

Audit of Global Fund Grants to the Central African Republic

GF-OIG-13-002

06 February 2013

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A. EXECUTIVE SUMMARY

Three grants audited	1. As part of its 2012 work plan, the Office of the Inspector General carried out an audit of Global Fund grants to the Central African Republic from 24 May to 12 July 2012.
USD 19.3 million disbursed of USD 40.5 million approved	2. The audit covered the three Global Fund grants to the Central African Republic from Round 7 to Round 9, totaling USD 40.5 million, of which USD 19.3 million had been disbursed by July 2012. The audit also included a financial review of the last year (2009) of two Round 4 grants, following their transfer from UNDP.
	3. The Principal Recipients audited were the Coordination Nationale/Comité National de Lutte Contre le VIH/SIDA and the Ministry of Public Health, Population and Fight against HIV/AIDS.
	A.1. <u>Key Findings</u>
Poor capacity and infrastructure have limited programmatic progress	4. The Central African Republic's capacity constraints and poor infrastructure have had a negative impact on program delivery. Considerable delays at country level in submitting disbursement requests, frequent stock-outs and a lack of reliable data have all contributed to limited progress in implementing the grants and have meant that work plans have become out of date. Unfortunately, these delays have been exacerbated by disbursements freeze and other fiscal safeguards designed to mitigate the significant risks of operating in the Central African Republic. The OIG recommends that the implementers (working with technical partners) revise the work plans of the AIDS, tuberculosis and malaria grants in order to prioritize life-saving activities and treatment without further delay.
Weak data quality and supervision	5. At the time of the audit, data and reporting systems were not sufficiently reliable to yield accurate and precise information. There is a need to strengthen data collection and supervision to ensure the quality of service provision, and to ensure that key information systems are in place to support grant implementation.
Global Fund Secretariat and Local Fund Agent should improve oversight	6. In terms of oversight arrangements, the Global Fund Secretariat should ensure that a sound financial control framework is established. Additional safeguards implemented to further mitigate risks should be accompanied by increased oversight and support so that problems are addressed on a timely basis. The frequency of country visits up to 2012 had not been consistent with the risk profile of the country, and should be increased to ensure appropriate oversight. The Local Fund Agent should adopt a more risk-based approach in its work and provide feedback to the Principal Recipients on areas requiring improvement.
Weak financial controls	7. There is significant scope for improvement in basic financial controls, particularly record keeping and accounting for expenses. The Global Fund Secretariat should continue to work with the Principal Recipients, the Local Fund Agent and the Fiduciary Agent to improve the financial management capacity of Sub-Recipients as well as the Principal Recipients' capacity to provide an appropriate level of oversight and supportive supervision.

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	<p>8. This report includes a table of unbudgeted and unsupported expenses totaling USD 938,014.¹ It is for the Global Fund Secretariat to determine whether the amounts documented as unbudgeted and/or unsupported should be recovered.</p>
Principal Recipients should improve data collection and drug forecasting	<p>9. Despite the fact that drugs purchased under the grant were procured through the Voluntary Pooled Procurement process, there is scope to improve forecasting and quantification. In particular, Principal Recipients should strengthen and validate their collection of morbidity data and, in the long term, transition to using consumption data for more accurate stock management. There is a need to strengthen quality assurance for procurement and supply management of health products.</p>
All eleven recommendations accepted	
Critical recommendation on HIV/AIDS treatment	<p>10. The OIG offers eleven recommendations, of which one has a “Very High” priority, requiring critical action to be taken in the HIV/AIDS program to prioritize life-saving activities, treatment and testing among vulnerable populations. All other recommendations have a “High” priority. The audit team worked closely with the Global Fund Secretariat in drafting and finalizing this report. All recommendations have been accepted by the Secretariat and other relevant stakeholders, and will be followed up by the Office of the Inspector General. The stakeholders have made firm commitments to take action to mitigate the risks identified.</p>
	<p>A.2. <u>Conclusion</u></p>
Management of grants not satisfactory	<p>11. The OIG concludes that the management and implementation of Global Fund grants in the Central African Republic is not satisfactory. This means that “Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.”</p>
Grants unsuitable for measurement against the performance-based funding model	<p>12. The findings and the conclusions of this report raise questions about the suitability of performance-based funding as practiced by the Global Fund in countries hampered by significant infrastructure and capacity challenges. The expectations for reporting, management and oversight placed on the country by the Global Fund, as a performance-based funding institution, were not realistic, and measures should be considered in future grants to support capacity building initiatives prior to entering into agreements with low capacity countries.</p>
	<p>A.3. <u>Actions subsequent to the audit</u></p>
Mitigating actions taken by Secretariat and in-country stakeholders	<p>13. The OIG has noted that a number of actions have already been taken to address the risks that emerged from the audit findings. These include:</p> <ul style="list-style-type: none"> • Re-focusing the malaria program on essential services, with limited coverage corresponding to Principal Recipient capacity, and with the active involvement of partners; • Clarifying and re-defining the roles of the Fiduciary Agent and the Principal Recipient, and the structure of the financial and administrative management teams; • Involving UNICEF as a technical assistance provider for the malaria

¹ All amounts have been translated from EUR to USD at the rate prevailing on 31 July 2012 (EUR 1 = USD 1.22735) for comparison purposes.

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- program, with a particular focus on program coordination and procurement and supplies management;
- Processing emergency disbursements for essential drugs for both HIV/AIDS and malaria to cover needs up to the end of 2012 and basing future health product procurements on verifiable data on inventory and treatment/usage;
- Freezing procurement and distribution of fixed assets until a physical inventory is conducted.
- Assessing the capacity of each Sub-Recipient, including approving work plans and contracts for each grant; and
- Assigning one Fund Portfolio Manager and one Program Officer to focus exclusively on the Central African Republic portfolio, as well as two further missions to the country in October and December 2012.

