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Update from the Executive Director - Uganda

15 May 2017

The Global Fund has zero tolerance for corruption or fraud. When any misspent funds are identified, the Global Fund pursues recovery, so that no donor money is lost to fraud or ineligible expenses. The Office of the Inspector General (OIG) is an integral and important part of risk management and controls, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund. **This update specifies that the bulk of variances identified by a Uganda audit were a result of incomplete data, and not due to fraud.**

The Audit of Global Fund Grants to Uganda published on February 26, 2016 found variance between actual and expected stocks of medical supplies at the country's National Medical Stores (NMS) and selected medical facilities in the country. The Global Fund Secretariat immediately implemented a series of agreed actions to address the weaknesses identified in the audit report. A follow-up investigation by the OIG clarified the queries and concerns raised in the audit report and provided updated information. Poor documentation at the time of an audit that requires further review is a symptom of weaknesses in controls, compliance and assurance. The Global Fund takes such documentation weaknesses seriously and acts to correct the problems.

It is not unusual for the final recoverable amount that is determined after additional work by Investigations Department to differ from the findings of an audit. Auditors can only review the information that is available to them at the time of the audit. Guided by their findings, additional work often has to be undertaken by a Local Fund Agent or by the Investigation Department to help determine the recoverable amounts. This work entails significant additional review of records that can take months and cover several countries and continents, depending on the location of relevant documents. Even when the final amounts are significantly lower, the lack of readily available documentation can indicate sub-optimal compliance and controls that requires attention.

The following represent actions being implemented by the Global Fund and partners to address weaknesses identified in the audit report, and findings from the OIG investigation:

- **The OIG investigation found that of the US\$21.4 million variance identified by the audit, US\$17.4 million was a result of incomplete data given to the OIG audit team by National Medical Stores and not due to fraud.** The investigation also concluded that while some inventory was unaccounted for, the main reasons for discrepancies were record keeping and inadequate inventory management controls. The remaining US\$4 million could not be further reconciled and it is not known what proportion of this can be attributed to Global Fund expenses, as the inventory does not include a breakdown by donor or Government of Uganda purchases. Once clarified, the Global Fund's Recoveries Committee will pursue recovery to ensure that donor funds were spent properly and no funds are lost.
- **The Global Fund engaged local fund agents to conduct additional reviews of supporting documents for questions raised by the audit to ensure donor money was spent properly, and to ensure that data is being correctly recorded.** Following the first review, the Global Fund has given the Government of Uganda until 31 March 2017 to repay US\$210,212 that was identified as unsupported expenses. If any additional funds are determined to have been unsupported or misused the Global Fund's Recoveries Committee will pursue recovery to ensure that donor funds were spent properly and no funds are lost.
- The OIG investigation found that the US\$2.71 million variance in stock received versus stock shipped through the Global Fund's Pooled Procurement Mechanism was a result of **incorrect data entry** in the NMS system, **and that no money had been lost or misspent.**
- For the variance reported in the audit regarding 3.7 million malaria test kits, the OIG investigation found no evidence to suggest that the kits actually left the warehouse or were diverted. The original order of 3.7 million malaria test kits was **likely a data entry error.**
- **The Global Fund is working with partners to strengthen the capacity of the National Medical Stores and health facilities to provide accurate accounting of inventory purchased with Global Fund grants.** The Global Fund is requiring the National Medical Stores to strengthen its human resource capacities through training in the use of the warehouse inventory systems; and is requiring the Ministry of Health to perform regular audits on health facilities to ensure proper accounting for health products purchased with Global Fund investments.