THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the Kyrgyz Republic

Report

GF-OIG-09-012
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Table of Contents

Executive Summary 1
Message from the General Manager 3
Message from the Country Coordinating Mechanism 4
Audit Overview 8
Context 10
The Republican AIDS Center of the Kyrgyz Republic 11
National Center of Phthisiology of the Kyrgyz Republic 34
State Sanitary Epidemiological Department 48
Oversight 60

Annex 1: Recommendations and Management Action Plan
Annex 2: List of Abbreviations

Executive Summary

Background

1. The Office of the Inspector General (OIG) carried out an audit of Global Fund grants to the Kyrgyz Republic from 2 November to 10 December 2009. The OIG sought to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations

2. The audit covered all six grants, amounting to USD 47 million, of which USD 32 million had been disbursed, from 1 March 2004 (the inception date of the first grant) to 31 December 2008. The Principal Recipients in Kyrgyzstan were the Republican AIDS Center of the Kyrgyz Republic (for the HIV/AIDS grants), the National Center of Phthisiology of the Kyrgyz Republic (TB), and the State Sanitary Epidemiological Department (malaria).

3. The audit found that there was significant scope for improvement in all grants to Kyrgyzstan, particularly with respect to (i) financial management, (ii) governance and oversight, and (iii) procurement.

4. This report presents 26 "High Priority" recommendations and 27 categorized as "Significant priority"[1]. 9 other recommendations have been offered to management that "Require Attention" to address minor control weaknesses or non-compliance.

Public Health Response

5. At the time of the audit, there were indications that the number of HIV positive cases were on the increase particularly among most at risk populations. The Global Fund resources were used for setting up infrastructure at regional AIDS Centers and laboratories, integration of HIV services into Primary Health Care (PHC), introduction of ARV treatment, and harm reduction among Injecting Drug Users (IDUs).

6. With the support of the Global Fund, the National Tuberculosis Control Program achieved universal DOTS coverage, expanded DOTS-plus coverage in prisons, improved drug management and integrated TB services at PHC level.

7. Kyrgyz Republic has recorded a significant reduction in Malaria morbidity due to funded activities i.e. vector control measures; diagnosis and treatment.

Key actions agreed upon in response to the OIG audit

8. In responding to the risks identified by the OIG, the stakeholders have committed to:

- Strengthen oversight of Global Fund grants by selecting UNDP to be principal recipient for government implemented grants; ensuring that the Ministry of Health regularly supervise disease programs, as well as restructuring the CCM to set up working groups and to address conflicts of interest.
- Improve quality of service delivery by: expanding the reach of HIV testing and counseling among most at risk persons; decentralizing laboratory services from regional to District level, and improving infection control practices. The Government of Kyrgyzstan made amendments to national law to recognize associations of persons living with HIV.
- Ensure good financial management. UNDP as the newly appointed Principal Recipient for the entities audited by the OIG now has a mandate to ensure proper

[1] Recommendations are categorized as: "High Priority", "Significant Priority" and "Requires Attention". Definitions are at paragraph 24

accountability of funds disbursed to SRs (PRs at the time of the audit). To ensure best value for money UNDP have provide assurance that their guidelines are applied in undertaking grant procurements. UNDP also accepts responsibility to ensure that in the future actions are taken to avoid stock-outs and expiry of drugs and that medicines are quality assured and correspond to the essential drugs list. The Local Fund Agent (LFA) has been given an expanded mandate to review the activities of lower level implementers (sub-sub recipients).

Conclusion

9. While the OIG noted a number of good practices and achievements in the management of grants, the OIG identified a number of significant weaknesses in the internal control framework. Consequently, the OIG is not able to provide the Global Fund Board with reasonable assurance that at the time of this audit the controls in place to manage the key risks impacting the Global Fund-supported programs and operations were effective. This report includes data showing an amount of USD 122,062 that should be recovered to the grants from the three PRs, due to expenditure not properly accounted for and activities not in the approved work plans. For USD 58,482 relating to the State Sanitary Epidemiology Department (SSED), the PR should provide documentation to the Global Fund for review by the Local Fund Agent, if they fail to do so a repayment should be made to the Global Fund.

Events subsequent to the audit

10. While the data in this report are dated due to the time elapsed since the audit fieldwork (in part due to the political turmoil described below), based on discussions with the Secretariat and the PRs, the OIG believes that the majority of the recommendations remain applicable. However, the OIG notes the following:

11. Following the audit field work and on the basis of preliminary findings, the Global Fund Secretariat developed action plans with each of the PRs and CCM to address key weaknesses. These included the following changes in implementation:

a) The United Nations Development Programme has assumed the role of Principal Recipient for HIV, TB and Malaria grants;
b) Dual track financing has been implemented with the NGO Project HOPE taking on a PR role for the TB Round 9 grant;
c) Grant Management Solutions has provided support to the CCM to strengthen its oversight function;
d) The CCM has been transferred to the Prime Minister's office; and
e) The LFA terms of reference have been revised taking into consideration portfolio specific risks and OIG recommendations.
f) Some issues have been referred for follow-up action to the OIG Investigation Unit.

12. In April 2010, nationwide protests led to a change of government in Kyrgyzstan. The OIG has not returned to the country to assess the impact of the change of government, the change of PRs and the other items listed above on the grant operating environment. Some of the recommendations will certainly have been overtaken by events. We hope that the essence of the recommendations will still be useful as a guide to improvements in grant management and oversight. The OIG encourages the new PRs to ensure that the relevant SRs implement these recommendations.

Message from the General Manager

The Global Fund
To Fight AIDS, Tuberculosis and Malaria

10 YEARS OF IMPACT

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31 July, 2012

MESSAGE FROM THE GENERAL MANAGER

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

The audit was carried out from November 2 to December 10, 2009, and covered all six grants to the Kyrgyz Republic. These totalled US$ 47 million, of which US$ 32 million had been disbursed from March 1, 2004 - the inception date of the first grant - to December 31, 2008.

Kyrgyzstan has a concentrated HIV epidemic, with the highest rates of infection among injecting drug users. It is one of the seven countries in the world where the HIV epidemic continues to grow. It has also one of the highest incidences of tuberculosis in the region. After many years without local transmission, malaria returned in 1996, but today it is again declining, with no cases reported in 2011.

The audit report identified significant achievements in the fight against the three diseases. Regional AIDS centers and laboratories have been set up, anti-retroviral treatment became available, and HIV services were integrated into primary health care. The National Tuberculosis Control Program has achieved universal Directly Observed Treatment, Short course (DOTS) coverage, and expanded treatment in prisons as well. Vector control measures have recently reduced malaria morbidity, and diagnosis and treatment have improved.

There was significant scope for improvement in all grants to Kyrgyzstan, according to the audit, particularly in financial management, governance and oversight, and procurement. To address that, the report presents 62 recommendations.

In addition, the report includes data showing that US$ 127,432 should be recovered from the three principal recipients implementing Global Fund grants in the country, related to expenditures not properly accounted for and to activities that were not in the approved work plans. The Office of the Inspector General is still working in Kyrgyzstan on these matters.

Following the completion of the audit fieldwork and on the basis of the preliminary findings, the Global Fund Secretariat developed action plans with each of the principal recipients and with the Country Coordinating Mechanisms to address key weaknesses and improve grant management processes. Among the implemented changes, the United Nations

Development Programme has assumed the role of principal recipient for HIV, TB, and malaria grants and the Country Coordinating Mechanism has been transferred to the Prime Minister's office.

In April 2010, nationwide protests led to a change of government in Kyrgyzstan. The impact of that, as well as the changes mentioned above, on the grants' operating environment has not yet been assessed.

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

Yours sincerely

Message from the Country Coordinating Mechanism

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Генеральному Инспектору ГФСТМ
г-ну Джону Парсонсу

Копии: **Секретариат ГФСТМ**
Страновой Координационный Комитет

Уважаемый господин Джон Парсонс!

Министерство Здравоохранения Кыргызской Республики выражает глубокое уважение и благодарность Офису Генерального Инспектора Глобального Фонда и Вам лично за содействие в реализации грантов ГФСТМ по предотвращению ВИЧ-инфекции, туберкулеза и малярии. Благодаря поддержке ГФСТМ страна внедрила антиретровирусную терапию при ВИЧ-инфекции, которую в настоящее время получают 68% от числа нуждающихся лиц, в том числе более 90% детей. Кыргызстан также расширил программы по профилактике ВИЧ-инфекции и охватил свыше 85,7% наркопотребителей, охват заместительной терапией метадоном увеличился в 5 раз. Кыргызстан смог преодолеть эпидемию малярии и в настоящее время включился в программу по элиминации малярии в стране. Охват всех нуждающихся вновь выявленных больных ТБ был обеспечен на средства ГФСТМ и в настоящее время начаты программы по лечению лекарственно устойчивых форм заболевания.

В ответ на Ваше письмо OIG/JP_12/117 от 12 сентября 2012г. мы выражаем благодарность за проведенную работу по аудиторской проверке реализации грантов Глобального Фонда в нашей стране и за ценные рекомендации, которые будут приняты к сведению и использованы в целях

повышения эффективности в области управления и улучшения результатов программной и финансовой деятельности Основных Реципиентов в рамках реализации грантов Глобального Фонда в Кыргызстане. Также мы благодарны за предоставленную возможность повторного пересмотра некоторых документов по Департаменту санитарно-эпидемиологического надзора при непосредственном участии МАФ и Секретариата ГФ.

Выражаем свое почтение и благодарность за приверженность делу борьбы со СПИДом, туберкулезом и малярией.

Заместитель министра  **Калиев М.Т.**

Байызбекова Э. 300217

Message from the Country Coordinating Mechanism

THE MINISTRY OF HEALTH OF KYRGYZ REPUBLIC

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Date: Sept. 19, 2012
No.: 05-1/3-7991

Attn.: Inspector General of TGF –
Mr. John Parsons

CC: TGF Secretariat
Country Coordinating Committee

Dear Mr. Parsons:

The Ministry of Health of Kyrgyz Republic hereby expresses its deep respect and gratitude to the Office of the Inspector General of the Global Fund, and personally to you, for the assistance in implementing the Global Fund grant projects on HIV-infection, TB and Malaria control. Thanks to the support of the Global Fund, the country has introduced the antiretroviral therapy for HIV, which is now rendered to 68% of the patients requiring this therapy, including to more than 90% of infected children. Kyrgyz Republic has also expanded the HIV prevention programs, and now more than 85.7% of drug users have been covered by these prevention programs; moreover, the rate of coverage by the methadone substitution therapy has increased by 5 times. Kyrgyzstan has managed to subdue the epidemics of malaria, and currently the country is implementing the program for total elimination of malaria. Full coverage of all the newly detected TB patients, requiring a corresponding treatment, has been ensured thanks to TGF funds, and as of today we have already launched the programs for treatment of the drug-resistant forms of TB.

In response to your Letter No.OIG/JP_12/117 dated September 12, 2012 – we would firstly like to express our gratitude for the diligent work performed during the OIG audit of the Global Fund grant programs in our country, as well as for the valuable recommendations, which will be taken into account and duly implemented with a view of scaling up the efficiency in the field of the grants' management as well as enhancing the results of the programmatic and financial activities of the Principal Recipients within the framework of the Global Fund grants implementation in Kyrgyz Republic.

We would also like to express our gratitude for the afforded opportunity of revising the certain documentation related to the Department for state sanitary-and-epidemiological surveillance, with provision for the direct participation of the LFA and TGF Secretariat.

We would like to express our respect and gratitude to you for your commitment to the fight against AIDS, TB and Malaria.

Deputy Minister ***(signed)*** M.T. Kaliev

Audit Overview

13. The Office of Inspector General (OIG), as part of its 2009 work plan, carried out an audit of the Global Fund grants to the Kyrgyz Republic. The purpose of the audit was to provide assurance that the Global Fund's resources had been spent wisely to save lives in the Kyrgyz Republic. 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 Global Fund resources;
(c) Confirm compliance with the Global Fund grant agreement and related policies and procedures, policies and procedures and the related laws of the country;
(d) Identify any other risks that the Global Fund grants may be exposed to; and
(e) Make recommendations to strengthen the management of the Global Fund grants in Kyrgyz Republic.

Scope and methodology

14. The scope of the audit covered the following Global Fund grants:

Round	Disease	Grant number	Grant Amount (USD)	Amount disbursed (USD)
The Republican AIDS Center of the Kyrgyz Republic				
2	HIV/AIDS	KGZ-202-G01-H-00	17,073,306	17,073,306
7	HIV/AIDS	KGZ-708-G05-H	11,845,090	4,997,122
State Sanitary Epidemiological Department				
5	Malaria	KGZ-506-G03-M	3,426,125	2,877,8802
8	Malaria	KGZ-809-G06-M	3,796,116	-
National Center of Phthisiology of the Kyrgyz Republic				
2	Tuberculosis	KGZ-202-G02-T	2,771,070	2,771,070
6	Tuberculosis	KGZ-607-G04-T	8,287,814	4,330,108
Total			**47,199,521**	**32,049,486**

Table 1: Summary of grant disbursements [Source: Global Fund records – December 2009]

15. The audit covered the operations of the three Principal Recipients (PRs), namely the Republican AIDS Center, the State Sanitary Epidemiological Department and National Center of Phthisiology. In addition, the audit covered selected implementing partners. The OIG also reviewed the oversight functions of the Country Coordinating Mechanism (CCM), the Local Fund Agent (LFA), and the Global Fund Secretariat.

16. Audit tests included the review of the supporting documents of expenses incurred and tests of controls in place. The OIG sampled transactions worth USD 25 million out of a total of USD 32 million of total disbursements to the PR at the time of the audit (63%).

The report

17. This report is presented by PR by functional area, i.e., (i) service delivery; monitoring and reporting; (ii) institutional arrangements; (iii) compliance with grant agreements and national laws; (iv) financial management; (v) procurement and supply chain management; and (vi) sub grant management. The report has a section dedicated to the oversight arrangements of Global Fund-supported programs. Good internal control practices or significant achievements seen during the audit are mentioned in the report, but not

discussed in depth given that the purpose of the audit was to identify key risks and issues that need to be addressed.

18. The local currency amounts in Kyrgyz Som (KGS) presented in this report have been translated at a period average exchange rate of USD 1 to KGS 42.

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

i. High Priority: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, present material risk and will be highly detrimental to the organization's interests, significantly erode internal controls, or jeopardize achievement of aims and objectives. They require immediate attention by senior management.

ii. Significant Priority: There is a control weakness or noncompliance within the system, which presents a significant risk. Management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal controls, or undermine achievement of aims and objectives.

iii. Requires Attention: There is a minor control weakness or noncompliance within the system, which requires remedial action within an appropriate timescale. The adoption of best practices would improve or enhance systems, procedures and risk management for the benefit of the grant programs.

Context

20. The Kyrgyz Republic is a landlocked and mountainous low income country with eight administrative regions and a total population of about 5.2 million people. An estimated 66% of its population lives in rural areas, where poverty rates are higher, particularly where geography and remoteness constrain access to markets. About half the population lives below the poverty line.

21. A post-Soviet state, Kyrgyzstan, like its neighbors, has faced severe economic problems in its transition from a planned economy to a market economy, with low foreign investment and high levels of corruption. The country is struggling to achieve the Millennium Development Goal targets on child mortality, maternal health, infectious diseases and safe drinking water.

22. Like the other states of Central Asia, Kyrgyzstan faces a severe financing problem in the health sector. Informal payments for services are common. Health services almost collapsed after independence. Vaccine-preventable diseases such as meningitis began to re-emerge, and the prevalence of TB increased. Unemployment and poverty have resulted in an increase in sex work and injecting drug use, which fuels the HIV/AIDS epidemic. Large quantities of cheaply priced drugs are trafficked through the country. Population mobility is high.

23. Health sector reform in Kyrgyzstan is aimed at strengthening preventive health, increasing the volume and improving the quality of medical insurance, and changing the emphasis of service provision from inpatient care to outpatient clinics. Strategic areas in the achievement of these goals are the reform of financing, management and human resource policies on the basis of decentralization and redistribution of resources.

The Republican AIDS Center of the Kyrgyz Republic

Background

24. Kyrgyzstan has a concentrated HIV epidemic, with HIV rates highest among injecting drug users (IDUs). In 2009, sentinel surveillance studies showed that the prevalence for IDUs was 6.8%, sex workers 1.9%, men who have sex with men (MSM) 3.8%, prisoners 1.2%, and pregnant women 0.1%[2].

25. Despite Kyrgyzstan's classification as a low prevalence country, factors exist for rapid growth of the epidemic, specifically among the most vulnerable groups, which include injecting drug users (IDUs), commercial sex workers (CSWs) and prisoners. The main mode of transmission is intravenous drug use, which makes up approximately 67% of all new cases of HIV infections[1].

26. The recorded number of HIV positive cases doubled in 2007-2008, with 2,031 people estimated to be living with HIV as of 1 January 2009. Two thirds of newly registered cases and over half of newly identified infections are IDUs. One third of cases are women.[2]

27. The highest number of HIV cases was registered in the southern region of the country, located on the drug traffic routes from Afghanistan and Tajikistan to Russia and Western Europe.[3] According to 2007 sentinel surveillance data, the HIV rate among IDUs was 7.7% nationwide, with the southern regions registering higher rates, i.e., 12.9% in Osh and 14% in Jalalabad[4]. The HIV rates among commercial sex workers (CSWs) were 2%[5] and among men having sex with men (MSM) 3.9%.[6] Sentinel surveillance showed that HIV prevalence among pregnant women and STI patients has remained below 0.5% and 2%, respectively.[7,8]

28. From 2007, the country has recorded a significant rise in the number of children infected with HIV in hospitals particularly in Osh Oblast. In 2009, the officially registered number of infections in children reached 164, which represented 8.1% of all registered cases in the country.[9]

The Global Fund-supported HIV Programs

29. The Republican AIDS Center (RAC), a department of the Ministry of Health, is the PR and main implementer of the Global Fund-supported HIV/AIDS programs. The Global Fund-supported program comprises two grants to: strengthen political and legal support to AIDS prevention programs, and contain HIV infection among vulnerable populations, including young people, by reinforcing existing programs and developing new ones.

