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The Global Fund

To Fight AIDS, Tuberculosis and Malaria

The Office of the Inspector General

Audit Report on Global Fund Grants to the Philippines

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Acronyms

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immune Deficiency Syndrome
ANC	Ante Natal Clinics
ART	Anti Retroviral Therapy
ARV	Antiretroviral
ASP	Aids Society of Philippines
BCC	Behaviour Change Communication
BIHC	Bureau of International Health Cooperation
BHWs	Barangay Health Workers/volunteers
CBO	Community Based Organisation
CCM	Country Coordinating Mechanism
CHD	Central Health Department
COA	Commission on Audit
COBAC	Central Office of Bid Award Committee
COMBI	Communication for Behavioural Impact
CP	Conditions Precedent
DOH	Department of Health
DOTS	Directly Observed Treatment Site
DR	Disbursement Request
FEFO	First Expiry First Out
GFATM	The Global Fund to Fight AIDS, TB and Malaria
GOP	Government of Philippines
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
IDU	Injecting Drug Users
IEC	Information, Education and Communication
IRS	Insecticide Residual Spray
KLM	Kilusan Ligtas Malaria
LFA	Local Fund Agent
LGU	Local Government Unit
LLIN/LLTN	Long-Lasting Insecticide-Treated Nets
LMIS	Logistic Management Information System
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MMD	Materials Management Division
MOU	Memorandum of Understanding
NCDPC	National Centre for Disease Prevention and Control
NCHFD	National Centre for Health Facilities Development
NEC	National Epidemiology Centre
NGO	Non-Governmental Organisation
OI	Opportunity Infection
OIG	Office of the Inspector General
PAC	Project Advisory Council
PAFPI	Positive Action Foundation of Philippines

PBSP	Philippine Business for Social Progress
PCNC	Philippine Council for Non-Governmental Organisations
PHP	Philipino Peso
PIM	Project Implementation Manual
PMO	Program Management Office
PMTCT	Prevention of mother to Child transfer
PMU	Program Management unit
PNAC	Philippine National Aids Council
PSFI	Pilipinas Shell Foundation Inc.
PUDR	Progress Update Disbursement Request
PLWHA	People Living With HIV/AIDS
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Chain Management
QA	Quality Assurance
R2	Round 2
R3	Round 3
R5	Round 5
R6	Round 6
RAF	Remedios AIDS Foundation
RCC	Rolling Continuation Channel
RDT	Rapid Diagnostic Test Kits
SDA	Service Delivery Area
SDPs	Service Delivery Points
SHC	Social Hygiene Clinic
SR	Sub-Recipient
STI	Sexually Transmitted Infection
TA	Technical Assistance
TB	Tuberculosis
TDF/TDFI	Tropical Disease Foundation Incorporated
TOR	Terms of Reference
TRP	Technical Review Panel
TWG	Technical Working Group
UN	United Nations
UNAIDS	United Nations Agency on HIV/AIDS
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
US\$	United States Dollars
VAT	Value-Added Tax
VCT	Voluntary Counselling and Testing
WHO	World Health Organisation
XDR	Extensive -Drug Resistant

Executive Summary

Introduction

1. The Office of Inspector General (OIG), as part of its 2009 work plan, carried out an audit of the Global Fund grants to the Philippines. The purpose of the audit was to assess the adequacy of recipient internal control systems in managing the Global Fund grants in the Philippines. The audit objectives were to:

- (a) Assess the efficiency and effectiveness in the management and operations of grants;
- (b) Measure the soundness of systems, policies and procedures in safeguarding GF resources;
- (c) Confirm compliance with the Global Fund grant agreement and relevant policies and procedures and the related laws of the country;
- (d) Identify any other risks that the GF grants may be exposed to; and
- (e) Make recommendations on management of the GF grants in Philippines.

2. The audit covered all Global Fund grants to the Philippines, which are detailed in the table below:

Round	Disease	Grant number	Grant Amount (US\$)	Amount disbursed (US\$)
<i>Tropical Disease Foundation</i>				
2	Malaria	PHL-202-G01-M-00	11,828,157	11,828,157
2	Malaria	PHL-202-G01-M-e	31,585,852	4,563,148
2	TB	PHL-202-G02-T-00	11,438,064	11,434,064
2	TB	PHL-202-G02-T-e	94,249,562	16,186,998
3	HIV/AIDS	PHL-304-G03-H	5,528,825	5,274,139
5	HIV/AIDS	PHL-506-G04-H	6,478,058	4,569,400
5	TB	PHL-506-G06-T	16,687,774	16,687,774
6	Malaria	PHL-607-G07-M	16,285,198	14,340,684
			194,081,490	84,884,364
<i>Pilipinas Shell Foundation</i>				
5	Malaria	PHL-506-G05-M	14,308,637	12,800,392
<i>Department of Health</i>				
6	HIV/AIDS	PHL-607-G08-H	7,294,891	5,326,784

Table 1: Summary of grant disbursements [Source: Global Fund records]

Scope and methodology

3. The audit covered:

- (a) Compliance of the grant structures, systems and processes with the grant agreement; relevant Global Fund and local policies, procedures and guidelines; and country laws;
- (b) Internal control where the adequacy of the structure and systems were assessed in safeguarding grant assets against possible misuse and abuse;

- (c) Financial review to ensure that funds were utilised in accordance with the grant agreements; and
- (d) Grant management, i.e. obtaining assurance that the systems, processes and controls in place are efficient and effective in supporting the achievement of grant objectives.

4. The audit covered the operations of the Principal Recipients (PRs) and their interactions with the Country Coordinating Mechanism (CCM), the Local Fund Agent (LFA), Global Fund Secretariat and the sub-recipients (SRs).

5. After the audit field work, the OIG shared its preliminary findings with the stakeholders in the Philippines, the CCM and the Global Fund Secretariat. The OIG advised the Global Fund Secretariat that in its view it was not safe, based on the outcome of the audit, to invest program funds through the systems at the Tropical Disease Foundation (TDF). At the time of the audit, TDF was the Global Fund's largest recipient in the Philippines with more than 80% of disbursed funds. On 24 September 2009, the Executive Director suspended all the five running grants to TDF. Because there are no grants currently implemented by TDF, the report does not contain recommendations to improve internal control systems at the foundation. After the suspension, the Global Fund Secretariat took steps to support the CCM in restarting implementation of the grant programs. These steps are described in Annex 1 to this report.

Summary Findings

6. This section briefly highlights the findings and conclusions arising from the audit; but detailed findings are contained in the rest of the report. It is therefore essential that this report is read in its entirety in order to comprehend fully the findings and the resulting recommendations of the audit.

7. The recommendations have been prioritised. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritisation has been done to assist management in deciding on the order in which recommendations should be implemented. The categorisation of recommendations is as follows:

- (a) *High priority*: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organisation's interests, significantly erodes internal control, or jeopardises achievement of aims and objectives. It requires immediate attention by senior management;
- (b) *Significant priority*: There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organisation's interests, weaken internal control or undermine achievement of aims and objectives; and
- (c) *Requires attention*: There is a minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate time frame. Here the adoption of best practice would improve

or enhance systems, procedures and risk management for the organisation's benefit.

Pilipinas Shell Foundation Incorporated

8. Pilipinas Shell Foundation Inc. (PSFI) was established in 1982, and registered with the Securities and Exchange Commission of the Republic of the Philippines as a charitable foundation. PSFI started supporting the malaria prevention programs in 1999 through Kilusan Ligtas Malaria (KLM), a collaborative undertaking with the provincial government of Palawan. Under Round 2 of the malaria grant, PSFI was a sub-recipient of TDF for activities in Palawan province. PSFI entered into an agreement for the Round 5 malaria grant under the title "Bolstering and Sustaining Proven & Innovative Malaria Control through Corporate-Public Partnership" on 28 April 2006. The PR operates in five provinces in the country: Palawan, Querino, Tawi-Tawi, Sulu and Apayao.

9. PSFI performed well in meeting program targets. The prevalence of malaria in the provinces where programs are implemented has declined significantly over the past few years. The changes in prevalence present new challenges of retargeting and reprogramming as the PR plans to go into malaria pre-elimination stage in several provinces.

10. PSFI's core competence is in community mobilisation, having started as a corporate social responsibility entity of Shell Corporation. Having started in Palawan province, the foundation has extended its operations to several provinces implementing malaria control programs under the Global Fund program. PSFI does not have strength in the technical aspects of the grant, and has contracted WHO to provide technical support to strengthen implementation in the malaria program areas.

11. PSFI's financial management system is documented in a set of financial policies and procedures. The manuals, which in most cases are strictly adhered to, provide for a system of sound internal controls. The foundation's books of account are maintained in a timely manner which facilitates reporting in accordance with timelines agreed with the Global Fund.

12. PSFI's audit arrangements do not comply with Global Fund guidelines. The audit report submitted by the PR to the Global Fund did not meet the requirements set out in the guidelines as regards the disclosure of sources and uses of Global Fund funds in the statement of income and expenditure. PSFI is a foundation wholly controlled by the Shell Corporation and is audited by the group's auditors, PricewaterhouseCoopers (PwC). Because the auditors are also the LFA, this constitutes a conflict of interest. PSFI also does not have an internal audit function in place to review the control environment in which the programs are implemented.

Department of Health

13. The Department of Health (DOH) as the principal health agency in the Philippines is responsible for ensuring access to public health services to all Filipinos through the provision of quality health care and regulation of providers of health goods and services. DOH signed the grant agreement as PR under Round 6 on 26 October 2007. The program is implemented through 16 local government units, 18 social hygiene clinics, 13 ARV treatment hubs (e.g., Philippine General Hospital, DOH-retained hospitals, private hospitals) and 23 blood service facilities.

14. The DOH initially recorded very poor performance which was reflected in low fund utilisation and poorly achieved targets. After selection of sub-recipients (SRs), program performance improved significantly. DOH implements more than 65 percent of program activities through SRs.

15. Several weaknesses were noted with the systems for selection, contracting and monitoring of SRs. The SR agreements did not take into consideration the need for bridging capacity gaps, which is a critical requirement for successful program implementation and organisational improvement. The PIM which was finalised in July 2009 does not address SR management, which is a major role of DOH under the grant. In consequence, there is no base on which to provide SRs with guidance on the management of resources.

16. The Global Fund program within DOH has not been subjected to internal audit since commencement of the grant. The PR has also not complied with a grant requirement to submit annual audit reports within six months of the end of the financial period. This is despite several reminders by the Global Fund.

17. The accounting software used by the government of the Philippines, e-NGAS, is used for maintaining program financial and accounting records. Programme management staff record transactions in Microsoft Excel spreadsheets. At the time of the OIG audit in August 2009, accounting entries for the month of May June and July had not been posted. There is also difficulty reconciling the figures submitted to the Global Fund in PUDR reports with those from the e-NGAs reports.

Tropical Disease Foundation Incorporated

18. Tropical Disease Foundation, Inc. (TDF) is a not for profit organisation set up in 1984. TDF is prized as being technically a leading service provider for MDR-TB. It has been the Global Fund Principal Recipient (PR) for several grants across the three diseases in Philippines. It was approved as PR for eight grants including two under the Rolling Continuation Channel (RCC) i.e. Malaria and Tuberculosis. TDF also doubles as an SR responsible for implementing grant activities and also undertakes research activities.

19. TDF has grown rapidly with annual grant receipts increasing from US\$ 3.1m in 2003 to more than US\$ 15.8m in 2008 and cumulative receipts of more than US\$ 84m at the time of the audit. TDF's capability to manage and administer the growth in the number of grants became increasingly an area of concern over the years as reflected in the LFA assessments. The weaknesses in capacity identified by the LFA were addressed by recruiting more people, thereby increasing the numbers but not necessarily addressing capacity in terms of quality. The control

environment as evidenced by the systems processes and procedures in place at the time of the audit did not evolve at the rate commensurate with that of the organisation's growth. Consequently, this did not provide a secure environment for the management of Global Fund program resources.

20. A review of the various interventions to tackle the three diseases targeted by GF grants revealed that they have similar objectives and good program interfaces. Programme and grant management would benefit from a consolidation of the grants. This would increase the synergies across the grants for the different diseases and reduce the administrative work-load for example by reducing the number of reports required and harmonising monitoring and evaluation efforts etc.

21. The grant agreements with TDF required TDF to comply with the conditions in the grant agreement and the laws and regulations of the Philippines. OIG noted that the conditions set out in the grant agreements to safeguard program assets were not fully operational. This resulted in a weak control environment which exposed assets to the risk of loss and/or misuse. One example is the use of program funds for activities that were not in the approved work plan and budget e.g. TDF's use of PHP 27,140,779.36 (approx US\$ 577,463.39) of program funds to purchase two properties. TDF management refunded the monies after Global Fund intervened and requested a refund.

22. TDF had a governance structure in place. However, it was ineffective in as far as there was lack of policies and procedures to guide implementation of the programs for the greater part of the period under review; an ineffective internal audit function; ineffective external audits; weak program oversight by the board etc. OIG questions the disconnect between the clean audit opinions and the fact that TDF did not even maintain proper books of accounts, could not reconcile its transactions with funders, had unsupported and ineligible expenditure etc. The internal audit unit which comprised over 10 staff members was ineffective as most of its staff were involved in the day-to-day management of program activities.

23. TDF's financial management systems were not adequate to safeguard program resources as evidenced by the following:

- (a) Proper books of account were not maintained. There were also numerous alterations and deletions of transactions in the financial systems, all of which point to weak financial management systems.
- (b) Ineffective budgeting processes to control expenditure as evidenced by TDF spending on nonprogram-related activities. Review of budget versus actual expenditure revealed large variances which were never explained.
- (c) As at 31 August 2009 a total of PHP 92 million (US\$ 1,957,446) was held in various TDF bank accounts although in its reports to the Global Fund TDF management represented that these amounts had been already disbursed to sub-recipients.
- (d) The OIG noted wasteful expenditure e.g. on parties that were not related to program performance.

24. The weaknesses in the financial management systems and procedures resulted in misuse and/or loss of program resources. The Global Fund does not allow commingling of its funds with other sources. OIG noted that grant funds

were transferred into TDF's General Fund without any justification or support and were used by TDF to make payments not related to Global Fund grant programs. TDF embarked on reconciling the Gen Fund during the audit and the TDF reconciliation revealed that US\$ 1,241,015.95 from the Global Fund bank accounts had been transferred to the General Fund and not refunded nor used for program activities. This money should be refunded.

25. TDF's treasury management function was overly complicated and in its current form did not safeguard Global Fund resources as detailed below:

- (a) At the time of the audit, TDF operated over 90 bank accounts, 43 of which were related to the programs funded by the Global Fund (a reasonable number of Global Fund program bank accounts would have been about 16 accounts). TDF only disclosed 16 of these accounts to the LFA which is a gross misrepresentation of data meant for decision-making;
- (b) Based on TDF's system of classifying funds as restricted and unrestricted, funds from the Global Fund are restricted and should never have been transferred to the General Fund which held unrestricted funds. TDF's reconciliation of the General Fund revealed that funds amounting to PHP 535,625,816 (US\$ 11,396,293.96) were transferred out of the Global Fund accounts into Gen Fund accounts without any justification or supporting documentation. This reflects a treasury management system that is not operating as it should.
- (c) TDF's investment of Global Fund monies in short-term placements was in contravention of the grant agreement. OIG noted that the interest recorded on these investments was significantly below market rates. Instances were also noted where Global Fund monies were placed in short-term investments which were then reclassified as General Fund investments and on termination were transferred into a bank account that was used to settle bills for constructing a building.

26. TDF acted as an SR through the activities that were undertaken by the PMDT, a laboratory belonging to TDF. OIG's review of the activities of PMDT revealed the following weaknesses:

- (a) The rates used to bill the Global Fund for tests undertaken for MDR-TB patients were in excess of the rates approved by the Global Fund in the approved work plan and budget. Although the rates to be applied in billing the TB grants for MDR-TB laboratory tests were agreed with the Global Fund at the time of grant negotiation and included in the budgets, TDF management frequently increased the rates without consultation with the Global Fund. The differences in actual rates charged and the rates approved by the Global Fund resulted in overbilling of Global Fund grant by PHP 11,832,803 (US\$ 251,761). This amount should be refunded.
- (b) TDF also billed patients for some tests that it had also charged the Global Fund for. This amounted to PHP 542,126.75 (US\$ 11,534.61). These receipts were never recorded as program income, but were instead used it for TDF's

own purposes which is in contravention of the grant agreement. This amount should be refunded.

- (c) After approval of revised billing rates in March 2009, the decision of the board of trustees was communicated to the staff by the accounting manager by email on 31 March 2009. Accounting staff, based on the instruction of management, however reversed the actual costs previously charged to the grant amounting to PHP 3,130,293 (US\$ 66,601.98) and instead applied the revised rates to the period between August 2008 and March 2009 amounting to PHP 7,955,927 (US\$ 169,275.04). This resulted in overstated billing of PHP 4,825,634 (US\$ 102,673.06). The amount overbilled should be refunded.
- (d) A plan to carry out the MGIT tests (an advanced level of test) on all the procedures performed for testing was cancelled due to lack of laboratory capacity and TDF opted to carry out Drug Susceptibility Tests (DST) instead. The OIG however noted that TDF charged the program at MGIT rates which are higher than the DST rates resulting in an overbilling of PHP 4,603,419.96 (US\$ 97,945.10). This amount should be refunded.

27. TDF was also contracted by DOH to undertake the NTPS for US\$ 720,000. TDF was paid for the study. However, in addition to this payment, TDF drew funds i.e. US\$ 158,982 from SR bank accounts allegedly to fund the same study. This was done without prior approval from neither the Global Fund nor the affected SRs and was over and above the amount used to undertake the NTPS which amount had been financed from the DOH budget. This amount should be refunded.

28. TDF had weak human resources management that translated the lack of capacity to mean that an increased number of staff was required to manage and administer the grants. The increased number of staff did not translate into enhanced capacity since staff recruited sometimes lacked the qualifications/experience for the jobs they were employed to do; staff lacked adequate policies to guide their work; staff had inappropriate job descriptions; and staff were not well supervised by the management team.

29. TDF management could not provide to the OIG the total amount of funds transferred into the General Fund for staff salaries. As a consequence, the OIG could not obtain assurance that the amounts charged to the grants as salaries were actually paid to staff.

30. Service incentives were included in the PR budget for an equivalent amount of one month for each year and drawn from the grant accounts. These funds were transferred into a General Fund account. The OIG noted that the amounts transferred were not paid in full to staff upon resignation, but a portion was retained by TDF management. Re-computation of resigned employees' service incentives for 2008 indicates unpaid service incentive amounting to PHP 642,858.26 (US\$ 13,677).

31. A review of the accrued retirement benefits payable for 2008 revealed that there was an excess of PHP 575,041.88 (\$12,235) which could not be attributed to a list of staff or specific grants. The OIG noticed that amounts were charged to the

grants without appropriate support documents, which makes re-computations and reconciliation difficult.

32. In conclusion, TDF lacks the capacity to manage Global Fund resources. The Global Fund cannot safely invest through TDF's current systems and processes. TDF should also refund monies as summarised in the table below:

Paragraph Reference	Detail	Amount (PHP)	Amount (US \$)
195	Overcharged laboratory test fees	11,832,803.00	251,761.77
198	Laboratory tests rates that were applied retrospectively	4,825,634.00	102,673.06
200	Billing for tests that were not conducted	4,603,419.96	97,945.11
208	Amounts billed to patients for tests paid from grant funds	542,126.75	11,534.61
211	Excess costs charged for the NTPS	7,472,171.00	158,982.36
217	Excess funds drawn for salaries	7,396,272.63	157,367.50
182	Net amounts repayable from reconciliation of Gen Fund	58,327,749.61	1,241,015.95
	Total	95,000,176.95	2,021,280.36
	Repaid amount		(255,312.61)
	Net amount refundable		1,765,967.75

33. In the addition to the amounts in the table above, TDF should provide to the Global Fund an updated schedule of service incentives accrued at the date when the grant agreements were terminated. From these computations, an update of the amounts identified by the OIG in paragraphs 224 and 225 as owing to the Global Fund should be repaid.

Programmatic aspects

34. The Philippines is a low-prevalence country with respect to HIV. The current national HIV prevalence rate is reported at 0.002 percent, with a 0.08 percent rate among the most-at-risk populations (MARPs). Reports show that from 1984 to March 2009, the cumulative number of registered cases is 3,760 and an estimated 7,490 people (2007) are living with HIV (PLHIV). The latest behavioural survey released in December 2009 showed that HIV prevalence after many years of latency has surfaced in a significant proportion of the men having sex with men (MSM) population and injecting sex workers in certain parts of the Philippines.

35. Although migrant workers (MWs) were consistently mentioned as a target population in the CCM proposal to the Global Fund and the reports, the migrants' desk at the Department of Labour was not well supervised and no HIV/AIDS interventions were reported.

36. The NTP and ACP are participating in the HIV/TB collaboration coordination committee under DOH to develop the convergence of HIV and TB programs. Currently technical guidelines are being set up but HIV testing among TB patients is not institutionalised and is rarely done at the TB-DOTS facilities.

37. Sexual transmission accounts for over 84 percent of reported HIV/AIDS cases in the Philippines. Condoms are the only effective barrier method for the prevention of sexually transmitted HIV infection and other STIs. Effective national condom programming in Philippines is essential although it is still hampered by the strong Catholic standpoint of leaders at various levels of government.

38. TB is one of the major public health problems in the Philippines with the DOH website reporting that almost two thirds of the population has been exposed to TB. The OIG noted that there is scope to increase the prominence of public awareness so as to improve treatment-seeking behaviour.

39. Discussions and information obtained from TDF show that most DR-TB cases are from the private sector either as referrals or patients who previously had treatment for TB.

40. The overall Global Fund M&E plan is neither well developed nor implemented . Also, different national disease programs (malaria, TB, and HIV) have costed M&E plans. The OIG noted that the M&E plans of Global Fund programs do not fit into the national M&E system

Procurement and supply management

41. Although there was a provision for technical support in the PSM plan and budget, this activity aimed at enhancing the DOH capacity to undertake PSM activities with regard to MIS enhancement, procurement planning, and inventory management has not been undertaken.

42. Forecasting for HIV test kits and STI drugs is made on the basis of records at SHCs. Since access to SHCs is limited to registered sex workers, the forecasting will be limited to this group yet in reality there may be larger need of test kits and STI drugs (unregistered sex workers etc).

43. There were notable delays in procurement by DOH, with several failed attempts. This greatly impacted program implementation and affected the PR's ability to meet performance targets. The OIG also noted long delays in the procurements undertaken by procurement agents.

44. TDF has poor supply management systems with poor or no documentation at all. The OIG could not obtain purchase requisitions, purchase orders, delivery notes from suppliers, invoices, nor goods received notes.

45. Many of the stores visited by the OIG during field visits did not meet minimum standards of good storage practice (GSP) as seen in the lack of stock counts undertaken; congested storage areas; manual inventory records; and stock items not stacked in an orderly manner.

Oversight

46. The CCM through the disease-specific technical working groups (TWGs) review program performance on a regular basis. PRs present PUDRs to the TWG for review and approval prior to CCM approval and onward submission to the LFA.

47. The CCM plays an important role in the development and communication of SR selection guidelines. Currently there are no procedures in place for the selection of SRs. Lack of clarity in criteria for the selection of SRs results in a lack of transparency in the selection process.

48. The OIG noted a disconnect between generally positive LFA assessments and the very weak internal control systems at the Tropical Disease Foundation.

49. LFA assessment of the PR's procurement and supply management systems was only undertaken at the central level based on a desk review of documents. The expert involved had never been to implementation levels at the regional, provincial, municipal, city and barangay (city) levels. This brings into question the quality of the work done by the LFA as regards PSM.

50. In the assessment reports, the LFA presented the recruitment of additional staff as a positive contribution to the grant management process without reviewing the effectiveness of the new staff in addressing the underlying weaknesses previously identified.

Pilipinas Shell Foundation Incorporated

Background

51. Pilipinas Shell Foundation Inc. (PSFI) was established in 1982, and registered with the Securities and Exchange Commission of the Republic of the Philippines as a charitable foundation. PSFI is a founding member of the Philippine Business for Social Progress (PBSP), a well-respected civil society organisation of leading business institutions in the Philippines that is involved in social development. PSFI is also accredited by the Philippine Council for Non-Government Organisation Certification (PCNC) with a five-year certification as a recipient of donor funds.

52. PSFI started supporting the malaria prevention programs in 1999 through Kilusan Ligtas Malaria (KLM), a collaborative undertaking with the provincial government of Palawan. The foundation supported KLM in its work with the provincial health officers and the Department of Health regional officers in organising community-based malaria programs. Under Round 2 of the malaria grant, PSFI was a sub-recipient of TDF for activities in Palawan province.

53. PSFI entered into an agreement for the Round 5 malaria grant under the title "Bolstering and Sustaining Proven & Innovative Malaria Control through Corporate-Public Partnership" on 28 April 2006. The initial disbursement was received on 25 May 2006. Phase I of the Global Fund grant commenced on 1 June 2006 and ended on 31 May 2008 while Phase II will end on 31 May 2011. The PR operates in five provinces in the country: Palawan, Querino, Tawi-Tawi, Sulu and Apayao.

54. The table below provides a summary of the funds managed by PSFI:

Narration	US\$	%
Total budget for both Phase I & II	14,308,637.00	100%
Funds received at 30 June 2009	12,800,391.65	89.5%
Interest received to date (net of tax)	383,530.11	
Fund expended at 30 June 2009	10,863,132.83	
Balance at bank at 30 June 2009	2,342,561.36	

Table 2: Summary of funds received and used by PSFI [Source: Financial records of PSFI]

Achievements and challenges

PSFI has faced challenges in implementing program activities especially in the islands. These include the remoteness of islands, inadequate communication, difficult transport and civil war in Sulu and Tawi-Tawi provinces. Despite these challenges, the program has achieved success in the implementation of program activities.

55. PSFI registered the following achievements under Phase 1 of the Round 5 grant:

- (a) Out of a total of 16 indicators, 15 had over 80 percent achievement of their targets and 10 achieved targets or surpassed them. The one indicator that

showed less than 80 percent achievement was the distribution of LLINs which was 77 percent of the target;

- (b) 469,922 LLINs were distributed to an estimated 1.17 million people. The DOH conducted an Evaluation of the Communication for Behavioural Impact (COMBI) in the provinces of Palawan, Apayao and Quirino in mid-2008 which revealed that the majority of those surveyed (more than 80 percent) use their nets every night;
- (c) The offices of the Philippine Malaria Network were renovated; and
- (d) The program implemented the "Malaria Info-text" for the enhancement of the local reporting system particularly from the Barangay facility level. The innovation results in the quick reporting of stock levels at local level using mobile phone short messages.

Institutional aspects

PSFI has a strong management structure that leverages off the Shell Company. The PSFI bylaws provide for a board of trustees (BOT) that provides oversight of the foundation activities. The bylaws also provide guidance on the membership, conduct of meetings, roles and functions of the BOT, accountability and audit.

56. PSFI is governed by 12 members of the BOT who serve until their successors are appointed. The PSFI bylaws cover membership, conduct of meetings, roles and functions of the BOT, accountability and audit. The BOT meets once a quarter and Global Fund activities are discussed at these meetings.

57. A project advisory council (PAC) was established in August 2006 as a forum for actively engaging high-level decision makers on malaria in the health sector. The PAC was chaired by the secretary for health. A program management committee known as the Man-Com provides oversight of all malaria control programs at the national level. The Man-Com is composed of DOH, the PRs, WHO and other development partners. PR program performance is discussed at the Man-Com meetings.