B. MESSAGE FROM THE EXECUTIVE DIRECTOR OF THE GLOBAL FUND



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29 January 2013

MESSAGE FROM THE EXECUTIVE DIRECTOR

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

The audit was carried out from 24 May to 12 July 2012 and covered the three Global Fund grants to the Central African Republic from Round 7 to Round 9, totaling US\$ 40.5 million - of which US\$ 19.3 million had been disbursed by July 2012. The audit also included a financial review of the last year (2009) of two Round 4 grants.

The Central African Republic has implemented its grants in extremely difficult circumstances. Capacity constraints and poor infrastructure have had a negative impact on programs, with considerable delays at country level in submitting disbursement requests, frequent stock-outs of medicine, and a lack of reliable data. The delays have been exacerbated by grant freezes and other fiscal safeguards designed to mitigate the significant risks of operating in the Central African Republic. As a result, grants' work plans have become out of date.

The audit found several areas in need of improvement. It is necessary to strengthen data collection and supervision, in order to ensure the quality of service provision and that key information systems are in place to support grant implementation. The report advises the implementers to establish a sound financial control framework and the Secretariat to increase its oversight and support to the implementers. In addition, there is significant scope for improvement in basic financial controls, particularly in record keeping and accounting for expenses. Even though drugs purchased under the grant were procured through the Voluntary Pooled Procurement process, the audit found scope to improve forecasting and quantification.

To address these challenges, the audit report makes eleven recommendations. Based on the audit findings, a number of measures have already been implemented. The malaria program was refocused on essential services, emergency disbursements were processed to purchase essential drugs to treat AIDS and malaria, and procurement and distribution of assets were frozen until the completion of a physical inventory.

The report includes a list of unbudgeted and unsupported expenses totaling US\$ 938,014. The Secretariat's Legal team is conducting a review of the expenses and will determine whether the amounts documented as unbudgeted and/or unsupported should be recovered.

Audit reports by the Office of the Inspector General are an essential form of quality control for the Global Fund. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Yours sincerely



C. MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

CONSEIL NATIONAL DE COORDINATION
DU FONDS MONDIAL DE LUTTE CONTRE
LE SIDA, LA TUBERCULOSE ET LE PALUDISME

PRESIDENCE

RAPPORTEUR GENERAL

SECRÉTARIAT ADMINISTRATIF PERMANENT

N° 108 /CCM/PR/RG/SAP

REPUBLIQUE CENTRAFRICAINE



Unité - Dignité - Travail

Bangui, le 12 DEC 2012

Attention : Dr Elmar VINH THOMAS
Directeur de l'Audit – Inspection Générale
du Fonds Mondial - Genève

Objet : Message du Président de l'Instance Nationale de Coordination
à insérer au rapport final de l'OIG

MESSAGE DE L'INSTANCE NATIONALE DE COORDINATION

L'Instance Nationale de Coordination pour la lutte contre le VIH/SIDA, la Tuberculose et le Paludisme en Centrafrique (CCM/RCA) remercie le Secrétariat du Fonds Mondial et félicite l'équipe de l'Inspection Générale pour avoir conduit à terme et avec succès l'audit sur les trois subventions en cours d'exécution dans le pays.

Malgré des difficultés reconnues liées à l'environnement de travail, l'équipe a produit des résultats de qualité. Pendant son séjour et à chacune des étapes de ses investigations sur le terrain, l'équipe a vécu les conditions difficiles dans lesquelles les programmes s'exécutent.

Aussi, plus qu'une évaluation des subventions, c'est d'avantage à une revue diagnostique de l'environnement de la mise en œuvre des programmes que l'équipe a abouti. Elle nous permet donc d'identifier désormais tous les facteurs qui influencent négativement la performance de l'ensemble des programmes.

Le résultat global de ce rapport complété des recommandations constitue pour le CCM/RCA un ensemble de repères qui aideront désormais à baliser la gestion des programmes avec un bénéfice certain sur leur performance. A cet égard, nous avons noté avec beaucoup de satisfaction les premières mesures découlant de ce rapport, notamment la mise en place d'un Porte Folio Manager spécialement affecté au suivi des subventions en République Centrafricaine, ce qui nous rassure par son côté de surveillance étroite des programmes.

Ce rapport sera intégré comme outil de référence dans notre arsenal de gestion et le CCM/RCA veillera à sa bonne exploitation notamment à travers la mise en œuvre effective et complète des recommandations.

Le Président du CCM/RCA,

Dr Bernard LALA

D. AUDIT OBJECTIVES AND SCOPE

Audit assessed adequacy and effectiveness of controls

D.1. Audit Objectives

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

- Value for money from funds spent;
- The achievement of programmatic objectives;
- Compliance with Global Fund grant agreements, policies and procedures, and with relevant laws and regulations;
- The safeguarding of grant assets against loss or misuse; and that
- Risks were effectively managed.

An important focus of this audit was to identify opportunities to strengthen grant management.

Multi-skilled team deployed in Bangui and on field visits

15. The OIG deployed a multi-skilled team of professionals, comprising financial auditors, a public health specialist, and a procurement and supply management specialist, each of whom participated in various stages of the audit. The team conducted visits to the field in three regions (Lobaye, Kemo and Ouaka), including visits to three hospitals and four health centers.

D.2. Audit Scope

Audit examined operations of main grant stakeholders

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

Two Principal Recipients were implementing five grants

17. The Principal Recipients of the Global Fund grants to the Central African Republic were the Coordination Nationale/Comité National de Lutte Contre le VIH/SIDA (CN/CNLS) and the Ministry of Public Health, Population and the Fight against HIV/AIDS (NTP).

18. The audit covered the following five Global Fund grants to the Central African Republic, totaling USD 40.5 million, of which USD 19.3 million had been disbursed by the date of the audit.

Principal Recipient	Round and Component	Grant Agreement	Amount Committed (USD)	Amount Disbursed (USD)
CN/CNLS	Round 4 HIV ²	CAF-409-G06-H	2,163,415	1,515,742
CN/CNLS	Round 4 Tuberculosis	CAF-409-G07-T	562,701	256,983
CN/CNLS	Round 7 HIV	CAF-708-G05-H	15,799,899	14,426,708
CN/CNLS	Round 8 Malaria	CAF-810-G08-M	13,695,489	1,718,151
NTP	Round 9 Tuberculosis	CAF-911-G09-T	8,320,104	1,347,425
Total			40,541,608	19,265,009

Table 1: Summary of Grants committed and disbursed to CNLS and NTP (July 2012). EUR denominated grants have been translated into USD where necessary.