30. The program aims to ensure access to youth-friendly medical services and counseling; provide medical support (including antiretroviral therapy) to people living with HIV/AIDS; and undertake sociological surveys to determine priority needs. Efforts are also being made to build the capacity of community organizations of people living with and affected by HIV. Additional areas of activity include harm reduction programs for injecting drug users and enhancing the national program for blood safety.[10]

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[2] UNAIDS Country Report 2009
[3] Global Fund Round 9 HIV/AIDS Proposal, Kyrgyz Republic
[4] BSS report among IDUs in Kyrgyz Republic (2004-2007)
[5] BSS report among CSWs in Kyrgyz Republic (2004-2007)
[6] BSS report among MSM in Kyrgyz Republic (2004-2007)
[7] BSS report among pregnant women in Kyrgyz Republic (2004-2007)
[8] BSS report among STI patients in Kyrgyz Republic (2004-2007)
[9] GF Round 9 HIV/AIDS Proposal, Kyrgyz Republic
[10] The Global Fund website

31. A Round 2 grant titled "*Development of preventive programs on HIV/AIDS, TB and Malaria aimed at reduction of social and economic consequences of their spread*" was signed on 4 August 2003. This grant was active from 1 March 2004 to 28 February 2009 and focused on the development of strategies for HIV/AIDS activities implemented mainly by non-governmental organizations (NGOs). Emphasis was placed on preventive interventions among high-risk groups such as IDUs, CSWs, young people and prisoners through the distribution of condoms and needles/syringes as well as training of health workers.

32. On 4 May 2008, the Round 7 HIV grant titled "*Increasing universal access to prevention, detection, treatment, care and support for key population groups in the Kyrgyz Republic*" was signed. At the time of the audit, Phase 1 of this grant was scheduled to end on 31 December 2010 with Phase II potentially extending to 31 December 2013. The Phase 1 end date has since been revised to 31 March 2011.

33. The objectives of the Round 7 grant were:
(a) Ensuring universal access to prevention, treatment, care and support for key vulnerable population groups and people living with HIV;
(b) Expanding and improving the effectiveness of preventive programs for key vulnerable population groups;
(c) Developing continuous and innovative preventive programs for young people; and
(d) Strengthening multi-sectoral response to the HIV epidemic by increasing national capacity, building political commitment, partnerships and institutionalizing activities.

Achievements and challenges

34. The national HIV/AIDS response in Kyrgyzstan is characterized by noteworthy achievements which include: the setup of regional AIDS Centers and laboratories; integration of HIV services into Primary Health Care (PHC); introduction of ARV treatment, and a functioning HIV second generation surveillance system.

35. The PR carried out most of the planned activities under the Round 2 and 7 HIV grants. Programs successfully implemented included the following:
(a) HIV prevention among youth, commercial sex workers and MSM. This included user-friendly STI clinics, condom distribution, peer education, and Information, Education and Communication (IEC) activities;
(b) Harm reduction among IDUs, including prisoners, through syringe and needle exchange and Methadone Substitution Therapy (MST);
(c) Initiatives to ensure the safety of donors' blood; and
(d) Medical and social care to People Living with HIV/AIDS (PLWHA), including Voluntary Counseling and Testing (VCT) and Anti-Retroviral Therapy (ART).

36. The political support rendered to Methadone Substitution Therapy (MST) as a prevention intervention is commendable. The Republican AIDS Center has developed technical guidelines and standard protocols for clinical and laboratory services, as well as disease surveillance.

37. However, the country still has a number of barriers to the health system, which seriously hinder the effectiveness of services delivered within the framework of the HIV/AIDS program. These include (i) a low share of the state funding to HIV prevention and control; (ii) a shortage of human resources at all levels; and (iii) little involvement of governmental structures in prevention programs. This affected the implementation of programs.

38. The OIG noted that some of the activities planned under Round 2 had not been implemented at the time of the audit. These were:

(a) Approximately 15% of the purchased condoms were not distributed. The program purchased more condoms than were used; and
(b) The program procured an integrated computer network for continuous monitoring of blood safety at a cost of USD 177,862. However, this network was not used.

39. Most of the program activities of the Round 7 HIV/AIDS grant had just started. The OIG identified two activities which could have strengthened the HIV program, had they been included in the Round 7 work plan or funded through other sources, viz. a prevention program for MSM in prisons, and training aimed at strengthening of prevention, diagnosis, treatment and care (e.g., for VCT and PMTCT).

Service delivery, monitoring and reporting

Quality of service delivery

HIV Counseling and Testing

40. Provider Initiated Testing and Counseling (PITC) was offered to pregnant women, STI patients, and IDUs at Family Medicine Centers (FMCs). The OIG noted that very few providers had been trained in PITC and VCT. VCT guidelines were also not available in these facilities.

41. All pregnant women who seek antenatal care at FMCs are offered HIV testing. However, the number of IDUs that are tested at FMCs for HIV is very low. The only IDUs registered and provided an opportunity to test are those referred by police to narcologists at FMCs for treatment and support.

42. STI patients are usually treated by urologists, often at private clinics. The growing number of private urology and gynecology clinics has resulted in many STI patients remaining unregistered and not being offered VCT. One FMC urologist explained that he did not refer patients for VCT because he was not aware that patients could be tested anonymously and free of charge at the regional AIDS center. The urologist was keenly interested in attending training in VCT. This observation shows that there is scope for improvement in training providers.

Recommendation 1 (High priority)
The RAC should consider increasing HIV testing of MARPs. One strategy to address this may be to introduce rapid test kits for NGOs and private clinics. Within the framework of NGO sub-recipient programs, special emphasis should be given to promoting HIV testing among MARPS by setting relevant targets and selecting relevant indicators to track progress with regard to HIV testing among MARPs.

43. There is a national testing algorithm, which is a part of the national policy (MOH Administrative Order Number 202). However, it is not completely clear from this document what strategy is recommended for the testing of children less than 18 months of age.

44. The national protocol for HIV testing provides for the testing of blood in three steps: (i) Blood is tested at a district/regional AIDS laboratory using the ELISA test; (ii) If positive, a second test is run at the district/regional AIDS laboratory using ELISA; and (iii) If the second test is positive, the second blood specimen is used to do a third ELISA test. If the third ELISA test is positive, the case is confirmed. However, in practice blood is sent to the RAC in Bishkek for final confirmatory test using Western Blot.

45. There are six HIV/AIDS laboratories in the Osh region, mainly located at district hospitals. All of these laboratories conduct ELISA tests. However, none of the laboratories had ELISA readers and washers, which makes the validity of the test results conducted in these laboratories questionable.

46. Transportation of blood specimens to Bishkek, specifically from the southern region, is complicated due to poor transport infrastructure. Blood is taken to Bishkek for confirmation only if someone is travelling to Bishkek[11]. This could be avoided if the Western Blot were conducted in Osh. This is possible given that both the laboratory equipment and trained human resources are available at the regional AIDS center in Osh.

47. After confirmation of HIV infection by the RAC, it is registered by the regional AIDS center, local district department of State Sanitary Epidemiological (SSED) and the FMC. Thereafter, post-test counseling is undertaken by an AIDS center epidemiologist, AIDS center doctor and district SSED epidemiologist. There is no protocol as to who should conduct this counseling and many of these specialists are not trained in VCT.

Recommendation 2 (High priority)

(a) The RAC should ensure that testing is done according to the national protocol; alternatively, the protocol should be revised to correspond with actual practice. The RAC should clarify the strategy for testing children less than 18 months of age.

(b) The RAC should consider simplifying HIV testing procedures. E.g., blood should preferably be collected only once in an adequate quantity so that the same specimen is used at all necessary levels, including central, for confirmation.

(c) The RAC should consider decentralizing laboratory services so that HIV confirmatory tests are undertaken at the regional level. This is especially important in hard to reach regions like Osh.

(d) The RAC should conduct training in VCT for all providers working at service delivery points at FMC, friendly clinics, AIDS Centers, and SSED.

(e) Consideration should be given to refining the counseling process so that, to the extent possible, pre- and post-test counseling is undertaken by the same person.

Anonymity and confidentiality

48. The records containing patients' HIV status are not secured within health care facilities. There is no policy defining who has access to this information at the health care facility level and what procedures should be followed before access to confidential information is given.

Recommendation 3 (High priority)

Consideration should be given by RAC to defining special procedures and rules for health care facilities for storing/accessing/using patients' confidential data in accordance with national policy.

HIV Care and treatment

49. Kyrgyzstan, with assistance from the Global Fund, has made significant progress in providing care and treatment for PLWHA. However, the proportion of PLWHA, particularly

[11] AIDS lab doctor in Osh

adults, on ART is still low. In November 2009, 186 persons received ART out of 325 who were eligible. HIV positive children are in a much better position than adults in terms of getting services including ART. A significant proportion of HIV positive adults will not seek treatment due to the fear of stigmatization. This was confirmed by the Oblast AIDS center staff and PLWHA interviewed.

50. PLWHA face stigmatization from health care providers. PLWHA and health center doctors interviewed confirmed that many providers refused to provide hospital care and treatment or found reasons not to treat patients. This was attributed to providers' fear of getting infected and/or spreading infection among other patients due to poor infection control practices. This reflects a lack of sufficient knowledge about the disease. In consequence, many PLWHA were reluctant to disclose their status in health care facilities, even though it meant that they lost their PLWHA privileges, e.g., free services from the state guarantee program.

51. At sites visited in Osh, Jalalabad and Bishkek regions, family doctors who are supposed to provide clinical oversight to patients on ARV treatment, had not been trained in ART. The service providers were not comfortable with providing clinical care and follow up to patients on ART. No clinical guidelines were available for the family doctors.

52. The OIG noted that most PLWHA care providers at various levels had not been trained in infection control. No guidelines or standard protocols on infection control were available at health facilities visited by the OIG.

Recommendation 4 (Significant)
In future proposals, RAC should consider including training for all doctors and health service providers working at FMC service delivery points in HIV matters, initiation of ART and clinical follow up of AIDS patients receiving ARV treatment. The RAC should also improve infection control practices in healthcare facilities through provision of necessary materials and equipment as well as training of providers on effective infection control measures.

53. Another serious obstacle to the initiation of ARV treatment was the lack of equipment to test the HIV viral load. CD4 count tests were not yet readily available at most regional AIDS centers, only starting in Osh in May 2009 and not yet available in Chui at the time of the audit. The proportion of patients in Osh estimated to have had the test was 30%.

54. According to the national guidelines, an HIV viral load test is required for the initial diagnosis and clinical follow up of patients. HIV viral load tests are only undertaken at the HIV Center reference laboratory in Bishkek, which did not have capacity to conduct all the referred tests. Almost all PLWHA interviewed in Bishkek and Osh confirmed that they had never had a viral load test. This constrained the AIDS centers' ability to undertake clinical follow up of patients on ART.

55. Most PLWHA did not have easy access to routine blood tests such as Complete Blood Count (CBC) and biochemistry. The PLWHA had to pay separately for these tests at health facilities, including FMC and AIDS centers. The same was true for TB screening x-ray examinations. The Global Fund grant program has partially addressed this problem by meeting medical costs for PLWHA through NGOs. The number of PLWHA served in this way was, however, still small and the amount of money budgeted for these activities limited.

56. There is a high default rate on ARV treatment, especially among IDUs. The OIG noted that IDUs were often not very knowledgeable of the benefits/risks of ART. Some IDUs

interviewed in Osh believed that government was attempting to kill them with ARTs, which led to defaulting[12].

Recommendation 5 (High priority)
The HIV Center and the MOH should give consideration to timely initiation of ARV treatment and clinical follow up of patients at the regional level. This calls for improving the technical capacity of regional AIDS centers especially in the Southern Oblasts as a priority.

Management of Opportunistic Infections (OIs), TB and STI

57. Treatment for side effects or any symptomatic treatment as well as clinical laboratory tests that may be required during the course of ARV treatment are not easily available to PLWHA. This was not part of the Global Fund program and only minimal social or financial assistance was available from the state and other sources. Hence patients were obliged to buy these medicines personally.

58. Not all PLWHA were screened for TB because they could not afford the cost of the x-ray examination. Furthermore, during the OIG's field visits there was no first line TB prophylaxis available at the regional AIDS center in Chui. None of the PLWHA interviewed by the OIG had received TB-related treatment. The providers interviewed by the OIG at AIDS centers did not have working knowledge of Cotrimoxazole treatment for AIDS patients.

59. TB/HIV patients rarely received concomitant ARV and TB treatment. Most providers interviewed by OIG confirmed that they would employ such treatment according to national guidelines if the need arose.

60. PLWHA were not routinely tested for STIs and TB. A limited budget was available for PLWHA for treating STIs through small grants to NGOs.

Recommendation 6 (High priority)
(a) *The RAC Center and the MOH should consider promoting proper management of OIs including TB. The PR should ensure that the appropriate types and quantities of drugs for management of OIs are available at facilities.*

(b) *The HIV Center should promote routine assessment of PLWHA for STIs as well as treatment of STIs at friendly clinics.*

Prevention of Mother to Child Transmission (PMTCT)

61. HIV rapid tests kits and ARV medicines were provided to maternity hospitals by KfW. However, not all providers had received training in PMTCT, although this was planned under the Round 7 grant. Out of 16 doctors working in a maternity unit in Osh, only two had received PMTCT training, which had been funded by UNICEF. This was similar among FMC providers in Osh region.

62. Registers at the sites visited showed that most HIV infected women on ARV prophylactic treatment did not undergo Cesarean Section to mitigate intra-partum transmission. The OIG was informed that this was because pregnant women only came to the maternity unit just before delivery[13]. This presents a significant risk of mother to child HIV transmission and may be partly a result of HIV-infected pregnant women not being properly counseled.

[12] NGO social worker, Osh
[13] Obstetrician at maternity in Osh Oblast (Region)

Recommendation 7 (Significant)
Provider training at maternity hospitals/departments and FMC should include PMTCT. This training should cover amongst other things the promotion of Cesarean Section as an effective method of reducing the risk of mother to child transmission.

Support to the PLWHA (including palliative care)

63. At the time of the audit, the palliative care component of the grant had just commenced. A hospice with 10 beds had been opened in Osh, and one was planned for Bishkek. However, these may be inadequate to meet the envisaged need for palliative care. The RAC may need to consider alternative strategies, such as palliative home care.

64. The OIG observed that no medicines were available for palliative care at the regional AIDS centers. There were no mechanisms at these centers to address the psychosocial, emotional and spiritual needs of the PLWHA and their families.

65. PLWHAs receive a monthly subsistence allowance of KGS 315[14] (approximately USD 7.5 at the time of audit) from the state. This allowance is very low. In addition, PLWHA get social and financial assistance and psychological support from local NGOs. However, the level of such support is limited, e.g., only few PLWHA, mainly women with children, receive food parcels every three months. This food covers meals for only three to four days.

66. Legal advice is available for PLWHAs through NGO lawyers. However, PLWHA state that these lawyers are unable to solve their real problems. The biggest challenge facing PLWHAs, especially IDUs and former prisoners, is the lack of passports and registration cards (*propiska*), without which finding a job is impossible.

Recommendation 8 (High priority)
(a) Future programs should give consideration to strengthening palliative home care through: training of FMC providers; supporting the involvement of NGOs, and ensuring adequate supply of medicines needed. Palliative care should take into account the psychosocial needs of the PLWHAs.

(b) The RAC should work with the relevant government Ministries to advocate for rights of PLWHAs and work to reform the current legal framework to support the PLWHAs in getting employment.

Safe blood

67. At the time of audit, there was no national program on safe blood. A separate chapter on blood safety was included in the national program on HIV/AIDS for 2006-2010.[15] A number of strategies prioritized in this chapter were either not well-planned and/or under budgeted within the framework of both national HIV/AIDS program and Global Fund grant programs. Appropriate equipment to support the promotion of voluntary non-remunerated altruistic blood donation was not available. For example, only two blood reperfusion devices were purchased, one for Bishkek and one for Osh.

68. A computer network for establishing a national registry of blood donors and the continuous monitoring of blood safety was planned and budgeted for blood transfusion centers across the country. Although grant funds were spent to purchase equipment, the network was not operationalized. There was no value for money in this investment and no

[14] Approximately 7 USD
[15] National program on HIV/AIDS for 2006-2010, Endorsed by the Government of Kyrgyzstan, July 6 2006, #498

benefit to the grant. Furthermore, at the time of the audit, clinical practice guidelines and protocols for blood transfusion had not been developed and implemented.

69. In 2008, a comprehensive assessment of national blood services in the Central Asian Region, including Kyrgyzstan, was conducted by the World Bank and the CDC.[16] Some of the recommendations from this assessment were:

(a) Development of a national program on safe blood, including improving the legal and regulatory base;
(b) Establishment of blood services coordinated at the central level;
(c) Establishment of a nationwide system of voluntary non-remunerated altruistic blood donation;
(d) Support to effective strategies for blood testing of infections, and
(e) Establishing a national registry of donors.

These recommendations would improve the quality of grant programs supported by the Global Fund.

Recommendation 9 (High priority)
The RAC should work with the Ministry of Health to accelerate implementation of national strategies for blood safety. Priority should be given to ensuring that the national blood service is functioning according to the best international standards.

Prevention: Harm reduction/outreach among MARPs, prisoners, and migrants

IDUs

70. Needle Exchange Programs (NEP) are implemented mainly by NGOs. The OIG observed that until recently there were no standard criteria or rules on how to calculate the number of beneficiaries. This issue has been addressed by the Global Fund Round 7 HIV/AIDS grant program through the use of a new information system in all prevention programs, including NEP. However, providers found the system complex, which affected compliance with the new reporting procedures.

71. The Methadone Substitution Therapy (MST) component was implemented by the Republican Narcology Center in the civil (14 MST points) and penitentiary (3 points) sectors. The OIG observed that there were few linkages built between the NGOs implementing NEP and the MST program, with very few referrals by the NEP NGOs. The OIG noted from some IDU interviews that there was a lack of knowledge of the benefits/risks of MST.