58. The PR also prepared a regular e-newsletter that is distributed to all stakeholders of the malaria programs. This newsletter provides readers with an update on program activities, accomplishments, challenges and reports on fund disbursements. This newsletter is a good accountability and communication mechanism.

59. PSFI acknowledged that it does not have strength in the technical aspects of the grant, and has contracted WHO to provide technical support to strengthen implementation in the malaria program areas. Although the OIG appreciates the initiative taken by PSFI to bridge a technical gap, the contracting brings into question what technical support the WHO should request payment for and what should be given as part of their mandated support to the country's health programs.

60. It has been explained that the grant funds were used to support the extra-budgetary resources of the WHO for one international scientist and four local resources. These resources provide technical support to PSFI.

61. PSFI's audit arrangements do not comply with Global Fund guidelines. PSFI as a foundation is wholly controlled by the Shell Corporation and is audited by the group's auditors, PricewaterhouseCoopers. PwC is also the LFA for Philippines which creates a conflict of interest. Based on discussions between the LFA and Global Fund secretariat prior to grant implementation, the PR believes that the undertaking by PricewaterhouseCoopers to provide different teams for the two assignments mitigates the conflict. In the OIG's view the conflict of interest cannot be eliminated through the separation of teams.

62. The PR did not provide the external auditors with terms of reference in accordance with *Guidelines for Audit of Grant Recipients*. As a consequence the audit report submitted by the PR to the Global Fund did not meet the requirements set out in the guidelines as regards the disclosure of sources and uses of Global Fund funds in the statement of income and expenditure.

63. The PR has not been subjected to internal audit since the commencement of Global Fund programs. A process review was only carried out by Shell's corporate auditors immediately after PSFI was selected as PR. Without regular internal audit, there is no independent evaluation of the soundness of processes and internal controls.

Recommendation 1 (Significant)

PSFI should ensure that the external auditors comply with the provisions of the guidelines for the audit of grant recipients. The minimum requirements of these guidelines should form part of the auditor's terms of reference.

Recommendation 2 (High)

The PR should carry out regular internal audits in accordance with good practice and international standards. Internal audits would help to strengthen and maintain a strong internal control environment.

Compliance aspects

The Global Fund signed a grant agreement with the PSFI and these agreements require PSFI to comply with the conditions in the grant agreement and the laws and regulations of Philippines. This would ensure that the conditions put in place to safeguard the Global Fund assets are operational and therefore reduce the risks to which Global Fund money is exposed. Instances of non-compliance noted are highlighted in the paragraphs below.

64. According to the grant agreement between PSFI and the Global Fund, PSFI is strongly encouraged to ensure that the assistance financed under the agreements is free from taxes -- i.e. import duties, custom duties, taxes and VAT -- in the Philippines. However, expenditure charged to the Global Fund includes VAT amounts which are contrary to the terms of the grant agreement. The following instances were noted:

Particulars	Amount paid including VAT (PHP)	VAT amount (PHP)	VAT amount US\$
Procurement of batch of ferrous sulphate from Linmer Trading.	1,200,000	143,999	3,063
Procurement of 2 units Mitsubishi L200 Strada GLX MT 2006	1,816,000	194,571	4,139
Procurement of 1 unit of Toyota Innova	1,028,345	110,180	2,344
Procurement of 1 unit of Fortuner 4*4 DSL.	1,686,406	180,686	3,844

Table 3: Examples of products for which taxes were charged [Source: PSFI records]

65. From the onset of the Round 5 grant implementation, the PR petitioned the government to obtain exemptions from the payment of duties and taxes. The Department of Finance (DOF) informed the PR that no entity was exempted from payment of taxes, without the including government. In view of this finding, the PR, upon the recommendation of DOF pursued the deferred payment scheme whereby the Department of Health (DOH) is allowed by the Department of Budget and Management (DBM) to defer its payment of duties and taxes in the succeeding year and then its budget is increased the following year by an amount equivalent to the duties and taxes it would pay. The scheme is however only applicable for imports. PR management informed the OIG that without intervention of government departments, tax exemption is not possible.

66. The grant agreement stipulates that the "PR shall maintain where available at reasonable cost, all risk property insurance on program assets and comprehensive general liability insurance with a financially sound and reputable insurance company. The insurance coverage shall be consistent with that held by similar entities engaged in similar business". With the exception of motor vehicles, PSFI has not put in place insurance coverage for assets procured under the grant. Failure to insure assets exposes the Global Fund assets to risk of loss.

Recommendation 3 (High)

- (a) *PSFI with the assistance of the CCM should seek exemption from taxes on program inputs.*
- (b) *PSFI should also ensure that all equipment procured using Global Fund resources is properly insured per the grant agreement.*

Financial management

PSFI's financial management system is documented in a set of financial policies and procedures. The manuals, which in most cases are strictly adhered to, provide for a system of sound internal controls. The foundation's books of account are recorded in a timely manner which facilitates reporting in accordance with timelines agreed with the Global Fund.

67. Financial transactions are posted into accounting software to produce financial reports. Progress update disbursement requests (PU DRs) are prepared in MS Excel using figures reported from the accounting software. The finance

department regularly reconciles accounting information reported in the PUDR with the financial records at PSFI.

68. Funds from the Global Fund were banked in a US\$ account at Citibank (number 5/602569/014). Regular payments are made out of a pool account which is replenished from PSFI's own resources. The local currency bank account is not only for Global Fund funds, but also is used to pay expenses that relate to all funding sources. Periodically, accountability for funds spent on Global Fund programs is prepared on the basis of which a transfer is made from the Global Fund US\$ account to the local currency account.

69. The funds received from the Global Fund are left in the US\$ bank account in Citi Bank and invested in overnight placements. The Global Fund Secretariat gave PSFI clearance to place the US\$ balances held on account in overnight placements on the condition that these funds will always be available for program implementation on demand. The OIG noted that at the time of the audit, the PR had accumulated more than US\$ 350,000 as net income from the overnight placements. However, the practice places the funds for locally procured goods and services at risk due to possible currency fluctuations.

Recommendation 4 (Significant)

The PR should open a local currency bank account where funds intended for local currency payments will be banked. This would minimise the foreign exchange risk.

70. Staff salaries are allocated among Global Fund and other funders. However, time sheets were not maintained to show the allocation of time by funder. In the absence of time sheets, the allocation of salaries by funder is arbitrary and OIG cannot confirm the reasonableness of the salaries charged to the Global Fund.

Recommendation 5 (Requires attention)

The PR should ensure that the time sheets are maintained for the staff whose salaries are paid from multiple funding sources.

71. Best practice in accounting requires that cheques that are not banked within six months of issue are cancelled. A review of the bank reconciliation statements for June 2009 revealed that there were some time-barred cheques for which adjustments were not made.

Recommendation 6 (Required Attention)

Cheques that are not banked within six months should be reversed from the cash book to reflect the correct fund balances.

Programme management

72. The 2009 results showed a marked decrease in malaria morbidity and mortality achieved against the set targets and the previous reporting year. The targets of two of the three outcome indicators (percentage of children under five sleeping under the nets and percentage of households with two or more nets) were exceeded. Of the 15 process indicators reportable for the period, the targets for

12 were exceeded. For the remaining three indicators over 80 percent achievement of targets was achieved that is (i) the number of uncomplicated malaria cases receiving treatment; (ii) Number of facilities reporting no stock out of drugs; and (iii) Percentage of people aware of at least two preventive measures.

Procurement and supply management

73. The PR used the warehouses of the Department of Health in the central office and in the provincial offices for the storage of pharmaceuticals and other commodities (i.e. lab supplies). However, there is a need to upgrade and/or renovate these warehouses to ensure the security and safety of the products procured under this Global Fund grant. Training in warehousing and stock management of drugs should be planned and provided to the personnel at these facilities.

74. The bulk of the procurements that were scheduled to be stored in the warehouses were for long-lasting insecticide-treated nets. PSFI had made the assumption that all procured items would be distributed as scheduled and that the current capacity of the warehouse was adequate. Further, a contingency plan for storing supplies when capacity of the warehouses was exceeded would involve the temporary use of the Shell depots or other commercial warehousing providers where security is more stringent. No specific plans and timetable were available at the time of PSM assessment for the renovation of the DOH warehouse in Manila. Though the PR provided plans for the direct distribution of bed nets on arrival there was no detailed distribution plan drawn up at the time of PSM plan was prepared.

75. PSFI procured vehicles in excess of the number budgeted for and the number mentioned in the procurement plan. The budget and PSM plan provided for four vehicles. However, PSFI procured seven vehicles although the actual expenditure of the seven vehicles did not exceed the budgeted amount. This reflects on the quality of planning and budgeting at the PSFI.

76. OIG found some repacked anti-malarial medicines (namely Chloroquin and Primaquin) which did not have the name of the manufacturer in circulation and in use. This happened because the Bureau of Food and Drugs (BFAD) waived regulations prohibiting repacking and testing of samples. Therefore, BFAD's registrations and testing arrangement were not followed. It has been explained that these drugs were procured and repackaged using funds from the malaria Round 2 grants.

Recommendation 7 (High)

- (a) DOH should encourage drug manufacturers or their agents to register drugs with BFAD and to follow their requirements; BFAD should not waive regulations prohibiting repackaging and testing of drugs.*
- (b) The PSFI should improve the planning and budgeting to ensure that only planned items budgeted for and procured.*

Department of Health

Background

77. The Department of Health (DOH) is the principal health agency in the Philippines. It is responsible for ensuring access public health services to all Filipinos through the provision of quality health care and regulation of providers of health goods and services.

78. DOH signed the grant agreement as PR under Round 6 on 26 October 2007 and received the initial disbursement on 16 November 2007. Phase I of the Global Fund grant commenced on 1 December 2007 and ended on 30 November 2009. The program operates in 16 local government units, 18 social hygiene clinics, 13 ARV treatment hubs (i.e. Philippine General Hospital, DOH-retained hospitals, private hospitals) and 23 blood service facilities.

79. The table below provides a summary of the Global Fund's disbursements:

Narration	US\$	Percentage
Total budget for Phase 1	7,294,891	100
Funds received to date	5,326,783	73
Funds disbursed to date	4,449,545	
Balance at bank [without interest] at 30 June 2009	913,205	
Interest received to date (net of tax)	35,967	

Table 4: Summary of funds received and used by DOH [Source: Records of DOH-TGF]

80. DOH entered into agreement in October 2008 with the following sub-recipients (SRs): AIDS Society of Philippines (ASP); Remedios AIDS Foundation (RAF), and Positive Action Foundation of Philippines (PAFPI).

Achievements and challenges

81. The DOH has established a Global Fund Project Management Office (PMO), which has been integrated within its organisational structure. The program has three components each with a component manager. The staff within the Global Fund PMO report to their technical heads within the DOH organisational structure. Technical officers in the PMO report to their respective directors as well as the director of the Bureau of International Health Cooperation (BIHC), who is the assigned project coordinator.

82. The department initially recorded very poor performance as reflected in low funds utilisation and poorly achieved targets with regard to opportunistic infections (OIs) and condom distribution. Programme implementation has improved following the selection of SRs and delegation of program implementation to civil society organisations to overcome bureaucratic procedures within the DOH.

83. A review of DOH's achievement of results against targets showed low accomplishment rates and these were attributed to delays in:

- (a) The selection of sub-recipients;
- (b) Procurement which mainly resulted from bid failures;
- (c) The development of the guidelines for PMTCT, Clinical Practice guidelines (CPG) and the training module for pre- and post-antennal care as these were to be prepared by SRs, and
- (d) Establishment of migrant desks.

Institutional aspects

DOH has established the PMO to handle the Global Fund program. The Global Fund activities are implemented through existing structures in the DOH with additional staff recruited to strengthen the relevant functions.

84. The project management team is led by the undersecretary for the Sectoral Management Coordinating Office. The three project components responsible for implementation of program activities are (i) National Centre for Disease Prevention and Control (NCDPC) for the HIV component; (ii) the National Centre for Health Facilities Development (NCHFD) for the blood safety component; and (iii) the National Epidemiology Centre (NEC) for the HIV surveillance component. The Bureau for International Cooperation is responsible for overall project coordination, monitoring and evaluation. The DOH's finance services division provides finance and accounting support; the procurement division undertakes procurement; and the materials management division is responsible for supply and logistics management.

85. The National AIDS STI Prevention and Control Programme (NASPCP) in the Department of Health (DOH) was understaffed till a few months before the audit. The PR informed the OIG that the administrative changes within government departments that shifted program implementation from centralised to a decentralised system resulted in a reduction in the number of core staff. This had been remedied. In addition to the program coordinator, six technical officers and two administrative staff were appointed after the audit.

86. The DOH contracted 26 project personnel for the PMO to carry out Global Fund activities. The contracts were initially issued for a period of one year and had not been renewed at the time of the audit. The failure to renew contracts exposes the DOH in the event of conflict. Personnel files do not hold comprehensive information about staff contracts and staff do not have comprehensive job descriptions that correspond to the work allocated to them.

Recommendation 8 (Significant)

All staff contracts should be renewed on a timely basis. Personnel files should contain a comprehensive record of the staff details (e.g. contracts, recruitment documents, academic qualifications, references, contracting, performance evaluations, job descriptions, training, etc.).

87. Personnel in the PMO are required to prepare bimonthly accomplishment reports. OIG reviewed these reports and noted that they were not tied to the job

descriptions that staff had and are not therefore an effective performance management tool.

Recommendation 9 (Requires attention)

The bimonthly accomplishment reports should be tied to job descriptions. The job descriptions should be aligned to staff contributions to the Global Fund work plans and targets.

88. The DOH has an internal audit service division that is mandated to conduct audits within DOH. However, the internal audit unit had not conducted any review of Global Fund activities at the time of the audit.

Recommendation 10 (High)

The DOH should ensure that the internal audit division covers the Global Fund activities in its annual audit plan.

89. As per the grant agreement, the DOH is required to submit to the Global Fund within three months of starting Phase I terms of reference for the external audit for approval. Although this requirement was not fulfilled, the Commission for Audit (COA) audited the financial statement of the program for the year ended 31 December 2008. However, despite several reminders by the Global Fund Secretariat, the DOH had not submitted the report at the time of the audit in August 2009.

90. OIG's review of the last audit report of DOH issued by the COA (year ended 31 December 2007) revealed certain weaknesses that had not been resolved at the time of the audit. The key weaknesses noted were (i) failure to update and reconcile the fixed assets register with financial records at both DOH and province levels; and (ii) weak controls over the management of advances with several provinces failing to submit annual returns on advances.

Recommendation 11 (Significant)

(a) The BIHC should liaise with the Commission for Audit to ensure that the Global Fund program is audited on a timely basis and that the report is submitted to the Global Fund within the stipulated time.

(b) The DOH should implement the audit recommendations on a timely basis.

Compliance aspects

91. The grant agreement between DOH and the Global Fund requires DOH to comply with the grant agreement and the laws and regulations of Philippines. The OIG noted some areas of non-compliance. Grant agreements with the Global Fund encourage the DOH to obtain tax exemptions for the purchase of goods and services using grant funds. At the time of the audit, there was no evidence that the DOH had obtained tax exemption for the purchase of its products. Grant funds were used to pay for taxes on goods and services purchased. The PR has initiated a move to pay 7 percent of the value-added tax (VAT) payable on grants from

government funds, and to charge the remaining 5 percent to the Global Fund grant funds.

92. There were delays noted in the preparation and submission of key documents. These delays impacted decision-making and as a result affected grant implementation. The areas where delays were noted were:

- (a) The PR is required to submit PUDR reports to Global Fund within 45 days after the end of each quarter. A review of the reporting revealed that the reports were sometimes submitted slightly after the deadline;
- (b) The grant agreement provided for the DOH to submit its procurement and supply management plan by the end of May 2008. However, OIG noted that this plan was only submitted in August 2008;
- (c) The DOH was also required to submit an annual progress report to the Global Fund not later than 18 months after the end of Phase I. However, at the time of the audit in August, the report that was due in May 2009 had not been prepared; and
- (d) The grant agreement contained a condition precedent that required the DOH to prepare a project implementation manual (PIM) and submit it to the Global Fund by 14 February 2008. The first draft of the PIM was only submitted to the LFA on 6 October 2008 and submitted to the Global Fund in July 2009.

Recommendation 12 (Significant)

The DOH should comply with the grant agreement. Specifically, DOH with the assistance of the CCM should seek exemption from taxes on program inputs.

Financial management

93. The DOH uses a government of Philippines tailor-made accounting software called e-NGAs. Programme expenses were recorded in the e-NGAs in accordance with the government's chart of accounts, which classifies expenditure by type such as training, allowances, salary, and equipment. The e-NGAs is not able to capture records in line with the program service delivery areas (SDAs). In addition to the transaction posting by the finance services unit, the program management staff record transactions in Microsoft Excel spreadsheets.

94. The accounting software, e-NGAs, was not updated on a timely basis. At the time of the audit, August 2009, not all accounting entries since May 2009 had been recorded in the DOH accounting software. The PUDRs were prepared using information from Excel spreadsheets. The Excel spreadsheets used for processing of information are susceptible to error and do not have built-in controls. OIG also noted that the figures submitted to the Global Fund in PUDR reports were not reconciled to those in the e-NGAs reports.

95. OIG noted that there was no budget monitoring in respect of individual budget line items except at the time of preparing PUDR reports. The PMO was not provided with periodic financial statements to aid decision-making. It only obtained a certificate of availability of funds from the finance services division before making any payment.

Recommendation 13 (High)

The DOH should strengthen the financial recording systems of the Global Fund program by recording transactions in the e-NGA system on a timely basis and reconciling these records to the PUDR reports. The finance services department should furnish the PMO with monthly financial reports to enable reconciliation of funds held, budget monitoring as well as preparation of management reports.

96. The PIM which was approved in July 2009 provides the financial and programmatic guidelines for the program. However, the PIM does not address the disbursement and liquidating of working advances. At the time of the audit, funds were being advanced to the central health departments (CHDs), local government units (LGUs) and hospitals for implementation of program activities. Employees are required to liquidate advances within 30 days of request. The CHDs are required to submit liquidation reports certified by the State auditor. However, the OIG noted that advances had not been liquidated within the period required by DOH policy. Advances were also given to staff and the CHD with outstanding liquidations, which is against the policies and procedures of DOH. There were large balances of unliquidated advances for employees of the CHDs at the time of the audit.

Recommendation 14 (Significant)

DOH should ensure the settlement of the advances by employees within the stipulated time. Further, there should be strict adherence to the requirement for advances to be only given to staff without outstanding liquidations.

97. The DOH maintains an account in US dollars in Land Bank, where all funds are kept in foreign currency. Cheques are drawn in local currency and at the time a cheque is presented the equivalent amount of foreign currency is transferred to the local currency account to settle the payment. In maintaining funds for local activities in foreign currency, the department is exposed to foreign currency risk, from the devaluation of foreign currency.

Recommendation 15 (Requires attention)

DOH should maintain foreign currency funds for expenses to be met in foreign currency and in PHP for activities to be paid in the local currency. This will minimise the risk due to potential currency fluctuations.

98. OIG questioned the value for money in the renting of a photocopier for the PMO. The photocopier which was used for by the project management office as well as in producing IEC materials was rented at PHP 15,500 (US\$ 329) per month in addition to an additional charge for the number of pages copied. At the time of the audit, DOH had spent PHP 124,000 (US\$ 2,638) on the copier. This amount spent on rental of the copier by the end of the Phase I was sufficient to procure a photocopier for the office. The DOH should consider procuring a photocopier for the office.

Sub recipient management

99. With the exception of procurement of the drugs, most of the program activities (more than 65 percent) were assigned to SRs. Although funds were received from the Global Fund in November 2007, the DOH only signed grant agreements with its three SRs in October 2008 namely the Aids Society of Philippines (ASP), Remedios AIDS Foundation (RAF) and Positive Action Foundation of Philippines (PAFPI). These delays greatly affected the PRs' ability to implement programs and meet targets.

100. There were sub-grant agreements signed between the DOH and its SRs. These agreements were based on the grant agreement signed with the Global Fund and some of the clauses contained therein were inappropriate. The agreements also did not reflect the unique conditions, relationships and requirements between the DOH and its SRs.

101. The DOH implements some grant activities through government structures such as the CHDs and hospitals. However, there were no policies and procedures for the management of the grant relationships with these sub-recipients and partners. There was also no mechanism in the existing PMO to monitor the compliance and performance of sub-recipients and other implementing partners. OIG noted that SRs did not submit the monthly financials and programmatic reports to DOH on a timely basis.

Recommendation 16 (Significant)

- (a) The grant agreements should be reviewed and strengthened so that they are reflective of the conditions within which programs are being implemented and to ensure that there is a high level of commitment and accountability from all parties. This will ensure more informed delivery of program activities by sub-recipients and better working relationships between SRs and DOH.*
- (b) The DOH should put in place an effective monitoring system to review the implementation of activities by SRs.*

Strengthening program management

102. A review of the indicators and targets agreed for the Round 6 HIV grant shows that:

- (a) For the first objective of increasing access of the most at-risk population and the general population to voluntary counselling and testing, the project has met all its outputs in six out of the eight service delivery areas. However, the project performed very poorly in condom distribution, meeting only 9 percent of its target. The national environment remains difficult for this particular indicator to be met as the government of Philippines does not allow procurement of condoms at national level;
- (b) Under the second objective of ensuring the safety of blood supply, the project also successfully met its output targets of public education (160 percent) and testing of blood units (100 percent);
- (c) Likewise, the third objective of treatment, care and support met four of its five output targets in the fifth quarter of the grant period. The

- coverage rate for the remaining unmet target i.e. the number of cases of opportunistic infections treated among people living with HIV/AIDS is 74 percent out of 80 percent targeted; and
- (d) The fourth objective of the project is to strengthen the health system to provide HIV/AIDS services.

103. Although output targets were achieved, OIG observed that the program concentrated more efforts on the activities that were linked to the output targets directly at the expense of planned activities that were not reflected in targets. The activities in the work plan that had not been implemented at the time of the audit were:

- (a) The installation of a logistics management information system planned at 18 LMIS sites (due date was March 2008); and
- (b) The procurement of audio visual equipment for 23 blood donation centres and 16 social hygiene clinics (due date was March 2008).

104. The status of implementation of some of the other activities is highlighted below:

- (a) Only eight migrant desk officers were established out of the 16 planned;
- (b) Less than 10% (10,156) of the planned 109,104 condoms had been distributed;
- (c) Annual partner's meeting of implementers had been conducted;
- (d) The national convention of PLWHAs had not been conducted;
- (e) Training on PMTCT national guidelines had not been conducted due to delay in development of PMTCT guidelines;
- (f) Training on rational blood use had not been undertaken; and
- (g) Development of clinical practice guidelines (due date was September 2008) had not been completed.

105. A review of the data collection and reporting processes revealed that the National Epidemiology Centre (NEC), responsible for the national surveillance of different diseases, including HIV/AIDS, prepares the consolidated report on the basis of reports submitted by the social hygiene clinics (SHCs) and other sites. There was no evidence of systematic data validation by NEC. Only a limited validation of arithmetical accuracy of the data submitted by SHCs takes place.

106. OIG also noted that there were no regular updates on the status of project supported activities at DOH as well as sub-recipients. Regular implementation reviews and consultative meetings were not effective as the key players (i.e. the central health department, LGUs) did not participate. Reports from the sites were often delayed and not in an agreed-upon format.

Recommendation 17 (Significant)

- (a) *The DOH should ensure that all activities are implemented in accordance with the approved work plan. An accelerated plan should be implemented for all outstanding activities in the work plan.*
- (b) *The DOH should identify a mechanism through which condoms can be procured on a timely basis and distributed. This may include the identification of a suitable SR to undertake this activity.*

- (c) *Training needs at the NEC should be identified and the staff handling the data analysis should be appropriately trained to ensure the accurate and timely collection of program results.*

Procurement and logistics management

107. The Central Office of Bid Award Committee (COBAC) is responsible for undertaking procurement on behalf of DOH. COBAC is governed by the Government Procurement Reform Act. The Act states that COBAC is one of the committees constituted to promote transparency, accountability, efficiency, economy and effectiveness, and sustain improvements in the departmental health product procurement systems and procedures.

108. COBAC follows the Republic Act 9184 for routine procurement for DOH. The modes of procurement specified in RA 9184 is utilised for the procurement of all products, works, and services, except for pharmaceuticals and health products. In the case of procurement of pharmaceuticals and health products, the preferred procurement method is through UN agencies. DOH has made arrangements for posting the approved budget of contracts (ABC) as a ceiling for bid prices (a system to eliminate overpricing), and adopting short timelines. DOH conducts international competitive bidding if the estimated value is over US\$ 200,000 or limited international bidding if DOH is able to conduct source bids global but there is only a limited number of suppliers. Despite all the above the COBAC system suffers from many bid failures and delays in procurement.

109. The law in the Philippines does not provide for tax exemption on program procurements, except when undertaken by UN agencies. However, if procured supplies are consigned to DOH, the taxes are accrued to DOH and borne by the government of Philippines. The process of consignment to DOH was noted to create procedural delays and has added to the complexities in the procurement process. To ease the procurement process, DOH opted to delegate procurement to UN agencies instead of building the capacity of COBAC as the government procurement agency.

110. COBAC capacity limitations are mainly in terms of staff. There is no dedicated GF project procurement officer and assistant as proposed in the PSM plan. One procurement assistant has been recruited but the position of procurement officer still remains vacant. COBAC procures the majority of pharmaceuticals and health products for government but has been increasingly relying on UN procurement agencies. However, there are complaints that these agencies charge highly yet they provide poor services mainly due to tardy procurements. For example, the delivery of a Cluster of Differentiation 4 (CD4) machine took more than eight months.

111. From interviews with staff working at SHCs only a limited number of non-registered sex workers access the clinics' services. Considering that forecasting for HIV test kits and STI drugs was based on the records at SHCs, the numbers derived

are questionable. The under-forecasting is likely to result in a less than expected impact of the HIV program.

112. The DOH prepares annual procurement plans. However, these sometimes do not reflect the Global Fund procurements and in other instances are not followed. In the annual procurement plan under SDA 1.1.2 "institutionalised delivery of outreach services to clients of SHCs/Behaviour change communication", the Department of Health (DOH) was supposed to procure 250,000 condoms for MARPs within the first quarter of 2009. The DOH provided the OIG with documentation showing deliveries in July and September 2009. As explained by the director of the procurement division/COBAC, the DOH was unable to procure condoms on religious grounds. The procurement of condoms was delegated to a DOH regional office in order to expedite the already delayed procurement process within the central office.

113. The PSM plan approved by Global Fund, included the provision for procurement of five motorcycles and two service vans. Both vehicles were ordered using the direct negotiation method of procurement after two failed solicitation attempts. One of the vehicles was delivered on 15 July 2009 and the second one was yet to be delivered at the time of the audit.

Recommendation 18 (Significant)

- (a) DOH should liaise with procurement agents to reduce the delays in procurement. Service-level standards should be agreed upon with the agents to ensure effective program implementation.*
- (b) The PRs should work with procurement agents to build their capacities so that they can take on the procurement of pharmaceutical and health products. A time-bound capacity-building plan should be put in place.*

114. There was a provision for technical support in the PSM plan to enhance the DOH capacity to undertake PSM activities with regard to MIS enhancement, procurement planning, and inventory management. Staff involved in undertaking Global Fund activities receive meeting allowances. For the rest of the staff of COBAC Secretariat there is no incentive to undertake procurement for the Global Fund program since they do not receive meeting allowances.

