p>(d) Ceiling limits for cash withdrawal to be defined for SSRs.</p> <p>(e) SR to recover/ adjust the shortfall of cash identified during the physical count at MC – DIC.</p> <p>(f) Periodic physical cash verification to be conducted by the SSRs. SR to perform surprise physical verification for such high risk SSRs.</p> <p>[Critical]</p>	<p>(a) Alliance has informed all SSRs that signed blank checks are never to be issued for any reason</p> <p>(b) All SSRs now submit monthly financial reports. High risk SSRs receive monthly disbursements, others continue to receive quarterly disbursements.</p> <p>(c) We began making proper written documentation of all monitoring visits and phone calls from November 2011.</p> <p>(d) Alliance will work with partners to define appropriate limits, but some months will have legitimately higher expenditures. If a “quarterly disbursement” partner abuses cash withdrawal Alliance will make monthly disbursements to limit the cash in the bank.</p> <p>(e) The cash taken by the MCC PM was recovered on 2 February 2012 and refunded to PR in the P5 report</p> <p>(f) SSRs current do monthly cash counts and SR (both FO and PO) does surprise counts on a random basis.</p>	
3	<p>Risk: Lack of documented results of Monitoring and Evaluation (M&amp;E) activities poses the risk of actionable points not being followed up.</p>	<p><u>Documentation of M&amp;E activities</u></p> <p>(a) To mitigate the risk of absence of follow-up on action points; Alliance Aid to monitor the activities of SSRs by developing policies and implementing the M&amp;E plan approved by the PR.</p> <p>(b) The M&amp;E activities performed, should be documented and the lessons learnt should be shared with other related staff such as the Program Officer, Finance Officer etc.</p> <p>[Important]</p>	<p>(a) From 2012, each M&amp;E, FO, and PO prepares their TS visit report and discusses it with the whole team. The report includes action points. Points of discussion and action to be taken are noted -- with the date by which it should be accomplished, and signed by Alliance and the SSR -- in the TS visit log kept by the SSR. Most issues for follow-up are not urgent: in that case the next PO/FO/M&amp;E officer to visit the SSR reviews the action to be taken and documents what has actually been done. If the issue is urgent, Alliance follows-up with the SSR on the date the action should be completed.</p> <p>(b) Alliance has simplified the M&amp;E field visit report template to facilitate documentation. All reports are shared with colleagues and there are quarterly cross-team (finance, M&amp;E, program, treatment) meetings to share information on partners.</p>	

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4	<p>Risk:</p> <ol style="list-style-type: none"> <li>1. Absence of process of verifying the identity of cash recipient increases the risk of making payment to unauthorized person</li> <li>2. Payment processing without obtaining appropriate supporting documentation poses a risk of ineligible or unauthorized expenses being charged to the Program. In such case, the SR will need to refund these expenses to the PR</li> <li>3. Payment processing without obtaining approval from authorized personnel may pose the risk of unauthorized expenses being charged to the Global Fund grants</li> </ol>	<p><u>Payment processing</u> To ensure that only eligible and authorized expenses are charged to the Global Fund grants; Alliance Aid should:</p> <ol style="list-style-type: none"> <li>(a) provide additional trainings for strengthening the financial and programmatic capacity of the SR and SSSRs;</li> <li>(b) train finance staff to review the SSR's expense reimbursements in a judicious and effective manner;</li> <li>(c) reconcile the attendance list of the SSRs prior to processing their expense claims pertaining to travel and per diem;</li> <li>(d) obtain death certificates for all cases where Funeral Support is being provided;</li> <li>(e) build awareness within Alliance Aid and its SSRs to identify and address conflicts of interest and segregation of duties.</li> <li>(f) ensure that facilitator and participant allowances are equivalent.</li> </ol> <p>[Important]</p>	<ol style="list-style-type: none"> <li>(a) With support from UNAIDS and PR, Alliance did financial management training for staff and for all partners covering fraud detection and prevention, principles of financial mgt, accountability, stock management, etc (Jan-Feb 2012)</li> <li>(b) FO-Grants are now oriented to looking for areas of potential irregularities when reviewing SSR reports. Finance also consults with program and M&amp;E staff to ensure that expenditure relates to activities and outputs.</li> <li>(c) Since the OIG mission in October 2011, Alliance reconciles participant list and travel/perdiem claims.</li> <li>(d) We have instructed SSRs do collect death certificates; POs check death certificates as part of their regular monitoring.</li> <li>(e) The Financial Management trainings cited in (a) above included in-depth discussion of conflict of interest. We will continue to monitor activities.</li> <li>(f) This is being addressed in the re-budget of phase two.</li> </ol>	
5	<p>Risk: Absence of process of verifying the identity of cash recipient increases the risk of making payment to unauthorized person</p>	<p><u>Cash payments:</u> To mitigate the inherent risk of making cash payments to unauthorized persons and to improve transparency, Alliance Aid should implement additional controls of verifying identity proof of the cash recipient and filing a copy of the verified identity proof and contact details of the</p>	<p>Cash payments are made for :</p> <ul style="list-style-type: none"> <li>• funeral support – for which the death certificate is required and the immediate family is known to the SSR</li> <li>• hospitalization support – for which the individual hospital card is required. Often family collect the support as the patient is too ill to go to the SSR office to collect the cash.</li> <li>• Transport allowance for VCCT/STI is given when the client comes back with the test result (but there is no name in order to protect confidentiality)</li> </ul>	