72. Many NGOs were selected as grant recipients to implement prevention interventions among IDUs. There was often no clear strategy/approach employed by these NGOs in organizing services for IDUs. For example:

(a) There was no mechanism for mobilizing IDUs. IDUs, including those on drugs or MST, were supposed to gather at a drop in center during the day. The NGO Ak Deer in Chui region would have obtained better value for money by renting an apartment in the rayon center instead of a big house in a more remote area.
(b) Group counseling is conducted at the drop-in center irrespective of whether clients were at the time under the influence of drugs or not. It is questionable whether IDUs under the influence are receptive to HIV prevention messages.

[16] Blood transfusion service in health care systems of the countries in CAR – Assessment of the threat of spreading of HIV and other infections. EU/CAR Region, Global Program on HIV/AIDS, The WB, May 2008

(c) NGO efforts are not linked with the social support services run by the state, which raises the risks of duplication of services, waste of resources, and a lack of sustainability.

73. The Global Fund Round 2 HIV/AIDS grant supported 19 friendly clinics for MARPs and youth, while the Round 7 grant supported only eight clinics. The explanation received from the RAC was that the utilization of services by youth at some clinics was low so they were closed. There was no review/study to establish the reasons for the low level of service utilization prior to scaling down the friendly clinics.

74. Although the NEP and MST programs were implemented in prisons, prisoners in colony number 47 informed the OIG that several of their colleagues were still on heroin and were not covered by the NEP. There was no evidence of follow up of patients on MST upon release from prison.

CSWs

75. CSWs are served through small NGO sub-recipient programs, which include: the distribution of condoms, IEC activities, STI diagnosis and treatment at friendly clinics ("basic package") as well as VCT at drop in centers or during outreach activities ("comprehensive package"). The key obstacle to these programs was that many CSWs could not be reached by the NGO outreach workers because they had been chased from the streets by the police. A low proportion (approximately 30%) of CSWs covered by NGO programs had been tested for HIV.

MSM

76. Under the Round 7 grant, only four NGOs worked with MSM and none among MSM in prisons. One of the components of the grant programs implemented by NGOs covered the costs for diagnosis and treatment of STIs among MSMs with a budget of USD 50 per beneficiary. This allocation was insufficient to cover the cost of medication.

Migrants

77. The OIG observed an overlap in the activities undertaken by the NGO "Health for All" and the information consultation center of the Ministry of Labor and Migration. The NGO was working with legal labor migrants, the same group that was targeted by the Ministry of Labor. In fact, some Ministry staff were employed by the NGO.

78. Health for All worked only with the legal migrants, whereas 80% of labor migrants in Kyrgyzstan were illegal. This raises the question whether the target beneficiaries were appropriate.

Recommendation 10 (High priority)

(a) The RAC should consider enhancing the IEC component for IDUs to increase appreciation and subscription to the MST program.

(b) The RAC and the MOH should consider conducting regular programmatic review of various prevention programs implemented by NGOs among IDUs (e.g., drop in center, half-way house, residence) as part of the Annual Review requirement provided in the grant agreement.

(c) The RAC and the MOH should consider facilitating policy dialogue and advocacy to increase involvement of local governmental structures in the prevention programs so as to improve the social support to MARPs and ensure sustainability.

(d) There is scope for further liberalization of the criminal law towards IDUs and CSWs to ensure that they are increasingly covered by harm reduction/prevention programs.

(e) The RAC should identify NGOs working among MSM in the penitentiary system.

(f) The RAC should facilitate linkage between NGOs and public health facilities to the end that MSM linked to the NGO receive drugs when required.

Monitoring and Evaluation

Monitoring and Evaluation (M&E) plans and indicators

The OIG reviewed M&E plans and indicators for the Round 2 and 7 grants. The national M&E Plan for HIV/AIDS was only endorsed by the government during the audit mission. The M&E plans reviewed mainly focused on impact and outcome indicators. There are only a few process indicators to provide enough information about the progress of program implementation.

79. Many of the Global Fund Round 2 HIV/AIDS grant indicators were not specific, e.g., number and percentage of IDUs reached by harm reduction programs including MST out of the total number of IDUs assessed. Some of the indicators were not aligned to the national M&E plan, e.g., the number and percentage of people having a positive attitude towards prevention programs among vulnerable groups.

Data collection mechanism

80. There are standard forms and procedures introduced for HIV/AIDS routine case reporting, for example the monthly report form Number 4. The OIG noted that the form did not capture key data, e.g., date of ELISA tests, and only included data on Hepatitis B and C. These forms were also not consistently completed by regional AIDS centers. For example, at the Chui regional AIDS center, epidemiologists prepared and submitted the monthly form 4 annually and not in the standard format. The format of this form was also different in the Osh regional AIDS center.

81. With regard to the Global Fund Round 7 grant, the OIG noted that the process used for collecting data was sometimes inappropriate. For instance: (i) the percentage of IDUs and CSWs reached by preventive programs could not be derived from program reports and in the absence of a Unicode database, there were no reliable data, and (ii) the number of prison inmates currently reached by prevention programs can be best reported through the program reports instead of surveys.

82. There was no standard system for updating the clinical registry. The World Health Organization recommends that an ART patient management database (international quality AIDS clinical registry) is maintained. This database is designed to facilitate rapid and accurate monthly reporting and to provide other key clinical indicators that improve patient management and clinical decision making. The HIV Center and the Regional AIDS center in Osh Region maintained data in a simple Excel format database. There was no standard database format used across the different centers making the consolidation of information difficult. The templates and database maintained also lacked some key data such as CD4 count and viral load.

83. With regard to the Global Fund Round 2 HIV/AIDS grant, the OIG noted that although a behavioral surveillance system was conducted in the country since 2004, it did not cover the HIV prevalence among IDUs.

84. A second generation surveillance system was designed and implemented with the support of CDC/CAR. However, the OIG observed a number of methodological flaws, which may put in doubt the validity of behavioral surveillance survey (BSS) data. The BSS has been undertaken by surveillance units of the Regional AIDS Centers. Inadequate separation of roles of implementer and reviewer represents a conflict of interest since these surveys assess the effectiveness of programmatic activities which are implemented by these same centers.

85. Regional AIDS centers implement BSS by involving local NGOs who are implementing prevention programs. As is often the case, BSS respondents are beneficiaries of NGO programs, e.g., IDUs receiving services through needle exchange programs and commercial sex workers and MSM who receive various prevention services from the NGOs. This may result in a selection bias given that BSS recruits are only those who are the beneficiaries of prevention programs and this leaves out those who are not covered by these programs.

Data verification

86. For both grants, the OIG noted the absence of data verification mechanisms for most coverage indicators. Although PR said verification of data takes place, there was no evidence, or documentation that the Program Implementation Unit (PIU) had a system in place to monitor end users, i.e., to check whether beneficiaries received the goods and services provided by the program. For example there was no mechanism in place to confirm the number of MARPs benefiting from prevention/harm reduction interventions.

Recommendation 11 (High priority)

(a) The RAC should improve the quality of indicators by formulating them well and making them more meaningful. The RAC should develop a Unicode database for prevention providers and activities..

(b) The RAC should select an appropriate data collection mechanism to improve the validity of measurements. Furthermore, appropriate mechanisms should be put in place to verify the data.

(c) The RAC should ensure that standard forms and procedures for HIV/AIDS routine case reporting are consistently applied across the country. This should be done through training, and support supervision to epidemiologists and providers involved in HIV/AIDS case reporting at all levels.

(d) The RAC should consider engaging independent service providers to implementing the BSS, to detect and eliminate all possible sources of bias and enhance the validity of BSS results.

(e) The RAC should align clinical registers to international quality standards with all necessary data elements including patient follow up, data on CD4 count, viral load, side effects, clinical outcomes, etc., which should be regularly updated with the data periodically received from the regions.

Institutional arrangements

Oversight

87. The RAC is a semi-autonomous institution within the MOH. It is headed by a director general who reports to the Minister of Health. The OIG did not see evidence of the Ministry providing oversight over the Center's activities nor the Global Fund-supported program. The OIG was informed that the RAC Director meets the Minister of Health on a weekly basis and that management meetings were frequently held. However, there were no minutes for these meetings either at the PR or with its supervisory authority, the Ministry of Health. The OIG could therefore not get assurance that Global Fund related matters formed part of the agendas of these meetings.

88. The RAC did not prepare internal management reports. The only program reports that were prepared by the Center were for reporting purposes to the Global Fund. The practice of submitting periodic reports to oversight bodies was not operational with the RAC only submitting two periodic reports to the CMCC between 2008 and 2009. The two submitted reports which lacked key information for decision making, e.g., how funds were used, whether targets were achieved, how far program implementation was against the approved work plans etc.

Recommendation 12 (Significant)

(a) The Ministry of Health should strengthen its oversight over the institutions responsible for the implementation of Global Fund-supported programs. Such oversight should cover the respective institutions' strategies, governance matters, operations and overall program performance.

(b) Senior management oversight over the utilization of Global Fund grants should be strengthened. As part of its oversight role, senior management meetings should review grant performance, ensure that there are proper controls to safeguard program assets, ensure compliance with the grant agreement and laid down procedures to ensure that targets are met and that impediments to implementation are addressed timeously.

(c) The HIV Center should present periodic reports to its management, the MoH and the CMCC's oversight committee. The reports should provide sufficient detail on the target and actual activities as well as financial performance and audit reports.

UNDP as the fiduciary agent

89. In December 2003 and 2009 the RAC signed Memoranda of Understanding (MoU) with the United Nations Development Programme (UNDP). Under these MoU, UNDP was to (i) act as fund manager for all grant funds disbursed by the Global Fund; (ii) build the managerial, administrative, financial and program capacities of the Center in the payment of program expenditures; and (iii) provide support services to the RAC and its SRs for the management and implementation of the grants.

90. According to the MoU signed between UNDP and the RAC, all funds received from the Global Fund were transferred to UNDP with UNDP effecting payments on behalf of the RAC. The RAC would provide supporting documents to UNDP for all effected payments. However, the MOU signed in 2003 did not clearly spell out the different roles and responsibilities of the two parties leaving room for differing interpretation by both parties. The roles and responsibilities were better clarified in the 2008 MoU.

91. UNDP explained its role to the OIG as "effecting payments and maintaining RAC's financial records without taking any responsibility for decision-making". This role was understood by UNDP as covering the verification of expenditure against work plans, budgets, etc., before payment was effected. However, RAC understood UNDP's role to be one of merely effecting payments without having the authority to question the compliance of the payments with work plans, budgets, etc. This resulted in ambiguity as the PR expected UNDP to effect payments even when proper supporting documents were not provided or procurement regulations were not followed. This created tensions between the two parties during the execution of the MOU.

92. Although UNDP was selected to effect payments and maintain RAC's financial records, it was not provided with key information that would enable it to undertake its work effectively. This information would have included the work plan, procurement and supply chain management (PSM) plans and budgets against which expenses were to be charged. The lack of key documentation affected UNDP's ability to effectively undertake its role.

93. The OIG reviewed a sample of the payments made for compliance with the MOU and noted the following areas of non-compliance:

(a) The contract provided for capacity building of RAC's PIU staff but there was no evidence of this at the time of the audit. The staff that were working directly with UNDP were referred to as UNDP contractors;
(b) The OIG was not provided any evidence that UNDP provided RAC's PIU with a statement of expenses for purposes of periodic reporting to the Global Fund as was stipulated in the MOU. In consequence, the OIG could not validate the accuracy of the expenses reflected in the PUDR reports as submitted to the Global Fund (and nor could the LFA); and
(c) UNDP was supposed to support RAC meet its deadlines for submitting deliverables (reports) to the Global Fund. However, the OIG noted that RAC's PUDR reports were always submitted late.

Recommendation 13 (High)

(a) UNDP and RAC should revisit the definition of the roles and responsibilities of each party in the MOU. The role of any fiduciary arrangements should cover monitoring of expenditure against work plans, budgets and PSM plans.

(b) In future, the RAC and UNDP should ensure that the terms stipulated in the MOU are complied with. The fiduciary arrangements entered into by the RAC should specify in detail the type and format of reports to be provided to the RAC. These reports should conform to the requirements of reporting to the Global Fund.

Structures established to manage the grants

94. The RAC established a Program Implementation Unit (PIU) to manage the programs funded by the Global Fund and which was a parallel structure to the existing ones. The RAC management stated that the PIU staff were not government employees but UNDP contractors. Because the PIU was operating independently of the other RAC departments, it did not create opportunities for building the institutional capacity of RAC. In consequence, although the UNDP MOU provided for capacity building, this was not tenable since the PIU staff were not government employees.

95. The RAC depended on contract staff to manage the Global Fund-supported program work and this created a dependency on consultants for the delivery of the key program functions. At the time of the audit, there was no capacity building and/or transition plan for transitioning the program from the parallel structures to the national ones. The OIG also did

not see evidence of capacity building of staff within the national structures to take over the roles undertaken by the UNDP and/or consultants. The opportunity to strengthen national systems was missed.

Recommendation 14 (High priority)

(a) To the extent possible and in line with Global Fund principles, the Center should use national structures, systems and procedures for implementing program activities. In cases where parallel systems (PIU and UNDP arrangement) have been established, these structures should be for a defined period of time with relevant capacity building and transition plans for the eventual transitioning back to national structures. Any skill gaps within the government structure should also be identified and addressed accordingly.

(b) A transition plan that identifies the conditions that would need to be met in order to transition programs back to the national structures should be developed. It should have timelines with actions against which progress can be measured and adjustments to the plan made over time as well as an exit strategy. This plan should be monitored by the CCM.

Audit arrangements

96. As a government institution, the Center should be audited by the State Audit Office of the Republic of Kyrgyzstan. The OIG visited the State Audit office to ascertain if the PIU was the subject of any audit undertaken by this office. The OIG learnt that the PIU had not been audited by this government agency. Instead, an external firm had been appointed to audit the Global Fund program.

97. The selection process for the external auditors for the Global Fund program was not transparent as evidenced by the failure to follow set criteria. For example the selected firm, Vlata Audit, did not provide an audit approach nor did it provide CVs for all the proposed auditors for the assignment. Despite this, Vlata audit was identified as one of the two technically competent firms. The cost proposal for Vlata Audit was USD 62,040 while the other firm came at USD 25,250. Vlata was, however, selected as the most competitive bid.

98. The terms of reference for the audit were limited to SRs and did not cover an audit of the Center's PIU, where a substantial part of the grant funds (approximately 20%) was spent. Given the weaknesses noted in the process of selecting external auditors and limited scope of the audit, the OIG cannot give assurance on the effectiveness of the audits undertaken for the years 2006, 2007 and 2008.

99. The OIG noted that there were no internal audit arrangements in place for the Global Fund grants. Although having internal audit is not a mandatory requirement of the Global Fund, it helps strengthen the control environment within which programs are implemented. This is especially commended since all the PRs have SRs and regional offices that an internal audit unit should periodically visit. The absence of internal audit means that there is no system of checking the adequacy of internal controls and ensuring compliance to the Center's defined policies and procedures.

Recommendation 15 (Significant)

(a) The selection of the auditors for the Global Fund-supported programs should follow a transparent process as required by the Global Fund's policies. The audit scope should be in line with the Global Fund guidelines on audit and therefore cover all the expenditure incurred at the PIU.

(b) The RAC should consider establishing an internal audit function to review SRs and program implementation in the regions. This will strengthen the internal control environment at the Center and among the SRs where the programs are being implemented.

Human resources

100. The Center has a well-staffed human resources department with manuals that are aligned with the Kyrgyz Government guidelines. This department is, however, not involved in the PIU's activities and, in consequence, the Center's standards for staff recruitment, performance assessment and remuneration are not followed. Twelve out of the 26 PIU staff were recruited by UNDP through a competitive process. The other 14 were recruited by the Center's Director General without following a proper recruitment process. This raises the risk of selecting inappropriate staff favored by those recruiting.

Recommendation 16 (Requires attention)
The Center should comply with its human resources policies and procedures especially with regard to the recruitment of staff.

Compliance with the grant agreement and the laws of the country

101. The grant agreement requires PRs to comply with the grant agreement and the applicable laws and regulations of the Government of the Kyrgyz Republic. Following the conditions stipulated in the grant agreement helps to ensure that the control environment is adequate to safeguard Global Fund investments. The OIG's review of RAC's compliance with the grant agreement revealed some areas of non-compliance as noted in the paragraphs below.

Program interest and income

102. The grant agreement requires that, to the extent practicable, grant funds be held in a bank account that bears interest at a reasonable commercial rate. However, the OIG noted that the PR entered into a contract with a commercial bank that specified that no interest would be earned on program funds. Not only does this represent non-compliance with the grant agreement but is also a missed opportunity to increase the resources that are available for implementing program activities.

103. The grant agreement stipulates that any revenues earned by the PR or SRs from program activities should be accounted for and used solely for program purposes. Although the PR generated revenues from HIV counseling and testing services, the OIG noted that this income was not reported to the Global Fund nor accounted for by the PIU. The PR did not have proper records to enable the OIG to compute the amounts involved. This amount should be computed, verified by the LFA and refunded to the program.

Maintenance of proper books of account

104. The grant agreement requires that the PR maintains accounting books, records, documents records and other evidence which is adequate to show, without limitation, all revenues earned and costs incurred by the receipt and use of funds acquired under the grant. Despite requesting this, the OIG was not provided with the Program's fund accountability statement that summarized the funds received and spent against the approved budget. The OIG therefore cannot provide assurance that program funds were used for their intended purposes and that the reports submitted to the Global Fund reflected actual expenditure incurred.

Taxes

105. The grant agreement strongly encourages the PR to ensure that any goods and services purchased from grant funds are free from taxes and duties imposed under the laws in effect in the Host Country. The OIG noted that the Center paid taxes on all its purchases and no evidence was provided to show that RAC had called for reimbursements for all taxes paid.

106. One of RAC's justifications for the appointment of UNDP as fiduciary agent was that the program would benefit from the UN agencies' tax exemption status. The OIG, however, noted that VAT of approximately USD 120,000 was paid through UNDP but not yet claimed from the Tax Authorities. The use of program activities for the payment of taxes reduces the funds available for fighting the three diseases.