Procurements

115. A review of procurements revealed some instances where value for money may not have been obtained. Azithromycin has been procured locally at a high cost on the grounds that it was preferred to Pfizer's Zithromax, a product said to be under company's exclusive right on supply. The Doha agreement provision as mentioned in PSM plan for parallel importation from cheaper sources was not utilised. The effect of this practice is non-competitive procurement which led to the PR not getting best value. Part of the cost of the medicines went to importation tax because the product was locally sourced.

Recommendation 19 (High)

DOH should ensure that the COBAC is appropriately staffed to undertake procurements for program activities.

116. By Administration Order (AO) 2005-0007 dated 31 March 2005, all procurements from UN agencies were exempted from the requirement of Bureau of Food and Drugs (BFAD), the National Drug Regulatory Authority (NDRA) registration. The AO effectively exempted the agencies from the requirement of BFAD's Certificate of Pharmaceutical Registration (CPR) for all goods imported by UN agencies. The DOH AO No 2005-0008 dated 18 April 2005 provided the policy and requirements for issuing special permits for restricted use of unregistered drugs and kits for HIV/AIDS.

117. Despite the waiver given to UN agencies and the AO allowing for importation of HIV drugs prior to registration, there is still need for registration and quality inspection of HIV drugs by BFAD. Pharmaceutical and other health products imported for TB, malaria and HIV/AIDS programs are procured in large volumes. In the longer term, good practice would point to the need for their registration.

118. The OIG found some repacked anti-malarial drugs for Round 2: chloroquin, and premaquin within the DOH supply channel that were not labelled with the name of the manufacturer. This observation is likely to happen where there is limited oversight of the grant-procured drugs as a result of BFAD's CPR waiver. Therefore, BFAD's registrations and testing arrangement should be enforced for the drugs procured from Global Fund grants.

Recommendation 20 (High)

DOH should encourage drug manufacturers or their agents to register the drugs with BFAD and to follow QA requirements.

119. The PMO/DOH had procured 50 desktops, 40 laser printers, 37 laptops, 11 LCDs and these were distributed to various Global Fund program sites. There was no comprehensive record of transfer details, location and acknowledgement of receipt by recipients. Assets procured under with grant funds are not coded or tagged which raises the risk of loss of assets due to poor control.

Recommendation 21 (Significant)

All assets should be marked with unique identification numbers. The PMO should prepare an asset register that records the asset details and location. The asset register should be periodically updated with the results of periodic asset verification exercises.

120. The materials management division (MMD) is responsible for logistics management in the DOH. OIG noted that the DOH maintained the logistics-related records in an Excel spreadsheet despite having a budget line for the procurement of a logistics management information system. Excel documents are prone to error and manipulation, are limited in functionality and have no built-in controls.

Recommendation 22 (High)

DOH should expedite the procurement and implementation of the logistics management information system.

121. The OIG visited that the provincial health office and Puerto Princesa City site in Palawan province. Although the provincial health office already had six Microscopes in the laboratory which was supported by only four trained lab technicians, an additional microscope was procured from the grant funds for the Puerto Princesa City. The facility in Puerto Princesa City could easily have made good use of the underused microscopes in the provincial health office. This points to ineffective planning in the development of requirements.

Recommendation 23 (High)

Proper assessment of the need for medical equipment should be made before procurements are undertaken. Once procured, this equipment should be distributed to the intended users.

Storage

122. OIG noted that the PRs underscored the importance and role of proper storage in the overall Global Fund program implementation. All the PRs depended on the DOH storage capacity at regional level. The problems with storage capacity are listed below.

123. One of the social hygiene clinics visited lacked storage facilities and the medicine box was kept on the floor unopened. Such situations may not support Wal-Mart (cross-docking) procedures unless there is good storage in place at the end-user facility to receive cross-docked supplies. The SHC at Caloocan providing services to 189 registered female sex workers (FSWs) and 14 freelance FSWs had no stock of cefixime while 233 packs each of three tablets of Azithromycin delivered on 11 May 2009 were lying on the floor. OIG was informed that their clients received prescriptions to obtain the medicines from local pharmacies.

124. At the time of the OIG visit to the DOH central warehouse which had a stockpile of tamiflu, heavy rains had caused the ground floor storage area to flood -- a regular occurrence in the Philippines. Although there was no physical damage to medical supplies, the stocks were exposed to possible degradation due to build up of moisture within the warehouse. The OIG noted that there was no temperature control in the ground floor section, but there was an air rotator and pallets and racks on the first floor. At the same warehouse, the stock position was not kept up to date in the stock records. Physically there were 13,147 packs of Azithromycin present in the stock as against the stock record of 14,056 packs.

125. The OIG also visited the warehouse in Quirino and noted that it was well designed and built. However, the store system did not meet minimum standards of good storage practice (GSP) as seen by:

- (a) the planned physical inventory count semi-annually was not practised;
- (b) the storage areas were congested;
- (c) inventory records are manual;
- (d) bin cards are not kept together with stock;
- (e) there was no stack numbering; and

(f) stock items were not stacked in an orderly manner.
One pharmacist was posted to the warehouse at the time of the audit.

Distribution

126. DOH contracts a private company to deliver supplies from the central warehouses to the provincial health office (PHO) stores. Although the Logistics Management Division is mandated and expected to distribute health and other pharmaceutical supplies to treatment centres in the Philippines, for Global Fund programs this is not the case. Treatment centres collect and transport their allocations as well as supplementary supplies from the PHO at their own cost. The practice has led to a lack of information on the stock positions at treatment centres, leading to poor forecasting of need and stock outs.

127. OIG was informed that DOH delivered the TB Kit I and III supplies to the province in July 2009 for the first time. At other times the PHOs were expected to collect their allocation from CHD or MMD. The direct supply of Kit I and III by MMD DOH to Palawan province was not documented in the CHD although a copy of the receipt of inventory verification (RIV) was on file.

128. At a regional health unit (RHU) store that the OIG visited at Brooke's Point in Palawan province, the storage for anti-TB drugs was inadequate. There was no provision for store in the structure of health facilities. Health products were kept in various places including in staff desk drawers. There was no systematic stock record book and no system of recording stock control and issuance.

Recommendation 24 (High)

Proper stock records should be maintained at all warehouses. This will contribute to strengthening the inventory management systems.

Tropical Disease Foundation Incorporated

Background

129. Tropical Disease Foundation, Inc. (TDF) is a not-for-profit organisation set up in 1984. It is a Global Fund Principal Recipient (PR) for several grants across the three diseases in the Philippines. At the time of the audit, TDF was the Global Fund's largest recipient in the Philippines with more than 80% of disbursed funds. A summary of the grants approved and the amounts disbursed as of 31 May 2009 is provided in the table below:

Round	Component	Grant number	Grant amount US\$	Amount disbursed US\$
2	Malaria	PHL-202-G01-M-00	11,829,545	11,828,157
2	Malaria	PHL-202-G01-M-e	31,585,852	4,563,148
2	TB	PHL-202-G02-T-00	11,438,064	11,438,064
2	TB	PHL-202-G02-T-e	94,249,562	16,186,998
3	HIV/AIDS	PHL-304-G03-H	5,528,825	5,274,139
5	HIV/AIDS	PHL-506-G04-H	6,478,058	4,569,400
5	TB	PHL-506-G06-T	16,687,774	16,687,774
6	Malaria	PHL-607-G07-M	16,285,198	14,340,684
Total			194,082,878	84,888,364

Table 5: Summary of grants [Source: Global Fund records]

Subsequent Events

130. The audit of TDF revealed significant weaknesses in the internal controls of the foundation. Weak capacity was noted with regard to compliance with grant agreement requirements. Concerns were also raised as to the capacity to manage grant funds transparently and evidence was found of the misuse of grant funds.

131. The OIG advised the Global Fund Secretariat that in addition to the misuse of funds, it was not safe to invest program funds through the systems at the Tropical Disease Foundation (TDF). On 24 September 2009, the Executive Director suspended all the five running grants to TDF. As there are no grants currently implemented by TDF, the report does not contain recommendations to improve internal controls at the foundation. After the suspension, the Global Fund Secretariat took steps to support the CCM in restarting implementation of the grant programs. These steps are described in Annex 1 to this report.

TDF's capability to manage and administer the increasing number of grants became increasingly an area of concern. In the later assessments, the LFA consistently raised capacity as an area that needed strengthening. Large budgets were proposed to strengthen capacity mainly through an increase of staff numbers.

Round 2 Malaria Grant

132. The grant agreement was signed on 11 June 2003 and the grant commenced on 1 August 2003. Phase 2 of the grant commenced on 1 June 2005 and ended on 31 July 2008. The program goals were to reduce malaria morbidity by 70 percent (from 202.2 to 60 cases per 100,000) and mortality by 50 percent (from .76 to 0.38 deaths per 100,000) in 26 provinces. The objectives of the program were to:

- (a) increase the proportion of febrile patients receiving early diagnosis and appropriate anti-malarial therapy;
- (b) reduce malaria transmission (vector aspect), and
- (c) strengthen local capacity for implementation of sustainable community-based malaria control.

133. The table below provides a summary of the fund disbursements:

Narration	Phase I US\$	Phase II US\$
Total budget	7,244,762	4,583,395
Funds received to date	7,244,762	4,583,395
Interest		1,438.11
Balance at bank at 31 August 2009	nil	1,438.11

Table 6: Grant disbursements for Round 2 malaria [Source: TDFI records]

134. TDF has achieved and exceeded targets for most of the targets set, as illustrated in the table below:

Activities	Target	Achieved	%
Number of service deliverers trained in clinical management of malaria	998	1,053	106
Number of facilities receiving procured combination of RDTs	497	433	87
Number of facilities receiving drugs	1,863	1,929	104
Number of patients with uncomplicated malaria and severe malaria receiving correct diagnosis and treatment	95%	85%	89
Number of patients with severe malaria receiving correct diagnosis and treatment	95%	66%	69
Number of people treated with ACTs	7%	3.8%	54
Number of service deliverers trained to use combination RDTs	497	436	88
Number of nets treated	369,8170	424,980	115
Number of IP households receiving bed nets at full/heavy subsidy	440,333	462,427	105
Bed nets/insecticides distributed at partial subsidy	431,361	264,343	61
Number of households sprayed with insecticides	55,000	110,730	201
Number of networks and partnerships involved	2,392	2,662	111

Table 7: Summary of program achievements for Round 2 malaria [Source: TDFI records]

Malaria RCC Grant

135. The rolling continuation channel of the Round 2 grant commenced on 1 November 2008 and ends on 31 October 2011. The program goals are to reduce malaria morbidity by 70 percent and mortality by 50 percent nationwide. The objectives for the RCC grant are to:

- (a) provide universal access to quality diagnostics and treatment services;

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- (b) scale up vector control to reach at least 80 percent protection of populations in malaria endemic areas; and
- (c) strengthen sustainable community-based malaria control and malaria surveillance and information system.

136. The table below provides a summary of the fund disbursements under this grant:

Narration	US\$
Total budget	32,437,953
Funds received to date	4,563,148
Balance at bank at 31 August 2009	90,039.26

Table 8: Grant disbursements for malaria RCC [Source: TDFI records]

Round 6 Malaria Grant

137. The grant agreement was signed on 30 September 2007 and the grant commenced on 1 October 2007. Phase 1 of the grant was supposed to end on 30 September 2009. The program goals were to reduce malaria morbidity by 70 percent nationwide and mortality to zero in the 25 provinces by 2011. The objectives for the Round 6 grant were to:

- (a) consolidate, expand and sustain high coverage of early diagnostic and treatment services for malaria through health systems strengthening and public-private partnership;
- (b) scale up vector control methods to interrupt malaria transmission; and
- (c) strengthen local capacity through community systems strengthening for sustainable community-based malaria control and management.

138. The table below provides a summary of the grant and fund disbursements:

Narration	Phase I US\$
Total budget	16,285,198
Funds received to date	14,340,683.94
Balance at bank at 31 August 2009	314,949.85

Table 9: Grant disbursements for Round 6 malaria [Source: TDFI records]

139. The table below provides a summary of program achievements against targets:

Activities	Target	Achieved	%
Number of service deliverers trained in clinical management of malaria	1,834	2,016	110
Percentage of facilities with no reported stock out lasting more than one week	70%	87%	120
Number of patients with uncomplicated malaria and severe malaria receiving correct diagnosis and treatment	2,537	3,225	127
Number of patients with severe malaria receiving correct diagnosis and treatment	134	220	164

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Percentage of provinces with operational malaria information system among total number of provinces	72	88	122
Number of LLINs distributed	115,463	118,056	102
Percentage of households sprayed in outbreak prone areas	80	190	238
Number of new organisations involved in malaria control activities	84	86	102
Health facilities providing integrated malaria, TB and IParasitism Diagnostic Treatment services	306	624	204

Table 10: Summary of program achievements for Round 6 malaria [Source: TDFI records]

Round 2 Tuberculosis Grant

140. The grant agreement was signed on 11 June 2003 and the grant commenced on 1 August 2003. Phase 2 of the grant commenced on 1 August 2005 and ended on 31 July 2008. The table below provides a summary of the grant and fund disbursements:

Narration	Phase I US\$	Phase II US\$
Total budget	3,434,487	8,003,577
Funds received to date	3,434,487	8,003,577
Balance at bank at 31 August 2009	nil	nil

Table 11: Grant disbursements for Round 2 TB [Source: TDFI records]

141. The table below provides a summary of the program achievements against targets:

Target	Target	Achieved	%
Number of new private practitioners participating in DOTS	840	1,133	135
Number of new smear positive TB cases through peer support activities	2,795	3,538	127
Number and percent of new smear positive TB cases detected under DOTS reported through PPMD units	9%	18%	200
Number and percent of new smear positive TB cases registered under PPM DOTS successfully treated	85%	92%	108
Number of community task forces organised	270	270	100
Number of service deliverers trained	1578	2,641	167
Number of staff in public and private centres trained in the diagnosis and treatment of MDR-TB	891	913	102
Number of MDR-TB cases detected	1,045	1,059	101
Number of MDR-TB cases enrolled for treatment	544	577	106
Number and percentage of MDR-TB defaulting from DOTS Plus	11	14	127
Number of households contacts traced	1921	1854	96
Number and % people receiving MDR-TB treatment successfully treated	62.41	75.9	122

Table 12: Summary of program achievement for Round 2 TB [Source: TDFI records]

Round 5 Tuberculosis Grant

142. The grant agreement was signed on 11 August 2006 and the grant commenced on 1 October 2006. At the end of Phase I on 30 September 2008, the grant was terminated and consolidated with the RCC tuberculosis grant. The table below provides a summary of the fund disbursements:

Narration	Phase I US\$
Total budget	16,687,774
Funds received to date	16,687,774
Balance at bank at 31 August 2009	nil

Table 13: Grant disbursements for Round 5 TB [Source: TDFI records]

143. The table below provides a summary of achievement of program targets:

Target	Target	Achieved	%
Number of service deliverers trained	757	833	110
Number of service points supported through training	43	10	23
Number of MDR-TB cases detected	1,274	1,328	104
Number of MDR-TB cases enrolled for treatment	660	723	110
Number of households contacts traced	1,686	2216	131

Table 14: Summary of program achievement for Round 2 TB [Source: TDFI records]

Tuberculosis RCC Grant

144. The rolling continuation channel of the Round 2 grant commenced on 1 January 2009 and ends on 31 December 2011. The objectives of the RCC grant were to achieve universal access to high quality TB care, and scale up PMDT beyond Metro Manila and provide nationwide coverage and access. The table below is a summary of the fund disbursements:

Narration	Phase I US\$
Total budget	94,249,562
Funds received to date	16,186,997.91
Balance at bank at 31 August 2009	427,587.82

Table 15: Grant disbursements for TB RCC [Source: TDFI records]

Round 3 HIV/AIDS Grant

145. The grant agreement was signed on 27 June 2004 and the grant commenced on 1 August 2004. Phase 2 of the grant commenced on 1 June 2005 and ends on 31 July 2008. The program goal is to contribute to the national goal of preventing the further spread of STI/HIV infection and reduce its impact on those already infected and affected. The objectives were to:

- (a) Improve behavior change communication and STI management among vulnerable and poor population; and

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- (b) Scale up voluntary counseling and testing (VCT), support, care, and treatment for people living with HIV/AIDS and their families.

146. The table below provides a summary of the fund disbursements:

Narration	Phase I US\$	Phase II US\$
Total budget	3,496,865	2,031,960
Funds received to date	3,496,865	1,777,274
Balance at bank at 31 August 2009	nil	2,825

Table 16: Grant disbursements for Round 3 HIV [Source: TDFI records]

147. The prevention component was implemented in 11 project sites while the care and support component was in six treatment hubs. The table below provides a summary of program achievements against targets:

Activities	Target	Achieved	%
Number of migrant workers reached by prevention services	13,625	18,330	134
Number of condoms distributed	3,674,440	3,008,424	81
Number of reached by prevention services	15,300	16,825	109
Number of MSMs reached by prevention services	14,350	16,592	116
Number of IDUs receiving harm reduction interventions	600	800	133
Number of STI cases treated	2,025	6,655	328
Number of staff trained on voluntary counselling and testing (VCT)	325	348	107
Number of people counselled and tested for HIV including provision of test results	2,600	3,007	116
Number of people who received care and support through people living with HIV/AIDS care sites	856	1,148	134
Number of people receiving ATVs	170	169	99
Number of people receiving prophylaxis for opportunistic infections	100	86	86
Number of people who are actively involved in people living with HIV/AIDS groups	246	343	139

Table 17: Summary of program achievement for Round 3 HIV [Source: TDFI records]

Round 5 HIV/AIDS Grant

148. The grant agreement was signed on 18 August 2006 and the grant commenced on 1 October 2006. Phase 2 of the grant commenced on 1 October 2008 and ends on 30 September 2010. The goal of the Round 5 HIV program was to prevent the further spread HIV/AIDS infection by maintaining an HIV/AIDS prevalence rate of less than 1 percent among vulnerable groups; and to reduce the impact of HIV/AIDS on individuals, families and communities. The objectives of the grant are:

- (a) To reduce transmission among vulnerable groups
- (b) To scale up support, care, and treatment for PLHIV and their families;
- (c) To strengthen health management and delivery systems; and
- (d) To conduct operations research.

149. The table below provides a summary of the fund disbursements:

Narration	Phase I US\$	Phase II US\$
Total budget	3,011,919	3,466,139
Funds received to date	3,011,919	1,557,480
Balance at bank at 31 August 2009	nil	707,865

Table 18: Grant disbursements for Round 5 HIV [Source: TDFI records]

150. The prevention component covered 18 project sites while care and support covered an additional five Treatment Hubs. The table below provides a summary of program achievements against targets:

Activities	Target	Achieved	%
Number of migrant workers reached by prevention services	10,122	11,813	116
Number of service deliverers trained in BCC	360	481	133
Number of people in prostitution reached with HIV/AIDS prevention services	7,122	8,770	123
Number of IDUs reached by prevention services	1300	1619	124
Number of MSMs reached by prevention services	8,800	9,850	111
Number of condoms distributed	1,027,410	879,226	85
Number of service points including VCT / laboratories strengthened	33	33	100
Number of staff trained on voluntary counselling and testing (VCT)	520	554	106
Number of people receiving ATVs	385	434	113
Number of people receiving prophylaxis for opportunistic infections	144	160	111
Number and percentage of STIs diagnosed counselled and treated at SHCs	28,000	42,744	152
Number of persons counselled and tested for HIV	7,000	9,677	138
Number of newly diagnosed HIV-positive patients given treatment for TB infection	30	39	130
Number of affected family members receiving care and support	734	893	122

Table 19: Summary of program achievement for Round 5 HIV [Source: TDFI records]

151. A review of the different disease interventions under the various grants reveals that they have similar objectives that have interfaces. The administration and management of these grants was cumbersome. This resulted in TDF recruiting staff to administer each grant as well as adopting processes to reduce the workload e.g. charging all monthly expenditure to one grant and making correcting adjustments at the end of the each month. The administrative overhead costs increased with the number of grants although without an equivalent improvement in the management of grants.

Institutional aspects

TDF had a governance structure in place. However, it was ineffective in that far as there were no policies and procedures to guide the implementation of the programs for the greater part of the period under review; the internal and external audit functions were ineffective; there was weak program oversight by the board etc.

152. TDF is governed by a board of trustees (BOT). For most of the period under review, TDF's board had not established policies and procedures in place to ensure accountability, fairness, and transparency in the organisation's relationship with its stakeholders. TDF had only recently embarked on the preparation of policy manuals to guide program implementation. At the time of the audit, the manuals presented were still in draft form and had not come into operation. The audit revealed that because of the lack of policies to guide their operations, managers often decided on policy changes without the requisite approval of the executive management and/or the board. These decisions among other things led to the loss of program assets.

153. The board met frequently and there were minutes to evidence these meetings. However, there was no evidence of strong oversight over the programs funded by the Global Fund as evidenced by the weaknesses that remained undetected over time. The stewardship role of the board was unsatisfactory in as far as program resources were not put to their intended use.

154. At the time of the audit, TDF's board of trustees had only recently established an audit committee to provide oversight on finance-related matters. OIG noted that the committee was not properly composed as evidenced by the vice president for Global Fund programs being the secretary to this committee and executive management team attending all audit committee meetings. Best practice for such committees is that members are independent of management. Management's involvement in this committee can impair the independence and objectivity with which the committee undertakes its business.

155. The president and vice president are both well-known doctors involved in the research and treatment of the three disease components. At the time of the audit another vice president for Global Fund programs, a lawyer by discipline, had been appointed to strengthen the executive management team. The top management was supported by a team of managers (namely chief finance officer, data manager, accounting manager, finance manager and program managers under each of the disease components. There are several accounting supervisors covering each of the disease components and the General Fund (Gen Fund). The LFA raised concerns about TDF's capacity in several of its assessments. TDF responded by increasing the head count and not necessarily the quality of staff to manage the programs.

156. TDF also has an internal audit function created solely for assisting in the review of sub-recipients' fund accountabilities. This function previously reported to the chief finance officer and president of TDF but at the time of the audit was reporting functionally to the audit committee of the BOT. OIG however noted the following weaknesses:

- (a) The IA department did not cover the TDF head office which would have benefited from such a review;
- (b) IA staff were involved in the day-to-day management of grants thus potentially impairing their independence and objectivity; and
- (c) The audit manual and plans were approved in a meeting between the audit committee chair and head of internal audit.

From the above observations, it is evidence that although TDF had an internal audit function in place, its operations did not provide assurance to management and the board on the internal control systems of the foundation.

157. Institutional Synergy Inc (“InSync”) was appointed to undertake a range of other services to TDF. The services undertaken were the development of an activity costing model for laboratory tests in October 2008; two manuals in November 2008 (finance and accounting; and operations); development of quality assurance manual in March 2009; and the review of internal audit plans. The OIG found that InSync was related to SGV & Co., the statutory auditors of TDF, as their staff were employees of the auditors. The OIG also saw evidence of invoices for payment submitted by SGV & Co. on behalf of InSync. The existing relationship between InSync and SGV presents a conflict of interest as the auditors were developing policies whose effectiveness they would later be expected to assess.

158. As part of the audit, OIG met with TDF’s auditors. OIG also reviewed the financial statements audited by SGV & Co. These revealed significant financial management weaknesses that should have been identified by the auditors for example:

- (a) Presentation of restricted and unrestricted funds in the audited financial statements that did not reflect a fair understanding of the conditions laid out by the Global Fund in the grant agreements;
- (b) The auditors were not aware of the full extent of the number of bank accounts that TDF held;
- (c) Lack of a reconciliation of the Gen Fund;
- (d) Many expenditures and journal entries passed in the books of accounts that did not have supporting documentation etc.

159. All the above notwithstanding, OIG noted that the external auditors had raised weaknesses which were not addressed by TDF. Examples were:

- (a) No policy on inter-fund transactions, e.g. with the Global Fund;
- (b) No formal retirement plan for its permanent/organic employees; and
- (c) Financial memos being prepared and approved by the same person, i.e. the finance supervisor.

Compliance aspects

The grant agreements signed with TDF required them to comply with the conditions in the grant agreement and the laws and regulations of the Philippines. OIG noted that the conditions set out in the grant agreement to safeguard program assets were not fully operational resulting in a weak control environment which exposed these assets to the risk of loss and/or misuse.

160. Grant agreements required TDF to address certain conditions in order to strengthen its internal control environment. In regard to these conditions, OIG noted that:

- (a) A procurement agent was appointed to undertake procurement of health products for the program;
- (b) Manuals were developed to guide the assessment of the capacity of SRs. OIG was informed that an assessment of the financial and management systems of SRs was undertaken by the finance department, although no evidence was provided at the time of the audit. The OIG noted that SR assessment tools had been developed for M&E, and programmatic aspects of the potential recipients, and
- (c) Manuals were developed by the PR to guide the oversight function over SRs and ensure data quality, timeliness and accuracy of reporting. However, at the time of the audit, these manuals were still in draft form and had not been operationalised.

161. TDF's capacity to procure was assessed by the LFA and found to be inadequate. A special condition was included in all the grant agreements prohibiting TDF from procuring health products until such a time when the Global Fund determined and wrote to acknowledge that the requisite capacity was in place. However, OIG noted that TDF procured drugs directly from the local market without the authorisation from the Global Fund Secretariat which was in violation of the terms of the grant agreements. Examples are provided in the table below:

Date	Health Product	Suppliers	Quantity	Amount (PHP)	Amount (US\$)
04 Mar 08	Avelox tab 400 mg	Zuellig Pharma	762 boxes	2,190,070	46,597.25
30 Mar 07	Avelox tab 400 mg	GB Distributor Inc.	1184 boxes	3,402,939	72,402.97
16 Aug 07	K-O Tab bednet Insecticide	ALOG & Company Inc.	369,200 tabs	8,676,198	184,600
25 May 05	Moxifloxacin (Avelox)	GB Distributor Inc.	967 boxes	2,611,388	55,561.46
Total				16,880,595	359,161.68

Table 20: Examples of locally procured drugs [Source: TDFI records]

162. The Global Fund requires that all the funds it provides be used for program-related activities only. However, OIG noted instances where program funds were used for activities that were not in the approved work plan and budget. For example in 2003, TDF management used PHP 13,247,523.37 (Approx US\$ 281,862.20) of program funds to purchase two properties and to cover transfer as well as renovation costs from the grant funds. These were not in the work plan and budget and approved by the Global Fund. The properties in question were an apartment block in Manila and a condominium apartment on the Makati Medical Centre. TDF management refunded the monies after Global Fund intervened and requested for a refund. Another example was the use of program resources to cover entertainment costs that were not related to the program e.g. the catering costs for the birthday party of one of the executive team.

163. In regard to the special conditions contained in the grant agreements for the malaria and TB RCC grants, the following areas of non-compliance were noted:

- (a) Delivery to the Global Fund of evidence of appropriate terms of reference for an audit committee which includes only non-executive members of its board of trustees. By the time of the audit, the board of trustees of TDF had established an audit committee, with appropriate terms of reference. Although the condition of the grant agreement was fulfilled, the conducting of committee meetings did not comply with its terms of reference and industry best practice e.g. by having the vice president for Global Fund programs as secretary to the committee.
- (b) TDF was required to put in place an assets register that recorded all assets purchased using Global Fund resources. TDF management could not provide the OIG team with a comprehensive assets register.
- (c) TDF was required to put in place a system for recording stock levels and collecting and reporting data and a case management information system related to consumption of health products. The PR launched a stock management system for its warehouse stock in January 2009. OIG however noted that there were no opening balances and as such it was not possible to verify the accuracy of the data. The software was not functional at the time of the audit. This software also did not include a case management module as required in the grant agreement.
- (d) The grant agreements required TDF to put in place appropriate procedures and systems to manage forecasting, inventory management and distribution of health products purchased with grant funds at the central and provincial/district level drug storage facilities. OIG noted that TDF did not actively oversee the distribution of health products to the DOH warehouses at the central and provincial levels.
- (e) TDF was required to update its M&E action plan in order for it to address the needs identified in the M&E System Strengthening Tool Workshop. The plan was to include corrective measures on M&E strategic information and data systems as well as data management and development tools. This action plan had not been prepared at the time of the audit.