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		<p>recipient along with the payment voucher for future reference. [Critical]</p>	<ul style="list-style-type: none"> <li>• Transport allowance for other referrals (e.g., OI treatment) is given directly at the SSR DIC or during ORW's home visit.</li> </ul> <p>In all cases, the recipient signs for cash received.</p> <p>In response to this suggestion, we will work with SSRs to get client address in addition to name and signature where possible.</p> <p>But, please note that due to the fear of stigma or discrimination, PLHIV, MSM and SW often do not give their full real name but use a nickname or pseudonym. This is the reality faced by all INGOs, and one for which there is no simple solution.</p>	
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## Diagnostic Review of Global Fund Grants to Myanmar

### Country Coordinating Mechanism – Myanmar

S. No.	Risk(s) Identified			OIG Comment when required
1	Risk: Program targets for years 1 and 2 may not be achieved due to delay in procurement	PRs & SRs to put into practice plans on how to make up for delays in procurement and building their own capacity including timely delivery of bed nets and re-impregnation tablets in advance of peak malaria season in Y2. [Critical]	<p>Agreed. CCM and its ExWG has put PSM as a standing agenda item for meetings, in order to be timely alerted on issues related to delay of procurement.</p> <p>The M-CCM PSM Task Force was established in January 2012, an issue paper was developed for further discussion at the next PSM TF meeting.</p> <p>PR-UNOPS has developed a tracking tool open for all SRs to track procurement status on line. Catalogues for drugs for use by SRs for their requisitions has been developed by PR-UNOPS to shorten the time needed for developing specifications. Forecasting for Phase II for all the three diseases have been completed based on revised targets. Certified stock/consumption reports from the S/R and Tsp levels are being worked out as inputs to the final quantification.</p> <p><i>PR-SC has begun its Year 2 procurement, forecasts were finalized and approved by GF first week of Feb 2012.</i></p>	
2	Risk: Lack of alignment between development partners' and Global Fund's programs would lead to missed opportunities to maximize program impact within a health-resource-limited country	M-CCM is encouraged to review development partners' programs and design a plan by the end of 2013 for operational linkages (PMTCT and MCH programs, Mekong Initiative for drug counterfeit) between the Global Fund supported programs and GAVI, 3MDG and other development partners, by June 2012, in order to be able to re-program for 2013 if necessary. [Critical]	<p>The MOH is at early stages of reform. To have operational linkages defined by June 2012 is overly ambitious and would likely detract from formulating an evidence informed Phase II. HIV and TB have both well-defined strategies that provide for a solid basis for planning. Township health planning can be a good opportunity to harmonize the programmes, and a phased approach can be taken (as experience shows that a fully integrated approach with all health implementing partners at township level has delayed GAVI implementation for 4 years).</p> <p>Allocation for the three diseases from 3MDGF is now likely around \$45 million over five years. The linkages of GF and 3DF/3MDGF have been close from the beginning and it is expected that the 3MDGF will undertake a gap analysis prior to allocating its first round of funding.</p>	
3	Risk: Too frequent reporting cycle disturbing a healthy balance between program implementation and reporting among program staff	The CCM and Global Fund Secretariat are encouraged to support the PRs to consider moving programmatic reporting cycle from every 3 months to every 6 months. [Important]	Already agreed by the GF Secretariat to move to 6 monthly reporting by PR-	

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4	Risk: Not having user-friendly oversight tools in place may lead to weak board oversight	Ensure that user-friendly oversight tools such as Dashboard are in place to support monitoring and decisions by CCM. Include LMIS (stocks and inventory) of key health commodities in dashboard. [Important]	Work in progress. CCM members have access to a dashboard through a password protected information sharing website and can share their comments through the same website to other CCM members. The possibility of having LMIS (stock and inventory) of key health commodities in dashboard is to be looked into.
5	Risk: Lack of standards for both the selection and capacity building of CSOs undermines long-term sustainability and contributions by CSOs	M-CCM is encouraged to set appropriate standards for selecting CSOs as implementing partners and closely monitors performance against standards, whilst at the same time offering them the appropriate capacity building. [Important]	The M-CCM has included a large number of partners in the Round 9. These partners were evaluated and considered to be able to deliver results and comply with the demands of the GF. Including more partners at this stage would not enhance the potential impact of the GF grants. In future rounds, the M-CCM will continue to select partners based on clear and transparent criteria. Emphasis will continue to be placed on the effectiveness and soundness of proposed interventions regardless of the status of the applying organization, as per Global Fund guidelines.
6	Risk: The Global Fund programs hiring away government staff may disrupt services provided by already-fragile public health sector	M-CCM to encourage the PR - UNOPS to mitigate the impact of development partners hiring staff from the Government. [Important]	Ceilings of how big proportion of those hired with GF resource can be from the government. Process is ongoing to make sure this does not disrupt public sector service provision
7	Risk: Lack of strategy to build capacity of local principle recipients might reinforce government's long-term dependency on international donors for health needs	M-CCM is encouraged to request the PRs to design an operational plan to transfer the PR role from International recipients to national entities through capacity building. [Important]	The M-CCM is aware of the issues that arise from the fact that an international organisation is the PR. However, this was decided on the basis of the existing constraints of the additional safeguards policy. The M-CCM welcomes advice from the GF Secretariat how to approach the planning for an eventual transfer. This would include advice on options available for transitional arrangements, funding of these options etc. The revised Fund Flow Mechanism of PR-UNOPS provides the space for supporting local planning, budgeting, and implementation. The FFM may also enhance the central level controls and monitoring. The PR states that the implementation of the FFM shows positive signs and that there is a potential of enhancing the decentralized capacity, authority, and accountability of managers of the DOH.