19. The review scope included all expenditures by the PRs mentioned in the table above up to 31 March 2012. As requested by Global Fund Secretariat

² The initial PR for this grant was UNDP; this review only examined disbursements to CN/CNLS.

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Recommendations prioritized to enable grant managers to implement effectively

management, the audit included a financial review of the last year (2009) of two Round 4 grants (following their transition from the United Nations Development Programme to CNLS).

20. The audit took into consideration the key findings of the Enhanced Financial Review (EFR) of the Round 7 and 8 grants performed in October 2011 by PwC Mauritius at the request of the Phase 2 panel; this included verifying the expenses identified in the EFR as “ineligible”.

21. The field work for the audit took place from 24 May to 12 July 2012.

D.3. Rating of Functional Areas

Each functional area reviewed is rated as follows:

Effective	Controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Some Improvement Needed	Some specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Major Improvement Needed	Numerous control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Not Satisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Critical	An absence of or fundamental weakness in one or more key controls, or a serious non-compliance. Non-mitigation will jeopardize the achievement of the Global Fund’s strategic objectives. It requires urgent attention.

D.4. Prioritization of Audit Recommendations

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

Very High	An absence of or fundamental weakness in a key control, or a serious non-compliance. Non-mitigation will jeopardize the achievement of the objectives of the Global Fund. It requires urgent attention.
High	A key control evaluated was not adequate, appropriate, or effective. It is unlikely that the control will manage risk and meet objectives. It requires immediate attention.

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Medium	A specific key control weakness was noted. It is possible that this control will not manage risk and meet objectives. It requires attention within a reasonable period.
Low	A specific control weakness was noted in a non-critical area that, if left unattended, will not manage risk and meet objectives. It requires attention in the medium term.

Lower risk findings reported separately to grant managers

D.5. Letter to Management

23. The implementation of all audit recommendations would significantly mitigate the risks and strengthen the internal control environment in which the programs operate. Audit findings classified 'Medium' and 'Low' have been reported separately in a Letter to Management. When such isolated findings in aggregate constitute a significant risk, this is mentioned in the report and in our conclusion. Though 'Medium' and 'Low' risk findings and recommendations do not necessarily warrant immediate action, they represent specific key control weaknesses which should be addressed in a reasonable time period. If these deficiencies are not addressed, risks will not be managed appropriately.

E. OVERVIEW

Country context includes constraints on infrastructure, security and capacity	<p>E.1. <u>Background to the grants</u></p> <p>24. This report needs to be read with a contextual understanding of the Central African Republic environment, which includes:</p> <ul style="list-style-type: none">• Extremely weak infrastructure, including no electricity in the majority of the country, mobile phone coverage available is limited, and less than 3% of the road network paved;• A permanently heightened security situation including armed conflict on the borders with Chad, Sudan, South Sudan and the Democratic Republic of Congo; this contributes to periodic famines which, in turn, create large refugee flows; and• The absence of regular and reliable data transmission and the lack of reliable transportation, which has led to poor access to health facilities at local and regional level.
Low life expectancy	<p>25. The Central African Republic is ranked 179 out of 187 countries in terms of life expectancy;³ there is little realistic prospect of improvement in human development indicators in the short term. The HIV and AIDS, tuberculosis and malaria programs are dependent on Global Fund financial support, as many other donors have stopped, or are in the process of withdrawing, their support to the Central African Republic. Coupled with the significant lack of capacity, controls and systems in the country, this constitutes a risk to the delivery and sustainability of program activities.</p>
Programs dependent on Global Fund grants	
Partner missions to address capacity issues over past three years	<p>26. In collaboration with partners, the Global Fund attempted to address these risks and capacity issues in a number of ways, including multiple missions by the capacity-building organization Grant Management Solutions, a Joint UN Regional Team on HIV and AIDS mission in 2010, and an Enhanced Financial Review in 2011.</p>
Recipients not able to meet minimum standards set by Global Fund	<p>27. The audit found that grant recipients in the Central African Republic were not able to meet the minimum standards expected by the Global Fund Secretariat for reporting and delivering results under its performance-based framework. The necessary support from the Global Fund and implementing partners, particularly for capacity building, had not at the time of the audit been sufficient to allow the country to achieve its agreed work plan.</p>
	<p>E.2. <u>Actions subsequent to the audit</u></p>
Briefings provided in Bangui to relevant stakeholders	<p>28. A summary of recommendations was provided to PRs and SRs at the time of the exit meeting in Bangui in July 2012, in order to facilitate timely implementation of the OIG recommendations, with the understanding that a comprehensive report with recommendations would be issued in the near future. The comments received from each entity and the actions initiated after the exit meeting have been incorporated into this report.</p>

³ UNDP Human Development Report 2011.

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All eleven
recommendations
accepted

Mitigating actions
taken by
Secretariat and in-
country
stakeholders

29. All recommendations have been accepted by the Secretariat and in-country stakeholders and will be followed up by the Office of the Inspector General. A number of actions have already been taken by the Global Fund to address risks to the grant. These include:

- Re-focusing the malaria program on essential services, with limited coverage corresponding to PR capacity, and with active involvement of partners;
- Clarifying and re-defining the roles of the Fiduciary Agent and the PR, and the structure of the financial and administrative management teams;
- Involving UNICEF as a provider of technical assistance for the malaria program, with a particular focus on program coordination and procurement and supplies management;
- Processing emergency disbursements for essential drugs for both HIV/AIDS and malaria to cover needs up to the end of 2012, and basing future health product procurement on verifiable inventory and consumption data;
- Freezing procurement and distribution of fixed assets until a physical inventory is conducted;
- Assigning one FPM and one PO to focus exclusively on the portfolio;
- Increasing its country presence, with two additional missions to the country having taken place in October and December 2012; and
- Assessing the capacity of each SR, including approving work plans and contracts for each grant.

