

Board Chair Cover Note

Audit & Investigation Reports issued by the Global Fund's Office of the Inspector General on 1 November 2011

Dear Reader,

Today, the Global Fund has released eight audit reports, three investigation reports and one review of Global Fund systems by its Office of the Inspector General. The Inspector General regularly conducts audits and investigations. The audits are part of the Global Fund's regular and routine efforts to ensure that grant money is used as efficiently as possible. The investigations have arisen out of suspected wrong-doing found during audits.

It is unusual to release so many reports at one time. Ordinarily, reports of the Office of the Inspector General are released to the Board as and when they are finalized. On this occasion we agreed that these reports would be finalized after completion of the *'The Final Report of the High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund'*. This ensured that the Global Fund Board, Secretariat and Inspector General could focus fully on the report of the High Level Panel and its recommendations.

The reports are:

- Audit Reports: Dominican Republic, Sri Lanka, Nigeria, Swaziland; four reports relating to the work of Population Services International (South Sudan, Madagascar, Togo, and Headquarters)
- A Review of the Global Fund Travel and Travel-related Health and Security policies
- Investigation Reports: Mauritania, India, and Nigeria

The country-specific reports cover grants from different Global Fund financing 'Rounds', and have implementation start dates commencing at various times since early 2004. Together, the reports review around US\$ 1 billion of grant financing. These reports take into account as far as possible, a number of the High Level Panel's recommendations. The Reports include comments from the Principal Recipients and contain a thorough management response and action plan from the Secretariat. Increased attention has been paid by the Office of the Inspector General to the tone of the Reports, without diluting the important message that each carries.

Specifically, the Reports tell us that the Global Fund must seek to recover up to US\$ 19.2 million from grants in eight countries. Around US\$ 17 million of this amount is for activities that are poorly accounted for, were not budgeted in the work plan, or fall within the Global Fund's current definition of an ineligible expense, which is an area that the High Level Panel report suggested be clarified for Principal Recipients. Some of the grant implementer responses contest relevant findings. From the perspective of the Office of the Inspector General, the reports present the evidence that has been found and recovery should be sought in full.

The Nigeria investigation report, which led from the audit, brings to the surface once again issues with the Local Fund Agent engagement model – raised very proactively also in the Inspector General’s reports for Mali in December of last year.

Whilst in no way seeking to reduce the importance of the concerns that come from the three investigation reports, they do come at a time when the Global Fund knows that it has to transform how it manages its grants – and how – most importantly – it proactively addresses risk in its portfolio. This cannot entirely prevent mismanagement in all grants, but it will certainly provide a better framework on which resources are channeled to partner countries.

At its November 2011 meeting, the Global Fund Board will consider a Consolidated Transformation Plan to bring into effect the High Level Panel’s recommendations on risk, grant management and improved fiduciary oversight.

More reports will come from the Inspector General and irregularities will continue to be found given the increasingly complex environments in which the Global Fund works. The Global Fund continues to strive to prevent loss, and we must ensure that the organization has the systems that enable us to take purposeful and immediate action when irregularities are discovered. Where there is dishonesty, we must pursue those involved.

The Global Fund is committed to the mission of saving lives and assisting countries in building strong and sustainable health systems. Emerging as an issue over the last years, but now very firmly confirmed from the Report of the High Level Panel, the Global Fund must be transformed at all levels.

The Consolidated Transformation Plan will provide the Secretariat, the Office of the Inspector General, and the Board with the means to make this transformation, and ensure ongoing service and accountability to the people whose lives we must save, and to those that fund that cause.