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8	Risk: Lack of gender- and stigma-sensitive programming and a low level of harm reduction programming among IDUs has resulted in a substantial gap in meeting prevention needs	HIV: M-CCM is encouraged: -to develop a national plan to reduce stigmatization in society, particularly in work places, schools and health care settings by end of 2014. -to advocate and discuss with government a relaxation of the current regulation that limits Methadone dispensation to government-run clinics only. -to consider giving greater attention to gender issues to encourage women to get tested in order to reduce mother to child transmission as much as possible -to consider scaling up harm reduction program, particularly Methadone [Important]	National strategy (2011-2015) will be followed for the planning of AIDS work in Myanmar. PMCT services are part of the antenatal services. The testing and counselling services are all provided through the existing network of antenatal care. There is a need to strengthen the RH and antenatal services in order to improve PMCT services further. However, this is beyond the scope of the GF grant. The M-CCM recognizes the need to scale up interventions for people who use drugs. The Round 11 was intended to scale up these interventions substantially. There are plans to undertake a size estimate of people who inject drugs in 2012 or 2013 in Myanmar. However, OIG may want to provide evidence or references regarding the statement that “the number of people who use drugs is underestimated” in the current report. A further scale up of methadone in Round 9 will not be possible with the present funds. The limited harm reduction funds are likely to be better used in scaling up needle and syringe programmes which are much less costly than MMT. It should also be noted that many of the areas where MMT is most needed are difficult to access and therefore outside of the GF implementation area.	
9.	Risk: Delays in coordinator recruitment and a lack of early detection of MDR-TB could potentially derail gains in TB control in recent years	TB: i. M-CCM is encouraged to consider re-programming in Round 9 for early detection of TB and multi-drug resistant TB. [Important] ii. Accelerate recruitment of WHO TB coordinators to the field. [Critical]	WHO-TB coordinators are now in place.  R9 TB grant is tied to cover basic treatment of smear + cases. It does not include pediatric TB cases neither the >50% smear- cases. Diagnosis facilities are scarce and with limited capacity to diagnoses all TB cases. Difficult to say which activities to drop to cover MDR TB	
10	Risk: Inadequate or untimely oversight of PSM progress in PR units	A - Report to CCM ExWg the final supply chain upgrade plans with the available budgets (or funding gaps) and explore scope for alignment with future HSS plans of 3DF (3MDG) and building on JICA support to build the basic supply chain infrastructure for Government [Critical]	Please refer to comments in Risk and recommendation No 1 above.	
11	Risk: Absence of declaration of Conflict of Interest statement could pose the risk of non-identification of violations/conflicts	Conflict of Interest Need to develop Signed ‘Conflict of Interest’ (CoI) declaration statement by CCM members. M-CCM as part of its oversight responsibility needs to monitor the implementation of the Conflict of Interest policy and the associated safeguards. [Critical]	COI policy circulated at the 14 <sup>th</sup> CCM meeting in March 2012, it will be signed on individual base at the 15 <sup>th</sup> CCM meeting on 12 July .	



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12	Risk: Non-involvement of PRs in selection of SRs may pose the risk of lack of accountability of PRs for the selected SRs	Selection of Sub-recipients M-CCM should consider involving the Principal Recipients in the selection process of the Sub-recipients as the Principal Recipients are accountable for the actions of the Sub-recipients. [Critical]	The involvement of the PRs in selecting SRs will be given due consideration by the M-CCM. However, there is a due process for selecting the PRs as well. The M-CCM does not think that it is appropriate to involve organisations in selecting SRs before they are officially designated as PRs by the M-CCM. This often goes on parallel to the selection of the SRs, thus reducing the scope for involvement of the PRs. The PRs are expected to brief the M-CCM on eventual issues with SRs. The M-CCM can then act. PRs have taken a good lead in GF Rd9 Phase II programming, which may lead to changes of SRs.	
13	Risk: Non-participation of M-CCM members in LFA meetings may lead to non-receipt or delay of strategic information by M-CCM which could affect achievement of program objectives	LFA debrief meetings Consider participation of a M-CCM member in the Local Fund Agent (LFA) debrief meetings with the Principal Recipients as part of the CCM's monitoring function. Such meetings would assist in providing strategic information to M-CCM. [Critical]	Suggestion agreed. It may take some time to see if this arrangement is really practical and helpful.	
14	Risk: Lack of Change Management at PR level	A – Actively support both PR in their PR strategy for PSM B - Seek special status at ministerial level for PR to facilitate importation of key health goods for GF funded programs [Important]	CCM PSM Task Force established for identification and follow up on key issues and the PSM issue paper to be further discussed and practical solutions to be found out in better support of GF grants implementation	
15	Risk: A weak working relationship between PR and LFA could pose a risk of delays in program implementation/ grant objectives not being met	Actively monitor and evaluate the performance of PRs relationship with LFA [Important]	Need to learn more on this and identify solutions.	

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16	[Opportunity]	<p>A - Establish a PSM TSG for active and structural monitoring of PSM outputs as per plans of PR UNOPS (Y1) and PR UNOPS and SAVE (Y2) to explore scope for economies of scale/scope and resolve PSM constraints to ensure supply of goods and distribution to beneficiaries.</p> <p>B- The new PSM Manager (SAVE) and PSM Manager/QA Officer (UNOPS) can provide weekly input to this TSG (item lists, specifications, forecasts, tenders, quotations, orders, delivery times, receipt inspections, supplier monitoring, product complaints, sampling/control reports, storage upgrade implementation, LMIS data reports)</p> <p>[Important]</p>	See comment on risk and recommendation no 1 above	
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## Diagnostic Review of Global Fund Grants to Myanmar