F. OVERSIGHT AND GOVERNANCE

<p>Not Satisfactory</p>	<p>Despite implementing additional measures to improve the overall control environment, the Global Fund Secretariat, the LFA and the CCM have not been able to ensure that these measures are effectively embedded.</p>
<p>CCM oversees the grant funded programs</p> <p>LFA verifies grant program implementation</p>	<p>30. As part of the Global Fund grant architecture, a Country Coordinating Mechanism (CCM) oversees the Global Fund-supported programs and a Local Fund Agent (LFA) verifies grant program implementation for the Global Fund Secretariat; these oversight measures are critical to good fiduciary and program management.</p>
<p>CCM members do not have defined roles and responsibilities</p> <p>CCM could make better use of external and internal audit</p>	<p>F.1. <u>Country Coordinating Mechanism</u></p> <p>31. The CCM is a country-level public-private partnership that coordinates the development of grant proposals based on national priorities and needs, and nominates and monitors appropriate organizations to act as PRs for Global Fund grant programs. The OIG reviewed the activities and operations of the CCM and found a number of areas for improvement.</p> <ul style="list-style-type: none"> • While the CCM's structure and operations are subject to the procedures and requirements of the Global Fund, the CCM and its members do not have defined roles and responsibilities, a situation that results in a lack of effective oversight and decision making; • The CCM could make better use of external audit reports. Additionally, better interaction is possible with the internal auditor to participate in the annual planning and to direct its work; and • There is no monitoring of grant outcomes or bottlenecks, and strategic information related to grant implementation is not used to anticipate and prevent future problems. <p>Recommendation 1 (High) <i>The CCM should improve its oversight of Global Fund grants by:</i></p> <ul style="list-style-type: none"> • <i>Defining the roles and responsibilities of its members;</i> • <i>Improving the coordination with other assurance providers (such as internal and external audit); and</i> • <i>Identifying the key issues and bottlenecks in each program and putting in place an action plan for their resolution.</i>
<p>CCM members do not routinely disclose or discuss conflict of interest</p>	<p>32. Despite the presence of a Conflict of Interest policy, declarations are not routinely disclosed or discussed by CCM members; this has led to a number of actual conflicts of interest including PRs participating in CCM decision-making.</p> <p>Recommendation 2 (High) <i>The CCM should improve the management of conflicts of interest by ensuring that PRs and SRs that are also CCM members do not take part in decisions affecting them.</i></p>
	<p>F.2. <u>Local Fund Agent</u></p> <p>33. The LFA is designed to be the 'eyes and ears' of the Global Fund in country, and plays a crucial role in assessing the PR both before grant</p>

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LFA responsive to Global Fund needs; however, LFA lacked proactive approach to sharing findings

signing and at other key stages during grant implementation, providing ongoing independent oversight of grant recipients and carrying out programmatic and financial data verification.

34. The OIG noted a number of good practices employed by the incumbent LFA, including:

- The LFA team is responsive to the Global Fund Secretariat's needs;
- The team performs substantial transaction-level expense reviews; and
- The Procurement and Supply Management (PSM) reporting and analysis provided to the Global Fund Secretariat was of high quality.

35. Nonetheless, the LFA did not adopt a proactive approach to reviewing grant activities, such as sharing its findings with the different PRs at the end of each visit or advising on innovative ways to tackle the unique challenges in the Central African Republic to ensure that knowledge is transferred. The depth of the expense review could be improved by adopting risk-based sampling, increasing the scope of SR reviews and by working with the Global Fund Secretariat to eliminate recurrent unsupported and unbudgeted expenses at PR and SR level.

F.3. Global Fund Secretariat

Global Fund designed safeguards to manage financial risk

36. As a result of the past performance of the grants (weaknesses in financial management and high levels of ineligible expenditure), the Global Fund Secretariat froze all disbursements in February 2010 and did not initially approve Phase 2 of the Round 7 HIV grant in March 2011. At that time, the Secretariat team put in place a number of significant safeguards on oversight and control to attempt to better manage risks, including strengthening the LFA team, implementing pooled procurement measures and installing a fiduciary agent to increase the oversight of grant monies.

Too few Global Fund Secretariat missions; this has improved in the last six months

37. While the OIG recognizes that the Global Fund is not an implementing body, the management of the grants to the Central African Republic by the Global Fund Secretariat has scope for improvement. The PRs, the Fiduciary Agents and the LFA would have benefitted from greater "hands-on" supervision and involvement from the Global Fund team. Between January 2009 and June 2012, the Global Fund Secretariat made only three duty trips to the country. This has improved recently: since June 2012, the Country Team for the Central African Republic has conducted three missions to the Central African Republic.

38. Given the consistent challenges the Central African Republic faces to fulfill Conditions Precedent to Disbursement and other deliverables under the grant agreements, it is critical that any new safeguards are not viewed as stand-alone controls, but are accompanied by increased oversight and support from the Global Fund Secretariat.