164. One of the special conditions in the grant agreements was a requirement to account for any income realised from social marketing activities and to use it solely for program-related purposes. The OIG however noted that since the commencement of the grants, social marketing revenue from the sale of bed nets at provincial level as well as income from laboratory tests supported by program funding was neither accounted for by the PR nor used for program purposes. After the audit field work, management of TDF informed the OIG that PHP 15,781,989.70 (US\$ 335,787.01) was collected by provinces and utilised for program activities. No evidence of this has however been provided.

165. Prior to the second disbursement on 31 December 2008, TDF was required to identify an independent third party to conduct a review and assessment of the

management and financial management systems of the PR. GMS conducted a review of TDF and issued a report identifying the following areas for improvement:

- (a) Improvement of the budgeting and financial tracking systems resulting in clear separation of PR administrative costs from program Implementation costs;
- (b) Enhancing economy and avoiding double funding due to management of multiple grants; and
- (c) Preparation of a detailed budget to demonstrate implementation of the recommendations of the review.

However, OIG noted that at the time of the audit the recommendations made for improvement had not been implemented.

166. In regard to the compliance with the Philippines laws, OIG noted one instance where an employee did not make any contribution to social security services (SSS) during the months of March to June 2009. OIG was informed that this employee was only hired in February 2009 and had not yet submitted an SSS number by the time of the audit. This exposed the program to the risk of penalties.

167. Programme funds were also used to pay taxes i.e. VAT on the drugs and fixed assets procured. This is in contravention of the terms of the grant agreement. This reduced the funds that were available for program implementation.

Financial management

The financial management systems and controls at TDF were not adequate to safeguard program resources. The next section demonstrates how the weaknesses in the financial management systems and procedures resulted into misuse and/or loss of program resources.

168. The OIG requested but was not provided with the financial manuals that TDF used from the commencement of the grant programs in 2004 up to November 2008. At the time of the audit the financial policies were still in draft form and were not operational within TDF. In the absence of financial policies there is no standard against which program activities are planned, budgeted, recorded and reported.

169. The OIG noted several weaknesses with the budgeting process at TDF. These included:

- (a) The budgets that were presented to the Global Fund for approval were often inflated. For example, they contained staff positions that were never filled.
- (b) Procurements that were undertaken outside the budget without causing cash flow problems e.g. the procurement of apartments.
- (c) The budgets were also not entered into the ACCPAC accounting system to allow for the monitoring of actual expenditure against budget.
- (d) Budgeting was not used as an effective tool for controlling costs with variances between budget and actual expenditure by activity category remaining unexplained.

- (e) The budget versus actual expenditure report was only prepared for purpose of reporting to the Global Fund.
- (f) Budgets were also sometimes changed without obtaining the requisite approval from the Global Fund.

170. The financial accounting system at TDF changed over the years without adequate documentation and control. Initially the PRISM accounting software was used for financial accounting and reporting. From April 2007, ACCPAC accounting software was implemented. In the period between April and July 2007 when both PRISM and ACCPAC were running in parallel, OIG noted that there was duplicate recording of transactions in ACCPAC and PRISM. This resulted in inaccurate financial records in the new software.

171. Over the life of the grant programs, the PR changed the way in which grant receipts and expenditures were recorded without documentation and approval by the board of trustees. Initially receipts and expenses were recorded by grant. However, as the number of grants increased, TDF started transferring 10 percent of all grant funds into a special account and this was recorded as a contribution to 'common' expenses. At the time of the audit, TDF had started allocating shared services to different grants by using an approximate percentage. The basis of the percentage of allocation could not be established or supported at the time of the audit.

172. TDF also implements programs on behalf of other funders in addition to programs funded by the Global Fund. The funds from other donors as well as TDF's own income is recorded in a General Fund, and banked in designated bank accounts. OIG noted however that there were no policies to guide the allocation and charging of costs e.g. salaries, overheads etc to the different cost/income centres. Without appropriate policies, the OIG could not obtain assurance that the costs charged to the Global Fund grants were reasonable and that those costs actually related to program implementation under the grant agreements.

173. OIG also noted that as a general practice, TDF used funds from one grant to make disbursements for expenditure under different grants. At month end appropriate adjustments are made through adjustment vouchers to reflect the expenditure in the appropriate grant. In some cases, the reallocation of costs across grants was unsupported. The grant agreement strictly prohibits the use of funds relating to one grant or disease for the disbursements of another grant as funds may not be available in the related grant disrupting the achievement of programmatic activities as per the work plan.

174. Up to January 2009, TDF maintained separate bank accounts for each of the SRs, in which funds earmarked for SR activities were held. On receipt of funds from the Global Fund, TDF effected transfers to these "in-trust" bank accounts and this was recorded in the subsequent PUDRs as disbursements to SRs. Disbursements to program implementing units within TDF, termed as internal SRs, were also disclosed in the same way. This resulted in an overstatement of expenditure and an understatement of cash balances held by the PR in the regular PUDR reports to the Global Fund. The financial reports submitted by the PR to the Global Fund were therefore inaccurate.

175. At 31 August 2009 a total of PHP 92 million (US\$ 1,957,446) was held in various TDF bank accounts but reported in the PUDR as amounts disbursed to SRs. Details are shown below:

Grant	Intermediaries Bank A/c No.	Amount (PHP)
GF-PR	SCBGENFUND-PR R5(CA)	19,751,292.55
HIV (R3)	196030691877	16,875,015.67
HIV (R5)	160426211012	4,360,605.00
TB-DOH (R2)	01-32-5529670-06	304,830.67
TB-DOH (R5)	016-05-37454-257	7,199,879.84
TB-DOH (R5)	016-05-35710-866	4,392,041.86
TB-PMDT (R2)	SCB 013-25-52968-002	511,782.11
TB-PMDT (R5)	SCB 016-05-39451-855	4,368,619.97
TB-PMDT	RCC 019-63-91092-446	12,499,579.91
TB-PMDT (RCC)	BDO 362-002-7700	2,716,645.34
Malaria (R6)	PNB 228830305-6	2,642,187.12
Malaria (R6)	SCB-0161020512903	2,486,093.44
Malaria (R6-SA)	PNB-228-508813-8	9,674,362.62
Malaria-RCC	SCB 0113541191935	792,307.50
Malaria-RCC (SA)	PNB 321989000086	1,312,049.35
Malaria-RCC (SA)	SCB 01-963932049-63	1,477,417.33
Malaria-RCC (CA)	BDO 00-3628003018	650,071.23
Total		92,014,781.51

Table 21: Funds classified as disbursed to SRs at 31 August 2009 [Source: TDFI records]

176. OIG also noted cases where the opening balance brought forward did not match with the closing balance reported in previous PUDR e.g. in the TB grant PHL 202 G02 T where there was a difference of PHP 1,320,814.92 in PUDR number 11.

177. TDF had a large number of staff to support the finance department. The quality of the financial managers was questionable with the CFO lacking the requisite technical experience to manage a multi-million dollar program. Decisions made by the CFO with or without senior management approval weakened an already fragile control environment and led to loss of program resources. The large number of staff in the finance department also did not translate into quality work. For example, the employee master list as of July 2009 provided eight staff to support PMDT's finance to maintain the finance function. However, despite the large number of staff proper books of accounts were not maintained. OIG noted the following weaknesses:

- (a) Delays in obtaining information;
- (b) Errors in computations due to the use of wrong rates;
- (c) The absence of a proper system for filing and retrieving documents related to decisions made;
- (d) Lack of clear hierarchy in reporting and supervising; and
- (e) Lack of coordination between finance and other departments resulting in errors in charges made.

Treasury management function

TDF's treasury management function is overly complicated with over 90 bank accounts held and operated by TDF. TDF's system of classifying funds as restricted and unrestricted was ineffective since funds from the Global Fund that should have been restricted ended up in the Gen Fund which should have held only unrestricted funds. TDF's reconciliation of the Gen Fund revealed funds amounting to US\$ 1,080,934.04 from the Global Fund bank accounts that were transferred to the Gen Fund and not refunded nor used for program activities. TDF's treasury management function in its current form cannot safeguard Global Fund resources.

178. TDF set up a complex treasury management system and classified funds held into three categories:

- (a) Programme funds which are equivalent to 90 percent of the funds received from the Global Fund. Programme funds are maintained in Standard Chartered Bank (SCB) dollar/euro and Philippine peso accounts and a peso account in a local bank (when needed);
- (b) Between 2003 and 2006, PR common funds which are equivalent to 10 percent of funds were transferred by the PR. These funds were used for program management and administrative (PMA) costs of the PR in implementing the grants; and
- (c) The General Fund (Gen Fund) also classified as 'unrestricted' fund which belong exclusively to TDF arising from donations, grants from other donors, miscellaneous receipts and receipts from other TDF activities.

179. Although TDF maintained separate bank accounts based on the treasury management mechanism mentioned above, it often transferred funds between the bank accounts without proper justification resulting in comingling of funds. Because TDF did not maintain proper accounting records that could separate funds by source, it was not in a position to identify balances by funding source at any point in time and TDF could not reconcile the balances during the audit.

180. TDF management has explained that the complex treasury management system as well as the transfer of funds to the Gen Fund was never raised by the local fund agent (LFA) as a weakness. The OIG also noted that since by Global Fund standard procedures, SRs are not reviewed by the LFA, funds transferred to SRs as well as indirect transfers to the Gen Fund through SR accounts were not covered by the scope of the LFA work.

181. Because of the way that the treasury management function was set up, funds from the Global Fund should never have been transferred to the Gen Fund. This is because all Global Fund resources are for specific activities and therefore should have been classified as restricted. However, OIG noted that often there were transfers to and from the Global Fund program accounts to the Gen Fund for which balances TDF could not reconcile during the audit.

182. TDF embarked on reconciling the Gen Fund after the country audit and this exercise revealed that money i.e. some PHP 535,625,816 (US\$ 11,396,293.96) was transferred out of the Global Fund accounts into Gen Fund accounts without any justification or supporting documentation. Out of this amount, PHP 58,327,749.61

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(US\$ 1,241,015.95) was neither returned to Global Fund program accounts nor could TDF provide OIG with documentation to show that it was used for program related purposes.

183. The OIG was not be presented with a documented policy for opening and the management of bank accounts. OIG sought representation from TDF on the number of bank accounts it held as an organisation. TDF represented that 54 accounts were held with five (5) banks. However, an analysis of the foundation's financial records revealed a total of 64 bank accounts held in eight (8) banks. The table below provides a summary of the PR accounts held in each bank:

Bank	Related to	Per TDF	Per OIG Review
Standard Chartered Bank	Global Fund	26	34
Standard Chartered Bank	Gen Fund	7	7
Banco De Oro (BDO)	Global Fund	3	3
Banco De Oro (BDO)	Gen Fund	5	7
Philippine National Bank (PNB)	Global Fund	6	6
Allied Banking Corporation (ABC)	Gen Fund	3	4
Union Bank of The Philippines	Gen Fund	1	0
Bank of the Philippine Island	Gen Fund	1	1
United Coconut Planter Bank	Gen Fund	1	1
Philippine Bank of Communication (PBCom)	Gen Fund	1	1
Total		54	64

Table 22: List of accounts held by TDF [Source: TDFI Financial System]

184. Out of the 64 bank accounts analysed from TDF's financial records, 43 were related to the Global Fund programs. A reasonable number of bank accounts to hold would have been 16 accounts since the Global Fund advocates for having separate bank accounts for each of its grants.

185. In addition to the 64 bank accounts above, TDF also held 30 bank accounts on behalf of internal and external SRs. "In trust" accounts were maintained for World Vision, Philippine Coalition against Tuberculosis (PhilCAT) and PNGOC. Because of this, TDF had access to SR funds and instances were noted where TDF drew funds from SR accounts which were used for activities that were not in the SR budgets.

Investments

TDF's investment of Global Fund monies in short-term placements was in contravention of the grant agreement. The interest recorded from these investments was below market rates. Instances were also noted where Global Fund monies were placed in short-term investments which were then reclassified as Gen Fund investments and transferred on termination into a bank account that was used to settle bills for constructing a building.

186. Programme funds were transferred into Gen Fund accounts and used to make short-term placements. The money invested as well as accrued interest were

not always returned to the Global Fund accounts. No reconciliations of transfers between the Global Fund investments and those that related to the Gen Fund had been prepared since the inception of grant period.

187. TDF invested Global Fund monies in investments ranging from seven to 118 days. This is contrary to the grant agreement that states that although funds can be held on interest-bearing accounts, the funds should be held in cash. At Global Fund's request, all short-term placements with the exception of the one relating to gratuities were retired in June 2009. In addition to the PHP 19,715,215 already mentioned that was invested through the Gen Fund on behalf of the Global Fund, TDF placed PHP 3,207,171,491 (approx US\$ 67.9m) directly from Global Fund accounts into seven to 118 days' placements.

188. The OIG noted that some of the Global Fund monies transferred into a Gen Fund account were subsequently moved through several other bank accounts and in many cases placed into short-term investments. However, at the time of retiring the placements, the investments were classified as Gen Fund investments and therefore both the principal and interest amounts were wrongly credited and used to finance non-program activities. The reclassified investments were then terminated into Gen Fund accounts. OIG noted a total of PHP 8,350,000.00 (US\$ 177,659.57) that were transferred from the Global Fund account into the Gen Fund and then invested. Once retired, these amounts were not transferred back to the Global Fund account but were reclassified as Gen Fund and spent by TDF for paying for the construction costs of a building.

189. The OIG compared the average interest rates offered in the banking sector during the period when the short-term investments were made by the PR, and noted that the rates obtained by TDF were significantly lower than those offered by commercial banks at the times when the placements were made. Management represented that they requested for quotes from several banks before they selected the bank to invest in. No documentary evidence of this was available.

190. In order to assess the reasonableness of the interest received from TDF on short-term placements, a comparison was made between TDF and Pilipinas Shell Foundation Incorporated (PSFI), another PR in Philippines which invests excess funds in overnight placements at Citibank. PSFI was able to earn an average of 3 percent on funds invested. TDF on the other hand invested larger sums of money for longer periods of time i.e. from seven to 118 days and only managed to make 0.5 percent on their investments as summarised in the table below.

Principal Recipient	Total Placements(US\$)	Interest earned (US\$)	Average interest rate
PSFI	12,800,392.00	383,530.11	2.996%
TDF	87,588,967.18	432,118.93	0.493%

Table 23: Summary of interest earnings by PR [Source: TDFI & PSFI records]

MDR-TB Laboratory

The rates used to bill the Global Fund for tests undertaken for MDR-TB patients were unreasonable and contrary to the rates approved by the Global Fund in the approved work plan and budget. TDF also billed patients for some tests that it had also charged the Global Fund for.

191. TDF's Programmatic Managed Drug-Resistant Tuberculosis (PMDT) unit within the PR was set up as an SR to TDF. The PMDT unit is responsible for oversight and implementation of programs related to Multi-Drug Resistant Tuberculosis (MDR-TB) under the grants. The PMDT unit is at the heart of TDF's case detection and treatment of MDR-TB. TDF's laboratory provides testing of the MDR-TB patients based on referrals received from six major treatment areas (Makati Medical Centre, Kasaka, Lung Centre of Philippines, Tala, Tayamun and Cebu) as well as private clinics.

192. The TDF management planned to purchase all the required laboratory equipment from their own funds. However, in order to handle the increased load of tests, equipment was also procured from the grant funds to supplement what TDF purchased. At the end of each month, the PMDT provided a report of tests conducted by category to the finance department. This report also served as the trigger for the preparation of an invoice from TDF Gen Fund to the Global Fund program, and the subsequent transfer of money from the SR (PMDT) account to a TDF (Gen Fund) account.

Reasonableness of rates charged

193. From the start of the Round 2 TB grant in August 2003, TDF charged the grant with all expenses incurred by the laboratory in undertaking tests for MDR-TB, with the exception of the material costs. These costs were billed on the basis of number of tests performed against a fixed rate per test set and agreed upon by the Global Fund. These rates were agreed at the time of grant negotiation and were included in the budgets. However, OIG noted that the PMDT department frequently increased the laboratory test rates from those agreed with the Global Fund. There were four different rates applied under the R2, the R5 and the RCC grants. The rate changes were never discussed and agreed with the Global Fund.

194. OIG also noted that there were discrepancies in the rates provided to OIG by the laboratory manager, the rates used in billing and the rates approved by the Global Fund as contained in the budget for the TBC and DST tests. Details are provided in the table below.

	TBC	DST
As per rates of lab manager	946	1763
Rates used in Billings in R5	904	1695
Rates budgeted and approved by the Global Fund	863	1654

Table 24: Extract of billing rates [Source: PMDT records]

195. OIG computed the differences between the actual rates charged and the rates approved by the Global Fund and noted that the Global Fund had been overbilled and had paid PHP 11,832,803 (US\$ 251,761). This amount should be refunded to the Global Fund.

196. OIG reviewed the reasonableness of the rates used in billing the Global Fund program. The rates provided by TDF management revealed that in addition to charging all salaries and overhead costs, TDF management marked up laboratory tests by 30 percent to cover overheads. This charge was unreasonable since all laboratory overhead costs (including a significant contribution to equipment) were being directly paid by the Global Fund. This 30 percent markup resulted in an excess charge of PHP 6,799,400.85 (\$144,668.10) to the grants.

197. In order to test the reasonableness of the costs charged by TDF for the laboratory tests performed on the MDR-TB patients, their rates were compared with other similar laboratories in Manila. The survey conducted by the laboratory in February 2008 showed that the charges of TDF for the tests conducted were higher than the charges levied by the Government Hospital and were lower than the other private hospitals and clinics as shown in the table below. However, it is important to note that the rates charged by the other clinics were all inclusive while TDF's were subsidised.

Tests	Old rates	Revised Rates	MMC Rates	St Luke's	PGH	UST
AFB	344	496	470	532	40	390
TBC	863	1077	1185	2272	300	1650
DST	1695	3303	2520	3820	1310	3795

Table 25: Comparison of test rates [Source: PMDT records]

198. After approval of the rates in March 2009, the decision was communicated to the staff by the accounting manager by email on 31 March 2009. Accounting staff on instruction of management however reversed the actual costs previously charged to the grant amounting to PHP 3,130,293, and instead applied the revised rates to the period between August 2008 and March 2009 amounting to PHP 7,955,927 (US\$ 169,275.04). This resulted in overstated billing of PHP 4,825,634 (US\$ 102,673.06), which should be refunded to the Global Fund.

199. TDF had a plan to carry out the MGIT tests i.e. an advanced level of test on all the procedures performed for testing in the laboratory that covers the screening, baseline and follow-up. However, TDF lacked the capacity to handle the increase in the number of MDR-TB patients. As a result of this, the MGIT tests for baseline and follow-up patients were discontinued.

200. The finance section had initially been advised to apply the rates based on the MGIT tests for all MDR-TB patients but was not advised when the procedures were discontinued. The finance section continued to raise bills for the laboratory tests based on the MGIT rates which are much higher than the DST rates. This resulted in an excess charge to the Global Fund grants under R5 and RCC amounting to PHP 4,603,419.96 (US\$ 97,945.10), which should be refunded to the Global Fund.

Costing mechanisms

201. During grant negotiation between Global Fund Secretariat and TDF management for the RCC grant, there was discussion about development of an

activity costing model that would ensure that TDF would charge reasonable rates for laboratory tests. Effective August 2008, TDF management opted to use the direct cost allocation method where all costs of reagents were paid directly by PMDT. This moved away from the old system where material costs were incurred by TDF and invoices raised to charge PMDT.

202. However, in December 2008, the PMDT program decided to revert to the old system that charged rates per test as opposed to direct charges to the Global Fund grant programs because 'the new system had resulted in a large unutilised budget balances'. This would reflect the attitude of the management team to use the Global Fund accounts as a source of unauthorised additional funding.

203. Between October 2008 and February 2009, TDF appointed InSync (a local consultancy firm) to co-develop an activity costing model. After board approval in March 2009, the model was proposed to the Global Fund Secretariat for review and approval. The Global Fund Secretariat agreed to the application of the rates for a period of 12 months on a test basis, after which a comparison of actual costs against billed amounts would be made in order to inform both parties about the fairness of the rates applied. The OIG however noted that the rates proposed were significantly higher than those charged by the private laboratories in Manila. It is noteworthy that these private laboratories charged less yet they were not subsidised in the way TDF was.

204. However, the revised rate based on the ABC Product Costing put the rates of TDF higher than the rates charged by Makati Medical Centre. The rates charged by the other clinics included all the costs for conducting the lab tests whereas the cost of TDF lab only covered the material costs hence it is not comparable. The OIG further noted that PMDT does not maintain such records as to enable recording of actual costs incurred in operating the laboratory.

205. InSync used certain assumptions to derive the billing rates for the different laboratory tests. These assumptions were in some cases not reflective of the reality at the PMDT laboratory. Examples are provided below:

- (a) The assumption used for the monthly volume of tests far exceeds the monthly average for the last quarter for 2008 resulting in incorrect allocation of all other costs such as labour, indirect labour, power, maintenance, overhead to the different tests;
- (b) The staffing requirements were computed based on approximately 30,000 tests per year yet according to the quarterly average, only 15,732 tests per annum were possible. This has resulted in higher absorption of labour costs thereby increasing the costs per test, and
- (c) The consultant only delivered to TDF an estimation of the costs incurred in undertaking laboratory tests, which was never compared with the actual total operating cost of the PMDT laboratory. Without comparing total actual costs incurred by TDF to the estimated cost of test TDF will not be able to ascertain whether the rates billed for test will cover the laboratory operations.
- (d) Certain overhead costs incurred by TDF have been charged to Global Fund. However, these costs were also recovered through laboratory tests billing to Global Fund resulting in double charge to the grant.

206. The cost templates were implemented effective 31 March 2009 only for the purpose of billing the cost of laboratory tests conducted for the MDR-TB patients to the PMDT under the Round 5 and RCC grants. These cost templates were not linked to the financial accounting system to capture the total costs incurred thereafter and monitor the costs based on actual costs incurred as well as the actual volume of specimens tested in the laboratory thereafter. The process also seems to have been carried out the costing only for the purpose of billing of the laboratory tests to Global Fund under PMDT and not to enable it to do a cost analysis of the costs incurred in the laboratory and assist in decision-making to assist in the review of reasonableness of costs and the scope to reduce them wherever possible.

207. TDF has not been able to ascertain whether the costs for laboratory tests were computed properly and whether there was excess charge or under charge of the costs incurred because of its inability to link the cost templates to the actual data.

Other income

208. The grant agreement states that any revenues earned by the PR or SR from program activities, including but not limited to revenues from “social marketing” activities, shall be accounted for and used solely for program purposes. TDF recovered a nominal amount of fees referred to as donations from MDR-TB patients and deposited these in Gen Fund accounts for undergoing sputum, urinalysis and blood chemistry tests. The amount of PHP 542,126.75 (US\$ 11,534.61) collected had not been accounted for in the grant income of the Global Fund grants. However, TDF used this money for purposes that were not related to the program which is in contravention the grant agreement and it should be refunded.

The National Tuberculosis Prevalence Survey (NTPS)

TDF was contracted by DOH to undertake the NTPS for US\$ 720,000 which would be drawn from the grant funds. The approved budget for the grant however only had US\$ 200,000 for the activity. In addition to the contract amount, TDF drew an additional US\$ 158,982 from SRs to fund the same study. This was done without prior approval from the Global Fund.

209. The National Tuberculosis Prevalence Survey (“NTPS”) was budgeted for US\$ 200,000 as a separate activity under the Rounds 5 of the Tuberculosis grants to be undertaken by the Department of Health (DOH). On recommendation of the TB Technical Working Group (TWG) meeting US\$ 755,405 was provided for the activity by drawing funds from various SRs budget lines under the grant. TDF was one of the entities that submitted proposals to DOH to undertake the study for US\$ 720,000. The TDF bid was accepted by DOH, and the survey was undertaken between 23 July and 12 December 2007.

210. The amount of US\$ 720,000 was transferred into an NTPS account classified as a Gen Fund bank account. In addition, a total of PHP 7,472,171 (US\$ 158,982) was transferred from other bank accounts into that Gen Fund account. This

additional withdrawal of funds was without the approval of the Global Fund or notification of the SRs from whose accounts the funds were drawn. Management justifies this extra unauthorised amount withdrawn in its representation as a charge for having had to increase the survey samples to be tested from 3,780 to 13,372 in order to improve the results of the survey. TDF's explanation does not justify its unauthorised withdrawal of additional funds from SR accounts since (i) the activity was budgeted for only € 200,000 (approximately US\$ 300,000) and the extra amount of US\$ 578,982 is not eligible expenditure; (ii) this activity was not in the SR work plans and budgets (iii) TDF should have followed due process and sought budget re-allocation and approval (iii) Even with the increased sample size, TDF had more than a enough money to cover the study since the actual total costs for running the study was US\$ 98,639.23 against a budget and actual payment of US\$ 720,000.

211. No documentation was provided to OIG to show approval of the alteration of the terms of reference for the Survey prior to transfer of the additional amounts. Instead, after commencement of the Survey, TDF management charged the grant with tests at a cost plus a markup of 30 percent. On the basis of the billing, TDF sought additional funds from the chair of the NTPS steering committee on justification of increased samples from 3,780 to 13,372. The OIG did not find the request justified because TDF undertook the Study as a contractor for a fixed rate. Moreover the actual cost incurred for the study for the increased tests was PHP 4,636,044.15 (US\$ 98,639.23). TDF management should repay PHP 7,472,171 (US\$ 158,982) which was wrongly withdrawn from SR accounts to fund an activity that had been already been charged under another grant program.

Asset management

212. TDF did not have an up-to-date assets register despite having procured a large number of assets by the time of the audit. The controls over the assets was weak as evidenced by a list of equipment at PMDT that did not contain details of the date the equipment was acquired, proper specifications, asset tag, value and the condition of the asset. The equipment listing did not match with the fixed assets records as well as the list of equipment included in the ABC costing model to compute the cost of laboratory tests. Moreover, a physical count of the equipment had not been performed and the results reconciled with the records.

Human resource

TDF had a weak human resources management system that translated the lack of capacity to mean that an increased number of staff were required to manage and administer the grants. The increased number of staff did not translate into enhanced capacity to manage and administer the grants since staff recruited in some cases lacked the requisite skills for their roles, staff lacked adequate policies to guide their work, staff had inappropriate job descriptions and were not well supervised by the management team.

Staffing

213. OIG obtained an organisation chart for the organisation and noted that it did not reflect the actual number of staff employed within the organisation and did not also reflect all the positions contained in the program budget. A review of the HR files also revealed that the recruitment for some key positions was not undertaken competitively.

214. At the time of the audit, TDF had 318 staff on its payroll to manage the Global Fund programs. There were staff recruited to support each grant as opposed to leveraging on the staff capacity already in place at TDF. OIG noted that the work done by staff was often so fragmented that the contribution of staff to the overall program was questionable. TDF also lacked a strong management to supervise the work of the large staff work force often resulting in errors that cost the program money. OIG noted some instances where the resources that TDF deployed were more than the DOH resources e.g. in M&E.