### VIII. Local Fund Agent

S. No.	Risk(s) Identified	Recommendation(s)	OIG comment when required
1	Risk: Inadequate and non-compliance of LFA staff requirement as agreed with the Global Fund could delay the program implementation	The LFA needs to adequately staff its local team (Yangon office) and demonstrate capability/leadership.  (i) In-country presence of LFA team needs to be strengthened, given the current work responsibilities and complexity of the grants in Myanmar. (ii) The Global Fund Secretariat should request the LFA to provide an action plan with time line on how to improve the performance of LFA. [Critical]	<p><i>The OIG report mentioned on p. 83 :</i></p> <p>14. The LFA is expected to support the Global Fund Secretariat in providing solutions for any PSM bottlenecks, which may hinder program implementation. However, the OIG team observed that the LFA Human Resources capacity was inadequate, leading to unresolved program barriers such as PSM capacity. The OIG team observed that the long-term PSM position in the local team was vacant. Recruitment of a qualified PSM expert in country is found to be "extremely difficult", and the LFA internal policy is not flexible on short-term recruitment. Experts fly in to do assessments and review from the head office. Both previous and current proposed PSM experts have work experience with UNOPS.</p> <p><b>LFA response:</b> at the time of OIG visit in October 2011, the long-term PSM expert position was already filled since August 2011. However due to delays in obtaining long term business visas, the PSM expert could not "reside" in Myanmar (In order to comply with regulations Swiss TPH does not use tourist visas) . Contrary to the OIG-report Swiss TPH had already complied with the recommendation.</p> <p>15. The in-country finance staff needs to be increased to carry out field visits for SR monitoring. Currently, there is only one in country finance staff member with support of two off-site personnel. <b>LFA response:</b> at the time of OIG visit in October 2011, there was one national accountant as well as two senior long-term finance experts' expatriates <u>residing</u> in Myanmar. Therefore there were no off-site personnel as mentioned by the OIG.</p> <p>16. The LFA needs to adequately staff its local team at the Yangon office and demonstrate capability and leadership. In country presence of the LFA team needs to be strengthened, given the current work responsibilities and complexity of the grants in Myanmar. The Global Fund Secretariat should request the LFA to provide an action plan with a time line on how to improve the performance of the LFA.</p> <p><b>LFA response:</b> the in-country team is in line with what was agreed in the contract with the Global Fund. Initially, the Global Fund requested the following expertise for the RFP: Team leader, M&amp;E expert, finance expert and PSM (50%) expert. At the time of the OIG visit, the on-site Team leader (previously with M&amp;E profile) has been replaced by a second finance expatriate, and the PSM expert was used approximately at 80% level of effort. The team leadership(25%) is located in Basel / HQ. Therefore the LFA considers that the team is even more than what was initially agreed in the framework contract with the Global Fund. Swiss TPH is however has recruited an additional national accountant to assist in SR financial verifications from August 2012.</p> <p><b>LFA action:</b> the LFA has recruited a second national accountant (starting in August 2012) to support the LFA role particularly with financial verification of SRs. Given that LFA mandate expires end of 2012; further action will only be taken if LFA contract is renewed for 2013.</p>

## Diagnostic Review of Global Fund Grants to Myanmar

2	<p>Risk: Non-compliance to the reporting requirements could delay the program implementation</p>	<p>The LFA should turn around the reviews within the stipulated times as agreed in the ToR and alert the Global Fund Secretariat of any delays in the submission of reviewed PU/DRs.</p> <p>[Critical]</p>	<p><u>The OIG report mentioned on p. 84 :</u></p> <p>17. There have been delays in the LFA's review of PU/DRs for both PRs. There was a delay of up to 33 working days for PU/DR#1 and 42 working days for PU/DR#2, in excess of the defined lead-time of 10 days. The PU/DR#2 for STC for HIV and TB had not been reviewed by the LFA as of the date of the OIG's review.</p> <p><b>LFA response:</b> the LFA agrees with the OIG that there have been delays in PUDRs submission. However the LFA would like to note that the official deadline for submission (10 working days) is per PUDR, has not changed despite new PUDRs templates, and should not apply the same way if the same LFA team has to review 6 PUDRs simultaneously. This issue has been raised several times at Global Fund level in Geneva. The LFA has agreed to prioritize the review of the wave of the 6 PUDRs with the Global Fund.</p> <p><b>LFA action:</b> the LFA is now prioritizing sequence of PUDRs to be submitted to Global Fund based on available cash balance of PRs/SRs. However, the LFA wishes to note that the PRs submitting PUDRs late compounds the LFA's work schedule, making it a challenge to process simultaneous demanding tasks at the same time. E.g. late submission of revised budget and PUDRs which are linked. Nevertheless, the LFA is reviewing its work flow process to improve efficiency further.</p>	
3	<p>Risk: Inadequate fraud/irregularity training may reduce the ability of LFA to identify the risk of irregularity in high risk transaction</p>	<p>LFA to undergo trainings on identification of irregularities/fraud, especially given the country context where majority of the payments are cash transactions.</p> <p>[Important]</p>	<p><u>The OIG report mentioned on p. 84</u></p> <p>20. The LFA should undergo trainings on identifications of irregularities and fraud, especially given the country context, where the majority of payments are cash transactions.</p> <p><u>Note:</u> The OIG would be pleased to offer such training</p> <p><b>LFA response:</b> although the LFA has three finances experts on-site (1 national and 2 senior expatriates) all trained in financial audits/verifications, the LFA would welcome any specific training on fraud. The LFA already had the opportunity to assist to such presentation by the OIG during the finances training organized by Global Fund in Geneva in November 2010.</p> <p><b>LFA action:</b> the LFA will follow-up with the OIG or other relevant institutions on specific fraud training for 2013.</p>	