G. GRANT MANAGEMENT

Major Improvement Needed	Despite having had a Fiduciary Agent since 2010, there is an absence of basic financial controls, which has led to high levels of undocumented and unbudgeted expenses.
Fiduciary Agent in place since 2010; replaced by KPMG in 2012	<p>39. The PR entered into a contract with a Fiduciary Agent in November 2010 for assistance in the procurement and accounting functions. However, the Global Fund Secretariat was not satisfied with the level of review performed by the original Fiduciary Agent, which was therefore replaced by KPMG in March 2012 (for CN/CNLS) and May 2012 (for NTP).</p>
Lack of clarity and understanding around the roles of the Fiduciary Agent and the PR	<p>40. The current Fiduciary Agent has introduced a procedure manual covering its administrative, accounting and financial responsibilities, including the tasks to be performed. The manual does not stipulate the required levels of review, or the circumstances or procedures for the Fiduciary Agent and the internal auditor to follow in escalating issues to the CCM.</p> <p>41. The respective functional roles and responsibilities of the Fiduciary Agent and the PR, particularly concerning liability for retaining and verifying supporting documents for expenses, were not well understood by stakeholders in the Central African Republic. This lack of understanding could lead to difficulties in establishing responsibility for the recovery of unsupported and unbudgeted expenditure should disputes arise. As the Global Fund's contractual relationship is with the PR, the PRs are unable to extinguish their responsibilities in this respect and remain liable to the Global Fund for any misuse of grant funds.</p>
USD 938,000 in unbudgeted and unsupported expenses	<p>42. Despite the findings of the Enhanced Financial Review in October 2011 and the presence of a Fiduciary Agent for part of the period under review, the OIG audit team found that USD 938,014 of grant funds remained unsupported and unbudgeted (see Annex 2).</p> <p>Recommendation 3 (High) <i>The Global Fund Secretariat should determine whether the amounts documented in Annex 2 should be recovered.</i></p> <p>Recommendation 4 (High) <i>The Global Fund Secretariat should define the exact role and accountabilities of the Fiduciary Agent vis-à-vis the PR, and clarify their respective responsibilities for detecting unsupported and unbudgeted expenses and the associated consequences.</i></p>
<p>Weaknesses in financial management:</p> <ul style="list-style-type: none"> Advances accounted for on same day as paid 	<p>43. Taking into consideration the findings of the Enhanced Financial Review by PwC Mauritius in October 2011, the OIG performed a review of the internal controls at both PRs and found that there was significant scope for improvement in the financial management of the Global Fund grants:</p> <ul style="list-style-type: none"> Advances to sub-recipients were accounted for on the same day that the advances were made, which assumes that the activities had been completed and making it difficult to compare actual and

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<ul style="list-style-type: none">• No regular cash reconciliations• Delays in PUDR submission• Opacity in accounting journals• Inadequate archiving• No asset registers• Procurement irregularities• Cash transfers between grants	<p>budgeted results;</p> <ul style="list-style-type: none">• There were no regular cash reconciliations, leading to uncertainty in the actual cash positions held;• There were significant delays in the preparation and submission of PUDRs to the Global Fund Secretariat;• There was no transparency around accounting of expenses, including the separation of items into different journal entries, resulting in an opaque audit trail;• Data files were inadequately archived, and as a result data could be lost or difficult to retrieve;• There were no fixed asset registers, resulting in a lack of assurance on the existence of items purchased; and• There were a number of irregularities in the procurement process, including no evidence that competitive quotes were requested and no justification documented for not proceeding with the lowest priced bidder.• The OIG noted that at CN/CNLS a number of transfers were made between the bank accounts of different Global Fund-supported programs and Rounds, resulting in a lack of clarity of whether the amounts were used for the intended purposes.
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Recommendation 5 (High)

The Global Fund Secretariat should continue to work with the Fiduciary Agent and the PRs to improve basic financial controls, in particular in relation to accounting for advances, bank reconciliations and transfers between grants, record-keeping, fixed asset accounting and procurement.

H. PROGRAM IMPLEMENTATION

Critical	The PR's inability to meet the large number of Conditions Precedent to Disbursement for all grants, as well as the Secretariat's freezing of disbursements to minimize risk, have hampered programmatic progress in the Central African Republic; as a result, the grant work plans and budgets are out of date and no longer achievable.
Inherent infrastructure, security and communications risks	<p>44. The program audit focused on reviewing the adequacy and effectiveness of key controls in place to ensure that grants give value for money. While the OIG did not perform a technical program evaluation, it reviewed the controls in place to ensure that programmatic objectives would be achieved.</p> <p>45. Infrastructure in the Central African Republic is poor, and the lack of electricity, tarmacked roads, fuel and mobile phone access make program implementation challenging. The unstable security situation compounds these difficulties and continues to hamper national efforts to establish sustainable health systems.</p> <p>H.1. <u>HIV/AIDS program</u></p>
Global Fund the only donor for ARVs	46. The Global Fund is the only remaining donor that is funding antiretroviral treatment in the Central African Republic. While there are no reliable data on HIV and AIDS patients, estimates range from 45,000 to 60,000 persons that are eligible for treatment. The HIV/AIDS grant makes provision for treating 15,000 people. Testing and medication are free of charge in the Central African Republic. Stock-outs are commonplace and result in sporadic and unreliable treatment delivery.
Initial PR was UNDP; responsibilities transferred to CN/CNLS in 2009	47. The initial PR for the HIV and AIDS Round 4 grant was the United Nations Development Programme (UNDP); ⁴ their responsibilities were transferred to CN/CNLS in Year 5 of the Round 4 grant (2009) at the request of the CCM. Since then, HIV/AIDS program implementation has been hampered by a lack of capacity to manage the grants, mitigate risks, and deliver results in accordance with the minimum conditions required by the Global Fund.
Measures implemented by the Global Fund to mitigate financial risks slowed grant implementation	48. Risk mitigation measures put in place by the Global Fund to better manage the financial risks in the Central African Republic have had an adverse effect on programmatic progress and have slowed grant implementation. Even though they were implemented to mitigate the significant risks already identified in the country, action by the Global Fund Secretariat (such as the freezing of disbursements, the initial "no-go" intent letter issued in relation to Phase 2 of Round 7 by the Phase 2 panel, Voluntary Pooled Procurement) have unfortunately also delayed the execution of the HIV/AIDS grant activities. As a result, the grant work plans and budgets for HIV/AIDS have become out of date and were no longer achievable at the time of the audit.
Workplans focused on strategic	49. Workplans focused more widely on strengthening of health systems and building capacity generally, rather than on key activities to

⁴ This review did not cover the Round 4 expenditures under UNDP, and examined only expenditures by CN/CNLS.