Best regards,

Simon Bland
Board Chair



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Country Audit of Global Fund Grants to Nigeria

Audit Report GF-OIG-10-008

31 October 2011

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Abbreviations

ACT	Artemisinin-based Combination Therapy
AIDS	Acquired Immune Deficiency Syndrome
ARFH	Association for Reproductive and Family Health
ART	Anti-Retroviral Therapy
BCC	Behavior Change Communication
BOD	Board of Directors
BOT	Board of Trustees
CAC	Corporate Affairs Commission
CANL	Crown Agents Nigeria Limited
CBO	Community Based Organization
CBS/SCMA	Capacity Building Services / Supply Chain Management Assistance
CCM	Country Coordinating Mechanism
CiSHAN	Civil Society Consultative Group on HIV/AIDS in Nigeria
CP	Conditions Precedent
CQ + SP	Chloroquine and Sulphadoxine/Pyrimethamine
DFD	Department of Food and Drugs
DOTs	Directly Observed Treatment, Short-course
DPH	Director of Public Health
DR	Disbursement Request
FMLP	Federal Ministry of Labour & Productivity
FMWA	Federal Ministry of Women Affairs and Social Development
FCMS	Federal Central Medical Stores
FCT	Federal Capital Territory
FHI	Family Health International
FMOH	Federal Ministry of Health
FRN	Federal Republic of Nigeria
HBC	Home Based Care
HCT	HIV Counseling and Testing
HIV	Human Immunodeficiency Virus
HIS	Health Information System
IEC	Information, Education and Communication
IPT	Intermittent Preventive Therapy
ITN	Insecticide Treated Nets
IHVN	Institute of Human Virology Nigeria
JSI	John Snow Inc.
LFA	Local Fund Agent
LGAs	Local Government Areas
LLINs	Long Lasting Insecticide Treated Nets
LMIS	Logistic Management Information System
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MOU	Memorandum of Understanding
MSH	Management Sciences for Health
NACA	National Action Committee on HIV/AIDS

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NAFDAC	National Agency for Food and Drug Administration and Control
NASCP	National AIDS and STIs Control Program
NEC	National Executive Council
NEPWHAN	Network of People Living with HIV/AIDS in Nigeria
NGO	Non-Governmental Organization
NIBUCAA	Nigerian Business Coalition Against AIDS
NMCP	National Malaria Control Program
NPHCDA	National Primary Healthcare Development Agency
NTBLCP	National Tuberculosis and Leprosy Control Program
NYSC	National Youth Service Corps
OFOG	Overseas Financial Operations Group
OI	Opportunistic Infections
OIG	Office of the Inspector General
OVC	Orphans and Vulnerable Children
PAYE	Pay as you earn
PHC	Primary Health Care
PLWHA	People living with HIV/AIDS
PMTCT	Prevention of Mother to Child Transmission
PMU	Program management unit
PPFN	Planned Parenthood Federation of Nigeria
PPM	Planned Preventive Maintenance
PPMV	Proprietary Patent Medicine Vendors
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Chain Management
QA	Quality Assurance
RBM	Roll back Malaria
RDT	Rapid Diagnostic Test Kits
SFH	Society for Family Health
SMWA	State Ministry of Women Affairs and Social Development
SR	Sub Recipient
TAC	Technical Advisory Committee
TB	Tuberculosis
TPPA	Third Party Procurement Agent
TRP	Technical Review Panel
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
US\$	United States Dollars
VCT	Voluntary Counseling and Testing
VDRL	Venereal Disease Research Laboratory
XDR	Extensive -Drug Resistant
WHO	World Health Organization
YGC	Yakubu Gowon Centre for International Co-operation

Executive Summary

Introduction

1. The purpose of the OIG audit was to assess whether Global Fund grants had been used wisely to save lives in the Federal Republic of Nigeria (Nigeria). The audit focused on the 15 grants provided between 2003 and 2009 amounting US\$ 682,149,515 of which US\$ 474,519,260 had been disbursed at the time of the audit.

2. This section briefly highlights the achievements, findings and conclusions arising from the audit. The detailed findings are contained in the rest of the report.