Compliance with the country laws

107. RAC did not withhold taxes from the service providers and staff salaries as required by the government regulations. The Ministry of Economy and Finance had notified the RAC about their failure to withhold taxes on salaries, rent and consultants' fees. The failure to withhold taxes may result in penalties.

108. In February 2009, the Government of the Kyrgyz Republic published an Act that set limits to salaries to be paid by government agencies and departments implementing donor programs. The OIG noted that the PR did not comply with the rates stipulated in the government legislation. The RAC's management explained that the limitations did not apply to their staff involved with Global Fund-supported programs because they were UNDP contractors and not government employees. There was, however, no documentation provided to the OIG at the time of the audit as evidence that RAC's staff were effectively UNDP contractors.

109. At the time of the audit, payments made to PR staff not contracted by UNDP above the government rates in 2009 amounted to USD 29,866. These payments are contrary to the grant agreement and are therefore ineligible and should be refunded.

Insurance of assets and use of the Global Fund logo

110. The grant agreement provides for all-risk property insurance on program assets and comprehensive general insurance with financially sound and reputable insurance companies, where available at a reasonable cost. The OIG noted that with the exception of cars, the PRs had not insured the program assets as required by the grant agreement. Failure to insure assets exposes the Global Fund resources to loss in the event of accidents.

111. The grant agreement prohibits the PR and its SRs from using the Global Fund logo without having valid license agreements in place with the Global Fund for such use. The OIG noted that the Global Fund logo was used by the PR on its business cards, internet website and on equipment and the PR did not have documentation to show that it has obtained the Global Fund's agreement.

Recommendation 17 (High)

The Center should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the Center should:

(a) Ensure that proper books of accounts are maintained;

(b) Maintain program funds in interest bearing accounts with all interest and program income duly accounted for and used exclusively for program activities;

(c) Withhold relevant taxes from payments of services in accordance with the relevant government laws; and
(d) Insure program assets against loss, as appropriate.

Financial management

Policies and systems in place

112. The Center's finance department is headed by a finance manager and has three other staff. An accounting software package called 1C: Accounting was in use at the time of the audit. This package was customized to ensure budget monitoring. RAC also has a financial management manual in place.

113. The OIG reviewed the financial management manual and noted that it was not adjusted to take into account the fiduciary arrangement with UNDP. It also did not segregate duties in transaction processing. For example financial transactions were initiated by the finance manager, although good practice would require initiation by an accountant and approval by the manager.

114. Under the fiduciary arrangements in place at the time of the audit, RAC prepared budgets, transferred grant funds to UNDP and initiated payments. A comparison of the financial records of expenditure (for Round 2 and 7) held by RAC with those from UNDP at 31 December 2008 showed an un-reconciled figure of USD 156,864.83. There was no evidence that this difference was reconciled (or identified by the LFA). The inability to reconcile financial records raises the risk of financial loss and also casts doubt on the accuracy of the PUDR reports submitted to the Global Fund.

Recommendation 18 (Significant)
(a) The financial management manual should be revised to take into consideration the role played by the fiduciary agent. Management should revisit the roles undertaken by different staff and ensure that there is sufficient segregation of duties.

(b) Periodic reconciliations should be prepared between the records maintained by the Center and those maintained by the UNDP. Differences should be analyzed and resolved.

115. A payment of USD 299,834 was made to World Health Organization (WHO) for Technical Assistance, on the basis of an MOU signed between WHO and the PR. At the time of the audit, the funds were not accounted for and there was no evidence at the Center to show that the technical assistance had taken place.

Procurement and Supply Management (PSM)

116. The National AIDS Center of the Kyrgyz Republic uses the local law on procurement, and its principles of this law are aligned to the Global Fund policies for PSM.

117. The approved PSM plan provides for all procurement activities to be undertaken by the PIU staff. The OIG, however, noted that the Center appointed a third party procurement agent, viz. Avanco. Avanco was selected through sole sourcing, which is contrary to the country's procurement law.

118. A review of the profile of Avanco's staff revealed that none of the company's consultants had procurement related qualifications or experience at the time of being

engaged by the PR. Avanco was responsible for drafting technical specifications, organizing the tender process and evaluating tenders. All the activities undertaken by the procurement agent were without the involvement of the Center. In consequence there was no review of the procurement support services provided by Avanco.

Recommendation 19 (Significant)
The Center should identify an appropriately qualified third party procurement agent through a competitive process. The agent should also have clearly defined terms of reference with management retaining oversight and decision making authority over the entire procurement process.

Bidding

119. A review of the bidding process revealed that adverts sometimes contained errors. For example the tender for the procurement of syringes and consulting services was advertised in two newspapers on 5 February 2008. One advertisement stated that bid documents could be collected from the Center on 4 February 2008, i.e., a day before the advert actually run and the second newspaper stated 6 February 2008.

120. The advertisements normally covered more than one type of goods or services and did not specify if bidders could choose specific lots or if they would have to bid for all the goods and services. For example advertisements were run for syringes and consulting services and another advertisement was for medical supplies and constructions works. This practice risks creating confusion and may discourage credible suppliers from participating in the procurement process.

121. The evaluation criteria against which bids would be evaluated were not clearly defined in the bid document as required by good practice. In some cases only summary criteria were provided in the tender document without explanation of the scoring and weights of each criterion. This practice raises the risk that scores can be manipulated during the evaluation of bids.

122. The terms in the bid documents were sometimes changed after the evaluation and award decision, i.e., at the point of contracting with the selected bidder. The change of the terms often made the bid more attractive and if this had been done at the time of bidding may have resulted in more suppliers submitting bids. An example was the Center's purchase of blood plasma refrigeration machines where the delivery period was amended from 45 to 90 days. The changes to the contracts often related to a reduction in the penalties for late delivery and liquidated damages for non-performance.

Receipt and payment for products

123. In April 2006 the center through its procurement agent, Avanco, procured Abacavir 300 mg worth USD 82,125 from a local company, Medicus Eurasia Limited. The OIG noted that the price charged for this drug appeared unreasonably high, i.e., USD 7.50 (CIP Bishkek). The WHO Global Price Reporting Mechanism reported that this drug had been delivered to a neighboring country (Uzbekistan) at about the same time at USD 1.32.

124. Suppliers were also for sometimes not paid in accordance with the signed contracts. For example for the contract for the supply of syringes worth USD 1,090,000, the supplier was to receive 40% in advance payments and the remaining 60% after the successful delivery of all the syringes. However, contrary to the contract terms, an advance payment of 80% was made to the supplier.

125. The OIG noted delays in the delivery of products with no penalty claimed for late delivery from the supplier as required in the contract. For example:

(a) The contract for procurement of syringes was signed with Yuren Company on 14 April 2008 with the delivery date set as 14 July 2008. The syringes were delivered on 23 September 2008.
(b) The drugs purchased from Medicus were supposed to be delivered to the Center on or before 10 July 2006. They were only delivered on 6 November 2006.
(c) The Center awarded a contract for procurement of ARV drugs to Uni Help Company for some USD 160,000. In accordance with this contract, drugs were to be delivered not later than 25 January 2009. The drugs were, however, delivered on 19 March 2009.

Recommendation 20 (Significant)

The Center should enforce adherence to the laid down procurement guidelines. Exceptions should be justified and approved by the management. Specifically,

(a) The Center should strive to call for bids for purchases in accordance with the procurement policies and procedures.
(b) The bid solicitation process should be strengthened. The Center should provide adequate and consistent information to all prospective bidders to enhance transparency. Advertisements should classify different products into lots.
(c) Criteria should be established and complied with.
(d) Bid terms should not be changed after the evaluation process without proper justification and the approval of management.
(e) Penalties for late delivery should be applied to all vendors.
(f) The Center should use available resources, e.g., the Global Fund PQR, to ensure that prices obtained from vendors are reasonable.

126. The RAC rents several warehouses within the former Central Drug Warehouse for storage of health and non-health items. The OIG visited central and regional warehouses, as well as treatment centers in Bishkek, Osh and Jalalabad Regions and noted that they were well secured. However, the following areas were identified for strengthening:

(a) There were numerous health and non-health products, such as medical equipment, laptops, television sets, DVD players, UPSs, etc. that had not been distributed to the final recipients.
(b) Although temperatures were monitored in these warehouses, they were no mechanisms in the warehouses to control the temperatures.
(c) While visiting the Jalalabad region, the OIG noted that more than 4,000 condoms were missing from the warehouse.

127. There is no drug management information system for medicines and kits at the AIDS centers. In addition, the forecasting of requirements was deficient leading to stock outs of Cotrimoxazole and isoniazid at the regional AIDS centers visited, i.e., Jalalabad and Osh. There were stock outs of various test kits noted at the National Reference Laboratory. There was a stock out of viral load test kits in 2007, and stock out of ELISA test kits reported in 2009. The OIG also noted that the Center destroyed expired ARV drugs worth KGS 641 595 (approximately USD 15,276) in December 2006.

Recommendation 21 (High priority)

(a) The HIV Center should establish a comprehensive electronic management information system for ARVs, other medicines as well as health and laboratory supplies. The Center should also improve its forecasting of drug requirement in order to avoid expiry of drugs in the future.

(b) The Center should equip its warehouses with temperature control systems. The PR should distribute non-health products to the final users shortly after delivery and strengthen inventory control systems.

SR management

128. Under the Round 2 HIV grant, the PR contracted 236 sub recipients. Out of the total sub recipients contracted to implement grants, 172 (73%) were civil society, 52 (22%) government, and 12 (5%) private and media organizations. Out of the total Round 2 grant of USD 17,073,306, USD 13,577,765 (approximately 80%) was transferred directly to SRs. At the time of the audit, the PR had contracted 38 SRs under the Round 7 grant. Out of USD 4,997,122 disbursed by the Global Fund, contracts for USD 2,627,916 or 52% have been made for disbursements to SRs.

129. There were no documented policies or guidelines to guide the Round 2 SR selection process. There was also no documentation available to describe the process followed. The OIG observed an improvement under Round 7, where procedures for selection of SRs had been developed. These procedures required SRs to be selected by a committee of stakeholders after a competitive tender process. However, there was no documentary evidence to demonstrate that the defined process was followed. This raised the risk that the process may not have been transparent.

130. The RAC did not undertake formal assessments to determine the adequacy of SR capacity in implementing grant programs. The OIG audit revealed that the contracted SRs had weaknesses in their internal control systems which compromised the environment within which grants were being implemented. There was no evidence seen by the PR and/or SRs taking measures to improve SR capacity.

131. There were also no systems within the PR to monitor and supervise program implementation and ensure accountability. For example, health and non-health goods amounting to USD 4,175,105 were distributed through SRs but there were no systems in place at either the PR or SR level to monitor the distribution and use of these commodities. The OIG noted during field visits that health and non-health equipment (delivery equipment, laptop computers, television sets, DVD players and bicycles) distributed was not in use and had not been appropriately stored.

132. In many cases, the OIG noted that expenditure incurred at SR level was not well supported or ineligible. However, the PR's finance team had not identified these anomalies and had cleared the accountability provided by the SR.

133. The SR agreements required submission of quarterly reports no later than 10 days and annual reports 15 days after the end of the year. In all the cases reviewed, the SRs did not meet the reporting deadlines. The OIG did not see evidence of the PR following up these reports. This also points to weaknesses in the Center's monitoring and oversight over the SRs.

Recommendation 22 (Significant)
The Center should develop and implement a comprehensive set of guidelines for solicitation, evaluation and contracting of sub-recipients. There should also be internal processes developed for continuous monitoring of sub recipient program implementation and accountability.

134. The OIG review of the Republican AIDS Center's SRs (RAC's SSRs) revealed weaknesses in the control environment within which the grants were implemented. The findings are summarized in the table below:

	Parents against Drugs	Sotsium	Anti AIDS Ass.	Master Radosti	Tais Plus	Matrix 2005
Sub grant amount (in USD)	157,751	849,346	469,336	59,931	228,078	
Lack of proper documentation to support expenditure	✓			✓	✓	
Same recipients with differing signatures.	✓		✓	✓		✓
Laid down procurement procedures not followed	✓			✓	✓	
No evidence that products reached their beneficiaries	✓		✓			✓
Payments over the contract price		✓				

135. The Republican AIDS Center contracted Parents Against Drugs (PAG) as a grant recipient and implementer. A total of USD 157,751 was disbursed to PAG under Round 2 of the HIV grant. Under the project for "Prevention of HIV infection among Injecting Drug Users", PAG procured and distributed sports bags worth USD 787 to each of its 20 employees on a quarterly basis. The OIG confirmed that some of the signatures provided to support the distribution of these bags were forged. Under the same project, food packets were purchased and distributed to affected persons. No documentation could be provided to support the distribution of these food packets (to the value of KGS 19,500 (USD 464.28).

Recommendation 23 (High)
The PR should recover the funds (USD 464.28) disbursed to the sub recipient under the contract.

136. The Republican AIDS Center disbursed USD 59,931.58 to the NGO Master Radosti. Out of this amount, the recipient could not provide documents to support expenditure of KGS 411,576.40 (USD 9,799.44). Master Radosti did not provide documents to show competition in procuring accommodation services for a summer camp which cost KGS 91,200 (USD 2,171.43). The table below also shows other weaknesses noted in expenditure reports filed by Master Radosti:

#	Observation	Remark
1	Staff labor contracts	No identity documents attached to staff files
2	Related parties	The NGO's management team and consultants were all members of the same family.
3	Procurement for services	The NGO's management did not conduct competitive sources of quotations such as: accommodation and feeding for volunteers to summer camp

137. The weaknesses noted in the controls over program management are contributing factors to poor financial systems and irregularities identified in the use of grant funds.

Recommendation 24 (High)
(a) The recipient, Master Radosti, should repay the funds (USD 9,799.44) for which no accountability was provided.

(b) Prior to contracting SRs and other recipients, the PR should review the adequacy of controls over its human resources management systems.

138. Under contract IDU-08 signed between Matrix 2005 and the National AIDS Center, USD 1,500 was provided for food packets to be distributed to PLWHA. The OIG noted that under the same contract food packets were distributed to the same persons but with different signatures. These expenses are therefore ineligible as the OIG cannot provide assurance that the activity was implemented. The observation further points to the risk that the commodities intended for affected communities are not given to the intended persons.

Recommendation 25 (High)
The PR should recover the funds (USD 1,500) disbursed to the sub recipient under the relevant contract.

139. The OIG noted that the RAC's deputy director general was employed as an HIV consultant at Sotsium, one of the SSRs. The OIG did not see documentation evidencing the services provided by the deputy director. The records show that payments of USD 3,000 had been paid at the time of the audit. The maintenance of the Center's deputy director general on an SR's payroll represents a conflict of interest especially since this person is responsible for selecting and overseeing the activities undertaken by the SR.

Recommendation 26 (Significant)
The Center should strengthen its supervision of SRs and SSR activities. Reports submitted by SRs should be reviewed critically to ensure that irregularities are identified and corrected.

Republican Center of Narcology (an SR)

140. The Republican Center of Narcology (RCN) received USD 782,489 and USD 515,915 under Rounds 2 and 7 respectively. The OIG's review of procurements revealed that appropriate policies were not complied with, e.g., set thresholds for following a competitive procurement process were not followed. Under Round 2, the procurement of laboratory supplies, furniture, civil works, stationery etc. which were above the established competitive process threshold were procured through sole sourcing.

141. The conditions stipulated in the procurement contracts meant to safeguard program resources were not complied with which exposed grant funds to the risk of loss. For example the contract for construction works signed with Nivelir LLC for USD 11,686 (KGS 490,812) stipulated that 25% of the fee would be paid upon commencement of the works. However, the OIG noted that RCN prepaid all the monies before works could be commissioned thus exposing the program to risk in the event that the supplier did not meet the set performance standards.

142. The Global Fund Secretariat should recover USD 41,629 from the Republican AIDS Center. The refund USD 41,629 to the Global Fund consists of USD 31,366 ineligible expenses and USD 10,263 unsupported expenditures that were charged to the grant. The amounts are analyzed in the table below

Details	Ineligible (USD)	Unsupported (USD)
Salaries in excess of government rates	29,866	
Sub recipient expenditure	1,500	

Sub recipient expenditure	-	10,263
Sub total	**31,366**	**10,263**
Total		**41,629**

National Center of Phthisiology of the Kyrgyz Republic

Background

143. TB remains a major public health problem in Kyrgyzstan as demonstrated by one of the highest TB incidence/prevalence in the region. Although there have been notable achievements in the National Tuberculosis Program during recent years, important challenges remain. For example, resistance to anti-TB drugs represents a serious obstacle to effective control of the TB epidemic.

144. The case detection rate is 117 per 100,000 population and is the third highest among the 53 countries of the WHO European region. TB remains a very acute problem in the penitentiary system. In 2007, the case detection rate in prisons was 4,630 per 100,000, about 40 times the rate at a country level. The drug resistance survey in 2007 revealed very high MDR TB prevalence of 24.8% among new smear positive cases and 53.7% among previously treated cases.[17]

The Global Fund-supported TB Program

145. The National Center of Phthisiology (NCP) of the Kyrgyz Republic, under the Ministry of Health, is the PR and main implementer for Global Fund Tuberculosis (TB) grants. Kyrgyzstan received a Round 2 Grant for TB under the title "*Development of preventive programs on HIV/AIDS, TB and Malaria aimed at reduction of social and economic consequences of their spread*". The grant was signed on 4 August 2003, with a start date of 1 September 2003. The total approved amount was USD 2,771,070. The implementation of grant activities was completed on 28 February 2009.

146. The Round 2 grant was applied towards developing strategies to reduce TB morbidity and mortality by (i) improving health education activities among the population; (ii) strengthening detection and diagnosing of TB cases; (iii) enhancing out-patient clinical management; and (iv) treating patients who develop drug-resistant TB.

147. On 29 May 2007, the Round 6 TB grant was signed for a total of USD 8,287,814 with USD 4,244,578 apportioned to Phase I. The grant was entitled "*Enhancing DOTS implementation by strengthening strategic planning and management of the National Tuberculosis Control Program (NTCP)*". Phase I of the grant started on 1 July 2007 and ended on 30 June 2009. The Phase II will run up to 30 June 2012.