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initiatives	<p>address the disease burden in the Central African Republic. This may well be a more reasonable strategy for the country in the long term; however, in the context of the Global Fund's performance-based funding mandate it has not resulted in satisfactory grant management.</p> <p>50. The additional requirement of meeting the mandatory safeguards designed to mitigate risk has caused significant delays in both grant signing and disbursement, and has ultimately contributed to stalled implementation.</p>
M&E challenging:	<p>51. Monitoring and Evaluation was one of the most challenging issues observed in the Central African Republic, due to the lack of infrastructure and the fragile security situation. The OIG noted a number of areas for improvement, based on the following findings:</p>
<ul style="list-style-type: none">• Low rate of M&E data transmission• No tracking of patients on ARV	<ul style="list-style-type: none">• There was a low rate of data transmission caused by a lack of funds for M&E activities (owing to an unmet Condition Precedent concerning M&E capacity), fuel shortages, lack of per diems for care workers and an incompatibility between the data collected at prefecture level and the format needed for the Health Management Information System in the National HIV/AIDS Program;• There was no mechanism in place to track all patients under ART to ensure that they remained on treatment; and• There was no quality assurance mechanism in place to ensure the integrity of the active list data, to prevent patients from being double counted, or to prevent patients from collecting multiple doses of antiretrovirals (ARVs). Work has commenced on introducing ESOPE (software that allows the daily monitoring of HIV/AIDS patients' treatment, care and progress) in Bangui to mitigate this risk; however, at the time of the audit, this was not complete and did not extend to the rest of the country.
	<h3>H.2. <u>Malaria program</u></h3>
Number of conditions for Round 8 malaria grant slowed implementation	<p>52. The Round 8 malaria grant was signed in February 2010 with five Conditions Precedent to Disbursement (including 21 sub-conditions) and four Special Conditions (including eight sub-conditions), reflecting the considerable risk of operating in the Central African Republic. Unfortunately, the number of conditions to be met has hampered progress, meaning that program activities effectively only began in July 2012, by which date the work plan and the implementation calendar for malaria were out of date and no longer achievable.</p>
Malaria grant signed in 2011 but not implemented at the date of the audit	<p>53. The first disbursement for the malaria program was made in May 2011 and solely covered fiduciary agent fees, operational and M&E expenses. At the time the audit was carried out, grant implementation had not begun, due both to a lack of capacity at the PR and the high number of Conditions Precedent to Disbursement. As a result, no contracts had been signed between the PR and the SRs at the time of the audit.</p>
Bednet procurement not aligned with malaria season	<p>54. The OIG noted that the timing for procuring Long-Lasting Insecticide-treated Nets (LLINs) was not aligned with the forthcoming 2013 malaria season.</p>

Lack of reliable TB prevalence data	<p>H.3. <u>Tuberculosis program</u></p> <p>55. The NTP estimates the number of TB patients to be 12,000-13,000,⁵ of which 33% are co-infected with HIV/AIDS. The data underlying the estimate are not reliable and a different estimate is used by the WHO.</p>
Number of conditions for Round 9 TB grant delayed disbursements, leading to an out-of-date work plan	<p>56. The Round 9 TB grant was signed in May 2011, with the first disbursement made in December 2011. However, as the PR has not met all of the necessary provisions for disbursement (these include eight Conditions Precedent to Disbursement with 29 sub-conditions and ten Special Conditions with 15 sub-conditions—again reflective of the risks in the country), the Global Fund Secretariat has had to delay disbursements. This delay has resulted in only USD 149,246 being spent at the time of the audit. This has in turn led to an interruption in program implementation. As a result, the work plan and the implementation calendar for tuberculosis were out of date and no longer achievable.</p>
	<p>Recommendation 6 (Very High) <i>The Principal Recipients, jointly with the Global Fund Secretariat, should review and revise grant work plans and budgets for the HIV/AIDS, tuberculosis and malaria grants, in order to prioritize critical activities, particularly treatment and testing for key populations.</i></p>
	<p>Recommendation 7 (High) <i>The Principal Recipients, jointly with the CCM and the Global Fund Secretariat, should ensure that a detailed capacity building plan is developed with assistance from technical partners and used to strengthen implementation capacity.</i></p>
	<p>Recommendation 8 (High) <i>The CN/CNLS should improve its monitoring of patients on ARVs, including the establishment of formal referral mechanisms, and the implementation and upkeep of an active list that accurately reflects the patient cohort.</i></p>
	<p>Recommendation 9 (High) <i>The CN/CNLS, in collaboration with the National Malaria Control Program, should ensure that the procurement of LLINs is timed to align with the malaria season and that development partners are asked to assist in their distribution.</i></p>

⁵ The World Health Organization estimates prevalence rates to be 17,000 (www.who.int).

I. PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

Major Improvement Needed	The use of morbidity data and lack of systematic data monitoring has led to frequent drug stock-outs and the stalling of program activities.
	<p>57. The OIG audited the internal controls in place in relation to the procurement process of the PRs and the supply of health commodities funded by the Global Fund.</p> <p>I.1. <u>Quantification and forecasting</u></p>
Drug stock-outs	<p>58. The Central African Republic has suffered frequent drug stock-outs (certain antimalarial and anti-TB drugs were out of stock for over one year). In order to minimize stock-outs, Voluntary Pooled Procurement (VPP) was implemented in 2010 for all drug purchases. However, the country did not have sufficient forecasting capacity. Thus, even in the context of VPP, delays in forecasting have meant that significant procurement delays and stock-outs continued, ultimately resulting in the paralysis of program activities.</p>
Morbidity data used to estimate demand	<p>59. At the time of the audit, there was no systematic collection or monitoring of PSM data. In addition to frequent changes in the treatment regimen and drug formulation, this has led to inconsistencies in the data collected. Both PRs used morbidity data to estimate demand. While this is reasonable as an emergency measure, consumption data are necessary in the longer term in order to better inform drug forecasts.</p>
Collection and analysis of data performed manually	<p>I.2. <u>Logistics Management</u></p> <p>60. Information needed for logistics management is obtained manually and analyzed using spreadsheets. However, the frequency and type of information required had not been defined. The TB and HIV/AIDS programs seldom monitored stock status with monitoring based on projected patient numbers obtained at the beginning of the quantification, rather than on average monthly consumption.</p>
	<p>Recommendations 10 (High) <i>The Principal Recipients, in collaboration with technical partners, should ensure that they improve their quantification and forecasting capability by strengthening the collection and validation of morbidity data through regular supervisory visits. Inventory management tools to collect, report and monitor consumption data at all levels should be identified, procured and implemented.</i></p>
No quality assurance over pharmaceuticals	<p>I.3. <u>Quality Assurance</u></p> <p>61. At the time of the audit, there was no quality assurance system in place to ensure that good quality drugs were purchased under Global Fund grants and delivered to patients. PSM plans required both PRs to finalize their quality assurance plans and to establish contracts for quality control testing with a laboratory in line with Global Fund Quality Assurance policy.</p> <p>Recommendation 11 (High) <i>The CCM, in collaboration with the CN/CNLS, the NTP and development partners such as the WHO, should obtain technical assistance to review, finalize and implement the quality assurance manual to ensure that good quality health products are delivered to patients.</i></p>