The Global Fund Supported Programs in Nigeria

HIV/AIDS

3. Nigeria's HIV prevalence was estimated at 3.6% in 2009, with approximately 2.98 million people living with HIV/AIDS¹. The Nigerian government's commitment to having a national HIV/AIDS multi-sectoral response was coordinated by its National AIDS Control Agency (NACA). The Global Fund HIV/AIDS related grants amounted to US\$ 182 million under the management of the NACA, Yakubu Gowon Centre for International Co-operation (YGC), the Society for Family Health (SFH) and the Association for Family Health (ARFH).

4. Grant funds were used to support the response to HIV/AIDS through support to the following interventions: HIV counseling and testing (HCT), Anti-Retroviral therapy (ART), Prevention of Mother to Child Transmission (PMTCT), Home based care (HBC) and orphans and vulnerable children (OVC) interventions. NACA also coordinated the development of national guidelines and protocols for HIV/AIDS treatment and care, and home based care.

5. HCT coverage remained low with this directly impacting the country's ability to identify patients. There is potential for increasing HCT coverage through the involvement of Non-Governmental Organizations (NGO)/Faith Based Organizations (FBOs) that are active in community outreach. There were also delays noted between diagnosis and starting patients on ART. This was attributed to long waiting times for CD4 count tests at public hospitals and lack of transport from remote areas to ART sites. The program lacked an effective follow up mechanism to ensure that patients did not default on treatment. There were also drug stock outs noted e.g. ARVs, cotrimoxazole etc at some ART sites.

6. The NACA Round 1 grant was unable to secure Phase 2 funding due to poor performance against set targets, an inadequate M&E system, data unreliability as well as tardy and insufficient reporting by the PR. The Round 5 grants recorded better performance although some targets for key indicators were still not met e.g. number of service delivery points to provide people with ART.

¹ UNGASS Country Progress Report, Nigeria, 2010

7. The following issues related to HIV grant indicators and targets were noted:
 - i. results related to indicators that sought direct attribution to the Global Fund were inaccurate because they included results related to other donor funding e.g. the number of people receiving ART from Global Fund support.
 - ii. Some of the results reported could also not be verified as being consistent with underlying records e.g. percentage of people still alive 12 months after initiation of ART.
 - iii. Other indicators reported in PUDRs were not part of the performance framework.

8. Among other things, the OIG audit suggests that the HIV program can be strengthened by (i) procuring more equipment for public ART capacity facilities and training more medical staff and laboratory specialists; (ii) revisiting its monitoring and evaluation system to ensure that the reported results are accurate and in line with the indicators; (iii) formalizing the clinical follow up of patients in order to strengthen treatment adherence of patients; and (iv) promoting proper management of OIs including TB.

Tuberculosis

9. Tuberculosis remains a major public health problem in Nigeria with the country having one of the highest TB incidence/prevalence rates in the West Africa region. The Global Fund TB related grants amounted to US\$ 63 million under the management of ARFH and Christian Health Association of Nigeria (CHAN).

10. The program registered success especially in training of laboratory workers and health care providers and providing drugs, laboratory equipment and reagents for treatment and smear microscopy. There have been notable achievements in the fight against TB in recent years but considerable challenges need to be faced such as heavy dependence on donor funding, significant human resources shortages at all levels, inadequate laboratory networks for MDR-TB diagnosis etc.

11. The program received a poor performance rating due to its failure to undertake key activities e.g. the TB prevalence survey and the setup of the zonal MDR TB laboratories. Data was also not available for some targets while other key targets were not met e.g. facilities delivering DOTs, care workers trained in DOTs, sputum smear positive TB cases detected under DOTs etc. The PR was changed after Phase 1 in order to improve program performance.

12. The case detection rate was very low (24%) compared with international standards (70%). The TB program's poor inventory management system resulted in drug quantification and stock out problems. At the community level, there was inadequate patient support to ensure proper adherence to TB treatment. The program also lacked an integrated approach for TB/HIV care at Primary health Care (PHC) level. There were also limited referrals of MDR-TB suspects for diagnosis and treatment.