148. The objectives of the Round 6 grant were:
(a) strategic planning and management of the NTCP under the Manas Taalimi National Health Care Reform Program;
(b) further integrating TB control into primary health care services in order to strengthen the implementation of the DOTS strategy;
(c) strengthening and expanding the DOTS-Plus strategy in the country; and
(d) reducing the burden of TB, TB/HIV and MDR-TB by strengthening the implementation of DOTS and DOTS-Plus strategy in the penitentiary system.

149. The table below provides a summary of the funds managed by NCP under Round 6:

[17] GF Round 9 TB Proposal, Kyrgyzstan

Narration	USD	%
Total budget for both Phase I & II	8,287,814	
Funds received at 30 June 2009	4,942,496	59
Interest received to date (net of tax)	0	
Funds expended at 30 June 2009	3,209,053	65
Balance at bank at 30 June 2009	1,733,443	

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

Achievements and challenges

150. There have been noteworthy achievements in TB control in Kyrgyzstan including the existence of a National Tuberculosis Control Program (NTCP) with a separate allocation in the state budget, universal DOTS coverage, expanded DOTS-plus coverage including the penitentiary sector, supply of first and second line anti-TB drugs and improved drug management as well as integration of TB services at PHC level.

151. However, a number of health system barriers still exist in the country. These seriously hinder the effectiveness of services delivered within the framework of the TB program. They include (i) a low state funding in TB control;(ii) shortage of human resources in TB hospitals; and (iii) high turnover of staff including those trained under the Global Fund grant programs.

152. Most activities related to the purchase of supplies and materials have been implemented – namely, purchase of vehicles, IT equipment, renovation of TB facilities, second-line anti TB drugs, etc. However, most of the activities under other objectives had not been implemented[18], namely:

(a) Binocular microscopes were not purchased as planned;
(b) The target set for the number of providers, including PHC providers, to be trained in DOTS in the phase 2, was not achieved;
(c) DOTS adherence support (incentives and enablers) was not undertaken;
(d) Equipment for infection control and waste management in MDR-TB laboratories was not procured;
(e) The architectural and functional design of MDR-TB department in the civilian sector was not undertaken; and
(f) With regard to operations research studies, knowledge attitude and practice (KAP), the few research studies undertaken did not qualify to be termed as OR studies due to the design and methodological approach used.

[18] the reason given by the PR is the lack of money

Service delivery, monitoring and reporting

Quality of service delivery

Diagnosis and treatment

153. In Kyrgyzstan, TB diagnosis and treatment is delivered through a network of TB hospitals and FMCs. Standard first-line DOTS treatment regimens are administered in line with WHO recommendations. Based on WHO estimates, the 2008 case detection rate for new smear positive cases increased from 42% in 2000 to 60% in 2007. Although, there has been improvement in case detection, it has still not reached the global target. This may be related to a number of reasons including high staff turnover, insufficient control of sputum gathering at FMCs etc.

154. The other cause for the failure to reach targets could be that not all family doctors and nurses, FMC TB doctors and prison health personnel (e.g. in Osh) had received retraining in TB diagnosis and the DOTS strategy. This was despite the country having universal DOTS coverage. DOTS guidelines were not available at FMC level in Osh and Jalalabad, and family doctors in these facilities did not have a proper knowledge of TB case classification. Laboratory staff of the TB city hospital in Bishkek had not been retrained in smear microscopy under the Global Fund-supported program.

155. Chronic patients in hospitals were provided with medicine through the state budget. These medicines come with no fixed dose combination, and have not been quality assured. This is in contrast to the first line medicines provided through Global Drug Facility and procured under the Global Fund-supported program. The OIG also noted that after discharge, chronic patients were not provided with any symptomatic treatment.

Recommendation 27 (High priority)
NCP management could further improve quality of service for TB diagnosis and care through:

(a) Re-training Family Medicine Clinic providers and prison health personnel in TB diagnosis and DOTS strategy
(b) Undertaking regular and continuous supervision and quality control for DOTs facilities.

Support for adherence to treatment

156. The FMC TB doctor is responsible for implementing public health measures, namely identification/investigation of contacts of pulmonary smear positive patients. Children who come in contact with pulmonary smear positive patients are provided with prophylactic treatment, after exclusion of active TB.

157. No social and nutritional support is provided to TB patients under DOTS through the Global Fund-supported program. Minimal financial support to cover the travel cost is provided to these patients by local municipalities. There are also no NGOs supported by the Global Fund-supported program that provide such support to TB patients.

Recommendation 28 (Significant)
The Ministry of Health and NCP should give consideration to supporting adherence of anti-TB treatment through supporting NGOs providing social care as well as nutritional support to TB patients.

MDR-TB

158. The treatment of MDR-TB cases according to international standards started in Kyrgyzstan in November 2005. However, the main weakness of the National TB Control Program in Kyrgyzstan is inadequate capacity to provide universal access to timely diagnosis and treatment of MDR-TB cases as required for countries and settings with high MDR-TB burden, according to the WHO *Stop TB Strategy* and the *Global Plan to Stop TB 2006-2015.* Very high MDR-TB rates call for accelerating identification and initiation of treatment of MDR-TB cases to decrease their pool and transmission of drug resistant strains.

159. There is a high demand for MDR-TB treatment in the country, but the capacity to offer such care is limited. The OIG observed multiple reasons, including:

(a) There are many chronic patients, some likely to have MDR-TB, in the country, that had not been identified/registered by FMC and not referred to MDR TB hospitals for testing. For instance at the City TB hospital, Bishkek, at the time of the OIG visit, there were 50 chronic patients and 30 relapses (under DOTS II category). 33 patients had been diagnosed MDR-TB but had not commenced treatment.

(b) Laboratory capacity to undertake MDR-TB diagnosis (culture and DST) is very low in regions, which seriously hinders timely diagnosis of MDR-TB. In TB hospitals in Osh and Jalalabad, all necessary equipment for the MDR-TB laboratory was provided by KfW in 2006. However, the staff had not received training on how to conduct culture and DST laboratory tests since then.

(c) Patients diagnosed with MDR-TB often have to wait a long time to be included in the treatment program. This is due to a poor coordination between "national MDR-TB consilium" and TB hospitals, inability of doctors due to lack of transport money to travel from Osh and Jalalabad to Bishkek to attend "national MDR-TB consilium" and facilitate inclusion of their patients into the treatment program.

160. First line anti-TB medicines were on sale in pharmacies, raising the risk that these medicines could be used inappropriately, e.g., by treating non-TB cases and not following the proper treatment regimens. This posed a significant risk of contributing to drug resistant TB.

Recommendation 29 (High priority)

(a) The PR should give consideration to enhancing identification of chronic TB patients at PHC level so that these patients are promptly referred for MDR-TB testing. The important areas requiring improvement include (i) MDR-TB laboratory capacity in the regions and (ii) coordination between "national MDR-TB consilium" and TB hospitals.

(b) The Ministry of Health and NCP should give consideration to regulating the sale of first line anti TB medicines in pharmacies in order to prevent further development of drug resistant TB.

161. The laboratory infrastructure at FMC was poor in all regions visited with most laboratories not meeting the standard national requirements of architectural design and infection control. There was no system in place for managing and controlling the use of reagents in the laboratories. The failure to meet requirements of infection control could result in clinical infection of patients and clinicians.

Infection control at health care facilities

162. There are no Standard Operating Procedures on infection control in TB care facilities at all levels, including MDR-TB hospitals. Clinical staff providing care to TB patients in these facilities had not been trained in infection control measures.

163. The MDR-TB wards did not have modern architectural design in TB hospitals in Bishkek, Osh and Jalalabad to ensure adequate air flow. The hospitals segregated smear positive and negative patients. However, these patients still interacted freely. The failure to meet requirements of infection control could result in clinical infection of patients and clinicians.

Recommendation 30 (High priority)

(a) Although not funded by existing grants, the MoH should mobilize resources to improve MDR-TB laboratory capacity in order to expedite the diagnosis process. In the event that sputum has to be sent to Bishkek, consideration should be given to air lifting sputum/culture from southern regions to NRL in Bishkek.

(b) National guidelines and SOPs on infection control should be implemented to minimize the risk of disease transmission. All staff working with TB should receive appropriate training immediately.

Monitoring and evaluation

M&E plans and indicators

164. The OIG reviewed M&E plans and indicators for the Round 2 and 6 grants. The general issues noted across the two grants were:

(a) The reviewed M&E plans mainly focused on impact and outcome indicators. The few process indicators in the plans were inadequate to provide sufficient information about the pace of program implementation;
(b) The baseline figures for incidence, case detection, treatment success, default rate were from different years thus making comparability difficult; and
(c) Some coverage indicators were a duplication of the information collected from the outcome level indicators.

165. The OIG noted that that some indicators from the performance framework were not included in the progress update reports:

(a) The number of informational and educational materials edited and distributed;
(b) Number of TB programs broadcast on TV;
(c) Number of infectious TB cases identified;
(d) TB prevalence; and
(e) Percentage of general population with awareness of TB symptoms, ways of prevention and treatment of TB.

166. With regard to the Global Fund Round 6 TB grant, some indicators from the performance framework were not included in the progress update report, i.e., the number of service delivery points (TB and MDR TB facilities) established and/or refurbished; and the number and percentage of MDR-TB cases enrolled to begin second line treatment for multi-drug-resistant TB in the civilian and penitentiary sectors.

167. Some process indicators were reported as both “numbers” and “percentages”, e.g., number and percentage of smear positive patients who default from treatment. This was duplicative and unnecessary.

Data collection mechanism and quality

168. Data verification was not undertaken by either PIU for most of the indicators. There was also no standard protocol in place to guide the verification of data. The absence of data verification raises the risk that errors may go undetected and there is a lost opportunity for capacity building for SRs and SSRs.

Surveillance

169. A TB Electronic Surveillance Case Management System is in place and used in the country in order to assure accurate registration of each TB case according to the DOTS strategy. Although electronic data is posted from paper forms recorded at facility level, the OIG observed that there were no paper forms at FMC to enable data recording in Osh and Chui regions.

Recommendation 31 (High priority)

(a) The PR should align indicators in the performance framework with the national TB M&E plan.

(b) Data validation systems would assure accuracy as well as capacity building for SRs and SSRs with regard to M&E

Institutional arrangements

Oversight

170. In evaluating the adequacy of governance structures for Global Fund grants, the OIG reviewed the minutes of management meetings at which program work plans and activities were discussed. These minutes were not available at the PR level or with the supervisory authority, the Ministry of Health. The OIG did not get assurance that there was an effective oversight over the day to day management of grants by the supervising authority, as would be expected to ensure that all funded activities are implemented as planned in line with national priorities.

171. The PR does not prepare internal management reports other than those prepared for the Global Fund on a quarterly basis. From discussions with stakeholders, there is no formal forum for sharing information about Global Fund, activities. The OIG noted that the reporting to the CCM was also irregular and in the few cases where it had happened, the presentations contained scanty program information and did not cover details about the grant funds or achievement of program targets.

Recommendation 32 (Significant)

Senior management oversight over the utilization of Global Fund grants could be strengthened by:

(a) Regular review of grant performance at senior management meetings.

(b) Presenting detailed periodic reports including audit reports to the Ministry of Health and the CMCC's oversight committee regularly.

Audit arrangements

172. As a government institution, the Center should be audited by the State Audit Office of the Republic of Kyrgyzstan. The OIG visited the State Audit office to ascertain if the PIU was the subject of any audit undertaken by this office. In 2008 the Chamber of Account of the

Kyrgyz Republic conducted an audit of the PR and issued their report on 9 April 2008. The state audit office found that between October 2003 and December 2005 the PR had not remitted income taxes, on employee income, of up to of KGS 502,391 (USD 11,962). These monies had not been remitted to the Government Authorities even at the time of the audit.

173. The PR also contracted Marka Audit, a local firm, to conduct the annual audits of the PIU's financial records since 2004. The OIG noted that the external auditors raised key recommendations which were not implemented by the PR. This weakened the control environment within which the grants were being implemented.

174. Some of the major weaknesses raised by the external auditors that were not addressed by the NCP management were:

(a) The program continued to pay taxes despite being exempted from paying taxes (including VAT). For instance in 2008, KGS 112,818 (USD 2,686) was used to pay for taxes on a construction contract for Jeti-Oguz Sanatorium.
(b) The configuration of 1C Accounting software did not allow reporting of program expenditure by categories as set out in the detailed budget.
(c) Supply agreements were concluded without going through a proper tendering process, which is a violation of the provisions of the operational manual and the grant agreement.
(d) The PR procured drugs that had not been certified for use by the local drug regulatory authority. This was in violation of the guidelines of the Global Fund policy and the Department of Drugs Provision and Medical Equipment.

175. The OIG also noted that there were no internal audit arrangements in place for the Global Fund grants. Although having internal audit is not a mandatory requirement from the Global Fund, it helps strengthen the control environment within which programs are implemented. This is especially commended since all the PRs have SRs and regional offices that an internal audit unit should periodically visit. The absence of internal audit means that there is no system of confirming the adequacy of internal controls and ensuring compliance with the Center's defined policies and procedures.

Recommendation 33 (Requires attention)

(a) Management should ensure that all audit recommendations are implemented in order to strengthen the internal control environment within which grants are implemented.

(b) NCP should consider establishing an internal audit function to review SRs and program implementation in the regions.

Compliance to provisions of the grant agreements and country laws

176. The grant agreement signed between the Global Fund and its PRs stipulates the minimum conditions that should be in place to safeguard its resources. However, NCP did not comply with some of the conditions stipulated in the grant agreement. The PR should comply with the grant conditions since this will strengthen the control environment within which grants are being implemented.

Program interest and income

177. The grant agreement requires that, to the extent practicable, grant funds are held in a bank account that bears interest at a reasonable commercial rate. The NCP, however, made three fixed-term bank deposit placements with funds drawn from Round 6 bank accounts. The placement of grant funds on fixed term deposits is not only contrary to the grant agreement that provides for all grant funds being held in cash but also exposes the grant funds to risk.

178. The grant agreement stipulates that any revenues earned by the PR or SRs from program activities should be accounted for and used solely for program purposes. The OIG noted that the Center's books of account and the reports to the Global Fund did not reflect income received from the deposits. The OIG was not provided with the supporting documentation for the deposits and could not independently verify the funds reported as income, which raises the risk of error and loss. The interest that was accrued on these deposits should be quantified, verified by the LFA and refunded to the program.

Taxes

179. The grant agreement strongly encourages the PR to ensure that any goods and services purchased from grant funds are free from taxes and duties imposed under the laws in effect in the Host Country. The OIG noted that in 2007 the government listed the Global Fund-supported programs among those organizations whose grant funds were exempt from taxes. There was, however, no arrangement in place to recover the taxes to replenish the funds for planned program activities. In consequence, taxes were paid on all purchases at PR and SR level.

Compliance with country laws

180. The OIG also noted that NCP deducted taxes from the staff salaries as required by the government regulations during the period October 2003 to December 2005. However, the NCP did not remit income taxes amounting to KGS 502,391 (USD 11,961) to the relevant authorities. At the time of the audit, this amount was still an outstanding liability. The failure to pay withheld taxes may result in penalties.

181. The Kyrgyz Republic law requires that public social insurance be deducted from all staff salaries. The OIG noted that between October 2003 and December 2005, social security payments were wrongly computed. The law requires a total of 33% to be contributed with 25% coming from the employer and 8% from staff salary. However, the NCP deducted 25% from staff salaries with no deduction made by the employer. This resulted in unpaid liabilities of KGS 673,600 (USD 16,038).

182. The Kyrgyz Republic law also fixed the per diem rate, with accommodation expenses being reimbursed in accordance with the actual expenses made. If no documents for accommodation documents were submitted, then an additional 50% of the per diem was payable. However, the OIG noted that the per diems paid were in excess of the ones stipulated in the policy. At the time of the audit, the NCP had not yet aligned the payment of per diems to the law.

183. In February 2009, the Government published an Act that set limits to salaries to be paid by government agencies and departments implementing donor programs. There is a risk that the PR failed to comply with the government legislation. This resulted in USD 38,638 extra paid at the time of the audit.

Insurance of assets

184. The grant agreement provides for all risk property insurance on program assets and comprehensive general insurance with financially sound and reputable insurance companies, where available at a reasonable cost. The OIG noted that the PR did not insure the program assets as required by the grant agreement. Failure to insure assets exposes the Global Fund resources to loss in the event of accidents.

Recommendation 34 (Significant)
The NCP should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the Center should:

(a) Record all income and interest earned from program activities and/or funds. These funds should only be used in accordance with the Global Fund guidelines;
(b) Not deposit grant funds in fixed deposit accounts;
(c) Implement systems that track and recover taxes paid so far from the tax authorities;
(d) Withhold relevant taxes and social insurance in accordance with the law and submit the amounts withheld to the relevant authorities. All outstanding balances collected so far and not remitted should be paid without fail;
(e) Insure program assets against loss as appropriate; and
(f) Implement the government laws with regard to per diem and salary payments.

Financial management

185. The Financial Manager performed the duties of both accountant and cashier. She prepared and approved payments and also made payments. This was contrary to the requirements of the Finance Act that states that employees with the right to sign cash documents may not execute the duties of a cashier. This failure to segregate duties exposed the payment system to risk of error and financial loss.

186. The OIG reviewed the budgeting process and noted that there were numerous instances where the expenses were charged to the wrong budget line. For example fuel costs for conducting monitoring in Jalalabad oblast were charged to procurement of reagents; funds used to procure sputum containers were charged to MDR TB patients' transportation allowances; staff incentives were charged to the procurement of reagents etc. The misclassification of expenses implies that the financial statements as presented to the Global Fund are not representative of the actual spending of the program.