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4	<p>Risk: Inadequate assessment of potential Conflict of Interest could pose risk to the program</p>	<p>(i) The LFA to proactively identify and communicate Conflict of Interest (CoI) cases to Global Fund in relation to membership composition of CCM and its Sub Committees; SRs selection; Recruitment of staff under GF funded programs; Selection of External Auditors by PRs and SRs.</p> <p>(ii) All members of LFA to sign-off "Conflict of Interest declaration" as it conducts a range of activities as approved by the GF Secretariat.</p> <p>[Critical]</p>	<p><u>The OIG report mentioned on p. 85 :</u></p> <p>21. The LFA has not assessed or communicated the results of Conflict of Interest reviews to the Global Fund with respect to: i. Membership composition of the CCM and its Sub Committees; ii. SR selection; iii. Recruitment of staff under Global Fund funded programs; and iv. Selection of external auditors by PRs and SRs.</p> <p><b>LFA response:</b> Through interaction with the CCM, PR and SRs and in carrying out re-views/assessments on behalf of the Global Fund, the LFA is constantly on the look out for any conflict of interest. However, none has been noted and reported in the last year of implementation.</p> <p>22. LFA personnel have not signed the declaration of "Conflict of Interest" statement. In the absence of non-identification of conflict of interest cases, it may be possible that biased decisions are made, which are likely to benefit the individual's or organization's own direct interests.</p> <p><b>LFA response:</b> the representative of Swiss TPH (LFA) had signed conflict of interest on behalf of Swiss TPH for all staff members at the time of the submission of the proposal for LFA services in December 2009 and awarded in February 2010</p> <p>23. The LFA should proactively identify and communicate Conflict of Interest cases to the Global Fund in relation to membership composition of the CCM and its Sub Committees; SR selection; recruitment of staff under Global Fund funded programs; and the selection of External Auditors by PRs and SRs. All members of the LFA should sign "Conflict of Interest declarations" as it conducts a range of activities as approved by the Global Fund Secretariat.</p> <p><b>LFA response:</b> through interaction with the CCM, PR and SRs and in carrying out re-views/assessments on behalf of the Global Fund, the LFA is constantly on the look out for any conflict of interest. Swiss TPH employees, according to the Swiss TPH code of conduct (which is part of Swiss TPH employment contracts), are obliged to report any existing or potential Conflict of interest.</p> <p><b>LFA action:</b> Ongoing</p>	<p>OIG reiterates the need for each LFA staff/consultants to sign a CoI declaration</p>
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## Diagnostic Review of Global Fund Grants to Myanmar

5	<p>Risk: Inadequate risk assessment at SR level could pose risk to the program</p>	<p>LFA to:</p> <ul style="list-style-type: none"> <li>(i) Identify high risk Sub-Recipients and accordingly prioritize monitoring of financial management of these Sub-Recipients.</li> <li>(ii) Identify country specific oversight gaps in Global Fund grant funded programs and develop Principal Recipient/Sub-Recipient/Sub-Sub-Recipient monitoring and oversight plan.</li> <li>(iii) Provide readily implementable and actionable recommendations to Global Fund on Principal Recipient's capacity to manage Sub-Recipients.</li> <li>(iv) Develop a mechanism of proactively keeping Global Fund Secretariat informed about emerging risk due to changing environment.</li> </ul> <p>[ Important]</p>	<p><u>The OIG report mentioned on p. 85 :</u></p> <p>24. The LFA has not identified high-risk SRs to prioritize monitoring of financial management of these SRs.</p> <p><b>LFA response:</b> the LFA has performed 18 SRs assessments in 2010 focusing on key expertise area (finances, PSM, M&amp;E, programmatic, SR or SSR management) in coordination and agreement with Global Fund. The LFA identified strengths and weaknesses of SRs and those for which zero cash policy would be applied.</p> <p>25. The LFA should:</p> <ul style="list-style-type: none"> <li>i. Identify high risk SRs and accordingly prioritize monitoring of financial management of these SRs;</li> <li>ii. Identify country specific oversight gaps in Global Fund funded programs and develop a PR/SR/SSR monitoring and oversight plan;</li> <li>iii. Provide readily implementable and actionable recommendations to the Global Fund on the PRs' capacity to manage SRs; and</li> <li>iv. Develop a mechanism to proactively keep the Global Fund Secretariat informed about emerging risks due to a changing environment.</li> </ul> <p><b>LFA response:</b> refer to answer point 24 above.</p> <p><b>LFA action:</b> The LFA developed an SR verification plan for 2012 based on identified risks from review of PUDRs and relevant support documents, review of baseline financial management assessment carried out by PR and ongoing identified risk e.g., padded budgets in 2012 revised budgets.</p>	<p>Despite that the LFA has performed 18 SRs assessment 2010, but most of OIG finding in oversight of SRs had not been revealed by any of LFA report. OIG sees the need for LFA to focus on high risk SRs as priority.</p>
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6	<p>Risk: Inadequate access right for LFA could pose risk to its oversight role</p>	<p>LFA needs to develop a communication protocol with the Principal Recipients, especially UNOPS. The communication should be collaborative to help achieve the program objectives. LFA to increase visibility with the Principal Recipient's senior management to bring out serious issues that are pervasive in all programs.</p> <p>[ Important]</p>	<p><i>The OIG report mentioned on p. 85-86 :</i></p> <p>26. Current communications between the LFA and UNOPS is not collaborative. The LFA team does not have adequate access to verify UNOPS' operations. The Terms of Reference (ToR) for UNOPS' verification have been established but need further deliberation based on the challenges faced by the OIG for the diagnostic review, which include the following: v. the term "Management" mentioned in the ToR needs to be defined; vi. the limit on the selection of samples for review needs further clarification. Per the ToR, the limit on the selection of up to 65 samples is per grant. However, UNOPS management interprets the total of 65 samples to be spread across all the three grants (HIV, TB and malaria). i. the limit of 65 samples should not include Journal Entries (JE), or the base voucher along with supporting documentation should be provided for the respective JE; ii. the restriction on 10 samples per expenditure category is not reasonable as there might be certain activities with fewer transactions in a given period.</p> <p><b>LFA response:</b> upon the change of reporting cycle under the three grants (from quarterly to semi annual reporting cycle) the ToR have been revised and currently they allow the LFA to examine 130 transactions per grant per half year of reporting period. Similarly has been changed number of transactions per EFR cost category and currently the LFA selection is limited to 20 transactions per category, which if applied to all categories, would exceed the limit of 130 (there are 13 categories). While the ToR provide scope to cover some areas adequately the LFA notes they do present significant limitations which go beyond the transactions of the PR itself. These are:</p> <ul style="list-style-type: none"> <li>i) The PR maintains all financial records of the National Programs due to the 'Zero Funding policy'. This means that a substantial amount of the program activity information is held by the PR and is thus restricted under the umbrella of the ToR transaction limits.</li> <li>ii) The PR procures items on behalf of other SR's and pays costs for several activities such as trainings, and these also fall under the ToR restrictions.</li> <li>iii) The ToR limitation also applies to the above total number purchase orders, contracts and other supporting information and</li> <li>iv) In periods of high activity, the LFA is still restricted to 20 transactions per category. If for some reason a large number of activities occurred in one period for a category, there will most likely be a corresponding increase in perceived risk, however due to the restriction only 20 transactions can be verified. In this case the LFA would like to see a pro rata adjustment based on the period's transactional level.</li> <li>v) Furthermore, the ToR states that a second verification of the same documents (already verified earlier) is to be considered as an exception only. This also poses a challenge for the LFA, since one and same document sometimes requires access at several point of time (for instance: one Purchase Order can be verified as a supporting document to committed funds, which PR plans to carry forward to a next implementation period, afterwards may need to be verified as a supporting document to an expenditure and finally, invoices derived from the mentioned PO need to be verified at the time of PQR entries verification, to ensure that PQR entries made by the PR are accurate</li> </ul> <p>27. LFA needs to develop a communication protocol with the PRs, especially UNOPS. The communication should be collaborative to help achieve program objectives. The LFA should increase visibility with the PR's senior management to bring out serious issues that are pervasive in all programs.</p> <p><b>LFA response:</b> noted. See below</p> <p><b>LFA action:</b> The LFA believes that it has established and maintains with the PR UNOPS effective and professional working relationship on a number of levels. The LFA PSM, M&amp;E and Finance experts on time to time schedule meet with PR UNOPS staff to discuss specific issues. The LFA also holds regular PUDR debriefings following PUDR review. Of course, the LFA is open to collaboration with the PR on an ongoing basis for the benefit of the program.</p>	
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## Diagnostic Review of Global Fund Grants to Myanmar