13. The TB program can be strengthened by (i) improving case detection through increasing DOTS coverage, training of DOTS providers in TB diagnosis and by improving sputum collection, transportation and smear microscopy through continuous supervision and quality control; (ii) improving the definition of indicators to make them more specific and meaningful (data verification mechanisms should also be put in place); (iii) enhancing community education/mobilization to raise population awareness on TB; (iv) establishing an effective link between TB and HIV care and developing an integrated approach for TB/HIV services; and (v) renovating and equipping the MDR-TB laboratory network.

Malaria

14. Malaria remains a major public health problem in Nigeria where it accounts for about 60% of all outpatient visits and 30% of all hospital admissions. The Global Fund malaria related grants amounted to US\$ 380 million under the management of YGC, SFH and the National Malaria Control Program (NMCP). The program provides commendable support to the national malaria strategies which seek to increase access to prevention, treatment and care services.

15. YGC's Round 2 and 4 grants recorded poor performance ratings and these grants were consolidated without addressing the causes of the poor performance. The SFH grants recorded good performance with targets met and/or exceeded to a large extent. However SFH programs faced the risk of leakage of its products and did not enforce set prices in communities where product demand outstripped supply.

16. There were ACT and LLIN stock outs noted in the public and private sector which was attributed to weaknesses in forecasting and procurement related delays. The effectiveness of the program can be enhanced through the timely provision of ACTs and LLINs.

Yakubu Gowon Centre for International Co-operation (YGC)

17. YGC has been a PR for four grants of US\$ 172 million. The major component of the grants was procurement and distribution of Malaria drugs and LLINs to various states within the Federal Republic of Nigeria.

18. YGC had two oversight structures in place, the effectiveness of which could be improved by streamlining and operationalizing their roles, meeting more frequently and including program reviews in their agendas. In a bid to improve its performance against set targets and strengthen the control environment, YGC changed its organization structure. However, YGC did not fully transition to the new organogram and in consequence YGC had not realized its reorganization goals and the control environment remained weak.

19. YGC's financial management system could not capture, process and report all program transactions. In consequence (i) the incomplete accounting records maintained could not be relied on to generate accurate financial reports. The OIG could also not tie YGC's Progress Update Disbursement Reports (PUDRs) to its

underlying books of account; (ii) YGC's financial record-keeping was also poor with transactions worth US\$ 2,172,712 lacking supporting documentation; (iii) the total funds disbursed to SRs that remained unaccounted for and should be refunded i.e. NMCP - US\$ 337,816 and CiSHAN US\$ 302,617; and (iv) management failed to justify the basis for management fees charged to the program amounting to US\$ 659,905. These funds remained unaccounted for at the time of the audit.

20. YGC's financial statements were prepared by their external auditors which is contrary to best practice. The resultant audit reports did not cover all the Centre's transactions and failed to highlight the significant control weaknesses that were noted at the Centre. YGC's internal audit function lacked the capacity to fulfill its mandate and its involvement in the Centre's operations impaired its objectivity.

21. The OIG noted some irregular transactions that remained unexplained at the close of the audit. This involved transfers of funds to various third party foreign bank accounts totaling US\$ 15.8M. This is the subject of an OIG investigation and will be addressed in a subsequent investigation report.

22. YGC's sub recipient (SR) management was characterized by (i) failure to assess SRs for capacity to implement grants resulting in the selection of SRs that lacked the requisite capacity; (ii) failure to sign grant agreements that detailed the programs budgets, work plans and targets with SRs; (iii) YGC transferring program funds to SR staff personal bank accounts, and (iv) lack of an effective mechanism for SR financial and programmatic monitoring of SRs etc.

23. YGC should strengthen its sub grant management by assessing SRs and developing capacity building plans to address any capacity gaps identified, developing a grant management manual that provides guidance to implementers, signing MOUs with its SRs and holding them accountable for financial and programmatic results.