215. TDF had developed a human resources and operations manual which was in draft form at the time of the audit. Job descriptions were not detailed enough to indicate the tasks to be undertaken by each staff member, or the skills and qualifications required for each job. Comparison of the job descriptions and tasks undertaken by the staff showed that there was no direct relationship to the job descriptions and tasks assigned to staff. From OIG's review of personnel files and interviews with staff, there was no formal evaluation of staff performance and yet a performance bonus was paid out from grant funds.

Settlement of staff salaries

216. TDF has used several modes of settlement of staff salaries. Between 2003 and mid-2007 payroll expenses were charged to Global Fund grants and the corresponding amount of funds transferred to a Gen Fund account, from which transfers would be made to staff accounts. Between August 2007 and June 2009 estimates of payroll computations were used to advance funds to the Gen Fund accounts. After actual settlement of salaries, an accountant was meant to reconcile the advances made from each grant and amounts payable or receivable by each grant should have been transferred.

217. After June 2009, a buffer fund was created in the Gen Fund account, to which each grant made contribution. At the payroll date, salaries are settled from the buffer fund, which is replenished by each grant on the basis of actual payroll expenses per staff. The buffer system resulted in the payroll being run on an 'imprest' system with the Global Fund having had to put up a salary buffer fund upfront amounting to PHP 7,396,272.63 (US\$ 157,367.50). Since the end of the audit field work, TDF has refunded these funds to the Global Fund.

218. TDF management could not provide to the OIG the total amount of funds transferred into the Gen Fund for staff salaries. As a consequence, the OIG could not obtain assurance that the amounts charged to the grants as salaries were actually paid to staff.

219. The OIG was not provided with evidence that the set up of buffer funds in June 2009 was approved by management. The buffer fund transfer and settlement was processed as a journal voucher entry in the general ledger module, and not through the accounts payable/receivable module of the ACCPAC accounting application. This setup cannot be easily monitored to identify balances owing between the different grants and the Gen Fund from which actual payments are made to staff bank accounts.

Salary payments

220. A review of payroll entries revealed multiple reversals, re-classification/re-allocation and adjustments in payroll expenses which were made in subsequent periods, without appropriate support documents. These adjustments render the initial payroll computations incorrect and without any document to show reasons for the changes the OIG could not establish the intentions of the numerous alterations. It also implies that the reports initially provided to third parties like the LFA and the auditors were not reliable. The errors also reflect the competence of the staff in the accounts department and/or the lack of adequate review within the accounting system to ensure accuracy.

221. According to the human resources manager, the personnel costs are allocated to grants on the basis of the employee's level of effort to each grant. Staff did not maintain time sheets to support the salaries charged to the different donors and grants. In the absence of a formal policy on shared program costs and personnel activity reports, the reasonableness of the charge to the Global Fund programs and across grants could not be verified.

222. At the end of each month, the human resources department prepares a payroll summary to allocate staff salaries by grant and donor. The allocation of salaries is guided by a memo. The OIG compared the payroll summary against the allocation memo and noted that there were more TDF personnel whose time is allocated to Global Fund grants than those in the memo.

223. OIG also noted that the staff records were not updated on a timely basis. During the audit, OIG noted that there were four staff members included in the payroll computations but not included on the HR employee master list nor included in the list of people who had resigned. OIG later noted that three of the employees had resigned and were not included in the list of resignees and one had just joined and had not been included in the master file. OIG also noted some instances where staff that had left TDF continued to be paid due to HR's failure to notify the payroll department regarding the end of their contract/resignation.

Service incentives

224. A review of service incentive revealed that although service incentives were included in the PR budget for an equivalent amount of one month for each year, this amount was not paid in its entirety to staff upon resignation. As opposed to paying out the actual amount budgeted, i.e. one month for each year worked, the actual payout of service incentive is computed as follows:

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1 year	10% x 1 mo pay x 1 year
2 years	20% x 1 mo pay x 2 years
3 years	40% x 1 mo pay x 3 years
4 years	50% x 1 mo pay x 4 years
5 years	100% x 1 mo pay x 5 years

Table 26: Formulae for computing service incentives [Source: TDFI records]

225. The above computation indicates that employees were not receiving the service incentive in full in accordance with the budget (i.e. approved by the Global Fund Secretariat). Re-computation of service incentives for employees who had left as at 31 December 2008 indicated unpaid service incentives amounting to PHP 642,858.26 (US\$ 13,677). These amounts were not returned to the grants but retained by TDF within the Gen Fund account.

226. A review of the service incentive accrued up to 31 December 2008 revealed that there is an excess of PHP 575,041.88 (\$12,235) which could not be attributed to a list of staff or specific grants. The OIG noticed that amounts are charged to the grants without appropriate support documents, which makes re-computations and reconciliation difficult. The overpaid and unsupported service incentive amounts are owed to the Global Fund and after updating the service incentives computation, the amounts owed should be repaid to the grant funds.

227. The short-term investment relating to severance amounting to PHP 3,064,501 was made with BPI Bank on 15 October 2008 with the instruction to the bank to roll over the placement until to 22 July 2009. This investment had grown to PHP 3,138,100 at 20 May 2009. Instead of retiring the placement per Global Fund instructions, TDF management opted to reclassify it as a Gen Fund investment. TDF management explained that these funds were accrued for all staff working on Global Fund programs because they are contract workers. These amounts are payable at the end of each contract. Management however explained that these amounts were not paid to staff at the end of each contract in order to motivate staff to stay with the programs.

Staff advances

228. Staff received advances to undertake program activities as well as for personal reasons. Deductions were made from staff salaries to recover personal advances. However, in one instance, a staff member that was terminated left without clearing their loans and the service incentives was not adequate to recover the amounts owed.

229. In the case of program-related advances, staff were able to withdraw additional advances without having liquidated prior advances taken. At the time of audit, HR informed OIG that some staff had lost large amounts of program money after their desk drawers were broken into and the money stolen.

Sub-recipient management

230. TDF did not have a manual that set out the mandatory systems, policies and procedures that SRs responsible for implementing grants were obliged to comply with. This resulted in significant internal control weaknesses at SR/SSR level and exposed Global Fund resources to the risk of loss. In addition to this, OIG noted that TDF did not have a memorandum of understanding signed with the DOH. There was also no detailed budget for the Round 6 malaria grant provided to the DOH.

231. OIG also noted that TDF micromanaged its SRs in as far as it managed the bank accounts of its SRs (some 34 accounts). Management represented that this was in order to enforce control. However, best practice in such instances recommends that capacity be assessed and interventions identified to address weaknesses noted. The management of SR accounts resulted in TDF's authorised withdrawal of funds from SR accounts as already highlighted.

232. The grant agreement between TDF and World Vision as sub-recipient for Round 5 Phase I and R2 ended on 31 December 2008. The OIG noted that the bank accounts for the Round 5 grant were not closed nor was the fund balance of €50,477.69 transferred to the RCC grant bank accounts at the time of the audit i.e. 1 September 2009. The observation points to weak controls over treasury as Round 5 program funds that should have been consolidated with the RCC grant remained idle in a bank account. TDF management has provided documentation showing that these amounts have since been transferred to a Global Fund grant account.

233. The PR charged unbudgeted expenses to SR program budgets. Transfers of the above funds were made to TDF's Gen Fund account and subsequently used as part of the costs for the National Tuberculosis Prevalence Survey. In the case of World Vision, a letter was written by TDF advising that the transfers to TDF were to be charged as monitoring & evaluation costs. For Philippine Coalition against Tuberculosis (PhilCAT) there was no documentation but funds were drawn by TDF from funds held in trust on behalf of the SR. The NTPS expenditure was not budgeted to be undertaken by the SR and should not have come out of the SR budgets. The details are shown in the table below:

Sub-Recipient	Date	Amount
World Vision	23 June 2008	EURO 16,911.58
PhilCAT	18 July 2007	US\$ 200,000
PhilCAT	27 September 2007	US\$ 100,000
PhilCAT	9 July 2008	EURO 25,846.74
PhilCAT	15 December 2008	EURO 18,844.76

Table 27: TDF drawings from funds held on behalf of SRs [Source: TDFI records]

Procurement and supply management

234. TDF was assessed by the LFA as lacking the capacity to procure health products. TDF therefore had to procure health products through a procurement agent. The OIG noted that the services of procurement agents were used by the three PRs under the Global Fund grants for procurement of pharmaceuticals, health products and equipment. The procurement agents included: WHO, UNICEF and IDA Foundation (IDA). TDF was however involved in the procurement of non-health products and services. Although the use of procurement agents guaranteed

quality-assured products, there was no evidence seen of the agent building capacity within the PR for the eventual transfer of this responsibility.

235. Prior to August 2008, TDF did not have documented policies and procedures to guide procurement. These were subsequently developed by InSync and approved by the board of trustees dated 18 February 2009.

Planning

236. As a part of the PSM plan COBAC was not expected to procure ARVs, ACTs and TB drugs during the first two years of the Round 6 grant. The Round 5 PR, TDF was to continue supplying ARVs to DOH during this period. The OIG noted problems in forecasting under the Round 5 HIV grant which led to wastage as ARVs expired, as well as notable delays in procurement of anti-TB drugs.

237. OIG also noted inconsistencies between the budget and the approved procurement plan for HIV R6 Phase I (July 2007 – July 2009). The procurement budget stands at US\$ 4,533,691 while the PSM plan shows US\$ 3,427,815.62. The lack of uniformity is a reflection of poor planning on the part of the PR.

Procurement

238. Advances provided to the procurement agent in line with the purchase order were accounted for as expenses in the books of account as well as for reporting purposes in PUDR. There was no monitoring mechanism available to track these advances to ensure liquidation within the stipulated time after delivery of goods. A transfer was made for procurement of Capreomycin from WHO for which a quotation of \$35.95 per unit was given. The PR procured the same item at \$3.21 per unit from IDA. At the time of the audit, management could not provide documentation to show that WHO refunded the funds advanced. Under the current system, the procurement agents provides statements to TDF. Other examples are given below:

Date	Particulars	Procurement Agent	Amount PHP	Amount US\$
25 Sept 08	Procurement of 2 nd line TB drugs.	IDA	17,445,468	371,180
16 Jun 08	Procurement of 2 nd line TB drugs.	IDA	19,283,546	410,288
19 July 09	Procurement of 1092 vials of Capreomycin 1g.	WHO	2,187,499	46,542
6 Aug 2004	Procurement of 2nd line Anti-TB Drugs	WHO	14,970,823	318,528

Table 28: Advances made to procurement agents [Source: TDFI records]

239. For several procurements listed in the record of procurement undertaken, such as these highlighted below, the OIG could not obtain purchase requisitions, purchase orders, official receipts from WHO, invoices, nor goods-received notes. There was only a voucher as proof of payment on the file. OIG could not verify delivery of the drugs by TDF as stock cards for the period before June 2007 were not available for review.

Reference	Description	Remarks
CV#11179 dated 8 June 2004	2 nd line Anti-TB drugs from WHO	Various drugs. Payment directly made through bank transfer to WHO.
CV#17530 dated 26 April 2006	2 nd line Anti-TB drugs from WHO	Various drugs. Payment made directly to WHO through bank transfer.

Table 29: Procurement without formal requisition [Source: TDFI records]

240. An RFP for the development of a quality assurance manual was prepared by the procurement department and circulated to six consulting firms including InSync. A review of the technical evaluation undertaken revealed that the criteria was not applied consistently e.g. a local accounting firm was rejected on the basis that it lacked an ISO 9000 consultancy experience. Yet InSync was selected although it did not provide evidence that it had such certification.

241. There was no proper mechanism within TDF to monitor the activities of the consultants under the service contracts. The steering committees required to monitor and implement the activities of the consultants for each of the service contracts had not been formed. Payments were made based on requests made by the consultant without confirmation that the deliverables required were submitted and accepted by the responsible staff at the foundation. Additionally, payments were not linked to deliverable but on specific dates.

Storage

242. The malaria program has a separate stores department with four staff who oversee drugs and medical supplies stock movement within the different warehouses and treatment centres. The department implemented the Integrated Modular System (IMS) in January 2009. OIG noted that the IMS is not yet functional as the opening balance is yet to be entered into the system. At the time of the visit on 20 August 2009, the IMS could not give a balance of stock.

243. The TDF-HIV unit also operated a separate inventory management department with two staff. Inventory records were maintained in MS Excel, which is not adequate given the size and complexity of the logistics management system.

244. Goods procured by TDF under TB, malaria, and HIV programs were directly delivered at different warehouses maintained at DOH-central warehouse, regional health centres, suppliers' premises, and at TDF-controlled stores. Separate warehouses were maintained by TDF for TB and malaria drugs and medical supplies.

245. The documentation for control of drugs and medical supplies at the warehouses was inadequate. There was no documentation for items delivered in most of the cases. Where such documentation existed, it was not duly signed by the responsible officer to acknowledge receipt. For the drugs stored in the cold room of one supplier, Zuellig pharma on behalf of TDF, there was no formal documentation for terms of storage. The OIG was informed that drugs were stored on the basis of mutual trust.

246. The OIG noted a case where Stop TB Kits that had been handed directly to DOH warehouses by the supplier and there were no inventory records maintained at TDF. Although efforts were in place to maintain a monitoring summary sheet by the procurement assistant it did not cover all the procurements made under different Global Fund rounds.

247. The TDF-TB (PMDT) warehouse located at ERECHEM building (near TDF office) maintains inventory records in Web ERP system (since 1 June 2006) and handles the movement of TDF drugs stored at four warehouses namely, DOH-Pasig City, CHD Quirino, Zuellig Pharma and PMDT warehouse.

248. Treatment centres send requisitions for supplies by email to the PMDT coordinator for approval. The PMDT coordinator then sends the requests by email to DOH warehouses by email. The delivery note prepared and approved by DOH staff is then signed by the receiving officer. There was no record of the stock issues and balances at PMDT as issues and approvals are only recorded in emails. There was also no control system that allows the review and control of MDR-TB drugs procured from Global Fund resources and distributed through the warehouses at DOH.

249. The PMDT stores department was overseen by a manager and four officers. The web ERP system was used to control the movements of inventory located at different warehouses. The manager was responsible for recording receipts and movements through the system. Recording of the stock movement was based on the purchase requisition (received through email) and not based on the actual delivery note issued by DOH.

250. The stock movement recorded at the PMDT stores could not be validated in the absence of the delivery note approved by the PMDT coordinator. Stock cards for the drugs procured before 1 June 2007 were not available both at PMDT stores and also DOH warehouses. In the absence of the procurement of drugs made before 1 June 2007 could not be verified.

251. Discrepancies were noted in the following cases during physical verification conducted on 28 August 2009 at DOH-Pasig City, where the physical stock count did not tally with the book balance:

Stock ID	Item	Book balance	Physical balance	Difference	Unit Price (US\$)
1106001	Pyrazinamide 500mg. 100's (1st line drug, R5) Pharex	21	Nil	(21 units)	21.26
1101013	Streptomycin 1g Powder for inj (50 vials/box)	227	276	49 boxes	11.34
1105025	Streptomycin 1g Powder (R5)-vials	40010	30910	(9100 vials)	0.23
1105041	Paser PAS acid 4g aminosalicic acid 30's R5	377	252	(125 units)	61.25

Table 30: Discrepancies in stock balances [Source: TDFI stock records]

252. In the cases listed below quantities were deducted from stock balances as adjustments. The OIG was not provided with any documentation to support the adjustments. In the absence of appropriate support for adjustments it is not possible to rule out loss of drugs.

Stock ID	Item	Qty	Unit	Nature of adjustments	Unit Price (US\$)
1106002	Ethambutol 400mg. 100's (Pharex) 1st line, R5	48	boxes	stock check (Ref 2513 dated 22.6.09)	32.60
1105028	Kanamycin 1 gram powder for Injection 50's (Round 5)	43	boxes	stock check (Ref 2520 dated 22 June 2009)	35.14
1102002	Pyrazinamide 500mg. 1000/canister)	26	canister	stock check (Ref 2507 dated 20 June 2009)	

Table 31: Unsupported stock adjustments [Source: TDFI stock records]

253. The OIG noted that there was no oversight over the distribution of TB drugs (Stop TB kits) procured under the Global Fund at the provincial and city levels. The TB drugs (Stop TB kits) are delivered directly at DOH central warehouse by the supplier under the Global Fund procurement made by TDFI. The grant agreement gave responsibility for monitoring delivery of drugs to the intended recipients to the PR. Cases of irregularity noted were:

- (a) One consignment of 24 kits of Stop TB drugs delivered from CHD IV-B to public health office (PHO) was not recorded at PHO Palawan.
- (b) 19 kits of Stop TB drugs issued by PHO Palawan to Brooke's Point regional health unit (RHU) in the month of June 2007 whereas RHU received only 12 kits in the month of July.
- (c) 300 kits were issued from CHD IV-B warehouse under description "donation to German doctors". No documentation of justification could be provided to the OIG to explain the nature of this occurrence.
- (d) Stock cards were not maintained at Brooke's Point RHU and City Hospital whereas at PHO Palawan the stock card were maintained in pencil and stock movements had been tampered with.

254. The OIG noted poor inventory control at the MDR-TB Treatment Centre located at Makati Medical Centre (MMC). Stock cards were not maintained for drugs received from the regional warehouses until June 2009. The existing stock cards maintained (from July 2009 onwards) for drugs were not reliable as the quantity issued from the stock card could not be verified with the data maintained on computer Excel sheets i.e. monthly actual consumption sheet per patient for each drugs.

255. In addition, a physical count of Amoxicillin gave 1,400 units whereas the records showed stock balances of 3,100 Units. This indicates 1,700 units of Amoxicillin that could not be accounted for. Review of stock issues also revealed several disparities between the record of quantity issued per stock card and that in the monthly consumption sheet. Results of two samples taken for July 2009 are summarised below.

Name of drugs	Quantity Issued as per Stock card	Quantity issued as per monthly consumption sheet	Difference
Ofloxacin 200mg	2,400	15,840	13,440 excess issued
Amoxicillin 500mg	300	807	507 excess issued

Table 32: Stock discrepancies [Source: TDFI stock records]

256. The stores manager informed the OIG team that some drugs returned by treatment sites were re-issued. However, no records were maintained to substantiate and reconcile the differences.

Record keeping

257. TDF's filing system for procurements undertaken was not standardised with documents relating to contracts i.e. the selection process, award, contracting, submission of deliverables and payment being maintained on separate files. As a result, retrieval of documents was cumbersome and time-consuming. For example, OIG was not provided with evidence that InSync completed all the activities as stated in the contracts.

Logistics Management Information system

258. Although the grant agreement for the Round 6 grant included a requirement to develop and implement a Web-based management information system (WMIS), this software was not fully functional. With the failure to implement the WMIS, the supply chain management information system remains weak and there is no effective stock monitoring.

259. Except for Receipt of Inventory Verification (RIV) which the recipient gets upon delivery of medical supplies, there was no flow of inventory information upwards from end-user level toward warehouse and the central level. If there are no such feedback reports, there is no mechanism for adjusting the required quantity in the subsequent procurements to avoid overstocking/understocking and wastage of resources.

Conclusion

260. From the audit, the OIG identified a number of instances where material amounts were drawn from the grant funds and used for purposes outside the grant agreement. In accordance with Article 27 of the standard terms and conditions of the grant agreements between TDF and the Global Fund, the OIG recommends that the Global Fund Secretariat recovers for TDF the amounts summarised in the table below:

Paragraph Reference	Detail	Amount (PHP)	Amount (US\$)
195	Overcharged laboratory test fees	11,832,803.00	251,761.77
198	Laboratory tests rates that were applied retrospectively	4,825,634.00	102,673.06
200	Billing for tests that were not	4,603,419.96	97,945.11

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	conducted		
208	Amounts billed to patients for tests paid from grant funds	542,126.75	11,534.61
211	Excess costs charged for the NTPS	7,472,171.00	158,982.36
217	Excess funds drawn for salaries	7,396,272.63	157,367.50
182	Net amounts repayable from reconciliation of Gen Fund	58,327,749.61	1,241,015.95
	Total	95,000,176.95	2,021,280.36
	Repaid amount		(255,312.61)
	Net amount refundable		1,765,967.75

261. In the addition to the amounts in the table above, TDF should provide to the Global Fund an updated schedule of service incentives accrued at the date when the grant agreements were terminated. From these computations, an update of the amounts identified by the OIG in paragraphs 225 and 226 as owing to the Global Fund should be repaid.

Disease-specific systems that support program implementation

Service Delivery

HIV/AIDS

The fourth HIV/AIDS Medium-Term Plan for the Philippines (2005-2010), developed by the Philippine National AIDS Council (PNAC), is the national response to HIV and AIDS in the country. It recognises that the number of individuals practising high-risk behavior is high; the level of awareness on HIV/AIDS prevention among most-at-risk groups, young people and the general public is low, and that discrimination and stigma against people living with HIV/AIDS (PLWHAs) is high. Most of the recommendations offered in this section of the report are for the CCM to consider when submitting further grant proposals.

262. The Philippines is a low-prevalence country with the current national HIV prevalence rate reported at 0.002 percent, with a 0.08 percent rate among the most-at-risk populations (MARPs). Reports show that from 1984 to March 2009, the cumulative number of registered cases is 3,760 and an estimated 7,490 people (2007) are living with HIV (PLHIV).

263. There has been an increase in the number of cases reported per month from an average of only 10 new cases in 2002, to an average of 20 new cases per month at the end of 2004. This has rapidly risen to 60 new cases per month in 2009. High risk groups (injecting drug users, men having sex with men (MSMs), female sex workers (FSWs), male clients of FSWs) account for only 26 percent of the total HIV prevalence (2005 HIV Estimates in the Philippines, Department of Health). This supports a concern raised by program managers with OIG that the HIV pandemic may be slowly moving from being localised among MARPS, especially in Manila. Moreover, the number of cases reported is likely to be an understatement of the reality. OIG notes that the National HIV and AIDS Registry records only reported cases and yet, even among vulnerable groups, only a few individuals are tested for HIV. Many articles have described the epidemic in the Philippines as “slow”, “hidden” and “growing”. The latest behavioural survey released in December 2009 showed that HIV prevalence after many years of latency has surfaced in a significant proportion of the MSM population and injecting sex workers in certain parts of the Philippines.

264. The goals of the national program are aimed at (i) maintaining the HIV prevalence at less than 1 percent among the target groups; (ii) reducing STI prevalence by 50 percent among people in prostitution (PIP); (iii) delivering voluntary counselling and testing (VCT); and (iv) support, care and treatment to 40 percent of the HIV-positive population by 2008. At the time of the audit, the third round of the Integrated HIV Behavioural and Serologic Surveillance (IHBSS) Survey was under way and is measuring the achievement of these goals.

265. The CCM proposals to the Global Fund under Rounds 3 and 5 targeted MARPs and PLWHAs. MARPs in the Philippines HIV/AIDS program are people in prostitution

(PIPs), men who have sex with men (MSMs), migrant workers (MWs) and injecting drug users (IDUs). The programs targeted only a small proportion of MARPs who are registered. OIG noted that during its field visits that it appears likely that the unregistered freelance sex workers outnumber those that were registered and yet they were not targeted by the public HIV/AIDS and STI services.

Recommendation 25 (Significant)

Given the evolution of the HIV/AIDS epidemic, future programs need to be scaled up to cover prevention activities that target all subgroups of the most-at-risk population. The prevention and treatment services activities designed for commercial sex workers should be extended to those not registered.

266. Although migrant workers (MWs) are consistently mentioned as a target population in the CCM proposal and the reports made to the Global Fund, HIV/AIDS activities targeting returning migrants are not clear. The migrants' desk at the Department of Labour was not well supervised and no HIV/AIDS interventions were reported. There may be a need for enhanced and effective involvement of a few key sectors involving labour, overseas work, police, etc. The OIG was informed that current initiatives are targeting departing migrant workers through the Philippines Overseas Employment Administration (POEA) by providing them with prevention messages, specifically about risky behaviour. Limitations have been recognised in addressing returning migrants due to difficulty in accessing them aside from their own employment agencies.

267. Use of illicit intravenous injections is against the laws of the Philippines. However, OIG learnt that a civil society SR was using Global Fund resources to distribute needles and injections to IDUs. The apparent contradiction between law and policy needs to be resolved to allow Philippines to better address the emerging epidemic of IDU-related HIV and adhere to GF requirements. The OIG suggests that the PR should work towards developing a supportive policy and regulatory environment for individual intervention for this vulnerable group. The OIG was informed that the issues raised here have been brought to the attention of the DOH by the HIV TWG and the Dangerous Drugs Board but no action has been taken to date.

HIV/TB integration

268. From 2004, the WHO recommends that HIV and TB disease control programs incorporate testing, diagnosing, treatment and care for both diseases. The NTP and ACP are participating in the HIV/TB collaboration coordination committee under DOH to develop the convergence of HIV and TB programs. Currently technical guidelines are being set up but HIV testing among TB patients is not institutionalised and is rarely done at the TB-DOTS facilities. The OIG did not see any evidence of HIV/TB integration at implementation level with HIV patients not being routinely tested for TB and vice versa and there was no recording for TB testing at VCT centres. Current reports from TDF show that no TB patient has been detected with HIV for the past year. In addition, no data is available for HIV patients with TB.

269. The OIG was informed that the HIV/TB integration was commenced in 2006 with the establishment of a HIV/TB collaboration committee between NTP and the National AIDS STI Prevention and Control Programme. The committee developed guidelines for screening of HIV among TB patients and TB among HIV patients. Since Philippines has high prevalence for TB but low prevalence in HIV, the guidelines were to provide HIV counselling and testing in DOTS facilities in selected areas. The PR has committed to revise the TB register to capture the data for HIV/TB initiatives and also standardise screening of TB among HIV patients.

Recommendation 26 (Significant)

DOH should quicken the process of TB and HIV program convergence. For instance, the TB register should be modified to capture co-infection within the surveillance system while ensuring that double counting by the HIV/STI program does not occur. All patients with HIV should be tested for TB.

Prevention measures

Local responses to HIV/AIDS are at the core of the national HIV/AIDS prevention and control program. This involves multisectoral collaboration between local government units, civil society groups, and people living with HIV/AIDS. Local HIV/AIDS ordinances have been enacted and indeed some of the cities are providing funding for HIV/AIDS activities.

270. HIV/AIDS stigma is widespread even within health care institutional settings and thus may be constraining communities from testing for and disclosure of HIV status to access care, treatment and support. Field visits showed that high levels of HIV/AIDS stigmatisation existed within the community and even among program leaders. One of the provincial health managers remarked on HIV as a disease of the “those immoral people”. Effort is needed to reduce stigma within the civil society and health establishments or facilities.

271. Whereas some local governments have passed ordinances to protect and ensure service availability for PIPs and MSMs, this is not the case in others. In Palawan, a Pop Shop to sell condoms was closed by the local authority because it was run by MSMs. Also, the placement of HIV clinics in already stigmatised SHC and the physical and social isolation of clients on special clinic days affects access to services.

Condom use

272. Sexual transmission accounts for over 84 percent of reported HIV/AIDS cases in the Philippines. Condoms are the only effective barrier method for the prevention of sexually transmitted HIV infection and other STIs. A review of studies undertaken show that clients of sex workers do not consistently use condoms. Effective national condom programming in Philippines is essential though it is still hampered by a strong Catholic standpoint of leaders at various levels of government.

273. The targeted number of condoms procured by the Global Fund was extremely low. Procurement of condoms was delayed thus affecting program

implementation of activities. Results from ASP show that supplies to existing outreach clients were insufficient to meet the need and that condoms from the Global Fund programs were only used as training aids for new clients. For example, only three condoms are planned for each registered female sexual worker per week. Alternative condom distribution strategies such as social marketing and peer distribution (Pop Shops), have been put in place to supply low-cost condoms but these are limited to registered MARPs.

