



Independent observer  
of the Global Fund

## OIG RELEASES REPORT ON AUDIT OF GLOBAL FUND GRANTS IN UKRAINE

In a report on its audit of Global Fund grants in Ukraine, the Office of the Inspector General (OIG) said that the grants had produced positive outcomes and that a number of good practices and achievements had been observed. However, the OIG added, grant administration and financial management require attention “if the Global Fund’s investments to secure health outcomes are to be optimized.” The OIG said that the PRs and the CCM have shown strong commitment to take actions to address the weaknesses.

In a letter to the Chair of the CCM in Ukraine, Inspector General John Parsons said “I am sure that other Global Fund grant recipients and program implementers will have much to learn from Ukraine’s program achievements as well as actions being taken to address program challenges which have been detailed in the audit report.”

The OIG did not identify any amounts that had been misappropriated or that needed to be repaid. This is only the second time that this has happened in the 10 audits for which the OIG has released reports in 2012. The other country where this happened was Uzbekistan.

The audit report, released in August 2012, covered three HIV grants from Rounds 1 and 6, administered by three principal recipients (PRs): International HIV/AIDS Alliance (Alliance), Round 1; International HIV/AIDS Alliance in Ukraine (Alliance-Ukraine), Round 6; and the All Ukrainian Network of People Living with HIV/AIDS (Network), Round 6. The Round 1 grant had ended by the time the audit was conducted in November 2010.

The time period covered by the audit was March 2004 to September 2010. The value of all three grants was \$299 million, of which \$183 million (61%) had been disbursed at the time of the audit.

This article provides a summary of the OIG's findings concerning the performance of the PRs and the oversight provided by the country coordinating mechanism (CCM) and the local fund agent (LFA). The article also provides comments from the CCM on the audit's findings and recommendations.

With respect to weaknesses in administration and financial management, the OIG said there is need to improve financial controls at the PR and SR level, and to strengthen external audit arrangements and budget monitoring. With respect to procurement and supplies management, the OIG said that there was a need to consolidate procurement functions, ensure complete and reliable information for forecasting, improve monitoring and quality assurance and strengthen the capacity of the central medical stores.

In addition, the OIG said the controls over the selection, management and monitoring of SRs should be improved, with a specific focus on conducting capacity assessments before contracts are signed. The OIG said that there is also a need to analyse the causes and circumstances of financial mismanagement to learn lessons, improve controls and prevent recurrence.

Findings specific to each of the PRs are presented below.

#### International HIV/AIDS Alliance and Alliance-Ukraine

Among the achievements noted by the OIG were the following:

- The two PRs were able to launch opiate substitution therapy (OST) in Ukraine despite resistance from many stakeholders in the country.
- The Alliance-Ukraine introduced a peer-driven intervention model for prevention programmes among most-at-risk population groups, covering adolescents in particular.
- Working with other NGOs, the two PRs implemented projects covering all stages of the education process essential for shaping safe behaviour among children and youth.
- The two PRs dramatically influenced a fall in the prices of imported antiretroviral drugs.
- The Alliance successfully initiated and scaled up antiretroviral treatment in Ukraine from 2004–2008 by enrolling 6,080 patients on treatment. This programme was successfully handed over to the Ministry of Health at the end of the Round 1 grant.

In addition, the OIG noted that the engagement of government and civil society by Alliance-Ukraine has strengthened Ukraine's response to HIV/AIDS over the period of the Global Fund grants.

The OIG observed several weaknesses in Alliance-Ukraine's administration and management systems, including the following: internal audit arrangements were inadequate; there were delays in disbursements to sub-recipients (SRs); and the PR did not have all of the supporting documentation required to ensure the validity of SR expenditures.

The OIG also noted that there was room for improvement in the PR's procurement and supply management arrangements.

#### All Ukrainian Network of People Living with HIV/AIDS

The OIG noted that when the Network became PR, the organisation successfully and rapidly evolved so as to be in a position to manage the new financing and to expand its projects. The OIG said that grant procedures were put in place and procedures for selecting SRs were established effectively. In addition, the OIG remarked that the Network's central warehouse reflected high standards.

The OIG observed several weaknesses in the Network's administration and management systems, including the following: internal arrangements for overseeing the implementation of the grant were insufficient; there were instances of non-compliance with the grant agreement; and management reporting systems were inadequate.

In addition, the OIG noted several instances where SRs did not follow proper procedures for the purchase of goods and services.

## Oversight

CCM. The OIG noted good practices by the CCM, including having more frequent meetings and circulating meeting agendas well in advance. However the OIG said that there was little evidence to demonstrate that grants were being effectively supervised by the CCM. There were no technical working groups or subcommittees to evaluate performance. The OIG also observed that there was no process for briefing new CCM members.

The OIG noted that for the Round 6 grant, the PRs and other stakeholders in the health sector formed a "Conciliatory Group" to review grant performance reports. The OIG said that this group also acted as a forum for the resolution of disputes, for instance between the PRs and SRs. However, the OIG noted, there was no provision for such a group in the Global Fund's grant architecture. The OIG added that the functions performed by the Conciliatory Group are typical functions of the CCM, but that there is no relationship between the Group and the CCM. "However," the OIG said, "the CCM relies on the work of this Group, especially with regard to the review of financial and program reports. Performance reports presented to the CCM are brief and assumed to have been reviewed by the Conciliatory Group."

LFA. The OIG noted that, over time, the number of on-site data verifications performed by the local fund agent (LFA), PricewaterhouseCoopers, had declined. The OIG said that this will adversely affect the extent and quality of information on which decisions are based. Further, the OIG said, the Global Fund Secretariat did not require the LFA to engage specialists when conducting important assessments. Had this been done, the OIG said, some of the OIG's findings may have come to light much earlier.

## Recommendations, reaction and follow-up

The audit report made 76 recommendations to address the shortcomings noted in the audit. Global Fund General Manager Gabriel Jaramillo said in a letter accompanying the audit report that the Global Fund Secretariat and national stakeholders had developed action plans to implement the recommendations. When we were preparing this article, Alliance Ukraine told GFO that as of the end of August, at least 50 of the 76 recommendations had been implemented.

In a letter included in the audit report, General Manager Gabriel Jaramillo called for more action from the government. He said, "In Ukraine, there is a large unmet demand for anti-retroviral treatment. The provision of opiate substitution therapy also needs broader involvement of the government and other stakeholders, in order to develop consensus around the intervention and avoid delays with customs clearance of drugs." Mr Jaramillo added that the audit also identified a need to increase the government's role and participation in HIV prevention activities.

## Comments from CCM, PRs

In a letter to the Global Fund, which was included in the OIG report, the Chair of the CCM – who is also the Deputy Minister of Health in Ukraine – said that the CCM had thoroughly considered the observations and recommendations of the OIG, and had taken action to implement most of the recommendations.

In an article in the 28 August 2012 edition of the International HIV/AIDS Alliance Newsletter, Andriy Klepikov, Executive Director of Alliance Ukraine, said that the audit report

“reaffirms that local civil society organisations can manage large grants that significantly shape the national HIV response.... The Global Fund did not demand from Ukraine to return a single cent from the transferred USD 183 million. And this is the key achievement of the principal recipients – Alliance and Network of PLWH – as compared to the principle recipients in other countries which underwent similar audits where amounts to be refunded are counted by millions of dollars.”

The OIG audit report on Ukraine, and all of the other OIG reports, are available on the Global Fund website [here](#).

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