24. The current YGC capacity in the areas of governance, financial management, sub recipient management and procurement was inadequate to safeguard the Global Fund resources. YGC should refund to the Global Fund US\$ 3,742,854 which could not be properly accounted for or which related to expenditure on activities that were not in the approved work plan and budget.

National Action Committee on HIV/AIDS in Nigeria (NACA)

25. NACA has been a PR for the Round 1, 5 and 8 HIV grants of US\$ 186 million. NACA's achievements included spearheading the development of the National Strategic Plan for HIV/AIDS, establishing the HIV/AIDS cluster networks, contracting and implementing programs through SRs. NACA's Round 1 grant did not receive Phase 2 funding due to poor performance and unreliable data reported by the PR.

26. NACA had capacity gaps in terms of skills and numbers in its key functional areas. NACA's audits were also often carried out late and management did not

address the recommendations that arose out of the audits. These areas should be addressed in order to strengthen NACA's governance/management of the grants.

27. The OIG's review of NACA's financial management system raised the following key issues (i) NACA commingled the Round 1 grant funds and lacked an accounting system that could separate the transactions by grant. In consequence, the financial reports produced could not be validated; (ii) NACA purchased an accounting system which was not fully installed at the time of the audit i.e. almost six years later. Transactions were recorded in both this system and in MS Excel which was not only inefficient and prone to error but also could not produce reports; and (iii) NACA had unsupported expenditure of US\$ 606,939 as well as ineligible expenditure of US\$72,241 i.e. expenditure that was not in the approved budget.

28. NACA lacked a grant management manual to guide SR management and this resulted in significant internal control weaknesses at SR level namely:

- i. NACA only assessed SRs for capacity to implement programs under the Round 8 grant. The resultant assessment reports reflected an inaccurate assessment of SR capacity e.g. while DFD and NASCP scored highly in financial management capacity, NACA subsequently had to maintain their financial records because of their lack of capacity.
- ii. NACA did not have a proper financial and programmatic monitoring framework for its SRs. SR reports could not be tied to their underlying books of accounts.
- iii. Accountabilities from as far back as 2004 had not been received and/or reviewed at the time of the audit and yet the PR continued to disburse funds to the relevant SRs.
- iv. NACA disbursed funds for some SRs to staff personal bank accounts under Rounds 1 and 5 and these funds remained unaccounted for at the time of the audit.
- v. SRs could not provide a basis for allocation of these common administration costs across donors.

29. NACA needs to strengthen its capacity to manage Global Fund grants especially in financial management, procurement and grant management. NACA should refine its systems and policies to ensure a seamless implementation of the Global Fund grant, proper supervision of SRs and enhance accountability. NACA should refund the Global Fund US\$ 763,087 which could not be properly accounted for or which was not in the approved work plan and budget.

Society for Family Health (SFH)

30. SFH is the PR for the Round 5 HIV grant and the Round 2 and 4 Malaria grants amounting to US\$ 132 million. SFH's Board provided oversight to program operations but its operations can be further strengthened by establishing board sub committees and developing a board manual to guide its operations. Audit recommendations were not always implemented which represented a missed opportunity to strengthen the control environment within which grants were implemented.

31. SFH's QuickBooks accounting software lacked a multicurrency function resulting in SFH maintaining over 15 versions of the software. This made the reporting phase laborious and may result in errors. The SFH Board consequently approved the purchase of other software.

32. While SFH has the requisite capacity, experience and structures in place to effectively implement the Global Fund grant activities, there were instances of override of internal controls which resulted in losses to the program. SFH should strengthen the control environment within which grants are implemented in order to further safeguard grant resources.