274. There are no clear linkages of condom planning to other program strategies including: voluntary counselling and testing (VCT); prevention of mother-to-child transmission (PMTCT); sexually transmitted infection (STI) treatment; and antiretroviral (ARV) treatment programs.

Recommendation 27 (Significant)

There is a need for comprehensive national condom programming. The programming would also determine the demand, condom need and the support needed such as management, links with other partners and programs (especially rural health), monitoring and evaluation, and quality assurance. There may be need for advocacy for opinion leaders to destigmatise the procurement, advertisement and distribution of condoms.

Voluntary Counselling and Testing

275. Voluntary counselling and testing (VCT) services are an essential early entry point to social support services and medical and associated care for those infected with HIV. Availability of VCT services helps to reduce stigma surrounding HIV and encourages community support and care for those affected. OIG observed that the program has increased the availability of testing services.

276. However, these VCT services are only provided at SHC. Yet most stakeholders recognise that prevalence is increasing among “non-MARPs”. The SHC workers interviewed believed that the unregistered sex workers outnumbered those registered but this group was not targeted and mobilised for HIV testing services at the SHCs. The testing should adhere to the international norm of 3Cs: counselling, confidentiality and consent.

277. The quality of HIV/AIDS counselling for testing was questionable in that counsellors interviewed are only trained in pre-test counselling, and not in post-test, couple or pregnant woman counselling.

Recommendation 28 (High)

There is need to make voluntary HIV counselling and testing services widely available to the population at risk within and outside health facilities. This would be assisted by clear guidelines to promote client-initiated VCT outside health facilities.

Prevention of Mother to Child Transmission

278. At the time of the audit, the national program funded by the Global Fund searched for and targeted only 10 HIV-positive mothers for prevention of mother-

to-child transmission (PMTCT) services, which appeared grossly inadequate. The PMTCT strategy has been redesigned with a draft produced during the audit period. A four-pronged approach to strengthen the PMTCT programming in the country has been proposed to ensure linkage with other health care programs in the country.

279. HIV testing in antenatal services has not been institutionalised as per the indicator “Number of facilities providing ANC services which also provide CD4 testing on site, or have a system for collecting and transporting blood samples for CD4 testing for HIV-infected pregnant women”. A protocol for early infant diagnosis of HIV requires to be established including referral facility of viral load testing and polymerase chain reaction (PCR) test.

Blood safety program

280. The blood safety program has been well implemented with outstanding achievements. However, there is concern regarding the quality of test kits. For example, reports from the program’s technical component manager showed that out of 609 blood samples referred for confirmatory HIV testing from the 23 blood safety sites, only 74 were confirmed positive during the year 2008. On average, only one out of every 10 blood samples donated that tested positive for HIV using the Elisa Method (EIA) was positive on confirmatory testing. While such low positive predictive value may be expected in low prevalence settings, there is a need to review why this is happening.

Data collection and reporting

281. LGUs do not have adequate systems in place for information collection, analysis or feedback for monitoring their efforts as required in the national Plan. Data reported at national level also varies from document to document. There is no explicit national M&E plan covering the HIV/AIDS response in the health sector.

282. Support supervision is weak with only six field visits carried out by the M&E team to date. In addition, there is no written feedback to sites or local governments on analysis or interpretation of the information collected at the National Epidemiology Centre (NEC). There are deficiencies in the reporting especially on VCT uptake, wide variation in reported PHLAs and unclear performance of the ART program in the country.

Recommendation 29 (Significant)

The M&E data management process should be embedded in the devolved health system structure especially at municipal level. Facilities and providers need more regular support and supervision, with timely feedback.

Tuberculosis

The Philippines is ninth among the 22 high-TB-burden countries in the world with an estimated TB incidence of smear-positive TB cases of 133/100,000 population. The National Tuberculosis Control program (NTP) in the Philippines is well established under the National Centre for Diseases Prevention and Control (NCDPC)

in the Department of Health (DOH). The central level has responsibility for planning and procurement of anti-TB drugs, based on the needs assessments provided by regions.

283. The DOH is the policy-making body and provides standards and guidelines on TB control. It is responsible for supervision and monitoring of the DOTS strategy of the TB program through the NTP central office as well as through regional offices. The program is implemented by the local government unit health offices at the city and municipal levels provided with technical support from the NTP and the CHD through the regional TB coordinators.

284. It is estimated that more than one-third of TB patients seek treatment through the private sector in the country. In partnership with the Philippine Coalition against Tuberculosis (PhilCAT), DOH pioneered a public-private mix DOTS (PPMD) strategy which involved increasing certified private DOTS facilities. This is reported to have contributed to the increase in case detection by between 2 and 18 percent since 2004. The current case-detection and cure rates are reported at 76 percent and 89 percent respectively, which is well above the targets set by WHO.

285. NTP has established programs for special groups notably for prisoners and children. A multisectoral childhood TB task force, formed in 2002, has led the development of childhood TB policy, technical guidelines and activities within DOTS context.

286. In 2003, TB DOTS Outpatient Benefit package was developed through the Philippines Health Insurance Cooperation (PhilHealth) to support sustainability of PPMD. The insurance covers diagnosis and treatment in the registered private sector facilities. Under the package an accredited DOTS facility is paid for services provided to TB patients. This package is currently available to the new TB cases in the adult population. The Global Fund program is providing financial incentives termed as 'enablers' or refunding transport costs to MDR-TB patients coming for treatment at certain facilities. There is a need to develop clear indicators of measurable programmatic benefit and also to review for sustainability.

Recommendation 30 (Significant)

The use of enablers in form of cash handouts should be revisited and plans for sustainability should be developed with indicators to track measurable benefits.

287. The DOTS Plus for MDR-TB was started in the private sector under the Tropical Disease Foundation (TDF) in 1999 and its Makati Medical Centre (MMC) clinic is considered a centre of excellence. In 2004, DOH established the Lung Centre of Philippines (LCP) as the government facility to gradually gain expertise from MMC and become the national centre for DOTS (+) servicing provincial hospitals.

288. Notification data shows that there are persistently poorly performing geographical areas or CHDs for the past three years without clear efforts to investigate and address the poor performance. These include CHD 9 – Zamboanga Peninsula, CHD 4B MIMAROPA with indicators generally below the national average.

The OIG has been informed that in responding to the low case-detection rates in some areas, the NTP has initiated strategies on PPM, on laboratory strengthening through external quality assessments (EQAs), social mobilisation activities in collaboration with NGO partners, on quarterly regional monitoring by CHD coordinators, and refresher and boosting courses on DOTS.

289. In the compendium of TB indicators WHO suggests that the percentage of TB suspects who are found to be smear-positive should be around 10 percent. Based on NTP DOTS policy and the WHO DOTS strategy, TB symptomatics (with cough for at least two weeks) are referred to the DOTS centres for sputum microscopy. This is meant to diagnose TB patients in the early stages of the active disease. Patients with negative sputum exam results and clinical symptoms consistent with TB patients are subjected to chest x-ray and this is reviewed through a TB diagnostic committee (TBDC). The OIG however noted that at several TB treatment sites more than 10 percent of the suspected cases are referred to TB sites for sputum examination without prior screening using x-ray which may indicate that referring clinicians only send those patients at advanced stages of TB. This was notable in CHD 4A – Calabarzon and CHD 6 – Western Visayas where the rate is above 20 percent.

Recommendation 31 (High)

NTP data analysis should trigger actions which may include refresher training of clinicians especially in the private-sector facilities and increased support supervision to weak performers.

290. TB is one of the major public health problems in the Philippines with the DOH website reporting that almost two thirds of the population has been exposed to TB. The OIG noted that there is scope to increase the prominence of public awareness so as to improve treatment-seeking behaviour.

291. Data collection on TB DOTS has been well integrated within the NEC system and regularly linked with the NTP. Laboratories with TB diagnostic capacity are available in each municipality health centre, with a site serving approximately 30,000 people (100 percent coverage). The few laboratories visited were not over-burdened by clients and had adequate reagents and consumable stock.

292. TB diagnostic committees (TBDCs) were formed to improve the diagnosis and management of smear negative TB cases and serve as a mechanism to engage private physicians in the NTP. These have not been adequately funded and in one city visited by the team, the committee, which was supposed to meet quarterly, had not convened in over six months. This suggests that smear-negative TB patients were not being started on treatment on a timely basis. The OIG was informed that support to the TBDC is mainly through the local government unit and if available through project partners like Global Fund. Part of the PhilHealth TB Package reimbursement is in support of the TBDC activities; NTP policy is for the TBDC to convene twice a month and this is the current practice by the majority.

Recommendation 32 (Requires attention)

Based on the widespread TB burden in the Philippines, there is a need to increase and revitalise the coverage of TB diagnostic committees (TBDCs) from the current 60 percent.

293. There is community mobilisation for TB through the “Kusong Baga Project”. Under a Global Fund sub-recipient, World Vision for Development Foundation has helped in forming TB support groups. These TB task forces are composed of community volunteers whose main task is to educate communities about TB and help in referring TB suspects at grassroots level. In one of the areas visited these volunteers were present but lacked adequate support in form of sputum cups and protective wear. Lack of sputum cups suggests that specimen is not collected from suspected cases.

294. Having treatment partners is a mechanism to ensure adherence. The treatment partner provides support to a TB patient through health education and daily drug intake. The treatment partner also signs the TB patient’s ID card every time he observes the drug intake. On enrollment to the DOTS program, TB patients are also required to have treatment partners whether this is the health centre staff or community volunteers. PMDT is still in the process of expansion and mainstreaming so it is expected that the community volunteers are yet to be involved on MDR-TB management.

Recommendation 33 (High)

There is scope to extend the benefits of community mobilisation through “Kusong Baga Project” to support treatment adherence activities at the grassroots level.

MDR-TB

295. Significant progress has been made in policy formulation and planning guidance to increase the capacity for DOTS (+). However, the program is still confined within TDF with all the satellite MDR-TB centres reporting to TDF through an information system separate from the national M&E system. Consequently, there is no flow of data between MDR-TB Information Systems managed by the PR and NTP reporting database. Over the six years of implementation, information on MDR-TB performance has remained obtainable only from TDF rather than the Department of Health (DOH) which is mandated to have a unified data repository necessary for effective program policy leadership.

296. The OIG was informed by DOH that in the recently developed transition plan for TB, MDR-TB information will be integrated in the Phil E-TB Manager. This web-based system will be managed and maintained by the DOH through the National Epidemiology Centre (NEC) and will be the unified data repository for all NTP initiatives (PPM, regular DOTS, HIV/TB, children, and others).

297. The NTP runs an External Quality Assurance (EQA) program on direct sputum smear microscopy under the national TB reference laboratory (NTRL). With funding from the Japan International Cooperation Agency (JICA) the NTRL was mandated to strengthen and upgrade 13 regional TB reference laboratories into culture and DST centres. With the end of a JICA-funded program, it is not clear to the program management how laboratory supervision and quality assurance activities will

continue. The OIG noted a disconnect between the activities and investments made by JICA and Global Fund programs which focus on the private sector.

298. TDF informed the OIG that the pilot EQA implementation was undertaken between 2004 and 2007 with the support of JICA. NTRL was turned over to the Philippine government in 2007 after which the responsibility for sustaining the EQA lay with NTP, NTRL, CHD and the LGU. The NTRL mandate to strengthen and upgrade regional TB reference laboratories in support of PMDT is now under the Global Fund, NTP and RITM-NTRL budget.

299. Discussions and information obtained from TDF show that most MDR-TB cases are from the private sector either as referrals or patients who previously had treatment for TB.

Recommendation 34 (Significant)

In order to support policy formulation and monitoring, the leadership in monitoring MDR-TB should be transferred to the DOH. Also, specifically the activities supporting quality assurance and regulation should be led by the DOH.

300. There is no clear functioning system for DOTS sites to follow up referred suspected drug resistant TB patients. Consequently, the OIG did not see any record of referral compliance in the sites visited. This is especially important in that referred clients have to travel from remote areas to Manila for further assessment. The absence of information on referral compliance casts doubt on the accuracy of data and appropriateness of policies to address cases of MDR-TB.

Recommendation 35 (High)

DOH should strengthen the tracking of patients referred to and from MDR-TB treatment sites.

301. The availability of MDR-TB treatment sites and diagnostic centres in the Philippines remains low, behind schedule and largely run by the private sector. Consequently, this impacts on process indicator "Number of service deliverers trained on programmatic MDR-TB", number of MDR-TB cases detected and enrolled on treatment. The OIG was informed that this observation has been addressed in the recently developed transition plan through a capacity-building plan for the Lung Centre of the Philippines as the SR for PMDT.

302. Records in the Philippines estimate 5,000 new DR-TB patients annually. Currently, the program reaches only a small proportion of MDR patients with a low cumulative target of 2,500 MDR-TB patients expected to be reached by the end of 2009. Though efforts are being made to increase absorptive capacity, so that a large number is detected and started on treatment, the pace of the scale-up is still very slow. The management of TDF recognises that although treatment targets at the time of the audit were low, there is a planned incremental increase year by year to cover the estimated incident cases. The NTP scale-up plan for MDR-TB aims at universal access to treatment at 80 percent in 2015.

303. Furthermore, there is a limitation of the number of new clients enrolled on the MDR-TB program reportedly due to limited absorption capacity of the current

outlets. The former PR had planned to address the challenge by disseminating services to other regions in order to increase the number of patients treated.

Recommendation 36 (High)

There is need to expedite the increase in MDR-TB sites especially at provincial level. This could be improved by increasing the role of Lung Centre of Philippines to take over from TDF as leader of diagnosis and treatment of MDR-TB in the country.

304. TDF has increased efforts to ensure completion of tests, by keeping referred clients who reside far from Manila, for two to three months at the Kasaka Temporary Housing Facility while awaiting results. However, many suspected DR-TB cases are lost in the treatment system. The OIG noted that only about 50 percent of diagnosed drug-resistant clients at Makati Medical Centre clinic actually start treatment.

305. Current DR laboratory testing capacity is high with a number of innovations being thought through to decrease result turnaround time from two months to two weeks. This would decrease dropouts. The OIG also noted that TDF had a full capacity of over 100 samples at the time of the audit, yet an average of 10-20 samples are analysed weekly. This puts to question the rationale of investing in more facilities for DST yet clients do not have to be physically present for referral. The OIG was informed of a plan to build five (5) DST centres for the entire country to cover a population of 89 million. This is based on the recommended population to DST centre ratio of 10-15M population to 1 DST centre. The inadequate utilisation of capacity available at the laboratory in Manila should also to be addressed.

Recommendation 37 (Requires attention)

There is scope to revise the model for scale-up of MDR-TB testing by transferring specimen rather than physical referral of patients.

306. The Philippines web-enabled electronic TB register (Phil-Web ETR) is a promising electronic reporting system that is being piloted for collection, analysis and reporting on MDR-TB data. OIG was informed by managers at NEC that the summary reporting forms used in the MDR-TB used by the PR program have not been reviewed and approved by DOH-NEC for use in the public sector. It is also not clear whether they are under trial but there is evidence that they are constantly changing in layout and content as improvements are made to the software. OIG also noted that the MDR-TB HIV summary reporting form has changed over the last four months and the current one has no clear separation between new and old patients. Consequently, the summary data does not give a true position of clients tested. Without co-ownership with NEC, challenges of sustainability and integration with national system run by NEC are likely.

307. The OIG was informed that the current TB electronic system under NEC is only for regular adult TB reporting. The planned inclusion of MDR-TB information (Phil E-TB Manager) is part of its enhancement but will also include information on children, HIV/TB, laboratory and others (like hospitals). This unified system will also be web-based. With incorporation of new information/data inputs, there is a technical team organised by the NEC to review and oversee the enhancements of

the existing information system for TB. Thus, the inclusion of summary reporting forms is part of the team's mandate. The technical team includes the NTP, the information management services of the DOH and the partners working on the various initiatives including TDF for PMDT and PhilCAT for PPM.

Recommendation 38 (High)

Data collection and reporting systems for TB DOTS and MDR-TB should be integrated since they are within the same program. This will result in more efficient and effective data management.

Malaria

Malaria remains endemic in 58 of the 79 provinces of the Philippines. Scale-up interventions in the 1990s resulted in a 60 percent decrease in the recorded cases of malaria. However, the impact of these initiatives at the rural (Barangay) level has been limited, leaving 11 million people at risk of malaria. These areas are among the poorest in the country, and still pose a challenge for health delivery personnel in the malaria control program (MCP).

Overall, the national malaria control program has registered good performance on impact indicators and with both PRs meeting targets set.

308. The vision of MCP is a malaria-free Philippines by 2020 using a five-pronged strategy involving: (i) Early diagnosis and prompt treatment; (ii) vector control (insecticide-treated mosquito net complemented by indoor residual spraying); (iii) early management and disease surveillance; (iv) monitoring and evaluation - drug and insecticide resistance monitoring; drug quality monitoring, and (v) quality assurance for microscopy.

309. The Global Fund programs are implemented by two PRs namely: (i) Pilipinas Shell Foundation, Inc. (PSFI) and (ii) Tropical Disease Foundation Inc. (TDF) each focusing on different regions of the country. PSFI's previous experience in facilitating Kilusan Ligtas Malaria (KLM), a local NGO based in Palawan Island developed the organisation's competencies in malaria prevention activities. The Tropical Disease Foundation (TDF), is a private, non-stock, non-profit science foundation mainly focusing on tuberculosis research, service and training projects.

310. Like the other health services, MCP has been devolved to the local government units. The functions of the MCP are policy formulation, advocacy, program development, standard setting, technical assistance, regulation and monitoring. Most of the DOH roles are met by the regional malarial coordinator who also handles two or more donor-funded programs. MCP is not adequately staffed to execute the assigned tasks and activities.

311. Although targets for improving early diagnosis and prompt treatment include both public and private health facilities, there have not been specific activities to involve private practitioners in the interventions. OIG also noted that private facilities were not located in the rural malaria endemic zones. The OIG was informed that private practitioners were invited to the clinical management forums that were conducted by the TWG clinical management team. In the

provinces, the provincial management teams have involved the private practitioners in the activities including them in the network of referrals for malaria services. No evidence was however provided to indicate coverage of these activities.

312. A Technical Working Group of the CCM and Management Committee oversees all program activities. OIG however noted that much of the discussions at meetings of these groups address routine presentation of activities done rather than joint programming within the MCP plan. Strategic linkages between the PRs and different organs of DOH, especially NEC, are weak. The OIG did not see sharing of initiatives and systems such as M&E and stock management systems developed by each of the PRs.

Recommendation 39 (Requires attention)

There is a need for DOH to coordinate and approve all operational research activities under the Global Fund to increase applicability and scale-up of good practices.

313. Activities undertaken by the PRs are not optimally linking the Global Fund malaria program with key malaria-related care initiatives started in the country such as the Integrated Management of Childhood Illness (IMCI) and dengue fever. Also, persons living with HIV/AIDS are more vulnerable to malaria and warrant focused prevention and care efforts and yet programmatic linkages are missing.

Recommendation 40 (High)

All the PR's activities should be linked with disease management initiatives to create opportunities for operational and impact synergies and ensure that the Global Fund programs are contributing to service integration.

314. There is disconnection between a few key indicators reported under the Global Fund and the national indicators notably, "Number of uncomplicated malaria cases diagnosed (confirmed by either microscopy or RDTs) and treated according to national guidelines". Furthermore, the indicator is not tracked through the national reporting system.

Recommendation 41 (Significant)

All the indicators reported through the Global Fund should be harmonised with the national indicators..

315. The different programs have developed and revised the main tool guiding health workers in facilities (i.e. the Standard Operating Manuals) but not the training curriculum and yet training is a costly activity for the different PRs and other disease programs.

316. The programs implemented by the two PRs and indeed other programs (i.e. TB and HIV) are not in harmony. For example, the training for the same laboratory and clinical health workers shows poor coordination and waste of resources. OIG noted that microscopes were procured by different PRs for the same facilities and the same laboratory technicians are provided with different incentives for recording test results.

Recommendation 42 (Significant)

- (a) DOH should strengthen coordination and harmonisation of different program standard operation manual especially when revisions are done.*
- (b) In-service staff training is an ongoing activity in the health sector and needs more coordination to improve availability of workers at their station and reduce wastage due to fragmented trainings.*

317. As is the case with other programs (that is, HIV and TB), the local administrative management systems are still not operating optimally for malaria programs. Within the few cities visited and discussions with implementors, the prevalence of malaria does not inform local budgeting and funding processes. Consequently, there is only minimal investment in malaria programs by local governments in the endemic provinces.

Recommendation 43 (Requires attention)

Programmes should build-in sustainability mechanisms. In the devolved health system of the Philippines, there is a need for better use of data at decentralised levels with feedback being sent from national MCP to encourage the appropriate local application of the information at service level.

An effective system for diagnosis quality assurance has been established linking hospitals with Barangay Malaria Microscopy Centres through supervision. With the expansion of malaria-free zones, Barangay Malaria Microscopy Centres are becoming redundant. One centre visited had not seen a case in three months.

318. As is the case with the other programs i.e. TB and HIV, in the malaria program, the Barangay health workers/volunteers (BHWs) who have been operating in Philippines villages since 1981, are not being optimally utilised in the programs even in rural endemic areas. For example, the distribution of long-lasting insecticide-treated nets (LLINs) is vertical within the Global Fund programs as seen in the areas where TDF is implementing programs.

Recommendation 44 (Requires attention)

There is scope to revitalise malaria program activities within the existing BHW program. These existing grass root structures are key to community activities and can be tapped through training, logistic support and motivation so as to increase sustainability of achievements and local ownership of programs.

319. Insecticide-treated nets (ITNs) have been distributed in most of the malaria endemic areas. Funds have been budgeted for replacement of the re-treatable nets with same numbers of LLINs. During the field visits the OIG team observed that ITN coverage is very high with some households having extra nets. The OIG recognises that even as the parasite prevalence levels drop, there is a need to maintain coverage of bed nets in the endemic areas.

Recommendation 45 (Requires attention)

Continued ITN use will need up-to-date entomologic surveillance information to facilitate targeting the next distributions of LLINs in the most cost-effective fashion rather than continued replacement.

Monitoring

320. A number of monitoring systems have been set up for the Global Fund programs implemented by the different PRs. Whereas some effort has been made to integrate them in the routine data collection, critical gaps still exist especially in creation of parallel M&E systems. A number of staff have migrated from the public sector, e.g. from NEC into the PR's monitoring units. The implication is that Global Fund PRs are not working to strengthen weak areas but rather are weakening them further by circumventing systemic bottlenecks.

321. The overall GF M&E plan is neither well developed nor implemented. The OIG noted that the M&E plans of Global Fund programs do not fit into the national M&E system. Also, different national disease programs (malaria, TB, and HIV) have their own costed M&E plans.

Recommendation 46 (Significant)

The NEC should be strengthened to take over health sector monitoring and evaluation leadership for the whole country. The Global Fund programs should only be a part of this national system and should work to complement the work of DOH-NEC.

Oversight

322. The Global Fund's fiduciary arrangements for grant recipients cover Principal Recipients (PRs) and sub-recipients (SRs) implementing the programs. The implementers are overseen by a Country Coordinating Mechanism (CCM). A Local Fund Agent (LFA) provides assurance on programs to the Global Fund Secretariat, on the implementation of grant programs. These fiduciary arrangements place reliance on effective oversight arrangements.

Country Coordination Mechanism

The CCM through the disease-specific technical working groups (TWGs) review program performance on a regular basis. PRs present PUDRs to the TWG for review and approval prior to CCM approval and onward submission to the LFA.

323. The CCM guidelines provide for a transparent competitive process for selection of members. The CCM elections are overseen by the CCM Secretariat and the Department of Health, which ensures competitive participation by all groups. The CCM Secretariat requests non-attending members to step down from office and seek replacement, which encourages active participation by all members.

324. The CCM is mandated to coordinate the preparation and submission of one national proposal for funding. The OIG noted that the CCM develops a call for proposals, to which partners who intend to implement the grant respond. The CCM mandates the TWG for each disease component to review, and scrutinise proposals following national priorities. A CCM meeting is held to review and approve the proposal with guidance from the TWG.

325. The CCM has comprehensive guidelines which address areas such as the CCM mandate; roles and responsibilities; composition of the CCM; and responsibilities of PRs and SRs.

326. CCM guidelines require PRs and SRs to be CCM members. This requirement presents potential conflict of interest and it minimises the independence of the CCM to oversee the activities of the implementers who are SRs and PRs. However, there is a documented conflict of interest policy which is followed in the conduct of business.

327. The OIG commends the requirement to submit all reports and presentations to be discussed at the CCM to members five days in advance. There is however non-compliance to this requirement in some cases. The practice of fixing all CCM meetings for the year in advance has also improved attendance. The OIG however noted that in many cases there were ad hoc meetings called.

328. In nominating PRs, the CCM is required to put in place and maintain a transparent, documented process. The OIG however noted that the CCM does not have guidelines for proposals preparation for PR selection. The OIG noted that in

the past, those organisations that wanted to be PRs prepared the proposals with the support of technical partners like WHO.

329. CCM is involved in approval of proposal preparation and submission, but with minimal engagement in preparation. The OIG noted that because the CCM was only involved in the review of CCM Round 9 proposal, and not its preparation, it was not approved because many members felt if it did not address the key areas of need. This situation would have been avoided with more active participation and ownership during the preparation of the proposals.

Recommendation 47 (Significant)

The CCM should develop and communicate the process by which PRs will be solicited and selected to all stakeholders. To the extent possible, PRs should not be involved in proposal writing since this creates a conflict of interest.

330. The CCM is required to develop a communication policy/strategy for Global Fund programs and grant implementation status. However, OIG found that there was no communication policy for the CCM. The CCM also has an important role to play in the development and communication of SR selection guidelines. Currently there are no procedures in place on the selection of SRs. Lack of clarity in criteria for the selection of SRs results in a lack of transparency in the selection process. The OIG also noted that the CCM is involved in selection of SRs.

Recommendation 48 (High)

- (a) *The CCM should develop a communication policy by which Global Fund programs will be communicated to all stakeholders in the Philippines. The policy should also cover aspects of PR, LFA and Global Fund communication to the CCM.*
- (b) *The CCM guidelines should be amended to include procedures to be followed by PRs in selection of SRs. The CCM should not be involved in selection of SRs.*

331. At the time of the audit, the CCM Secretariat was housed in the Infectious Disease Office, and the CCM secretary is a full-time officer in DOH. The CCM did not have dedicated personnel or Secretariat services.

Recommendation 49 (Significant)

The CCM should establish a Secretariat independent of DOH structure. The Secretariat should be tasked with: coordination of CCM activities; filling of CCM documents including minutes; liaison between PRs, stakeholders and GF, and ensuring that minutes of TWG deliberations are filed.

332. The CCM is required to oversee program implementation. However:

- (a) There is no oversight plan in place;
- (b) CCM members do not undertake field visits to program areas to monitor performance;
- (c) There was no evidence of CCM review of independent reports of PRs' financial and programmatic performance.

Recommendation 50 (High)

The CCM should develop an oversight plan. The plan should include field visits to evaluate program performance, as well as review of reports prepared by external parties such as external auditors.

Local Fund Agent

The LFA has worked with the PRs since the inception of the programs in the Philippines. The LFA worked in some challenging environments with one of the PRs obstructing their work though limiting access to information and/or misrepresenting information. However, there was a disconnect between the findings of the OIG audit and the position sometimes reported by the LFA. The LFA did not undertake a risk assessment of the entities it was to review as well their respective grants. This led to the failure to identify several significant weaknesses within TDF. The OIG also noted that the work undertaken by the LFA in some aspects could have been more thorough e.g. the budget reviews. There was also a frequent change of staff thus reducing continuity within the assignment.