187. The OIG noted that the NCP ran out funds in 2008 and with approval of the Global Fund Secretariat, borrowed USD 40,000 from the Malaria grant funds managed by the Republican AIDS Center. While the funds were disbursed from the HIV Round 2 bank account, the NCP reimbursed USD 45,000 to the Round 2 bank account with USD 5,000 to the Round 6 account. Transferring funds between grants, violates the grant agreement condition (article 9) which states that funds shall be used solely for grant purposes, and consistent with the terms of the agreement.

188. The OIG noted cases where third party supporting documents were provided to the OIG but which were not recorded in NCP's books of accounts. This remained unexplained at the time of the audit and cast doubt on the accuracy of the books of accounts that were maintained. Some specific examples were: (i) the receipts for the training undertaken by the former manager amounting to KGS 48,300 (USD 1,150) paid on 25 Oct 2007, and Payment on 10 Feb 2006 for installing radio signal sensors in the reference laboratory for KGS 92,877 (USD 2,211) were not recorded in the books of account.

189. In February 2007, the PR exchanged a program car, a Mercedes-Benz 260E, for a used Audi A6. The contract priced the Audi A6 priced at KGS 600,820 (USD 14,305) in exchange of Mercedes-Benz 260E priced at KGS 213,194 (USD 5,076) plus an additional payment of KGS 387 700 (USD 9,230). Since both vehicles were purchased as used vehicles and without professional valuations being undertaken, the OIG could not establish whether the prices quoted were reasonable. The OIG noted that the budgets make provision for new cars and also questioned the suitability of the type of car procured for program purposes.

Recommendation 35 (Requires attention)

(a) The PR should designate a cashier among other non-accounting staff who would then report on the use of funds to the Finance Manager for verification and review.

(b) To enhance budgetary control, the detailed program budget should be input into the 1C:Accounting software. Payments should be processed against specific budget line items. The finance manager should ensure that payments are charged against the correct budget lines.

Recommendation 36 (Significant)

Inter grant borrowing should be prohibited.

190. Although the grant budget and work plan made provision for social support to MDR-TB patients to enhance treatment adherence, the funds were instead used to pay for milk and travel expenses for the employees of regional TB departments as staff incentives. The amounts identified in December 2008 amounted to KGS 78,120 (USD 1,860).

191. The OIG noted that program funds were advanced as loans to people that were not NCP staff and for travel that was not related to the grant programs. In some instances, the signatures of the persons who received the funds on the cash disbursement voucher were significantly different from those on the accountability reports. Some payments were not supported with any documentation and the OIG could not ascertain if the payments were program related. These amounted to USD 7,191 and Euros 1,465 with respect to cash vouchers No. 1 and 78.

192. The OIG noted that advances were expensed before accountability was received for working advances. The OIG also noted some contradictions between the amounts advanced and the accountability received. For example:

(a) Between March 2004 and February 2008, 121 cash advances totaling USD 68,584 (KGS 2,880,537) were reviewed. The reviewed showed that there were 19 instances, totaling USD 2,586 (KGS 108,625), of inadequately supported expenditures.

(b) The Head of the Social Development Department of Presidential Apparatus received an advance for KGS 31,444 (USD 748) to attend a Global Fund regional meeting. However, he was not in the list of the participants for the meeting. There was no accountability submitted for these funds.

(c) NCP's senior nurse received KGS 23,451 (USD 558) to conduct a seminar for NCP's nurses. While there is an advance report recorded as received, the OIG was not provided with third party supporting documentation to support the expenditure incurred.

(d) KGS 338,430 (USD 8,057) was advanced to a consultant with the expense report showing a balance of KGS 199,924 (USD 4,760). There were no documents confirming the refund of these amounts to the program.

Recommendation 37 (Significant)

In the absence of support documents, the PR should refund USD 17,703 and Euro 1,465 which is the total of the following amounts:

a) Program funds used for staff incentives USD 1,860;
b) Program funds advances as loans – USD 7,191 and Euros 1,465;
c) Lack of accountability for regional meeting – USD 748;
d) Unsupported expenditure for nursing course - USD 558;

e) Advances to former program manager that were not accounted for – USD 2,586; and
f) Funds advanced to consultant – USD 4,760.

193. The OIG noted that the advance balances recorded in the accounting system were different to the balances that were recorded on the accountabilities as detailed in the table below. There was no reconciliation between the two balances:

Payment Ref.	Balance per accounting system (KGS)	Balance per accountability report (KGS)	Variance KGS
№ 57 - 11.12.2006	202,415	491,751	289,336
№ 88 - 31.12.2006	102,665	388,365	285,700
№ 94 - 31.12.2006	55,979	0	55,979
Total KGS	**361,059**	**880,116**	**631,015**
Total USD	**8,596**	**20,955**	**15,024**

194. The OIG noted that the accountability for one of the advances to the former manager related to petrol drawn from a fuel station. There were no receipts attached to support these payments. The OIG noted that the volume of fuel withdrawn was too large for a vehicle and the NCP could not explain how this fuel was delivered to the PR. The OIG concluded that these payments were irregular. The table below provides a summary of the fuel delivered:

Date	Brand of Fuels & Lubricants	Amount of liters	Price	Sum
02.07.06	Ai-93	260	24	6,249
15.07.06	Ai-93	308	24	7,392
30.07.06	Ai-93	218	24	5,241
12.08.06	Ai-93	238	24	5,712
03.09.06	Ai-93	919	24	22,074
Total (KGS)				**46,669**
Total (USD)				**1,111**

Recommendation 38 (Significant)
The Center should control the advances to ensure that funds are not lost. Staff with outstanding advance balances should not receive additional travel advances. The Financial Director should recover all outstanding advance balances from the respective staff salaries. These amounts should be recovered from staff.

Procurement and logistics management

195. The OIG noted that under the Global Fund Round 2 TB program, NCP purchased medicines for symptomatic treatment, most of which were not from the national essential drug list[19] at the time of the audit in November 2009. This is contrary to the Global Fund drug quality assurance policy and raises the risk of having compromised products supplied to patients.

196. There were instances noted where the PR did not follow a competitive process in identifying suitable suppliers. The supply of six ambulances for a contract value of USD 95,382 was awarded through the sole source method. The PR also sole sourced Dent Trade to supply for 3000 respirators worth Euros 11,280. Justification for sole sourcing did not have documents to support the process that was followed. Due process would require:

[19] Order of the Government of Kyrgyzstan, Essential Drug List of Kyrgyzstan, 20 March 2009

comparison for prices obtained to assess best value for money as well as appropriate management approval. This brought into question whether the PR had obtained best value for money and price competitiveness.

197. The OIG noted some bids submitted for some procurements had striking resemblances. For example the PR advertised for procurement of civil works for the renovation of a rehabilitation center. Bids were received from three firms: Stroy-Avto-Group Ltd, NTC Technopark and Spetsenergostroy Ltd. The bids from Stroy-Avto and Spetsenergostroy were identical from the wording of the proposal title to the budgets for each of the repair works. The only difference between the two bids was the contingency for unexpected costs with Stroy-Avto submitting a ratio of 1.1 while Spetsenergostroy's was 1.2. This raises the risk that the no real competition took place with this bid.

Recommendation 39 (Significant)
The NCP Management should strive to call for bids for purchases in accordance with the procurement policies and procedures. Single sourcing should be carried out as an exception and with clear justification and with appropriate support to evidence value for money.

Bidding

198. The invitations to tender missed vital information on the: project schedule, deadlines of work, advance payment, date of commencing of works, penalties, defects liability period, performance security which as per the standard bidding documents used by the PR should have been provided.

199. The OIG noted that the evaluation criteria against which bids would be evaluated were usually not clearly defined. In some cases the criteria were just listed in the tender document without stating how these would be scored and the weight of each criterion. This created the risk of manipulation of scores to favor specific bidders.

Contracting

200. The OIG noted that the PR changed the conditions of contracts stated in the bid documents after contractors had been identified and awarded contracts. In all purchases undertaken, the PR amended the supplier conditions in favor of the suppliers. Changing conditions of contract after the bidding process amounts to changing the criteria by which bidders offer prices, in which case the procurement process is unlikely to result in the lowest price for best quality products. The practice of changing contract clauses also impairs transparency of the procurement process. For example:

(a) A PR signed a contract with a local company Rezlov Ltd to supply first line TB drugs worth approximately USD 256,000. The contract signed with the Rezlov Ltd differed significantly from the template provided in the bid document. The signed contract was altered in favor of the supplier in relation to key components such as the delivery schedule and penalties for late delivery, performance security, inspection, standards, patent right etc. removed from the contract. In addition, instead of a 10% advance payment stipulated in the bidding documents for all other bidders, the supplier was offered 30%.

(b) The initial contract price for the renovation of a rehabilitation center was KGS 2 246 720 (USD 53,493). However, several amendments were made to contract bringing the final amount paid to KGS 3,148,752 (USD 74,970). The contract signed with the supplier provided for an 80% advance payment with no performance guarantee.

201. The contracts in some cases lacked key clauses to safeguard the PR in the case of conflict. For example the signed contract with Dent Trade for the supply for 3000 respirators did not have clauses on the quality of the respirators, methods of quality assurance, pre or post-shipment inspections by the Principal Recipient.

Payment for products

202. There were large advance payments made to suppliers with some suppliers getting up to 100% of the contract amount up front. However, there were no performance guarantees in place to safeguard program resources. For example, the PR paid 80% of USD 50,000 upfront on a contract to buy laboratory furniture without a performance guarantee in place. This increases a risk of loss of program funds in the event that the supplier fails to deliver on the contract. Another example was the payment of 100% of the contract amount up front to Dent Trade for the purchase of respirators.

203. The OIG noted delays in the delivery of products with no penalty claimed for late delivery from the supplier as required in the contract. For example the PR signed a contract on October 17, 2007 for the supply of cartridges for approximately USD 10,000. The contract required the company to deliver the cartridges within 45 days after an advance payment of 50% was made. The supplier delivered the cartridges on 11 March 2008 but no penalties for late delivery were charged.

Recommendation 40 (High priority)

(a) The Center should enforce adherence to the laid down procurement guidelines. Exceptions should be justified to and approved by the management. Specifically,

- *The bid solicitation process should be strengthened. The Center should provide adequate and consistent information to all prospective bidders to enhance transparency;*
- *Clear criteria should be established and complied with;*
- *Bid terms should not be changed after the evaluation process without proper justification and the approval of management;*
- *Advance payments should be kept at a bare minimum in order to protect the PR's interests. In cases where they are made, performance guarantees should be obtained to safeguard program resources.*
- *Penalties for late delivery should be applied to all vendors.*

Storage and Distribution

204. The NCP does not distribute health or non-health products to the regions, or SRs. This is despite the approved PSM Plan giving NCP this role. Once the products and commodities reached the NCP premises, SRs and final recipients were asked to travel to Bishkek and collect their products.

205. The PR manages a drug facility and warehouse premises in Bishkek, from which it distributes drugs and non-health products. The warehouses where drugs were stored did not have a temperature control system in place, which puts the drugs at risk of deterioration while in storage. The OIG also noted that the PR's inventory records at the warehouse were manual with the drug management information system at FMC and TB hospitals also being paper based. The system was unable to provide an alert when stocks were about to run out. In fact there were some stock outs noted.

206. While visiting the TB facilities in Osh city and Jalalabad TB Centers, the OIG noted that there were stock outs of Isoniazid 300 mg and Rifampicin. No DOTS medicines were available at FMCs for TB patients receiving continuation treatment in Chui region. The OIG

also noted stock outs of DOTS medicines in the TB City hospital in Bishkek and TB regional hospitals in Osh and Jalalabad. There were also stock outs of respirators in the prison MDR-TB hospital.

Recommendation 41 (Requires attention)

(a) NCP should consider establishing a comprehensive electronic management information system for drugs and medical supplies including laboratory supplies.

(b) The PR should deliver supplies to implementers as provided for in the PSM Plan. The PR should also put in place a system to monitor stock levels at treatment facilities.

Sub-Recipient management

207. The PR signed SR Agreements with 11 sub recipients. SR agreements required SRs to provide program and financial reports together with supporting documents at pre agreed dates. In some cases the SRs did not support all the funds disbursed with financial and program reports (USD 8,263), however, the PR continued to disburse funds to these entities.

Recommendation 42 (Significant)

The PR should follow-up the unaccounted-for funds and ensure that SRs provide support documents or refund unused funds (USD 8,263). The PR should review SR submission and follow-up unaccounted for funds. All financial reports should be accompanied by program reports as stipulated in the sub recipient grant agreement.

208. The PR should refund to the Global Fund USD 21,951 consisting of USD 1,860 ineligible expenses and USD 20,091 unsupported expenditures that were charged to the grant. The amounts are listed in the table below.

Details	Ineligible (USD)	Unsupported (USD)
Patients social support pad to staff	1,860	
Loans to staff*		11,439
Expenditure without support documents	.....	8,652
Sub total	**1,860**	**20,091**
Total		**21,951**

**(Amount consists of USD 7,191 and Euro 1,465 (translated at 1.45)*

State Sanitary Epidemiological Department

Background

209. After a sustained period without local transmission of malaria in Kyrgyzstan, the first recurrence was reported in 1996. 2,267 cases were registered in 2002, with high prevalence in south-eastern region of the Country. In October 2005 Kyrgyzstan approved and signed the Tashkent Declaration on Malaria Elimination within the WHO European Region by 2015. With the deployment of vector control measures morbidity has reduced from 319 in 2006 to 96 in 2007[20].

The Global Fund-supported Malaria Program

210. The State Sanitary Epidemiology Department (SSED) under the Ministry of Health (MOH) is the Principal Recipient (PR) and main implementer for Global Fund malaria grants in the country. The SSED has received a Round 5 malaria grant of USD 3,426,125, and a Round 8 malaria grant of USD 2,663,886.

Achievements and Challenges

211. The Global Fund supported programs have made considerable achievements thanks in part to the strong political commitment of the government, in particular the Ministry of Health, to fight and eliminate the disease. Most of the activities in the Round 5 work plans were implemented and reached targets.[21]

212. The national response to malaria includes:
(a) Establishment of an epidemiological surveillance system;
(b) Establishment of a national network of laboratories;
(c) Availability of drugs in oblast/rayon SSED centers;
(d) Creation of a national malaria case register with a pilot running in two oblasts; and
(e) Use of laboratory registers.

213. A number of health system barriers still hinder the effective delivery of services within the framework of the malaria program. These include a shortage of human resources in facilities at all levels, for example of parasitologists and entomologists, and a high turnover of staff, including of those trained under the grant program.

214. The OIG also noted some deviations from the approved work plans. These included the following:
(a) Failure to purchase the long-lasting insecticidal nets (LLINs) that were budgeted for under the prevention interventions;
(b) Purchase of more microscopes than were needed, resulting in equipment purchased with grant funds remaining unused;
(c) Failure to train Family Medicine Center (FMC) nurses;
(d) Engagement in an unbudgeted field investigation of the effectiveness of Gambusia fish as a prevention measure; and
(e) Inadequacies in some operations research studies that rendered them unsuitable as references for strategic decision making.

[20] Malaria Round 8 Proposal and Progress Report.
[21] Program Grant Agreement between the Global Fund and DSSES, Annex A – Program Implementation Abstract.

Service Delivery, Monitoring and Reporting

Diagnosis and Case Management of Malaria

215. MOH policy (Order 260) requires all individuals with fever residing in malaria-prone areas to be tested for malaria. However the OIG noted that very few patients had been tested for malaria at the FMC level. Furthermore, not all FMC providers (including nurses, doctors and laboratory specialists) had been trained in malaria diagnosis and treatment. There were no standard operating procedures (SOPs) in place regarding malaria diagnosis and case management at the FMC level in the Chui, Osh and Jalalabad regions.

216. During visits to the regions, the OIG noted that although laboratories had microscopes, there were new microscopes still packed and not in use. The program purchased 70 stereo microscopes, and 150 binocular microscopes. The SSED management could not provide quantification with justification of need prior to procurement. The OIG did not get assurance that the funds used to purchase microscopes were applied efficiently.

217. One enhanced microscope had also been procured for developing a malaria laboratory registry. It was sent to the DSSES parasitologist's office in Osh along with a desktop computer for use in establishing the database. At the time of the audit, the parasitologist and laboratory technician had not received training on how to use this equipment, meaning this equipment was not in use and no registry in development. The relevant staff members were unable to perform basic tasks such as saving an image of a laboratory specimen on the computer.

Recommendation 43 (High priority)

(a) SSED should strengthen case management of malaria through training and supervision of FMC providers in malaria diagnosis and case management. FMC laboratory staff should be trained in malaria laboratory diagnosis.

(b) SSED should consider establishing a comprehensive electronic management information system for drugs, medical supplies, laboratory supplies, as well as other materials needed for malaria control, such as LLINs and insecticides.

Vector control

218. The program purchased Insecticide Treated Nets (ITNs) rather than WHO-approved LLINs contrary to Global Fund policy. The PIU manager explained that they opted to buy ITNs because funding was insufficient. The OIG noted that the Global Fund Secretariat flagged the same ITN purchasing problem through the Price Quality Reporting Tool. The OIG observed cases of improper use of nets, for example of cutting and placing nets across windows and doors. This presents a risk of insufficient information, education and communication (IEC) for the bed net program.

219. The OIG observed that some households refused indoor residual spraying (IRS), mainly those with recently renovated houses, a finding corroborated by malaria program staff.

Recommendation 44 (requires attention)

(a) The PR should always ensure compliance with Global Fund quality assurance policy for procurement, especially for LLINs.

(b) Distribution of bed nets should be accompanied by a BCC/IEC campaign on the proper use of the nets.

Monitoring and evaluation (M&E)

M&E plans and indicators

220. At the time of the audit, the malaria program had a draft national M&E plan which had not been approved by the government. The OIG also noted that the program did not have M&E designated personnel among the program staff.

221. The OIG reviewed the indicators and targets for the Round 5 malaria grant and noted:

(a) For the indicators "Children under five using ITNs" and "Pregnant women using ITNs", a survey was not undertaken until 2008, meaning the baseline could not be set until the third year of implementation of the Round 5 grant.

(b) For the indicator "percentage of people having correct knowledge of malaria prevention", the baseline was again only set in 2008, during the third year of grant implementation. In Phase 1 this was an output indicator and it was changed to an outcome indicator for Phase 2.