Annex 1: Abbreviations

AIDS	Acquired Immunodeficiency Syndrome
ARV	Antiretroviral medication
CCM	Country Coordinating Mechanism
CN/CNLS	Coordination Nationale/Comité National de Lutte contre le VIH/SIDA
HIV	Human Immunodeficiency Virus
LFA	Local Fund Agent
LLIN	Long-Lasting Insecticide-treated Nets
M&E	Monitoring and Evaluation
NTP	National Tuberculosis Program
OIG	Office of the Inspector General
PR	Principal Recipient
PSM	Procurement and Supply Management
SR	Sub-recipient
TB	Tuberculosis
USD	United States Dollars
VPP	Voluntary Pooled Procurement
WHO	World Health Organization

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Annex 2: Summary of Ineligible Expenses⁶

	R4 HIV ⁷	R4 TB	R7 HIV	R8 MALARIA	R9 TB	TOTAL USD
	All amounts in United States Dollars ⁸					
Unsupported expenses	340,715	14,917	307,852	8,879	45,744	718,106
Lack of supporting documents	204,494	9,376	177,644	-	831	392,345
Inadequate supporting documents for expenses	38,083	2,384	40,202	8,879	33,728	123,276
Inadequate supporting documents for expenses at SR level	64,280	-	-	-	-	64,280
Grant funds transferred but not returned	33,857	-	-	-	-	33,857
Absence of competitive tender or other procurement issues	-	-	86,732	-	10,129	96,860
Unjustified expenses	-	3,157	3,274	-	1,056	7,487
Unbudgeted expenses	97,460	27,859	86,378	8,211	-	219,908
Non-program spending	-	-	42,581	-	-	74,893
Expenditure outside of grant period ⁹	-	-	-	-	-	101,218
Other unbudgeted expenses ⁹	-	-	43,797	-	-	43,797
TOTAL	438,175	42,775	394,230	17,090	45,744	938,014

⁶ The responsibility for determining the recoverability of amounts identified lies with the Global Fund Secretariat.

⁷ The initial PR for this grant was UNDP; however, this review only examined CN/CNLS disbursements.

⁸ All amounts have been translated from EUR to USD at the rate prevailing on 31 July 2012 (EUR 1 = USD 1.22735) for comparison purposes. The total amount of unsupported and unbudgeted expenses is EUR 766,865.

⁹ Amounts identified were not in compliance with the grant agreement or conditions; however, the expenditures may have been used on program-related activities or to achieve grant objectives.

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Annex 3: Recommendations and Management Action Plan

Recommendation	Response and Action Plan		Responsible Parties	Due Date
	Global Fund Secretariat (Responsible for ensuring that the recommendation is implemented)	Country Coordinating Mechanism and Principal Recipients (Responsible for the actual implementation of the recommendation)		
Recommendation 1 (High) <i>The CCM should improve its oversight of Global Fund grants by:</i> <ul style="list-style-type: none"> Defining the roles and responsibilities of its members; Improving the coordination with other assurance providers (such as internal and external audit); and Identifying the key issues and bottlenecks on each program to the CCM and ensure swift and effective resolution. 	The Global Fund Secretariat concurs with the OIG audit recommendation.	Recommendation agreed	CCM Global Fund: CAR Fund Portfolio Manager	28 February 2013
Recommendation 2 (High) <i>The CCM should improve the management of conflicts of interest by ensuring that PRs and SRs that are also CCM members do not take part in decisions affecting them.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	Recommendation agreed	CCM Global Fund: CAR Fund Portfolio Manager	28 February 2013
Recommendation 3 (High) <i>The Global Fund Secretariat should determine whether the amounts documented in Annex 2 should be recovered.</i>	The Global Fund Secretariat's Legal team is conducting a review of the recoverability of unbudgeted and unsupported expenses.	n/a	Global Fund Secretariat's Legal team	31 March 2013
Recommendation 4 (High) <i>The Global Fund Secretariat should define the exact role and accountabilities of the Fiduciary Agent vis-à-vis the PR, and clarify their respective responsibilities for detecting unsupported and unbudgeted expenses and the associated consequences.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	n/a	CAR Fund Portfolio Manager and Finance Specialist	28 February 2013
Recommendation 5 (High) <i>The Global Fund Secretariat should continue to work with the Fiduciary Agent and the PRs to improve basic financial controls, in particular in relation to accounting for</i>	The Global Fund Secretariat concurs with the OIG audit recommendation and has modified the Fiduciary Agent arrangements.	n/a	CAR Fund Portfolio Manager and Finance Specialist	28 February 2013