7	<p>Risk: Lack of LFA peer review on its assessment could pose reputational risk to the Organization</p>	<p>(i) Provide readily implementable and actionable recommendations on PSM of the PR (UNOPS).</p> <p>(ii) In case of a below average rating, a peer review is to be conducted to confirm result of assessment.</p> <p>[Important]</p>	<p><i>The OIG report mentioned on p. 86-87</i></p> <p>28. The LFA conducted an assessment of UNOPS Myanmar Operation Center (MMOC) procurement unit and provided a 'C' rating. The OIG's review of this assessment highlighted that the LFA did not provide a solution on how to resolve the PSM issues and to avoid program implementation being affected due to this adverse rating. The OIG further noted that the overall rating of 'C' does not seem to be reasonable due to: i. Insufficient period for conducting the review (only 2 months); ii. Certain weaknesses noted by the LFA were based on 'good practices' rather than minimum standards; iii. The standard policies and procedures exist. Capacity is not an issue; instead, the issue is compliance to the policies; iv. The review did not consider the existence of other UNOPS offices, which can support the procurement of MMOC such as 3DF, the Regional Office in Bangkok and the Copenhagen office; v. Recommendations included in the assessment, such as 'procurement to be put on hold', are not feasible, as it would delay program activities. vi. The expertise of the PSM expert is as a pharmacist and not a procurement specialist. Furthermore, the PSM manager in charge had previously worked in operational activities at UNOPS; vii. In the event of a below average rating, a peer review was not conducted to confirm the results of the assessment.</p> <p>LFA response: the LFA would like to highlight that the assessment report did provide several alternative solutions how to resolve the PSM issues without negatively affecting programs implementation and propose ways forward from the particularly difficult situation. The review report however, proposes different alternative solutions for the Secretariats final consideration. In particular, the LFA PR PSM capacity assessment report, among four different alternatives provided in the report, suggested:</p> <p>"- <i>The Global Fund, provided that the Procurement Unit establishes and implements system to drastically improve its procurement management (beyond the purchasing), authorizes UNOPS to undertake procurement of health products but ask UNOPS to use a combination of Voluntary Pooled Procurement (VPP) and Global Drug Facility (GDF) for all core products (ARV, Malaria and TB drugs, LLIN, condoms and Rapid Diagnostics Tests)</i>"</p> <p>Or</p> <p>"- <i>Although it is not recommended by the LFA, The Global Fund, provided that the Procurement Unit establishes and implements system to drastically improve its procurement management (beyond the purchasing), authorizes UNOPS to undertake procurement of all pharmaceuticals and health products</i>"</p> <p>Furthermore, the LFA works independently and its role is to recommend the Global Fund what it considers value for money. The "C" rating was given based on the Global Fund guidelines when actions cannot be implemented within a three to six months period. The assessment was carried out in line with the Secretariat's request (as outlined in the assessment's ToR) and the rating was given in line with the Global Fund's LFA Manual (May 2008 edition, which was in force at the time of the assessment). The wording outlined in the mentioned LFA manual is as follows (Section A, Para. A.3, Sub-Para. 2):</p> <p><i>Rating C1: "Capacity gaps pose major risks which cannot be addressed within three to six months. An alternative PR arrangement must be found for the initially approved two years of the grant while capacity strengthening measures may allow the nominated PR to be phased-in for the subsequent 3-5 years."</i></p> <p><b>OIG's comment: i) Insufficient period for conducting the review (only 2 months):</b></p> <p><b>LFA response:</b> the time frame was agreed upon by both the PR and the Global Fund. The LFA did not have a say in this decision. However, the LFA acknowledged that this was one of the limitations of the review and the same, together with other limiting factors, was mentioned in the UNOPS PSM capacity assessment report: "<i>The team has just been put together; some staff have been working for less than two months</i>" (page 8 under heading: Limitations of the Assessment)</p>	<p>On the 4 alternatives:</p> <p>1&amp; 2 - how to do this in practice i.e. "authorize. [...], provided that PR drastically improves etc." is left open for interpretation (not actionable SMART).</p> <p>Agree with LFA feedback on insufficient period for the review.</p>
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## Diagnostic Review of Global Fund Grants to Myanmar