333. In planning for PUDR reviews and PR assessments, the LFA holds planning meetings with the PR, at which a presentation is made of the understandings of issues affecting the PR. The PR is also given an opportunity to provide the LFA with input into the planning process by with an update of issues emerging. At the end of the PUDR review and PR assessment, the LFA also makes a debrief presentation to the PR during which major weaknesses are shared with the PR prior to reporting to the Global Fund Secretariat.

334. The LFA has been working with all the PRs since the inception of the programs in the country. The environment within which the LFA worked was different for the three PRs. In the case of DOH and PSFI, the LFA enjoyed a cordial working relationship. However, with TDF, the work environment was described as hostile with the PR obstructing their work by not making documents readily available. TDF's president also alluded to the hostility to the LFA but attributed this to a personality clash as opposed to have problems with the whole team.

335. OIG noted that the LFA was also the auditors for PSFI. This creates a conflict of interest. Based on discussions between the LFA and Global Fund Secretariat prior to grant implementation, the PR believes that the undertaking by PricewaterhouseCoopers to provide different teams for the two assignments mitigates the conflict. The OIG concluded that the conflict could not be eliminated through the separation of teams.

336. From the review of the LFA working papers, the OIG observed that there was good documentation of tasks assigned to each team member, the tasks undertaken were reviewed by a senior member of staff, and there was direct linkage between field work and the report provided to the Global Fund.

337. The OIG noted the disconnect between generally positive LFA assessments and the very weak internal control systems at the Tropical Disease Foundation. The following disconnects were noted:

- (a) The LFA assessment report issued in December 2008 for the TB RCC grant gave a positive assessment of the PR on the basis of technical assistance (TA) the PR had recently received from Grant Management Solutions (GMS). This was based on the assumption that the TA had resulted in improvements in the institutional capacity; finance and management systems; monitoring and evaluation as well as capacity in procurement and supply management of pharmaceutical and health products. The OIG would have expected the LFA to report the results of the assessment on the basis of systems in place at the time of the review.
- (b) In the assessment reports, LFA presented the recruitment of additional staff as positive contributions to the grant without reviewing the effectiveness of the new staff in addressing the underlying weaknesses previously identified.
- (c) The LFA assessment pointed to strong capability of staff within the finance and accounting departments at TDF. The OIG however took note of the following weaknesses which run counter to this assessment:
 - Weaknesses noted in preparing budgets;
 - Multiple errors in the accounting system of the PR;
 - Errors in documents submitted by the PR for LFA review, resulting in several revisions; and
 - Delays in providing information requested by the LFA, external auditors and OIG for reviews.

338. The LFA manual requires that reviews are undertaken from a risk management perspective, looking at both grant risk and country risk characteristics and materiality. The LFA is also required to take into account trends in the PR's progress reported over time, mitigating factors where particular targets have not been met. During the review of the work done by the LFA, the OIG noted that there was no risk assessment done both at the entity level, as well as at a grant level. Failure to review work at a risk management perspective, clearly led to several significant weaknesses not being identified by the LFA.

Recommendation 51 (Significant)

The LFA should make an assessment of risks that are likely to result in failure to implement grant programs or result in errors and fraud. This should be a key guiding document in the design of activities to be undertaken at Verification of Implementation and capacity assessments.

339. The LFA approved budgets of the PR in the absence of detailed breakdowns of operational components as well as SR budgets. In one assessment, the LFA writes "the significant amount of the budget requested posed difficulty on both PR and SR to accomplish a work plan and budget in sufficient detail. Moreover, it appears that the PR has not conducted a thorough review of the SR work plan and budgets prior to consolidation." From this observation, the LFA made recommendations for the PR to improve the budgeting process.

340. The OIG noted that the budgets of both PR and SRs had significant overestimates which should have been picked up by the LFA during the grant negotiation stage. Examples are provided below:

- (a) TDF was able to procure 50 laptops out of a budget of 20 computers;
- (b) TDF was able to receive quotations for seven vehicles within the budget of four vehicles, although actual delivery was for the planned four vehicles;
- (c) TDF was able to pay for non-program expenses such as parties, and unbudgeted international travel from budgets without any problem.

Recommendation 52 (Significant)

The LFA should perform a more thorough review of program budgets and ensure that they are tied to the work plans and adequately supported. During the regular verification of implementation, the LFA should review implementation of the budget and report deviations to the Global Fund Secretariat.

341. The OIG noted that over the past three years the LFA has had three different senior managers responsible for liaising with the Global Fund and the stakeholders in-country. The lack of continuity in the key client managers has had an impact on the LFA's ability to understand and follow up key issues at the PRs. With the staff changes, there is no time for the PRs to develop trust and confidence in the LFA staff.

342. There is no synergy of different program components as staff are allocated and undertake reviews by disease. There was also no integration of the findings from each of the review teams to improve synergies. This was particularly notable at TDF which implements multiple-disease grants. There was scope for the LFA to make observation on the following:

- (a) Duplication in deployment of staff, e.g. 26 additional finance staff budgeted for Round 6 malaria grant.
- (b) Work plans and budgets that have inventory systems to be developed for each disease program.
- (c) NTPS survey budgeted for 3800 specimens at \$720,000, but coverage given to 13,000 specimens with the same amount.

Recommendation 53 (Significant)

The LFA should increase senior management involvement to ensure quality assurance of the work of the LFA.

343. The LFA recommended an onsite assessment of the procurement and supply chain systems of the TDF prior to approval of PSM plan for malaria Round 6 grant. A condition precedent to disbursement was placed in the grant agreement requiring the PR to implement recommendations from the onsite assessment once it was undertaken. However, prior to undertaking the assessment, the LFA waived the condition precedent in the progress update for the period ending 31 March 2009 on the basis that it was partially implemented.

344. The grant agreements with TDF had a condition that "PR will deliver to the Global Fund evidence that it has established a transparent system for reporting to the Global Fund all income generated by program activities (including, but not limited to, social marketing fees and fees charged for diagnostic TB Testing)

“(program Income)” The OIG however noted during the audit that no such system was in place and instead, program Income was being used for non-program activities such as payment for building construction.

345. Weaknesses were observed in isolating material weaknesses from the several processes issues arising out of PR assessments. Some examples are provided below from the case of TDF for illustration:

- (a) Condition for a job description for the finance manager, when there were no job descriptions for all the staff;
- (b) Requirement for succession plans for leadership, when there are no policies in place for staff recruitment or guidelines on retirement;
- (c) Condition to develop back up policies for data, when there are no guidelines for filing program documentation; and
- (d) Approval of grant for funding in the absence of detailed budget, with recommendation for improvement in PR budgeting process.

Recommendation 54 (Significant)

The LFA should improve documentation of conditions precedent, limiting them to actions that are within the PRs control. There should also be strict follow-up of conditions precedent agreed between the PR and Global Fund and limit the use of “in progress” as a justification for clearing the condition.

346. During the on-site data verification visits to implementation sites the LFA follows the methodology guidance given by the Global Fund in selection of sites, and verification of the figures reported by the PR. The OIG however noted that there is scope for improvement of value through:

- (a) Involvement of M&E expert in the site visits to interpret the results of the verification beyond the numbers, for instance how realistic the targets set are, impact of programs, etc.
- (b) Review of inventory systems at the sites visited, looking at stock balances.
- (c) Reliability of the system through which the numbers are reported and efficiency of data reporting systems, for instance, the OIG noted multiple encoding of data at the city level in order to provide Global Fund reports.

347. The OIG noted that the LFA undertook review of the terms of reference and reports of external auditors, however gaps were noted with regard to:

- (a) Review of the process of selection of PR external auditors;
- (b) Review of adequacy of SR audit plans; and
- (c) The PSFI audit report did not meet requirements to audit of Global Fund with regard to disclosure of Global Fund receipts and disbursement.

Recommendation 55 (High)

In addition to the review of audit reports of PRs, the LFA should review the PR plans for the annual audits of SRs, and the selection process of PRs auditors.

348. The LFA assessment of the PR’s procurement and supply management systems was only undertaken for central level and desk review of documents. The expert had never been to implementation levels at the regional, provincial, municipal, city and Barangay (city) levels. Without evaluating the effectiveness of

supply management systems at the lower levels the LFA would not be in position to make a reliable PSM assessment.

349. The LFA was limited in effectively assessing the capacity of the Tropical Disease Foundation (TDF). In setting up the key implementing departments of the foundation as sub-recipients, these departments were placed out of the scope of the work of LFA. These SRs were not part of the scope of PR assessments and could not be objectively assessed by the PR. The LFA raised the effect of the setup to the Global Fund portfolio manager at the time of implementation, however no action was taken by Global Fund Secretariat.

350. The OIG noted several instances where weaknesses at the PR were brought to the attention of TDF and Global Fund, but the LFA recommendations were not implemented. The following issues were brought to the attention of TDF, and but there was no resolution of issues identified:

Issue	Raised by LFA	Resolution by PR
Balances in PUDRs are not on the basis of actual bank balances	March 2005	Not resolved
Improve functioning to internal audit department	March 2005	May 2009
Integration of the different systems used by the three disease programs (TB, malaria and TB)	March 2005	Not resolved
Clear and documented roles and responsibilities between the PR and SRs	March 2005	Not resolved
Timely reconciliation of bank accounts	March 2005	Not resolved

Table 33: LFA Reports to Global Fund [Source: LFA reports to Global Fund Secretariat]

Global Fund Secretariat

351. The OIG also noted that grant agreements contained similar conditions precedent from grant to grant. Since 2003, for instance the Global Fund required TDF to put in place the following systems, which were not in place even at the time of the audit in August 2009: accounting for program income as grant funds; procurement and logistics management systems; case management; and monitoring and evaluation. The Global Fund Secretariat however did not take action to ensure that there was compliance with the provisions of the grant agreement before disbursements were effected.

Recommendation 56 (Significant)

The Country Programmes team should follow up conditions in the grant agreement to ensure fulfilment by the PRs. This will ensure that gaps identified by the LFA are filled and capacity of the PRs improves.

Annex 1: Global Fund Secretariat comments and responses

Global Fund Secretariat comments and responses to the Report of the Audit of the Grants in the Philippines issued by the Office of the Inspector General (OIG)

General

The Global Fund Secretariat concurs with the OIG recommendations and has already and pro-actively discussed the majority of the findings with the respective Principal Recipients, the CCM and the LFA. With respect to the recommendations related to the Tropical Disease Foundation (TDF), we find that many are effectively moot since the TDF will not have any additional role in managing grant funding for malaria and HIV given that those grants have been closed. Regarding the new MDR-TB grant to be signed with the Philippines Business for Social Progress (PBSP), TDF will operate during a transition period as a sub-contractor to PBSP on a zero-cash balance policy with clear jointly agreed Terms of Reference. The Global Fund Secretariat therefore considers that the risk of exposure of Global Fund assets in our relationship with the TDF is reduced to a minimum considering the necessity to continue life-savings activities to protect MDR-TB patients currently under going treatment. This marries well with the frequently stated feeling by public health practitioners in the Philippines that it is appropriate for the Department of Health of the government of the Philippines to take over the management of MDR-TB despite the many technical challenges.

Pilipinas Shell Foundation, Inc. (PSFI)

PSFI has agreed to implement all recommendations and has designated responsible officials and agreed on completion dates. Some of the recommendations are already in the process of being implemented. We believe therefore that the measures adopted by the PSFI are addressing the OIG concerns and that the risk associated with signing a new consolidated grant with PSFI is manageable. The FPM will follow-up on the action plan during his next visit in Manila in March 2010.

The Department of Health

The Department of Health has agreed to most of the OIG recommendations (except number 10) and has designated officials responsible to implement the plan of action. The bulk of the recommendations will be implemented throughout 2010 and some are already being implemented. As an illustration, the PSM plan for the second phase of HIV Round 6 is currently being revised with the support of consultants to address the OIG concerns (Recommendation 18). The use of VPP has been strongly advocated by the Secretariat to address procurement bottlenecks.

Some recommendations, which are linked to the Public Health aspect of the audit, are more general in nature and not necessarily tied to the implementation of ongoing grants but rather linked to future applications. Accordingly, it is delicate for the DOH to agree on precise completion dates for Recommendations 27, 28, 31, 32, 33, 40, 41, 42, 43, 44 and 45 while in principle there is no disagreement on their soundness. Recommendation 30 is difficult to implement as enablers are typically part of MDR-TB packages of services that ensure treatment adherence. Removing those for the grant agreement packages would seriously reduce the treatment adherence of patients. In this case, we concur with the explanation given by the DOH and TDF.

Recommendation 34 is crucial. This is being implemented through the six-months transition plan agreed between TDF, the GLC, WHO, the DOH and Global Fund to ensure that technologies and leadership for monitoring MDR-TB activities in the Philippines is

migrated from the TDF to the DOH. The gradual turnover of MDR-TB functions and roles is embodied in the draft Annex A of the TB grant to be signed with PBSP.

The Tropical Disease Foundation

The Secretariat agrees with the overall assessment of the OIG and especially with the weaknesses identified in terms of financial management. The Secretariat concurs with the fact that the opacity of the TDF treasury system and particularly the financial transactions diverted to the General Fund were detrimental to financial accountability and made it difficult for the LFA to carry out proper verifications. We also concur that the overall budget of the MDR-TB grant was considerably inflated; the current negotiations with PBSP are likely to generate US\$ 18 million in savings for the benefit of the Global Fund recipients elsewhere.

TDF has addressed several communications to the Secretariat and to the OIG contesting the amounts to be refunded and has engaged a consultant to help them reply to the OIG findings. It is our understanding that to date TDF has failed to provide sufficient evidence to challenge the methodology used by the OIG to calculate the amounts to be refunded to the Global Fund. TDF has already had ample time to address the question of amounts. However, should the TDF soon provide further evidence the Secretariat will consult with the OIG on the matter.

Given the decision of the Executive Director of the Global Fund to suspend all grants to the TDF and require their transition to new Principal Recipients, we consider recommendations aimed at strengthening TDF systems and behaviors valid but moot.

CCM

We agree with the recommendations concerning the CCM.

The CCM is in the process of enhancing its oversight role and is creating a CCM Oversight Committee. Future discussions will take place in Manila in March and in Bangkok in May during the CCM regional workshop. Regarding Recommendation 48, the Secretariat will share its management letters to PRs with the CCM which will contribute to enhance the CCM oversight over the performance and financial accountability of the PRs.

A CCM Secretariat is being created and funding will be requested by the CCM according to the newly established CCM funding mechanism.

LFA

The Secretariat fully agrees with the recommendations concerning the LFA and is already exercising tighter control of the quality of the work of the LFA. Discussions were held with the PwC central office in Geneva to ensure this. The LFA was requested to focus its analysis on risk management rather on purely meeting deliverables targets.

Recommendation 52 was implemented during the negotiations of the malaria consolidated grant with the Shell Foundation and with PBSP which will be resulting in savings of US\$ 20 million for these two new grants.

Key actions taken by Global Fund Secretariat to address OIG recommendations

A Global Fund team composed of procurement, M&E and finance officers, in addition to the newly appointed Fund Portfolio Manager, was sent to Manila in November 2009 to effect the transition of the five suspended Tropical Disease Foundation grants to new Principal Recipients selected by the Country Coordinating Mechanism.

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Two new grants were signed in late December 2009 for HIV (Department of Health, US\$ 1.9 million) and for malaria (Pilipinas Shell Foundation, Inc., US\$ 31.4 million). Two suspended TDF malaria grants were consolidated with one active Shell grant; a sum of US\$ 4 million was identified as savings. TDF does not have any further role in grant management for these grants.

Transitional contingency plans and continuity of services arrangements are in place for MDR-TB life saving activities until a new grants is signed with Philippines Business for Social Progress (PBSP) which was nominated as the new Principal Recipient with the Department of Health and its affiliated Lung Centres, which were selected as Sub-recipients for the management of MDR-TB. The LFA assessment of PBSP is complete and grant negotiations are well advanced. We plan to sign a new grant for approximately EUR 44.7 million with PBSP in March 2010. This represents an expected US\$ 15 million savings over the entire RCC-1 period. The grant agreement will contain the following key features based on the recommendations of the Green Light Committee with whom we have worked closely:

- A six-month transitional plan with TDF (negotiated and agreed upon with TDF, the GLC, WHO, the DOH and Global Fund) during which transfer of technologies and knowledge will be overseen by WHO technical assistance staff budgeted within the new grant. The GLC and the Global Fund will jointly monitor the transition.
- Procurement of second line TB drugs through TDF covering needs for the last quarter of 2010 and for the whole of 2011 with the assistance of WHO in accordance with the GLC protocol. The Global Fund will release the payment directly to the supplier.
- TDF will be managed during the transition period using a zero cash balance policy. Reimbursements will be processed by PBSP after LFA review and Global Fund approval. The TORs of TDF were negotiated and agreed upon with the TDF, GLC and WHO, the Global Fund and the DOH. The budget earmarked for TDF is EUR 690,000. This compares to an original budget of EUR 67 million and significantly reduces the exposure of Global Fund assets.

The Global Fund is using the TDF cash balance transferred before the suspension to fund transitional arrangements until the new grant is signed with PBSP (i.e., we have made no new disbursements to TDF). Once the grant is signed with PBSP, the LFA will be tasked to review the remaining TDF cash balance to establish the amount of any further refund due to the Global Fund i.e. in addition to the US\$ 1.7m identified by the OIG's audit.

The management of treatment centres was taken over by the DOH as of January 2010 and the corresponding cost, budgeted under the new grant to be signed with PBSP, will be reimbursed to the DOH after LFA verification. The LFA has been tasked to review the cash balances of all TDF malaria and HIV grants for refund and final grant closure purposes.

A consolidated closeout plan was delivered by TDF for the five terminated grants, reviewed by the LFA and approved by The Global Fund. Closeout activities are ongoing and the transfer of non-cash assets to new PRs is currently under way.

The terms of reference of the external audit for all TDF grants were approved after LFA review and an audit firm (Valdes Abad and Associates) was selected. The audit is to start shortly.

Annex 2: Recommendations and Action Plan

Global Fund OIG Audit Report on the Philippines
Recommendations and Action Plan
February 2010

Recommendation	Response and action	Responsible official	Completion date	OIG Comment
Pilipinas Shell Foundation Incorporated				
<i>Recommendation 1 (Significant) PSFI should ensure that the external auditors comply with the provisions of the guidelines for audit of grant recipients. The minimum requirements of these guidelines should form part of the auditor's terms of reference.</i>	The audit of 2009 books will comply with the GF guidelines for annual audits of program financial statements.	Edgardo Veron Cruz, Executive Director, PSFI	If PSFI's Independent Auditor will accept its appointment to audit the 2009 GF funded Program revenues and expenditures, such would be completed by April 2010. Otherwise, if a new auditor has to be appointed, completion will be in June 2010	
<i>Recommendation 2 (High) The PR should carry out regular internal audit in accordance with good practice and international standards. Internal audit would help to strengthen and maintain a strong internal control environment.</i>	A separate and distinct finance unit, headed by a Finance Manager, will be established to handle solely the GF funded program. The PSFI Finance Manager will no longer be	Cherry Hebron, Finance Manager, PSFI	Internal Audit will be conducted in August 2010 and every August of	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	involved in the management of the GF accounts. As such, the conduct of internal audit of the GF accounts will be included as part of her duties and responsibilities.		each year thereafter	
<p>Recommendation 3 (High)</p> <p>(a) <i>PSFI with the assistance of the CCM should seek exemption from taxes on program inputs.</i></p> <p>(b) <i>PSFI should also ensure that all the equipments procured using Global Fund resources are insured in order to minimise the likelihood of loss in the event of unforeseen circumstances.</i></p>	<p>PSFI will work together with the CCM in securing an exemption from payment of taxes, although the possibility of getting its approval is considered very slim.</p> <p>PSFI will now include budgets to cover insurance premiums for all goods acquired using Global Fund grant. It should be noted however that insurance coverage in security-challenged areas such as Sulu and Tawi-Tawi may be exorbitant</p>	<p>Edgardo Veron Cruz/ Marvi Trudeau PSFI</p> <p>Director Maylene Beltran, DOH</p> <p>Maris Emperado Finance & Admin Manager - Movement Against Malaria, PSFI</p>	<p>Advice being sought from DOH Legal Dept. on recommended course of action. Also, meeting with officials of the Department of Finance is being arranged.</p> <p>Other than for vehicle insurance, there is no budget for this in Round 5 and RCC-1. We propose to allocate part of savings realized to cover cost of insurance coverage. We propose that only items with</p>	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
			book value of more than \$200 be insured against loss.	
<i>Recommendation 4 (Significant)</i> <i>The PR should open a local currency bank account where funds intended for local currency payments may be banked. This would minimise the foreign exchange loss.</i>	A local currency account has been opened to cover local currency payments.	Maris Emperado Finance & Admin Manager - Movement Against Malaria, PSFI	Done - September 2009	
<i>Recommendation 5(Required Attention)</i> <i>The PR should ensure that the time sheets are maintained for the staff whose salaries are paid from multiple funding sources.</i>	<p>The PR has staff providing services to the GF funded program on a part time basis. They are PSFI's Executive Director and finance and admin staff in the PR's head office. While 30 to 40% of their salaries/consultancy fees are charged to the grant, it is obvious though that more than 50% of their time are devoted to GF funded activities. Nonetheless, beginning September 2009, the concerned staff started submitting time sheets.</p> <p>Beginning first quarter 2010, all staff providing services to the GF funded program will be on full time basis. The Executive Director will have a separate consultancy contract covering the</p>	Maris Emperado Finance & Admin Manager	January 2010	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	management of the GF funded program. PSFI will continue to use the services of other staff of PSFI for GF funded activities during the first few months of 2010 until the recruitment of the required complement for GF funded activities is completed; these staff will be asked to accomplish time sheets			
<i>Recommendation 6 Required Attention)</i> <i>Cheques that are not banked within six months should be reversed from the cashbook to reflect the correct fund balances.</i>	The stale checks were reversed in August 2009 and the fund balance was adjusted accordingly. PR shall conduct periodic review to ensure that cheques that are not deposited / cleared within six months are reversed.	Maris Emperado Finance & Admin Manager	August 2009	
<i>Recommendation 7 (High)</i> <i>(c) DOH should encourage drug manufacturers of their agents should register the drugs with BFAD</i> <i>(d) The PSFI should improve the planning and budgeting to ensure that only planned items are costed in the budget, and procured.</i>	(a) All drugs in the Philippines are required to register with BFAD (b) Noted. Program Manager will ensure that any changes in the approved workplan will have a written approval of Global Fund <u>Global Fund Secretariat</u> <u>Comment on the</u> <u>recommendation</u> PSFI has agreed to implement all	Dir. Maylene Beltran BHIC Director (c) Marvi Trudeau Program Manager	Done and on-going	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	recommendations and has designated responsible officials and agreed on completion dates. Some of the recommendations are already in the process of being implemented. We believe therefore that the measures adopted by the PSFI are addressing the OIG concerns and that the risk associated with signing a new consolidated grant with PSFI is manageable. The FPM will follow-up on the action plan during his next visit in Manila in March 2010.			
Department of Health				
<i>Recommendation 8 (Significant)</i> <i>All staff contracts should be renewed on a timely basis. Personnel files should contain a comprehensive record of the staff details e.g. contracts, recruitment documents, academic qualifications, references, contracting, performance evaluations, job descriptions, training etc.</i>	System of filing of personnel files is currently being established. All personnel that will be hired for Round 5 and Phase 2 of Round 6 will have its own personnel file that will be kept by the Project Grant Management Unit (PGMU) under the Bureau of International Health Cooperation (BIHC). The PGMU will be responsible in renewing employees on a timely basis.	Director Maylene Beltran, BIHC	April - May 2010	
<i>Recommendation 9 (Requires attention)</i> <i>The bi-monthly accomplishment reports should be tied to job descriptions. The job descriptions should be aligned to staff contributions to the Global Fund work plans and targets.</i>	For Round 5 and Phase 2 of Round 6, all job descriptions and TORs of staff shall be clearly defined and aligned to work plan and target. Each staff shall submit bi-monthly report that is consistent	Director Maylene Beltran, BIHC	Ongoing up to April 2010	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	with the job description.			
<i>Recommendation 10 (High)</i> <i>The DOH should ensure that the internal audit division covers the Global Fund activities in its annual audit plan.</i>	Although DOH has an internal audit division, this unit does not cover Foreign Assisted Projects (FAPs) in its audit plan. For FAPs including Global Fund, internal audit is being done by the Commission on Audit (COA) that is detailed in the DOH. Since there is already an internal audit done by COA, an external audit is recommended through an independent auditing firm. The PR shall submit for approval to Global Fund a Terms of Reference (TOR) for an external audit firm.	Director Maylene Beltran, BIHC Mr. Laureano Cruz, Finance Service Director	Audit by COA is due on June 30, 2010 TOR and hiring of external audit firm to be completed by September 2010	
<i>Recommendation 11 (Significant)</i> <i>(c) The BIHC should liaise with the Commission for Audit to ensure that the Global Fund program is audited on a timely basis and that the report is submitted to the Global Fund within the stipulated time.</i> <i>(d) DOH should implement the audit recommendations on a timely basis.</i>	The PGMU is already coordinating with COA regarding the schedule of audit. The schedule given by COA is on or before June 30, 2010. Once the audit report is available, PGMU will submit it immediately to Global Fund and LFA. The PGMU in coordination with the Finance Service shall implement all the recommendations of future audit on a timely basis. For the past audit findings, the	Director Beltran, BIHC Mr. Edison Cervantes, FAPs Desk, Finance Service Director Beltran, BIHC Mr. Edison Cervantes, FAPs Desk, Finance Service	July 2010 April-May 2010	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	following are the actions done by the Principal Recipient (PR): a. updating of fixed assets register is currently being done by the PGMU; and b. liquidation of all provinces or Centers for Health Development are being completed.			
<i>Recommendation 12 (Significant)</i> <i>The DOH should comply with the grant agreement. Specifically, DOH with the assistance of the CCM should seek exemption from taxes on program inputs.</i>	The DOH, through its concerned bureaus shoulder 7% VAT uses a Budget Utilization Request (BUR) form in a separate payment of tax from the expenses charged to GF. ' Import duties are likewise shouldered by PR.			The OIG encourages DOH to seek for exemption of the remaining 7% taxes.
<i>Recommendation 13 (High)</i> <i>The DOH should strengthen the financial recording systems of the Global Fund program by recording transactions in the e-NGA system on a timely basis and reconciling these records to the PUDR reports. The Finance Services department should furnish the PMO with monthly financial reports to enable reconciliation of funds held, budget monitoring as well as preparation of management reports.</i>	Acceptable and progress had been made. The PR has designated a computer with e-NGAS and assigned a project staff to encode vouchers. The PR will reconcile the PUDR report with the e-NGAS report, checked by DOH accountant prior to each submission to GFATM and the LFA.	Director Beltran, BIHC Mr. Laureano Cruz, Finance Service Director	May 2010	
<i>Recommendation 14 (Significant)</i>	Acceptable and this has already		Already Done	