National Malaria Control Program (NMCP)

33. The NMCP was PR for the Round 8 Malaria grant of US\$ 102 million. The NMCP was also an SR to YGC under Rounds 2 and 4 Malaria grants. NMCP had recorded some achievements at the time of the audit e.g. setting up of the Program Management Unit, initiating collaboration efforts among the malaria PRs and other implementing partners, developing a monitoring and evaluation plan and conducting training of trainers' courses. However, program implementation was constrained by delays in the procurement of ACTs and LLINs.

34. The NMCP has well established governance and technical oversight structures in place although some key aspects such as the committees were not operational.. A PMU was established at NMCP within the Ministry of Health. The financial management structures within the PMU do not have sufficient checks and balances.

35. The NMCP did not comply with some conditions stipulated in the grant agreement e.g. spending funds on only program related activities. The NMCP also did not meet all the conditions precedent to disbursements which were meant to address capacity gaps identified by the LFA in its assessment. This weakened the environment within which programs were implemented.

36. A consultant was appointed to help strengthen NMCP's financial management capacity. However at the time of the audit, there was no notable improvement in the control environment and it remained inadequate to safeguard resources. Several instances were noted where the documentation provided in support of expenditure was not authentic. Large payments were also made into staff personal bank accounts for program activities and accountabilities and/or refunds were not submitted on a timely basis.

37. The procurement processes were not transparent with NMCP inviting related companies to bid. The OIG was unable to locate some suppliers at their registered offices. The transactions resulted in the purchases at prices that were higher than prevailing rates and did not represent value for money. It was evidence of management override of controls such as ignoring set procurement guidelines which undertaking procurements.

The current NMCP capacity and control environment was inadequate to safeguard Global Fund resources in the areas of governance, financial management and procurement. The Federal Ministry of Health should give consideration to strengthening oversight over the Global Fund PMU by ensuring sufficient checks and balances in payments made particularly for procurement.

Association for Reproductive and Family Health (ARFH)

38. ARFH was the PR for the Round 5 HIV and TB Phase 2 grants of US\$ 66 million. ARFH underwent and managed well the significant growth and learning curve to accommodate the Global Fund supported programs. ARFH's achievements included training over 15,000 Youth Corps as Peer Education Trainers; the provision of support to over 2,400 OVCs; and the establishment of 80 support groups over the first two years of the HIV grant.

39. The lengthy Round 5 Phase II HIV grant negotiation process resulted in a delay in the disbursement of funds which in turn affected program performance. The other challenges faced by ARFH related to: (i) shortcomings in the process for identifying OVCs in need especially because the OVC definition did not include 'HIV/AIDS' and therefore no special emphasis was given to OVCs affected by HIV; (ii) insufficient funds to cover OVC needs; (iii) significant under-budgeting for home based care kits; (iv) having very few active CBOs working in the field of OVC in Nigeria; and (v) inadequate capacity at SR, Federal, State and Local Government counterparts resulting in delays in the reporting process.

40. ARFH's accounting software could not record transactions that were bigger than 9 digits nor could it record multiple currencies. Accounts were therefore maintained in its accounting system and in MS Excel with consolidations undertaken in MS Excel which was inefficient and also prone to errors. The OIG received several trial balances and these could not be tied to the general ledger and the audited accounts. In consequence, the OIG was unable to provide assurance that the financial reports to the Global Fund were accurate.

41. Some irregular transactions were noted i.e. where ARFH withdrew large cash foreign currency sums. The equivalent local currency was returned in installments sometime later. In some cases the transfers would reach the Naira account a month after the date when funds were initially withdrawn from the US dollar bank account. This exposed program funds to the risk of loss especially since there was no documentation to support the rate at which the funds were translated. The OIG was not provided with an explanation for this unusual practice.

42. The OIG's review of ARFH's sub grant management revealed the following:

- i. ARFH's OVC verification exercise in year 3 showed that some OVCs did not exist, some CBOs were fictitious, and other OVCs that were supported did not qualify to be termed as vulnerable and in dire need.
- ii. The Federal Ministry of Women Affairs and Social Development (FMWA) that was responsible for OVC activities had no authority over the State OVC desk officers who implemented program activities. In consequence, FMWA could

not enforce any actions e.g. FMWA could not get the state officers to refund outstanding OVC cash balances to the program.