(c) The indicators "the number of health authorities, epidemiologists, entomologists, health staff and laboratory staff and decision makers trained or retrained in program management at central, regional and district levels (including training abroad)" and "the number of diagnostic and reference laboratories adequately equipped, supplied and being regularly assessed for quality control" contain too many variables to be useful.

Data collection mechanism

222. The OIG noted that there was no process in place for the verification of data by the PIU for some indicators, for example: (i) Number of ITN distributed to people; (ii) Number of houses receiving indoor residual sprayings; and (iii) Number of households reached by volunteers undertaking BCC activities.

223. The data recording and reporting system for malaria is paper-based. At the SSED level both the national malaria case register and laboratory register are in place. There was, however, no formal plan for visiting district SSED staff for supervisory purposes and no guidelines or SOPs have been established regarding supportive supervision.

Recommendation 45 (Significant)

(a) The MOH should endorse a national M&E plan for malaria to adequately measure progress of all malaria control policies and programs.

(b) The SSED should ensure that all impact, outcome, and output level indicators are correctly defined and used in all program documents and reports. An appropriate data collection mechanism should be elaborated and selected to improve the quality of measurements. Furthermore, appropriate mechanisms should be put in place to verify the data.

(c) SSED should improve supportive supervision and continuous technical assistance provided by local SSED staff to FMC.

Institutional arrangements

Oversight

224. The SSED is a semi-autonomous institution within the MOH. It is headed by a director general who reports to the MOH. The SSED's Director General has overall responsibility for the management of the grants. The OIG did not see evidence of the MOH overseeing the SSED's activities or program implementation funded by the Global Fund. The OIG sought but was not provided with evidence that senior management meetings were held or that Global Fund-supported grant implementation formed part of the agenda of any such meetings

Recommendation 46 (Significant)
Senior management oversight over the utilization of Global Fund grants should be strengthened. As part of its oversight role, senior management should review grant performance against approved work plans, ensure that there are proper controls to safeguard program assets, assure compliance with the terms of the grant agreements and establish procedures to make certain that targets are met and impediments to implementation are addressed promptly.

Organizational structure

225. SSED has a PIU that is responsible for program implementation and the operational management of Global Fund grants. The PIU team consists of a project manager, two malaria technical specialists, a finance manager, a program assistant and drivers.

226. The operations manual contained an organogram that stipulated the staff positions required to effectively implement the Global Fund-supported programs. However, the OIG noted that some key positions in the organogram had not been filled, viz. the Monitoring and Evaluation Specialist, the Procurement Specialist and the Finance Assistant. The M&E and procurement responsibilities were allocated to the two Malaria technical specialists while the finance-related ones were allocated to the Financial Manager. The failure to fill key positions may impact SSED's capacity to effectively deliver on the program and also weaken the control environment within which the programs are implemented.

227. The SSED has an operations manual that was approved on 9 September 2009. It provides guidance to implementers on the use of grant funds. However, the manual was inconsistent with the conditions stipulated in the grant agreement. This resulted in non-compliance with the grant agreement:

(a) The operations manual provided for staff bonuses which should be paid from the interest earned on fixed deposits. This is contrary to the grant agreement that provides for all grant funds being held in cash and only used for program-related activities.
(b) The operations manual provided for the cancelling of tenders and entering negotiations with a particular company 'if one or more criteria for the cancellation exist and the cancellation is approved by the Tender Committee'. The provision above is not in line with the grant agreement with the Global Fund, which requires that contracts should be awarded on a transparent and competitive basis.

Recommendation 47 (Significant)
(a) The SSED should consider amending its manual to state that the rules of international agreements prevail in cases where there are contradictions with local policies.

(b) All key positions necessary for the successful implementation of the Global Fund program, as per the budget, should be filled with personnel possessing the required skills, experience and knowledge.

Audit arrangements

228. The PR contracted Marka Audit, a local firm, to conduct the annual audits of the PIU's financial records from 2006. The OIG noted that the external auditors raised key recommendations, which were not implemented by the PR. This weakened the control environment within which the grants were implemented. Some of the major weaknesses raised by the external auditors included:

(a) The SSED's non-compliance with the national law requiring that income tax is charged on amounts paid in excess of the statutory per diem rate;
(b) The need to strengthen controls over commodities and assets delivered at SR level; and
(c) The (irregular) classification of bonuses paid from program funds.

Recommendation 48 (Requires attention)
Management should ensure that all audit recommendations are implemented in order to strengthen the internal control environment within which grants are implemented.

Compliance with the grant agreement

229. The grant agreement signed between the Global Fund and its PRs stipulates the minimum conditions that should be in place to safeguard its resources. SSED did not comply with some of the conditions, specifically related to reporting, bank interest, taxes and insurance of assets.

Submission of reports

230. The grant agreement requires that the PR submits its quarterly reports within 45 days and an annual report to the Global Fund within 90 days of the end of the period. During the twelve quarters of the Round 5 grant, the PR only submitted timely PUDRs in two instances[22]. Delays were for up to six months. This affected the Global Fund's ability to release timely disbursements.

Period	Submission deadline	Date of submission	Length of delay
01.04.2006 – 30.06.2006	15.08. 2006	02.08.2006	No delay
01.07.2006 – 31.09.2006	15.11.2007	22.11.2006	7 days
01.01.2007 – 31.03.2007	15.04.2007	Nil	
01.04.2007 – 30.06.2007	15.08.2007	Without date	
01.07.2007 – 30.09.2007	15.11.2007	Without date	
01.10.2007 – 31.12.2007	15.02.2008	08.04.2008	53 days
01.01.2008 – 31.03.2008	15.05.2008	23.05.2008	8 days
01.04.2008 – 30.06.2008	15.08.2008	04.08.2008	No delay
01.07.2008 – 30.09.2008	15.11.2008	18.12.2008	33 days
01.10.2008 – 31.03.2009	15.04.2009	01.06.2009	45 days
01.04.2009 – 30.06.2009	15.08.2009	Nil	3 months
01.07.2009 – 30.09.2009	15.11.2009	Nil	6 months
1.10.2009 – 31.12.2009	15.02.2009	06.04.2010	51 days

[22] For periods that PUDRs were not submitted to the Global Fund, date of submission is shown as Nil.

Bank interest

231. The grant agreement requires that, to the extent practicable, grant funds are held in a bank account that bears interest at a reasonable commercial rate. The OIG noted that contrary to the conditions in the grant agreement, program funds were maintained in a fixed deposit account. The failure to maintain program funds 'in cash' puts grant funds at the risk of loss.

Taxes

232. The grant agreement strongly encourages the PR to ensure that any goods and services purchased from grant funds are free from taxes and duties imposed under the laws in effect in the Host Country. The OIG noted that in 2007, the government of the Kyrgyz Republic listed the Global Fund among those organizations whose grant funds were exempt from taxes. There was, however, no mechanism in place at the SSED to recover the taxes paid. In consequence, VAT was paid on all purchases at PR and SR level. The audit revealed that KGS 842,453 (USD 20,058) had been paid as tax and not recovered.

Insurance of assets and use of the Global Fund logo

233. The grant agreement provides for all risk property insurance on program assets and comprehensive general insurance with financially sound and reputable insurance companies, where available at a reasonable cost. The OIG noted that SSED did not insure program assets. Management explained that there was insufficient funding to meet insurance costs; however, the OIG noted that budget savings were used to increase staff salaries and not meet other budget gaps. Failure to insure assets exposes the Global Fund to loss in the event of accidents.

234. The grant agreement prohibits the PR and its SRs from using the Global Fund logo without having valid license agreements in place with the Global Fund for such use. The OIG noted that the Global Fund logo was used by the PR on its business cards, internet website and equipment. The PR did not have license agreements with the Global Fund.

Recommendation 49 (High priority)
The PRs should comply with the conditions stipulated in the grant agreement. Specifically, the PRs should:

(a) Ensure that their quarterly and annual reports are submitted on time since this affects the Global Fund's decision making;
(b) Institute measures to recover taxes paid so far from the tax authorities;
(c) Withhold relevant taxes from payments of services in accordance with the relevant government laws;
(d) Insure program assets against loss;
(e) Maintain program funds in an interest bearing account and use interest only for program related activities; and
(f) Sign license agreements with the Global Fund for the use of the Global Fund logo, or discontinue such use.

Financial management

235. The table below provides a summary of the funds managed by the PR under Round 5:

	USD	%
Total budget for both Phase I & II	3,426,125	
Funds disbursed at 30 September 2009	2,877,880	84

Interest received to date (net of tax)	30,206	
Fund expended at 30 September 2009	2,448,965	85
Balance at 30 September 2009	459,121	

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

236. SSED maintained its books of account using software called 1C:Accounting. SSED purchased an unlicensed version of the IC: Accounting software which is illegal. Unlicensed software may contain bugs, viruses, Trojans or spyware, which puts information at risk. Such software cannot normally be amended to suit the purchaser's circumstances and lacks critical software updates. At the time of the audit, the PIU had retained the services of a specialist to debug and update components of this software.

237. The OIG noted that SSED did not undertake a needs assessment for the type of accounting system it required prior to making the purchase decision. In consequence, the software purchased could not produce critical information, e.g., it was not able to align expenditure to the specific budget lines as set out in the grant agreement. Documentation of functional and technical requirements prior to purchase would have helped identify and configure appropriate software.

238. The accounting software is backed up on a weekly basis and the backup is stored in the office building. The program manager's desktop computer was used as the internet server. These observations point to weak IT controls within the PIU, which could result in loss of program data in the event of a disaster. Using a regular desktop as a server also raises the risk of exposure to viruses and the possibility of manipulation of data.

Recommendation 50 (Requires attention)

(a) *SSED management should obtain a licensed version of the 1C:Accounting software. The genuine software will be more costly but comply with intellectual property laws and come with a number of benefits such as access to updates and full support and help. It will also ensure the security of data and the integrity of the information systems.*

(b) *To enhance budgetary control, the software should be configured to include a program budget component. Payments should be processed against specific budget line items. The finance manager should monitor budgets to avoid major variances.*

(c) *The PR should set aside a secure internet and file server separate from the other personal computers used by program staff. An off-site file backup system should be put in place.*

239. The PR procured second-hand project vehicles in 2006, which were delivered with an assortment of spare parts. At the time of the audit, the PR had incurred significant repair costs to keep these vehicles running. The OIG noted that additional spares parts were purchased by the PR despite having received spare parts at the time of purchasing the vehicles. It is not clear whether these used vehicles represent good value for money.

240. The SSED did not maintain an up to date cash advance register. The advances policy was not enforced, i.e., advances were not settled within the mandatory three days after undertaking program activities. At the time of the audit, some of the advances to staff had been outstanding for over three months. The government regulations require the recovery of outstanding advances from staff salaries but this was not implemented.

Recommendation 51 (Significant)
The finance manager should follow up accountabilities for cash advances. In cases where they are not settled within the stipulated period, recoveries should be made from the responsible staff member's salary.

Procurement and logistics management

241. SSED follows domestic law on procurement, which is generally aligned to Global Fund policies on Procurement and Supply Management. The rules of the international agreement prevail in cases of conflict.

Procurements

242. The SSED included a procurement specialist in its organogram. However, at the time of the audit, this position had not been filled. The procurement activities were coordinated by the technical officer. This officer did not have the required qualifications and experience. This was reflected in the manner in which procurements were conducted from procurement planning, solicitation of bids, bid evaluation to contract management. In consequence, the SSED is unlikely to have received best value from the procurements.

243. The OIG noted that one company, Ak Chardak Ltd, supplied all health products. These included bed nets, drugs, laboratory reagents, microscopes, insecticides, spraying equipment, bicycles, etc. The total value of procurement through Chardak was USD 1.3 million, more than 50% of all procurement-related grant funds. The OIG noted that at the time of initial contracting, Chardak did not have a license for the supply of health products. Its director confirmed that Chardak did not have similar business experience prior to taking on procurement for SSED.

244. One of the contracts awarded to Chardak was the procurement of LLINs. This was provided for in the grant proposal and PSM plan and the bid documents clearly stated that the PR would be procuring WHO prequalified LLINs. However, Chardak was selected to supply ITNs. This represents misprocurement because the products procured did not meet the technical specifications in the bid document.

245. A review of the minutes of the evaluation committee revealed that the ITNs were accepted instead of LLINs because Chardak promised to supply WHO prequalified insecticides alongside the nets. This reflects a failure by the committee to differentiate between the LLINs and ITNs at the technical and financial level. The OIG also noted that the unit price quoted by Chardak for bed nets and insecticide was USD 5.50 which was more than adequate to procure LLINs. The OIG concluded that this procurement process did not represent value for money.

246. The PR invited bids for the supply of microscopes. Seven bidders submitted bids, which all met the technical specifications set out in the invitation to tender. The PR selected Chardak although they had quoted the highest price. This action resulted in complaints from three of the bidders. The PR re-advertised the procurement and received two bids, i.e., Chardak and Neman Farm Ltd. Chardak was selected, despite again having higher price. This poor procurement practice affects supplier morale and represents a failure by the SSED to get best value for money.

247. The PR procured second hand project vehicles, some manufactured in 1994/5, despite adequate budget for new vehicles. The contracts for vehicles procured do not stipulate any warranty or guarantee periods. These vehicles did not represent value for money because of the resultant high maintenance costs. The OIG also noted that when advertising for the

vehicles, the PR mentioned the brand name, model, and year of manufacture, which limited competition.

248. When soliciting for suppliers of IT equipment, the SSED did not provide technical specifications for the equipment but merely gave the names of the equipment that was required, i.e., LCD, digital camera, scanner, and laser copier. On receipt of the bids, cheaper bids were rejected on the basis that they were of poor quality and did not meet technical specifications. The supply contract was signed with Logic Ltd for USD 36,992, which was twice the price of the cheapest offer from another supplier, Continent IT.

Recommendation 52 (Significant)

(a) The SSED should appoint a suitably qualified person to lead the procurement function.

(b) The SSED should enforce adherence to the procurement guidelines. Exceptions should be justified and approved by SSED management.

(c) The bid solicitation process should be strengthened. Specifically, specifications should not be written to benefit a specific supplier. Bid criteria should be established and complied with. Bid terms should not be changed after the evaluation process without proper justification and the approval of management.

Storage and distribution

249. The PR recruited an officer to monitor and distribute the health and non-health products in the southern region. This officer did not maintain proper stock records, or commodity distribution records. For example, some spraying equipment had been removed from the warehouse without records of distribution. At the time of the audit, a stock-out of insecticides at the warehouse had not been identified or reported.

250. As shown in the photographs below, the OIG noted that equipment procured in 2006 was still in the warehouses at the time of the audit in December 2009. The equipment included two motor vehicles which were not part of the original PSM plan, microscopes, bicycles and spray equipment. This may indicate that a proper needs assessment was not undertaken and some procurement resulted in wastage.

Recommendation 53 (Requires attention)

(a) The PR should take stock of all program assets, assessing their condition and reallocating assets not in use to where they are most needed.

(b) The store management system should be strengthened with proper record keeping maintained. The handover of commodities and equipment should be documented.

Sub-grant management

251. SSED selected SRs to implement some Round 5 activities. The selected SRs were responsible for training and Behavior Change Communication (BCC) activities.

252. Initially, SSED transferred the whole grant amount to the SRs upon signing the SR agreement. However, from 2008, the PR disbursed funds to the SRs in tranches. The OIG noted that the disbursements were not aligned to pre-agreed schedules. SSED did not have a mechanism in place to identify and follow up poor program performance and financial reporting. For example, a single disbursement against Contract 11 was made to Republican Center for Health Promotion, instead of three separate disbursements as stipulated in the sub-recipient agreement.

253. SSED did not assess the capacity of Sub-Recipients prior to disbursement. Although reference letters were part of the granting requirements, the PR did not obtain the letters prior to signing sub recipient agreements. This presented a risk of selecting sub recipients that did not have the capacity to implement program activities.

254. The grant agreement between the Global Fund and SSED required the PR to ensure that SR financial records were subject to annual financial audits. At the time of the audit, there were no audit reports for any of the SRs.

255. The PR's systems for monitoring SR activities and reviewing reports submitted did not detect a number of weaknesses at SR level. For example, errors in the financial books of some SRs remained undetected.

Recommendation 54 (Significant)
The PR should put in place and implement criteria for selecting SRs. All SRs should be assessed for capacity to implement program activities. The PR should ensure that all SRs are subject to external audit.

The Association of Group of Family Doctors and Nurses of the Kyrgyz Republic

256. The Association of Group of Family Doctors and Nurses of the Kyrgyz Republic (The Association) is the largest SR to SSED. The OIG reviewed the records maintained by this Association. The sub-agreement signed with the SSED provided that disbursements would only be made against a complete set of documents, i.e., a grant proposal, a complete list of program activities, a budget and a work plan that detailed objectives, activities and targeted beneficiaries. The OIG noted that disbursements were made to this Association despite the absence of the following documents:

Contract No.	Missing documents
11	• Grant proposal • Complete list of program activities • Working plan
14	• Grant proposal • Complete list of program activities
10	• Grant proposal • Complete list of program activities.

257. The regulations of the Kyrgyz Republic on per diems provide that if a person receives a per diem that covers lunch, then the same officer should not claim physical lunch or meals from government. The OIG, however, noted that the Association received per diems and also

claimed meals from government. These double claims amounting to USD 4,970 point to weak controls and did not result in best value for money.

258. A review of the Association's financial records revealed that the financial reports submitted to the SSED contained arithmetic errors. The OIG also noted that staff were paid additional sums to undertake program activities, i.e., staff received allowances to undertake training. The Association paid Value Added Tax without seeking reimbursements despite the fact that grant programs enjoyed a government exemption from paying VAT.

Republican Center for Health Promotion

259. The Republican Center for Health Promotion is one of SSED's major SRs. This SR is an institution under the Ministry of Health that is responsible for undertaking health promotion activities. The OIG noted that all the sub-grant agreements entered into with this SR lacked key documentation, e.g., the work plans and budgets essential for guiding implementation. The agreements were neither signed nor dated and lacked an end date. They were thus not legally binding.