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
<i>DOH should ensure the settlement of the advances by employees within the stipulated time. Further, there should be strict adherence to the requirement for advances to be only given to staff without outstanding liquidations.</i>	<p>been done.</p> <p>PR has implemented this recommendation by sending demand letters to concerned employees to settle un-liquidated advances, including suspension or deductions in the salary for non-compliance. The Foreign Assisted Project desk has already issued Memo to concerned employees to ensure that the required timeframe for liquidation of advances is observed.</p>			
Recommendation 15 (Requires attention) <i>DOH should maintain foreign currency funds for expenses to be met in foreign currency and in PHP for activities to be paid in the local currency. This will minimise the loss due to potential currency fluctuations.</i>	The GF recommendation shall be discussed with the DOH management. For Round 5 and Phase 2 of Round 6, this recommendation should have already been observed. There are already separate bank accounts in local and foreign currency for both Rounds. It will be a matter of maintaining funds in foreign currency for expenses to be paid in dollars and funds in peso for expenses to be paid in peso.	<p>Director Maylene Beltran, BIHC</p> <p>Mr. Laureano Cruz, Finance Service Director</p>	May 2010	
Recommendation 16 (Significant) <i>(a) The grant agreements should be reviewed and strengthened so that they are reflective of the conditions within which programs are being implemented and to ensure that</i>	a. For the ongoing selection of Round 5 SR, DOH as the PR has already established a mechanism of selection that will ensure the capacity of the SR to implement project activities.	Director Maylene Beltran, BIHC	Ongoing March 2010	

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
<p><i>there is a high level of commitment and accountability from all parties. This will ensure more informed delivery of program activities by sub recipients and better working relationships between SRs and DOH.</i></p> <p><i>(b) The DOH should put in place an effective monitoring system to review the implementation of activities by SRs.</i></p>	<p>b. For Round 5 and Phase 2 of Round 6, an SR management tool for evaluation of SR's project implementation and financial management will be developed and then utilized.</p>	<p>Project Coordinator and M&E Manager</p>	<p>April 2010</p>	
<p>Recommendation 17 (Significant)</p> <p><i>(a) The DOH should ensure that all activities are implemented in accordance with the approved work plan. An accelerated plan should be implemented for all outstanding activities in the work plan.</i></p> <p><i>(b) The DOH should identify a mechanism through which condoms can be procured on a timely basis and distributed. This may include the identification of a suitable SR to undertake this activity.</i></p> <p><i>(c) Training needs at the NEC should be identified and the staff handling the data analysis should be appropriately trained to ensure the accurate and timely collection of program results.</i></p>	<p>a. For Phase 1 of Round 6, monitoring of timely implementation of activities in the Work Plan has not been observed. For Round 5 and Phase 2 of Round 6, the PGMU in coordination with the different technical components shall monitor and ensure that the activities in the work plan will be done on time. In case of delays, a catch up plan shall be made by the concerned component.</p> <p>b. The present Secretary of Health has already pronounced its support regarding procurement and distribution of condoms. Since there is expressed support from the DOH Head, condoms can already be procured by the PR. In case</p>	<p>Project Coordinator M&E Manager in Coordination with the Program Managers</p> <p>COBAC Director and PGMU</p>	<p>This will be done for the whole project duration of Phase 2 of Round 6 and Round 5.</p> <p>The mechanism and mode of procurement of condoms have already been identified in the PSM Plan of Phase 2 of Round</p>	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	condoms are available through voluntary pooled procurement (VPP), VPP is the preferred mode of procurement for condoms for Phase 2 of Round 6.		6.	
<p>Recommendation 18 (Significant)</p> <p>(a) <i>DOH should liaise with procurement agents to reduce the delays in procurement. Service level standards should be agreed with the agents to ensure effective program implementation.</i></p> <p>(b) <i>The PRs should work with Procurement Agents to build their capacities so that they can take on the procurement of pharmaceutical and health products. A time bound capacity building plan to build such capacity should be put in place.</i></p>	<p>a. As indicated in the PSM Plan, Voluntary Pooled Procurement will be utilized whenever possible. In case VPP is not available for other commodities, procurement with UN is another option as written in the PSM Plan.</p> <p>b. Capability building activities on procurement for PR is also included in the Project Work Plan and also in other foreign -assisted project work plan.</p> <p><u>Global Fund Secretariat's comments to recommendations and action plan</u></p> <p>The PSM plan for the second phase of HIV Round 6 is currently being revised with the support of consultants to address the OIG concerns</p>	Project Manager And Procurement/COBAC Director	These recommended actions shall be observed for the whole project duration of Round 5 and Phase 2 of Round 6.	
<p>Recommendation 19 (High)</p> <p><i>DOH should ensure that the COBAC is appropriately staffed to undertake procurements for program activities.</i></p>	DOH COBAC has been restructured and staff recruitment being undertaken	Procurement/COBAC Director	End March 2010	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
Recommendation 20 (High) <i>DOH should encourage drug manufacturers of their agents should register the drugs with BFAD and to follow QA requirements.</i>	Done; This is being practiced since drug manufacturers are required to have a Certificate of Product Registration and Certificate of Good Manufacturing Practice			
Recommendation 21(Significant) <i>All assets should be marked with unique identification numbers. The PMO should prepare an asset register that records the asset details and location. The asset register should be periodically updated with the results of periodic asset verification exercises.</i>	Already done for the central and regional offices/sites. Asset Register of LGU sites is being prepared.	Project Manager	End of February	
Recommendation 22 (High) <i>DOH should expedite the procurement and implementation of the logistics management information system.</i>	Procurement Operations Management Information System (POMIS) is being developed	Procurement/ COBAC Director	Pilot testing of the system by March 2010 Operational/ Functional System by June 2010	
Recommendation 23 (High) <i>Proper assessment of the need for medical equipment should be made before procurements are undertaken. Once procured, this equipment should be distributed to the intended users.</i>	Medical Devices/ Equipment Technical Specifications and Standards Manual prepared for DOH use; technical clearance secured through the Bureau of Health Devices and Technology. Allocation lists for project equipment are being reviewed	Procurement/ COBAC Director Material Management Division Head	Done/ being practiced	
Recommendation 24 (High) <i>Proper stock records should be maintained at all warehouses. This will</i>	Inventory Management and Warehousing System is being	Material Management Division Head	System enhanced by June 2010	

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
<i>contribute to strengthening the inventory management systems.</i>	enhanced under the Public Finance Management reforms. This should include stock recording in all the DOH warehouses			
Public Health, Service Delivery and M&E				
Recommendation 25 (Significant) <i>Given the evolution of the HIV/AIDS epidemic, future programs need to be scaled up to cover prevention activities that target all sub groups of the most at risk population. The prevention and treatment services activities designed for commercial sex workers should be extended to those not registered.</i>	For Round 6 sites, they only work with SHCs. As such, the specific clientele were only those that are registered. Please take note that For Rounds 3 and 5, we have actually engaged the Sub-recipient NGOs to conduct the outreach work for the non-registered or freelance sex workers. This has been the agreement of the SRs with the SHCs since the beginning of project implementation.			
Recommendation 26 (Significant) <i>DoH should quicken the process of TB and HIV program convergence. For instance, the TB register should be modified to capture co-infection within the surveillance system while ensuring that double counting by the HIV/STI program does not occur. All patients with HIV should be tested for TB.</i>	The TB register will be revised this to capture the data for all NTP initiatives including TB HIV. Screening of TB among HIV patients will be standardized.			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
<i>Recommendation 27 (Significant)</i> <i>There is a need for comprehensive national condom programming. The programming would also determine the demand, condom need and the support needed such as management, links with other partners and programmes (especially rural health), monitoring and evaluation, and quality assurance. There may be need for advocacy for opinion leaders to destigmatize procurement, advertisement and distribution of condoms.</i>				
<i>Recommendation 28 (High)</i> <i>There is needed to make voluntary HIV counseling and testing services widely available to the population at risk within and outside health facilities. This would be assisted by clear guidelines to promote client initiated VCT outside health facilities.</i>				
<i>Recommendation 29 (Significant)</i> <i>The M&E data management process should be embedded in the devolved health system structure especially at municipal level. Facilities and providers need more regular support and supervision, with timely feedback.</i>	There is a written feedback and these are distributed / disseminated during Annual Dissemination Forum spearheaded by NEC. For Round 3 and 5, the target the number of people living with HIV provided with ART.			The OIG sought to obtain written feedback at the sites visited, but none was provided. The observation

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	The M&E data management process is embedded in the devolved health system. The system begins in the Local Government Units, with their own data management unit. With the Global Fund grant managed by the TDF, they were provided with computers and were trained on data management (SSESS). Reports generated from these are submitted to the Regional Epidemiology Units and then to the National Epidemiology Center (NEC). Hence, there is a peripheral unit, linked to the regional and reporting up to the NEC.			of poor data quality raised by the OIG has not been addressed. There is need to develop specific actions to address these gaps.
<i>Recommendation 30 (Significant)</i> <i>The use of enablers in form of cash handouts should be revisited and plans for sustainability should be developed with indicators to track measurable benefits.</i>	<u>DOH</u> Under the Philippine Strategic Plan (PhilPACT 2010-2015), the development of an MDRTB package will be started and will include support to enablers. However, benefits development requires multi agency agreements/decisions and the country is still working on this. This is also envisioned as part of the sustainability			

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	<p>mechanism for the Programmatic Management of Drug Resistant TB and the reduction of patient Out of Pocket expenditures.</p> <p><u>TDF</u> Enablers have been incorporated in the package being proposed by the NTP the Philippine Health Insurance System (PhilHealth) for MDR-TB patients. Based on the 2009 data shown below on socioeconomic classification of enrolled MDR-TB patients 86% belonged to Class C (indigents) whose monthly family food threshold set by the National Statistics Coordinating Board is between Php 0 and Php9,000 (USD 191). The provision of transportation support along with other forms of enablers and incentives is recommended by WHO for MDR-TB patients who undertake the long and difficult treatment requiring daily supervision. The measurable benefits would be</p>			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	<p>in the form of improved cure rate and decrease in default rate.</p> <p><u>Global Fund Secretariat comment to the recommendation and action plan</u></p> <p>The recommendation is difficult to implement as enablers are typically part of MDR-TB packages of services that ensure treatment adherence. Removing those for the grant agreement packages would seriously reduce the treatment adherence of patients. In this case, we concur with the explanation given by the DOH and TDF</p>			
<p>Recommendation 31 (High)</p> <p><i>NTP data analysis should trigger actions which may include refresher training of clinicians especially in the private sector facilities and increased support supervision to weak performers.</i></p>	<p>The NTP data covers reports from the public and private (PPMD) sector. These reports are consolidated at all levels and information are presented and discussed in the PIRs and Consultative Workshops.</p> <p>PPM initiatives in the regions are also discussed in the regular NTP PIRs and is also included in the regional plans.</p>			<p>Comment does not address observation or recommendation</p>

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
<p>Recommendation 32 (Requires attention) <i>Based on the widespread TB burden in PHL, there is a need to increase and revitalise the coverage of TB Diagnostic Committees (TBDCs) from the current 60%.</i></p>	<p>NTP policy is for the TBDC to convene twice a month and this is the current practice by the majority. Areas with large populations (and with many cases) conducts the meetings even on a weekly basis.</p> <p>This is also the intention of the NTP to ensure that there is access to all smear negative TB suspects. Setting up TBDCs requires the participation of clinical specialists and in some areas these are not available. In areas where a TBDC is difficult to organize, we have recommended that the health centers and provincial health offices access/coordinate with the nearest TBDC in the neighbouring LGUs.</p>			
<p>Recommendation 33 (Significant) <i>There is scope to extend the benefits of community mobilisation through "Kusong Baga Project" to support treatment adherence activities at the grassroots level.</i></p>	<p>Community mobilisation is part of the NTP activities in collaboration with the CHDs, LGUs and NGO partners.</p> <p>The experience of partners in</p>			

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
	the implementation of community based initiatives is also contributing to the strengthening of these activities and to ensure that treatment adherence is observed.			
<p>Recommendation 34 (Significant) <i>In order to support policy formulation and monitoring, the leadership in monitoring MDR-TB should be transferred to the DoH. Also, specifically the activities supporting quality assurance and regulation should be led by the DoH.</i></p>	<p><u>DOH</u> The National TB Reference Laboratory is the forefront of all laboratory activities supporting the NTP and the DOTS implementation. Therefore, all TB initiatives taken by the country and project partners related to laboratory functions and quality diagnostics are subject to NTRL supervision, oversight and quality control (through EQA).</p> <p>The DOH plays a leading role in the implementation of PMDT. With the suspension, the DOH is fast tracking the transfer of technical capacity to the Lung Center of the Philippines as the key DOH organization to implement</p>			

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
	<p>PMDT in collaboration with the NTP. PMDT will thus be integrated to the NTP.</p> <p><u>TDF</u> In as much as the implementation of the PMDT is an initiative under the GF grant, the leadership in monitoring MDR-TB rests initially with TDF PMDT as the SR for the activity. Gradual turnover of functions and roles have been envisioned for the mainstreaming of PMDT into the NTP under the stewardship of the DOH. With the Round 5 and the start of the consolidated grant, TDF PMDT actually had conducted various capacity building activities for DOH and other public health service providers as a way of slowly immersing them in the PMDT initiative. The end point envisioned is for DOH to integrate PMDT into the NTP.</p> <p><u>Global Fund Secretariat comment to the recommendations and action</u></p>			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	<p><u>plan</u></p> <p>Recommendation 34 is crucial. This is being implemented through the six-months transition plan agreed between TDF, the GLC, WHO, the DOH and Global Fund to ensure that technologies and leadership for monitoring MDR-TB activities in the Philippines is migrated from the TDF to the DOH. The gradual turnover of MDR-TB functions and roles is embodied in the draft Annex A of the TB grant to be signed with PBSP.</p>			
<p><i>Recommendation 35 (High)</i></p> <p><i>DOH should strengthen the tracking of patients referred to and from MDR-TB treatment sites.</i></p>	<p><u>TDF</u></p> <p>Status of referred cases are reported back by MDR-TB Treatment Centers directly to the to the referring DOTS sites/Private Physicians or through the patient. Due to the 4-5 months turn-around-time for MDR-TB confirmation, there is a long waiting period for the feedback of results to the referring sites. Once the final diagnosis is available, final acknowledgement letters will be sent to the referring sites.</p>			
<i>Recommendation 36 (High)</i>				

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
<i>There is need to expedite the increase in MDR-TB sites especially at provincial level. This could be improved by increasing the role of LCP to take over from TDF as leader of diagnosis and treatment of MDR-TB in the country.</i>	In the TB Transition Plan, the Lung Center of the Philippines (LCP) will be taking over PMDT under the Global Fund as SR. Following its capacitating to implement PMDT, LCP will take the lead in the implementation and expansion of MDRTB services.			
<i>Recommendation 37 (Requires Attention) There is scope to revise the model for scale up of MDR-TB testing by transferring specimen rather than physical referral of patients.</i>	<p><u>DOH</u> NTP and partners will further discuss on this important recommendation.</p> <p>TDF In the scale up, indeed patients do not have to go all the way to referral centers especially if they live far from these centers. Specimens will be submitted to the DOTS facilities and in collaboration with the regional health office, will transport these specimens to the diagnostic centers through an agreed transport mechanism. This is now being done in some areas through courier services.</p>			The inadequate utilisation of capacity available at the laboratory in Manila should also to be addressed.
<i>Recommendation 38 (High) Data collection and reporting systems for</i>	<p><u>DOH</u> This is currently being</p>			

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<i>TB DOTS and MDR-TB should be integrated since they are within the same program. This will result in more efficient and effective data management.</i>	developed through the Phil E TB manager. The NEC is currently working with the MSH technical team on this.			
Recommendation 39 (Requires Attention) <i>There is a need for DoH to coordinate and approve all operational research activities under the Global Fund to increase applicability and scale up of good practices.</i>	<u>TDF</u> MDR-TB sites are established through the regions. Provincial expansion will come later as more expertise is established in the country. TDF is ready to provide capacity building to the LCP to manage the PMDT program in the country. All operational researches were discussed and approved at the Management Committee level and involved the DOH and the TWG members in the actual implementation.			
Recommendation 40 (High) <i>All the PR's activities should be linked with disease management initiatives to create opportunities for operational and impact synergies and ensure that the Global Fund programs are contributing to service integration.</i>	<u>TDF</u> This was not included in the project protocol nor was this suggested in the 3 external evaluations done by WHO. The PRs implement according to the proposal, performance framework, detailed work plan and budget approved by the			OIG recommendation is provided for consideration for designing programs in future and possible inclusion in proposals to the

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	TWG and CCM. Details are discussed in the Management Committee.			Global Fund.
<p><i>Recommendation 41 (Significant)</i></p> <p><i>All the indicators reported through the Global Fund should be harmonised with the national indicators.</i></p>	<p><u>TDF</u></p> <p>This is not a new finding. In fact, this is already a given. The purpose of the implementation of the Philippine Malaria Information System is precisely to address this problem. The DOH reports only on the number of malaria cases diagnosed and treated, which is also one of the indicators reported to GF. However, since the projects should provide the opportunity to monitor and evaluate the quality of service implementation, the TWG has also included the outcome indicator, number of cases correctly treated according to the national guidelines. This is especially important now since the country has just implemented a revised guideline with Coartem as first line drug and in the light of the dangers of drug resistance.</p>			The recommendation has not been addressed with a specific action.

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
<p>Recommendation 42 (Significant)</p> <p>(a) <i>DoH should strengthen coordination and harmonisation of different program standard operation manual especially when revisions are done.</i></p> <p>(b) <i>In-service staff training is an ongoing activity in the health sector and needs more coordination to improve availability of workers at their station and reduce wastage due to fragmented trainings.</i></p>	<p><u>TDF</u></p> <p>The trainings on diagnosis and clinical management have already been assessed. For trainings on diagnosis, the assessment is regular and training modules and materials are adjusted accordingly. For the clinical management, there is a plan to address the weaknesses found not only on the training but in the overall implementation. The sub-recipient identified for this is the Research Institute for Tropical Medicine. Trainings on vector control have not yet been assessed.</p>			<p>The specific action and timeline for the recommendation has not been provided.</p>
<p>Recommendation 43 (Requires attention)</p> <p><i>Programs should build-in sustainability mechanisms. In the devolved health system of the Philippines, there is a need for better use of data at decentralised levels with feedback being sent from national MCP to encourage the appropriate local application of the information at service level</i></p>	<p><u>TDF</u></p> <p>LGUs are now more aware of the malaria situation, and the control program. They are mainly equipped technically and mobilized to facilitate the implementation of activities and services. The projects should continue to prepare them to be able to sustain the programs even when the</p>			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	<p>projects are already finished.</p> <p>This is already covered by the RCC plan to have PhilMIS and the PIDSR, including setting up of sentinel sites.</p>			
<p>Recommendation 44 (Requires Attention)</p> <p><i>There is scope to revitalize Malaria program activities within the existing BHW Program. These existing grass root structures are key to community activities and can be tapped through training, logistic support and motivation so as to increase sustainability of achievements and local ownership of programs.</i></p>				
<p>Recommendation 45 (Requires Attention)</p> <p><i>Continued ITN use will need up-to-date entomologic surveillance information to facilitate targeting the next distributions of LLINs in the most cost-effective fashion rather than continued replacement.</i></p>				
<p>Recommendation 46 (Significant)</p> <p><i>The NEC should be strengthened to take over health sector monitoring and evaluation leadership for the whole country. The Global Fund programs should only be a part of this national</i></p>	<p><u>DOH</u> NEC is being capacitated to take this role.</p> <p><u>TDF</u> Agree.</p>			

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<p><i>system and should work to complement the work of DOH-NEC</i></p>	<p>The DOH admits that the current routine data collection has weaknesses in terms of completeness, reliability and timeliness. The parallel M&E systems were just a way to address the need to report to the Global Fund, initially every quarter and then later on every 6 months. This was done while also setting up the Philippine Malaria Information System, the Electronic TB Register and the ETB manager, which the TWG has agreed to set up to be adopted by the whole country later on. The GF projects have helped improve the quality of data now being produced to inform the programs. In the previous reporting periods, the projects under TDF have already used information generated by these information systems. The M&E plans of Global Fund grants were designed to complement the national M&E system. These plans have been evaluated by various experts</p>			

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	<p>in and outside the country, including consultants provided by the GF, and we believe that what is in existence is the best fitted M&E plans for the country and the programs it concerns with. Nevertheless, efforts to further improve the monitoring and evaluation plan and activities were incorporated in the GF grant. For the TB DOTS program, the DQA conducted by consultants of the GF for case detection and treatment success rates in Round 2 and 5 TB grants was found to be reflective of the good standing of the recording and reporting systems of the health program in general and of the NTP service providers in particular.</p> <p>We would appreciate specific recommendations from the OIG on how to improve and how to make the Global Fund M&E plans fit the existing national plan.</p> <p><u>Global Fund Secretariat's</u></p>			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	<p><u>comment to recommendations and action plan</u></p> <p>Some recommendations, which are linked to the Public Health aspect of the audit, are more general in nature and not necessarily tied to the implementation of ongoing grants but rather linked to future applications. Accordingly, it is delicate for the DOH to agree on precise completion dates for Recommendations 27, 28, 31, 32, 33, 40, 41, 42, 43, 44 and 45 while in principle there is no disagreement on their soundness.</p>			
<i>Oversight - CCM</i>				
<p>Recommendation 47 (Significant)</p> <p><i>The CCM should develop and communicate the process by which PRs will be solicited and selected to all stakeholders. To the extent possible, PRs should not be involved in proposal writing since this creates a conflict of interest.</i></p>	<p>With the Issuance of A.O. 2009-0024 on December 2, 2009, an Operational Plan shall be developed for CCM by first Quarter of 2010. This Plan should also be backed up by a Manual of Operations to guide CCM Operations</p>	CCM Secretariat c/o BIHC		
<p>Recommendation 48 (High)</p> <p><i>(c) The CCM should develop a communication policy by which Global Fund programs will be communicated to all stakeholders in</i></p>	<p>The CCM is not privy to certain communication between the Global Fund and LFA. Findings/recommendations of audit reports and other</p>			

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Recommendation	Response and action	Responsible official	Completion date	OIG Comment
<p><i>the Philippines. The policy should also cover aspects of PR, LFA and Global Fund communication to the CCM.</i></p> <p><i>(d) The CCM guidelines should be amended to include procedures to be followed by PRs in selection of SRs. The CCM should not be involved in selection of SRs.</i></p>	<p>assessment reports on PRs have to be shared with CCM to be able to follow up on their implementation</p> <p>Clear guidelines for PRs including minimum requirements and documents to be submitted to CCM to assess the application as PR are needed.</p>			
<p>Recommendation 49 (Significant) <i>The CCM should establish a Secretariat independent of DOH structure. The secretariat should be tasked with: co-ordination of CCM activities; filling of CCM documents including minutes; liaison between PRs, stakeholders and GF, and ensuring that minutes of TWG deliberations are filed.</i></p>	<p>In view of A.O. 2009-0024, a proposal for the establishment and operations of a CCM Secretariat shall be submitted to GF, to include funding support for dedicated personnel to staff the CCM Secretariat</p>			
<p>Recommendation 50 (High) <i>The CCM should develop an oversight plan. The plan should include field visits to evaluate program performance, as well as review of reports prepared by external parties such as external auditors.</i></p>	<p>As stipulated in A.O. 2009-0024, an Oversight Committee will be created, which will be tasked, among others, to draft an "Oversight Plan" and "Conflict of Interest Plan"</p> <p><u>Global Fund Secretariat comment to the recommendations and action plan</u></p> <p>We agree with the</p>			

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
	<p>recommendations concerning the CCM.</p> <p>The CCM is in the process of enhancing its oversight role and is creating a CCM Oversight Committee. Future discussions will take place in Manila in March and in Bangkok in May during the CCM regional workshop. Regarding Recommendation 48, the regional team will share its management letters to PRs with the CCM which will contribute to enhance the CCM oversight over the performance and financial accountability of the PRs.</p> <p>A CCM secretariat is being created and funding will be requested by the CCM according to the newly established CCM funding mechanism.</p>			
<i>Local Fund Agent</i>				
<p><i>Recommendation 51 (Significant)</i></p> <p><i>The LFA should make an assessment of risks that are likely to result in failure to implement grant programs or result in errors and fraud. This should be a key guiding document in the design of activities to be undertaken at Verification of</i></p>	<p>The LFA agrees that a risk inventory will provide a useful framework for its work. Whilst recognizing that such an inventory cannot entirely eliminate implementation error or fraud the risk analysis will provide a focus for the</p>	<p>Team Leader/Engagement Partners</p>	<p>Initial assessment complete end February 2010 and reviewed on an on-going basis and before</p>	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
<i>Implementation and capacity assessments.</i>	<p>LFA work and ensure an agreed scope of work with the FPM for each report.</p> <p><u>Global Fund Secretariat comment to the recommendations and action plan</u></p> <p>The recommendation was implemented during the negotiations of the Malaria consolidated grant with the Shell Foundation and with PBSP which will be resulting in savings of US\$ 20 million for these two new grants.</p>		commencement of each verification or other report	
<p>Recommendation 52 (Significant)</p> <p><i>The LFA should perform a more thorough review of program budgets and ensure that they are tied to the work plans and adequately supported. During the regular verification of implementation, the LFA should review implementation of the budget and report deviations to the Global Fund Secretariat.</i></p>	<p>The LFA considers that it has been rigorous in previous budget reviews. However, the new guidelines for budget review issued by the Secretariat in January 2010 provide a very detailed checklist to ensure increase rigour and consistency in each and every budget review.</p>	Team Leader/Engagement Partners	Immediate implementation as at next budget review	
<p>Recommendation 53 (Significant)</p> <p><i>The LFA should increased senior management involvement to ensure quality assurance of the work of the</i></p>	<p>In November 2009, the LFA changed the LFA team structure. One partner leads the LFA work and a second</p>	Team Leader/Engagement Partners	Implemented. November 2009	

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<i>Recommendation</i>	<i>Response and action</i>	<i>Responsible official</i>	<i>Completion date</i>	<i>OIG Comment</i>
<i>LFA.</i>	partner provides a further quality assurance review. In addition, a Director and two managers have joined the team to further strengthen senior management support.			
<i>Recommendation 54 (Significant)</i> <i>The LFA should improve documentation of conditions precedent, limiting them to actions that are within the PRs control. There should also be strict follow up of conditions precedent agreed between the PR and Global Fund and limit the use of "in progress" as a justification for clearing the condition.</i>	The Global Fund Secretariat makes the decisions on the CPs and which recommendations to include for action in any subsequent reporting period. The LFA notes the comment that "in progress" is insufficient to clear a CP. However, the LFA considers it is useful to note any on-going plans by the PR to meet the Conditions Precedent. If in future, "in-progress" is stated, the LFA will provide a detailed rationale on the use of this wording.	Team Leader/Engagement Partners	Immediate starting with the PU/DR due end February 2010	
<i>Recommendation 55 (High)</i> <i>In addition to the review of audit reports of PRs, the LFA should review the PR plans for the annual audits of SRs, and the selection process of PRs auditors.</i>	The LFA is currently carrying out this activity for grants previously implemented by TDF. The LFA is fully aware of this requirement and will ensure timely completion for other PRs as well.	Team Leader/Engagement Partners	Already commenced and ongoing	

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	<p><u>Global Fund Secretariat comment to the recommendations and action plan</u></p> <p>The regional team fully agrees with the recommendations concerning the LFA and is already exercising tighter control of the quality of the work of the LFA. Discussions were held with the PwC central office in Geneva to ensure this. The LFA was requested to focus its analysis on risk management rather on purely meeting deliverables targets.</p>			
<i>Oversight - Global Fund Secretariat</i>				
<p><i>Recommendation 56 (Significant)</i></p> <p><i>The Country Programs team should follow up conditions in the grant agreement to ensure fulfillment by the PRs. This will ensure that gaps identified by the LFA are filled and capacity of the PRs improves.</i></p>	<p>Agreed. We will pay increased attention to this particular management action.</p>	Regional Team	Ongoing	