			<p><b>OIG's comment: "ii. Certain weaknesses noted by the LFA were based on 'good practices' rather than minimum standards"</b></p> <p><b>LFA response:</b> the LFA report mostly refers to Global Fund and UNOPS guidelines, policies, rules and procedures. The LFA also referred to the "good procurement practices" merely for UNOPS choice to split potentially larger packages/contracts into smaller slices (possibly with the intention to avoid tendering and/or to use less strict solicitation method) and for the selection of the solicitation method which could not be consistent with the UNOPS procurement manual requirements, if the splitting (mentioned above) was not the case.</p> <p>Furthermore, the Global Fund Terms of Reference themselves refer to Good Procurement Practice: "Assess the Procurement Procedures manual (and related SOPs) and identify its strengths and weaknesses commenting on whether the Procurement Procedures Manual complies with Good Procurement Practices, as outlined in the Guide to the Global Funds Policies on Procurement and Supply Management"</p> <p>In addition to that the LFA notes that the "good procurement practices", in this particular case, refer to the Interagency Guidelines "Operational principles for good pharmaceutical procurement", which is referred at multiple instances in the Global Fund's Guide to the Global Fund Policies on Procurement and Supply Management (November 2009, in forth at the time of assessment):</p> <p>"Procurement must be conducted in a competitive and transparent manner and in accordance with international pharmaceutical procurement guidelines as outlined in the interagency guidelines Operational Principles for Good Pharmaceutical Procurement"</p> <p>On the other hand, the above mentioned interagency guidelines read (principle 8):</p> <p>"Procurement should be effected in the largest possible quantities in order to achieve economies of scale; this applies to both centralized and decentralized systems". The same is out-lined in the Global Fund's Guide to the Global Fund Policies on Procurement and Supply Management, which reads: "Procurement should be based on competitive and transparent procurement methods in order to achieve the lowest price possible for quality-assured products, except in the case of small or emergency orders. In addition procurement should be effected in the largest possible quantities reasonable under the requirements of the program in order to achieve economies of scale."</p> <p>Therefore, due to the reasons that the reference "good procurement practices" refers to the requirements outlined in the Guide to the Global Fund Policies on Procurement and Supply Management (and in the interagency guidelines referred in the mentioned document), the LFA believes that the identified weaknesses were definitely based on minimal acceptable standards, as defined in the mentioned applicable documents.</p> <p><b>OIG Comment: iii. "The standard policies and procedures exist. Capacity is not an issue ;instead, the issue is compliance to the policies"</b></p> <p><b>LFA response:</b> the LFA agrees with the statement which is consistent with LFA's report on UNOPS procurement PSM capacity assessment. The LFA noted in the report as "strengths" current capacity and potential of national staff, as well as availability of various tools, procedures and policies.</p> <p>However, the LFA's scope of work is to review the existence, relevance and quality of policies and procedures, assess the organization's capacity and compliance with Global Fund policies and organizations' own policies and procedures. Therefore, it is not clear to the LFA how the compliance can be considered separately from the capacity.</p> <p><b>OIG Comment: "iv The review did not consider the existence of other UNOPS offices, which can support the procurement of MMOC such as 3DF, the Regional Office in Bangkok and the Copenhagen office"</b></p>	
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			<p><b>LFA response:</b> <i>the LFA partially agrees with the OIG comment but wants to mention that the report does consider existence of other parties who could provide PSM related technical expertise/support to the UNOPS. In particular, the report on page 32 reads:</i></p> <p><i>“Although, there is some in house expertise that can be called upon for procurement related matters (Procurement Practice Group, UNOPS Bangkok Regional Officer, IPO), it is recommended that UNOPS reaches out to people in Myanmar with the adequate technical skills (in UN agencies and programs or INGO) to participate in specifications reviews or bid evaluation (and assess the availability).”</i></p> <p><b>OIG Comment:</b> <b>“v. Recommendations included in the assessment, such as ‘procurement to be put on hold’, are not feasible, as it would delay program activities”</b></p> <p><b>LFA response:</b> the report includes various remedial actions and alternatives as way forward As it was mentioned above the review report proposes different alternative solutions for the Secretariats final consideration. In particular, the LFA PR PSM capacity assessment report, among four different alternatives provided in the report, suggested:</p> <p><i>“- The Global Fund, provided that the Procurement Unit establishes and implements system to drastically improve its procurement management (beyond the purchasing), authorizes UNOPS to undertake procurement of health products but ask UNOPS to use a combination of Voluntary Pooled Procurement (VPP) and Global Drug Facility (GDF) for all core products (ARV, Malaria and TB drugs, LLIN, condoms and Rapid Diagnostics Tests)”</i></p> <p>Or</p> <p><i>“- Although it is not recommended by the LFA, The Global Fund, provided that the Procurement Unit establishes and implements system to drastically improve its procurement management (beyond the purchasing), authorizes UNOPS to undertake procurement of all pharmaceuticals and health products”</i></p> <p><b>OIG Comment:</b> <b>vi. The expertise of the PSM expert is as a pharmacist and not a procure men specialist. Furthermore, the PSM manager in charge had previously worked in operational activities at UNOPS;</b></p> <p><b>LFA response:</b> regarding the expertise of the PSM expert, the Global Fund criteria for approving LFA PSM experts required at that time to be a pharmacist and not procurement specialist, which was the case of the LFA expert. The LFA also notes that neither was the OIG PSM expert a procurement specialist, but was a pharmacist with postgraduate degree in public health.</p> <p>The LFA does not clearly understand the link "Furthermore, the PSM manager in charge had previously worked in operational activities at UNOPS": the LFA considered it as an advantage for the PSM expert to already know UNOPS procedures as it allows a more accurate assessment of UNOPS capacity and adherence to procedures. If the sentence suggests a potential conflict of interest of the LFA PSM expert regarding his evaluation of UNOPS capacity, the LFA is there- fore wondering if such conflict of interest would be considered for the PSM expert part of OIG assessment team as the latter was at the same time providing TA to PR in Lao PDR where the LFA expert was evaluating PR therefore indirectly TA quality support. Furthermore, the OIG PSM expert was also consulting for UNOPS in 2007. This potential conflict of interest of the PSM OIG expert has been officially raised by Swiss TPH later on in writing to the OIG.</p>	
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			<p>29. The LFA should provide readily implementable and actionable recommendations on PSM for UNOPS. In the event of a below average rating, a peer review should be conducted to confirm the results of the assessment.</p> <p><b>LFA response:</b> noted. However kindly note that the LFA is only recommending to Global Fund based on its assessment and this is the role of the Global Fund to ultimately endorse or not the proposed LFA ratings and recommendations. In the case of the LFA proposed “C” rating for MMOC, the Global Fund had fully endorsed that rating and could have changed it at any time.</p> <p>In addition to that, the LFA reviewed and provided its feedback on the PSM capacity strength- ening action plan developed by the PR UNOPS.</p> <p><b>LFA action:</b> in consultation with the Secretariat, the new UNOPS PR PSM capacity assessment has been scheduled. The assessment will take place in the second half of the August 2012. The assessment will jointly be carried out by the LFA PSM expert (with expertise in procurement) and Pharmacist to be nominated by the Global Fund. The assessment will certainly consider all the points outlined above by the Office of Inspector General.</p>	
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### IX. The Global Fund Secretariat