260. A review of the Center's financial records revealed the following weaknesses:

(a) The center did not provide third party supporting documentation for expenditure worth KGS 2,207,459.49 (USD 52,558) for conducting seminars in Issyk-kul and Talas oblasts and trainings in Bishkek and Osh cities. In the absence of supporting documents, the OIG cannot provide assurance that the funds were used for program purposes.
(b) The Center's staff were paid to undertake program activities, e.g., staff were paid to undertake training under the Global Fund-supported program.
(c) Documentation provided by the Center showed that its specialists conducted one-day trainings in two places, viz. Nooken district and Kochkor-ata town (Jalalabad oblast) on 29 March 2007. The trainers received allowances for being in the two places. However, given the distances between the two towns, it would have been impossible for the officials to be in both places at the same time.
(d) The SR procured goods for program implementation in bulk, e.g., certificates, stationery, etc. The OIG noted that there were no mechanisms to ensure that items left over from one activity were used in subsequent seminars, which would result in savings.

Osh Drama Theater

261. The SSED signed a sub grant agreement with the Osh Drama Theatre for KGS 248 800 (USD 5,924) for carrying out performances in Batken oblast. The OIG noted instances in which the PR disbursed funds to individuals although sub recipient agreements were signed with institutions. For example, funds intended for the Osh Drama Theater were disbursed to two persons. The supporting documentation provided was inadequate to support the activities that were undertaken. The documents did not state on what dates the performances happened; similarly, hotel bills were not dated.

Recommendation 55 (Requires attention)

(a) SSED should strengthen its SR monitoring function. This should ensure well-defined indicators and targets at SR and SSR level against which performance can be measured; plans detailing when, how and by whom monitoring will be undertaken; methods of data collection and verification of financial and programmatic information for reporting; site visits covering financial and programmatic aspects; and follow up of findings and provision of feedback to SRs.

(b) The SSED should review its grant agreements with SRs to ensure that they contain sufficient information to safeguard Global Fund interests. The weaknesses noted under (a) should be addressed. The SR grant agreements should include a mandatory requirement for annual audited accounts.

(c) The PR should obtain all the documentation required to support a sub-recipient agreement. The Finance Manager should check completeness of the documentation prior to processing a disbursement.

262. The State Sanitary Epidemiology Department (SSED) should provide documentation, for the USD 58,482 of unsupported expenditure, to the Global Fund for review by the Local Fund Agent. Amounts for which SSED is still not able to provide supporting documents should be repaid to the Global Fund. The amounts are listed in the table below.

Details	**Unsupported (USD)**
Republican Center for Health Promotion	52,558
Osh Drama Theatre	5,924
Total	**58,482**

Oversight

Background

263. The fiduciary arrangements put in place through Global Fund grants rely on effective oversight arrangements by the Country Coordinating Mechanism (CCM) established in each country, the Local Fund Agent (LFA) which provides verification of the implementation of grant programs, and the Global Fund Secretariat, which manages the grants and the relationship with recipients and other partners are the country and regional level.

Country Coordinating Mechanism

Composition

264. At the time of the audit, the Kyrgyz CCM comprised (i) five civil society representatives (17%); (ii) four representatives from international organizations (14%); (iii) 17 representatives from government (59%); (iv) two representatives from religious institutions (7%); and (v) one representative from educational institutions (3%).

265. The Global Fund guidelines strongly recommend that the membership of the CCM should comprise a minimum of 40% from the non-government sectors such as NGOs/community based organizations, people living with the diseases, etc. The CCM in Kyrgyzstan has lower representation from this sector.

266. The Global Fund requires that CCM members representing the non-government sectors should be selected by their own sector(s) based on a documented, transparent process, developed within each sector. The OIG noted that the CCM lacked guidelines for selection of CSO representatives. In fact the elections of CSO representatives were organized and coordinated by PRs and the minutes of elections clearly stated that the CSO candidates were recommended by the TB and HIV PR program managers. The involvement of the PRs in this process represents a conflict of interest, since the CCM is responsible for providing oversight of the PRs. There was no evidence that the process was transparent.

Recommendation 56 (High priority)

(a) The CCM representation should be aligned to the Global Fund principles in order to ensure that the CCM is representative of key stakeholders.

(b) The CCM should establish guidelines for the selection of CSO representatives. The PRs should not be involved in the selection process of the CSO representatives.

267. The CCM is divided into a Presidium (Executive) and the Country Multi-sectoral Coordination Committee (CMCC). This division does not provide for equal right of participation by all members as required by the guidelines for CCMs. Some decisions are made by the Presidium composed of 7 members, while other issues are discussed by the CMCC. There is no guidance specifying what decisions will be made by which body. There is no provision for decisions made by the Presidium to be ratified at CCM meetings.

268. Both the Chair and Vice Chair came from the Government constituency (viz. the Vice-Prime Minister's office and the Ministry of Health), which would require the CCM to have a written plan in place to mitigate an inherent conflict of interest. The CCM did not have such a plan. This was one of the reasons why Kyrgyzstan's Round 8 proposal failed the eligibility screening process.

Recommendation 57 (Significant)
(a) The whole CCM should endorse all decisions made by the Presidium.
(b) The CCM should develop a comprehensive conflict of interest policy.

Role of the CCM

269. The CCM is mandated to coordinate the submission of one national proposal for funding. The OIG noted that the available guidelines for proposal preparation did not provide for open solicitation of submissions from stakeholders. After the development of initial proposal components by thematic area, the CCM did not maintain control over the consolidation process. It was noted that some aspects of the HIV proposal were altered by the RAC without approval of the CCM.

Recommendation 58 (Significant)
The CCM should incorporate controls in the proposal writing process to ensure the process is transparent and consultative. The CCM should appoint a multi-sectoral working group to consolidate the proposal from submissions made by thematic teams. The final proposal should be provided to all CCM members for review prior to their approval for submission to the Global Fund.

270. The CCM's oversight needed substantial improvement, with the CCM not receiving adequate information about program implementation. The PRs did not provide regular to the CCM; those submitted did not contain sufficient detail on implementation. The Global Fund requires CCMs to develop an oversight plan for the implementation of approved proposals. The CCM had developed an annual plan. However, this did not meet the requirements stipulated in the Global Fund guidelines and was not implemented due to a lack of funds.

Recommendation 59 (High priority)
The CCM should develop a comprehensive oversight work plan in accordance with the Global Fund guidelines and submit a proposal for CCM funding to allow for its implementation.

271. The CCM employs staff at two sites, the Office of Vice Prime Minister and the Ministry of Health. At the time of the audit, the Secretariat was housed by the Ministry of Health. This creates a potential conflict of interest as all PRs are agencies of the Ministry of Health. The OIG noted that there was poor communication between the two offices, which led to poor coordination by the CCM Secretariat at the MOH due to limited access to the CCM chair (Vice-Prime Minister). The Secretariat did not have a regular source of funding, which affected its effectiveness.

Recommendation 60 (High)
The CCM Secretariat should be relocated from the Ministry of Health to an independent office.

Local Fund Agent

272. The Kyrgyz Republic has had three LFAs since the start of Global Fund grants. The first LFA, KPMG, was contracted from May 2003. PricewaterhouseCoopers (PwC) took over as Local Fund Agent (LFA) from KPMG in December 2003. In August 2008, Crown Agents began their work as LFA. During this audit, the OIG reviewed the work of PwC and Crown Agents.

PricewaterhouseCoopers

273. The OIG noted significant weaknesses in the procurement and supply chain processes at all three Principal Recipients. In the regular LFA review process, PwC had reported procurement risks to the Global Fund Secretariat. The risks included: (i) a lack of procedures for commodity distribution; (ii) insufficient needs assessment prior to procurement of commodities; (iii) insufficient competition; (iv) procurement of items that were not part of the PSM plan. Although the Global Fund secretariat did not take immediate action to address the risks, the OIG commends the LFA for raising these risks.

274. Although the work order issued by the Global Fund provided for a Health Expert to review the Monitoring and Evaluation aspects of PR assessments, PwC did not provide this resource. The financial, institutional and programmatic, and Monitoring and Evaluation aspects were undertaken by Financial Management Specialists. The Global Fund-supported program would have benefited from specialist Public Health and M&E expertise in PR assessments.

275. The LFA manual provides for LFAs to undertake at least one on-site data verification (OSDV) for each grant per year. The results of OSDVs inform the Global Fund Secretariat on the reliability of reported results and are used in making decisions on disbursement. PricewaterhouseCoopers did not undertake OSDVs in 2007 and 2008.

276. The OIG noted three quarters for which the malaria Principal Recipient did not submit PUDRs. The performance for quarters 4–6 was reported after Quarter 7 (in May 2008). The OIG did not see evidence that the LFA followed up on these reports.

277. The OIG noted significant variances between the budgets approved by the Global Fund and the actual expenditure for the HIV and TB PRs. In the case of HIV, the OIG observed total budget variances up to 240% and above USD 2 million. In the case of TB, many activities were undertaken at the expense of planned programs and despite not being budgeted for. These issues should reasonably have been identified by the LFA during the periodic verification of implementation and brought to the attention of the Global Fund. The LFA in its repeat PR assessment for HIV stated that "there were no risks in the Organization of the Financial Management function".

278. The LFA Manual states that "LFAs are expected to keep abreast of developments in the region in which they are providing LFA services". Article 6 (d) of the standard conditions of the grant agreement states that "the Principal Recipient shall, and shall ensure that each of its sub recipients, comply with the Host Country law and other applicable laws" when carrying out program activities. The OIG noted that none of the PRs complied with country laws with regard to payment of salaries and per diems. This was not highlighted by the LFA and was not brought to the attention of Global Fund.

279. The LFA manual and Global Fund guidelines for PR audit arrangements require that the LFA: (i) review the terms of reference of PR external auditors, (ii) review appropriateness of auditor selection process, (iii) review audit reports for compliance with Global Fund requirements, and (iv) review the content of audit reports and advise the Global Fund Secretariat. The OIG did not see any evidence that PwC undertook any of the tasks listed above. For the AIDS Center, the OIG noted irregularities in the selection of external auditors. There was also a limitation of scope as the work of external auditors was limited to SR review and excluded PR expenditure. In addition, the reports did not meet Global Fund requirements.

280. UNDP did not provide financial statements to the PRs against which the figures in the PUDR could be validated. The OIG obtained and compared the reports from UNDP and

those of the HIV PR's financial records. There were significant variances between the figures from UNDP and the PR's records. This was not brought to the Secretariat's attention by PwC. The OIG questions the basis on which the PUDRs were verified.

281. With regard to Financial Management at the National Center of Phthisiology, the OIG made observations which pointed to significant risk exposure, that had not been documented by the LFA:

(a) Procurement practice that did not meet good practice standards and did not ensure good value;
(b) Lack of certain documents to support program expenditure; and
(c) The transfer of USD 1.27m to IDA Foundation for the purchase of TB drugs in the absence of quotations or invoices, and contradictions between PIU operational guidelines and the grant agreement provisions.

Crown Agents

282. Crown Agents had resident specialists for Program Management, Finance, PSM, and M&E. At the time of the audit, Crown Agents had undertaken repeat assessments for the Malaria and TB PRs. It had also undertaken On-Site Data Verification (OSDV) visits for all grants.

283. The OIG noted that there was no effective handover from PwC to Crown Agents. Crown Agents had no access to PwC's working papers in order to understand their new client better. This affected Crown Agents' ability to 'hit the ground running'. Crown Agents as an in-coming LFA would have benefited from a proper handover, which would have shortened their learning curve and facilitated the continuity of LFA services.

284. The OIG noted that in undertaking repeat PR assessments, the LFA only considered activities from 2009 and did not look at previous events as these were not in the scope of their work. By 2009, the programs had been running for over five years and the decision not to consider earlier events limited the information that was available to the LFA as the basis for providing appropriate advice.

Recommendation 61 (Significant)
A comprehensive handover process should take place in future changes of LFA. The incoming LFA should be provided with access to previous reports and documents related to the grant and the PRs.

285. The OIG noted some statements made in the LFA reports that were factually inaccurate and which were relied on by the Global Fund to make funding decisions. For example, in the Round 8 Malaria repeat assessment, the LFA stated that there was an approved National Malaria M&E Plan. This was not the case. The LFA also wrongly reported in this repeat assessment that the PR had an internal audit function in place. The OIG did not find any evidence at SSED to support this statement. The LFA did not report the non-compliance of the CMCC with the Global Fund CCM eligibility criteria.

Recommendation 62 (High)
The LFA should establish effective quality assurance procedures to ensure that all factual accuracy is established before submitting reports to the Global Fund.

The Global Fund Secretariat

286. There was scope for improvement in the way the Global Fund Secretariat managed grants to Kyrgyzstan over the course of grant implementation. This section highlights such findings from the audit. Over the past year, as shown in the Executive Summary of this report, the Secretariat has been pro-active in taking forward the outcome of this audit and improving grant management processes.

Information for decision making

287. For the TB Round 6 grant, the Global Fund Secretariat, by letter from the Secretariat dated 4 December 2008, indicated that there were high cash balances (USD 1,531,263) and funds budgeted for 2nd line TB drugs (USD 900,000) would be lost if unspent at the end of phase 1. The PR informed the OIG that in response to this letter, on 5 December 2008, a contract for USD 1.38m was signed with IDA. On 16 December 2008, IDA sent a proforma invoice to the PR for the contract amount. The proforma invoice stated "Medical goods for treatment of second line Tuberculosis" with no breakdown for the contract amount. The first quotation from IDA providing a breakdown of medicines to be supplied, amounting to USD 1.09m was dated 8 January 2009. At the time of the audit in November 2009, USD 729,605 of the advance was still unutilized at IDA, which pointed to inflation in the budgets (and quantities). In consequence, at the time of reporting (31 December 2008) the reported grant expenditure rate was 96%, 40% of which related to the transfer to IDA. This did not reflect the true performance and rating of the grant at the time of making the decision for disbursement in March 2009.

288. The Operational Policy Note concerning ongoing grant management requires that: (i) at least one OSDV is required for each grant annually, and (ii) the regional team ensures that the required information is entered into the PRM every time pharmaceuticals are purchased. The OIG noted that no OSDVs were conducted for any grants before 2008. The PQR/PRM was not updated for any of the Malaria and HIV grants before August 2009 when the PR reported technical difficulties with updating the PQR. Secretariat's Disbursement Decision Making Forms (DDMF), however, indicated that PQRs where completed.

289. The Malaria PR did not provide three quarterly reports. There was no evidence of follow up for the following periods:

Period	Reporting Period
01.01.2007 – 31.03.2007	Quarter 4
01.04.2007 – 30.06.2007	Quarter 5
01.04.2009 – 30.06.2009	Quarters 13-14

Contracting of UNDP

290. The HIV and TB PRs signed agreements with UNDP to provide fiduciary and grant management support. By signing a MoU with UNDP, the PR assigned some of its responsibilities under the grant agreement with the Global Fund to a third party. This did not follow the process stipulated in the grant agreement. The OIG also did not see evidence that this process was vetted by the Global Fund Legal Unit, or that the grant agreement was amended to reflect the changes.

291. Entering into an agreement with UNDP automatically waived some conditions stipulated in the grant agreement and resulted in peculiarities in implementation especially with regard to (i) access by the LFA and other concerned stakeholders to financial information; (ii) audit of the program revenues and expenditures conducted by an independent auditor; (iii) type of books of accounts that could be maintained. These

modifications were not agreed in writing between the authorized representatives of the Global Fund and the PRs.

Contravention of Global Fund policies

292. The OIG noted that the Secretariat approved payment of over USD 300,000 for Round 2 HIV expenses out of Round 7 grant funds. In addition to this, the Secretariat approved the payment of a TB bill by the Malaria program amounting to USD 28,720. The Secretariat approved lending USD 50,000 to the HIV PR by the TB Center. This was in contravention of the grant agreement which states that grant funds may only be used for program activities that occur during the program term.

293. After the initial capacity assessment[23], the first LFA, KPMG, stated that the AIDS Center did not have capacity to undertake procurement under the Round 2 grant and recommended the selection of a Procurement Agent. After PwC was appointed LFA, the procurement specialist pointed out similar significant weaknesses, including (i) A poor PSM Plan described as 'a collection of tables without much explanation on what the tables really meant'; (ii) High ARV unit prices; and (iii) Lack of information on the quantification, procurement, distribution, quality assurance, patents, etc., for drugs.

294. Similar concerns were raised about the PSM plan by the Procurement Management Advisory Services (PMAS) team at the Global Fund Secretariat. These reviews pointed to significant weaknesses in the PR's PSM capacity and called for the Secretariat to mitigate identified risks. The OIG noted that the OPN on *approving the PSM plan*[24] *had not been followed,* with the Secretariat approving the PSM plans for the Round 2 HIV, Round 2 TB, Round 6 TB, and Round 7 HIV grants without the requisite review by the PMAS team.

295. The failure to follow the proper process for approving PSM plans resulted in grant funds being committed without obtaining evidence that risks to Global Fund investments had been mitigated. For example,

(a) The HIV Round 7 grant agreement was signed in May 2008, with a condition precedent to disbursement relating to the approval of the PSM plan. In November 2008, the Country Team approved the revised PSM plan, without further review by the LFA or the PMAS team. A disbursement including funds for pharmaceutical health products was made in the same month.

(b) The LFA reviewed the PSM Plan for the Round 6 TB grant in April 2007 and returned it to the PR it for revision. The grant agreement was signed in May 2007 without an approved PSM Plan or a condition precedent to disbursement. The PR submitted a revised PSM Plan to the Secretariat, which approved it on 19 July 2007 without the requisite review by the LFA and PMAS team as required by the OPN. The first disbursement that included pharmaceutical health products was made on 31 July 2007.

[23] Assessment Report of KPMG dated 3 October 2003

[24] The OPN on *Approving the PSM plan* also provides for all PSM plans to be shared with the PMAS team at the time of deciding to initiate the PSM assessment and upon completion of the PSM assessment, so that the procurement specialists can provide input into the FPM's decision-making.