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Recommendation	Response and Action Plan		Responsible Parties	Due Date
	Global Fund Secretariat (Responsible for ensuring that the recommendation is implemented)	Country Coordinating Mechanism and Principal Recipients (Responsible for the actual implementation of the recommendation)		
<i>advances, bank reconciliations and transfers between grants, record-keeping, fixed asset accounting and procurement.</i>				
Recommendation 6 (Very High) <i>The Principal Recipients, jointly with the Global Fund Secretariat, should review and revise grant work plans and budgets for the HIV, tuberculosis and malaria grants, in order to prioritize critical activities, particularly treatment and testing for key populations.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	The HIV/AIDS work plan has been revised and submitted to the Global Fund Secretariat for approval. However, an emergency Reduce Malaria plan covering the period from October to December 2012 has been submitted to the GFS and is being carried out. The emergency malaria plan for the remaining period of the first phase of Round 8 – Malaria (January to May 2013) is being finalized and will be approved jointly with the GFS mission currently in CAR.	PRs: CNLS, (Mal & HIV), NTP (Dr. Komangoya-Nzonzo) Global Fund: CAR Fund Portfolio Manager	CNLS (HIV): Implemented (to be verified by the Global Fund Secretariat) CNLS (Malaria): December 2012 NTP (TB): February 2013
Recommendation 7 (High) <i>The Principal Recipients, jointly with the CCM and the Global Fund Secretariat, should ensure that a detailed capacity building plan is developed with assistance from technical partners and used to strengthen implementation capacity.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	The partnership agreement with ESTHER for PMTCT is being finalized. This technical partner was officially recommended by the CCM to the PR. A mailing has been sent to Coordaid for the submission of its technical and financial services for “Purchasing Performance” for the PR, who will study it before submission to the GFS for approval. A technical assistant has just been hired for financing of Round 9 – TB to assist with the related aspect of joint TB/HIV infection. The contract was approved by the GF and starts in January 2013. Technical partnership with UNICEF is currently underway. UNICEF has hired two “Program and PSM” technical assistants to support the malaria program. The Program technical assistant began on 4 December 2012 and is already assisting with drawing up the current emergency malaria plan. The PSM technical assistant is expected to start on	CCM PR: HIV, TB and Malaria Project Managers Global Fund: CAR Fund Portfolio Manager	January 2013 CNLS (HIV & Malaria) January 2013 NTP (TB): 15 February 2013

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Recommendation	Response and Action Plan		Responsible Parties	Due Date
	Global Fund Secretariat (Responsible for ensuring that the recommendation is implemented)	Country Coordinating Mechanism and Principal Recipients (Responsible for the actual implementation of the recommendation)		
		17 December 2012. Technical assistance mapping has been drawn up and submitted to the GF. The mapping describes the areas of implementation, finance sources as well as the duration of the assistance.		
Recommendation 8 (High) <i>The CN/CNLS should improve its monitoring of patients on ARVs, including the establishment of formal referral mechanisms, and the implementation and upkeep of an active list that accurately reflects the patient cohort.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	Measures have been taken to review and harmonize all the tools and media for data collection. For R7, the tools have been defined (June 2011) and distributed. Training sessions on the new tools have been offered to medical staff at the treatment sites and formative supervision has been carried out in most of the health regions (R1, R2, R3, and R7). In regions 4, 5 and 6, on-site formative supervision is scheduled for the second two-week period of December 2012. Progress has been made between December 2011 and September 2012: the number of ARV patients has gone up from 4,500 at the end of December 2011 to 9,000 in June 2012 and 11,400 by September 2012 following a review of PUDRs by the LFA.	CN/CNLS: Evaluation & Monitoring Specialist Global Fund: CAR Fund Portfolio Manager and CAR Country Team Monitoring Specialist	31 December 2012
Recommendation 9 (High) <i>The CN/CNLS, in collaboration with the National Malaria Control Program, should ensure that the procurement of LLINs is timed to align with the malaria season and that development partners are asked to assist in their distribution.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	The PSM plans have been approved by the Global Fund and orders for inputs (HIV/AIDS and Malaria including LLINs) have been placed with suppliers directly by the Global Fund Secretariat. The LLINs will be distributed before the malaria season (May to October 2013), by boat. The UCM has developed a partnership with international NGOs operating in CAR (MSF, MERLIN, MENTOR, PMU AMI) and with UNICEF for the distribution of malaria inputs. For the emergency malaria Plan from October 2012 to May 2013, the efforts of this partnership will extend to treatment activities in health training and the community (PECADOM) and to prevention activities (routine distribution of LLINs and preventative treatment for malaria in pregnant	CN/CNLS: Procurement Specialist Global Fund: CAR Fund Portfolio Manager and CAR Country Team procurement and Supply Management Specialist	On-going

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Recommendation	Response and Action Plan		Responsible Parties	Due Date
	Global Fund Secretariat (Responsible for ensuring that the recommendation is implemented)	Country Coordinating Mechanism and Principal Recipients (Responsible for the actual implementation of the recommendation)		
		women). The 8% use rate reported in PUDR 4 has gone up to 30% in PDUR 5. These efforts will continue in order to improve this reporting rate. The order for the month of May 2013 will be made based on inventory and consumption data.		
Recommendations 10 (High) <i>The Principal Recipients, in collaboration with technical partners, should ensure that they improve their quantification and forecasting capability by strengthening the collection and validation of morbidity data through regular supervisory visits. Inventory management tools to collect, report and monitor consumption data at all levels should be identified, procured and implemented.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	A quantification tool for the ART sites has been developed and tested at four sites in Bangui between April and August 2012. Training for managers on the use of this tool will be implemented as soon as the UCM's work plan is approved. The first step towards improving quantification capacities is putting in place the new documentation system for managing the site's active list. The second step is drawing up a supervision plan for the dispensing sites. This plan will set out the supervision grid and schedule. From now on, all healthcare product orders will be approved in advance by the quantification committee, which will be set up between now and January 2013.	CN/CNLS: Procurement Specialist NTP Global Fund: CAR Fund Portfolio Manager and CAR Country Team procurement and Supply Management Specialist	January 2013
Recommendation 11 (High) <i>The CCM, in collaboration with the CN/CNLS, the NTP and development partners such as the WHO, should obtain technical assistance to review, finalize and implement the quality assurance manual to ensure that good quality health products are delivered to patients.</i>	The Global Fund Secretariat concurs with the OIG audit recommendation.	All products purchased with financing from GF meet the GF's Quality Assurance criteria. A quality assurance document guaranteeing the traceability of products along the entire chain of the medication has been drawn up and submitted to the GF for review in early December 2012.	CN/CNLS: Procurement Specialist NTP Global Fund: CAR Fund Portfolio Manager and CAR Country Team procurement and Supply Management Specialist	On-going