S. No.	Risk(s) Identified	Recommendation(s)	Secretariat Response, Action Plan, Responsible and Completion date
1	Risk: Lack of priority of risk and inadequate follow-up of LFA assessment could reduce value for money	<p>The Work order given to LFA should always consider the LFA's capacity to implement and the priority of each work order. A feedback to the gap on LFA work result should be regularly communicated to the LFA in addition to the regular performance evaluation. Further, clarifications on the ToR for UNOPS' verification needs to be provided for ease of access to documents by LFA.</p> <p>[Critical]</p>	

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**Annex K: Supply Chain Depicting Delays Incurred**

The table below shows the difference between planned procurement dates and actual dates.

Line	Forecast submitted to PR UNOPS	Expected delivery	2011													
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec		
ARV 1 <sup>st</sup> batch	6 December 2010	March (75%) LLIN and KOTab Other; first part in May 2011 (75%) All rest in September 2011 (25%)					BER		PAY PO		ETA ARR		AR R			
ARV 2 <sup>nd</sup> batch														?		
OI/STI, other essential drugs											BE R	PAY	ET A		?	
ACT							BER		PAY PO				ET A AR R			
TB (FLD)												ETA ARR (20% )			?	
Chloroquine tabs			BE R		PA Y PO		ETA ARR	SVE								
Primaquine tablets							PAY	PO			ET A AR R	SVE				
Artesunate inject					BE R		PAY PO			ETA AR R	SV E					

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Line	Forecast submitted to PR UNOPS	Expected delivery	2011											
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
ITN insecticide					BE		PAY				ETA			
Condoms & lubricants				BE		PAY				ETA	ARR			
RDT (MAL)				BE	PAY	PO			ETA	SVE				
									ETA	ARR				
Methadone (MMT)					BER					ETA	ARR			
HIV and other tests kits				BE		PAY	PO		ETA	ARR				
LLIN			BE	PAY		ETA								
			ARR	SVE										
Syringe/needles													?	
Equipment (CD4, microscopes)		May 2011			BE	PAY		PO	ETA	SVE				
									ETA	ARR				
Other Equipment (HIV, MAL)							PAY						?	
Lab supplies, surgicals, reagents etc.				BE		PO							?	
				ARR									?	

BER = Bid Evaluation Report submitted

## **Diagnostic Review of Global Fund Country Grants to Myanmar**

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PAY= funds transferred from SAVE to UNOPS to place the order

PO = Order placed at supplier

ETA = Suppliers Expected date Arrival of goods in Yangon (based on placing the order)

ARR = Actual Arrival of goods in Yangon (possibly still in customs for clearance)

SVE = goods accepted by SAVE