- iii. The income generating activities (IGA) set up by the Network of People Living with HIV/AIDS (NEPWHAN) were not successful. This was due to (i) the failure to undertake feasibility studies of IGA ventures; (ii) all IGA projects received the same amount of funds irrespective of their capacity or group size, nature of project, location of projects etc.; and (iii) basic business training was not provided to groups on how the IGAs should be run.

43. While ARFH has the requisite capacity, experience and structures in place to effectively implement the Global Fund grant activities ARFH needs to strengthen the control environment particularly with regard to SR management in order to safeguard grant resources.

Christian Health Association of Nigeria (CHAN)

44. CHAN was the PR for the Round 5 Phase 1 TB grant worth US\$ 23 million. CHAN recorded some success in incorporating the TB program into the primary health care system, developing TB related guidelines and protocols; staffing the national TB program and establishing logistics management units at the central and zonal levels. However, CCM-Nigeria withdrew CHAN from being PR in the application for Phase 2 due to poor program performance.

45. CHAN lacked oversight by its National Executive Council and capacity in terms of skills and numbers needed to manage the program. A Technical Advisory Committee (TAC) was formed to oversee the TB program but the recommendations from this committee were not implemented which negatively impacted program performance.

46. CHAN maintained manual accounting records for the initial 18 months of grant implementation and installed an accounting software which staff could not use. Advances were made to SR staff bank accounts and these remained unaccounted for at the time of the audit. A total of US\$ 389,761 did not have support documents. CHAN could not provide evidence of use of SR expenditure of US\$ 1,141,073. No support documents were provided for US\$ 444,919 which was drawn as project support costs.

47. The audit revealed evidence of management override of controls, including through management's approval of transactions that contravened the grant agreement (e.g. the use of program funds to pay salaries for non-program staff amounting to US\$ 395,688); (ii) the transfer of foreign currency (US\$ 11,605,000) to non-program related bank accounts abroad with funds refunded later into the local Naira bank account. These irregular transactions resulted in a loss of US\$ 130,405.

48. CHAN's procurement and logistics management was weak and resulted in transactions that did not represent value for money. For example CHAN procured equipment worth US\$ 522,412 for setting up six zonal MDR-TB laboratories. The equipment was not installed in five of the laboratories because the laboratory architecture was not appropriate. There was no evidence seen of correction of the

laboratory architecture and if this is not resolved will result in failure to utilize the funds invested in this equipment.

49. CHAN should refund the Global Fund US\$ 2,501,846 which could not be adequately accounted for or which was not in the approved work plan and budget.

Oversight

CCM

50. The CCM Nigeria has a comprehensive Governance Manual that outlines procedures to be followed by the CCM in overseeing grant implementation. An Operations Manual has also been developed to guide the functions of the CCM Secretariat. This manual was however not implemented at the time of the audit.

51. The OIG noted that some oversight activities by way of site visits were taking place. These however were not used in developing actions for strengthening grant performance. Some of the critical findings from CCM oversight visits were discussed at the CCM but no actions / decisions were taken. By critically following up the reasons for poor programmatic performance CCM would have ensured that the best value is obtained from the use of grant funds.

52. Although the tools have been developed, they need to be better applied by the CCM to ensure effective grant oversight.

Local Fund Agent

53. Following the 2008 LFA retender process, PricewaterhouseCoopers (PWC) replaced KPMG as Nigeria's LFA. Although required by the LFA guidelines, KPMG did not undertake data quality audits (DQAs), draw attention to the absence of annual financial audits of grant recipients, flag incomplete financial records of some PRs, identify financial irregularities and inappropriate indicators and targets.

54. In-country partners reported an improvement in the interaction with the LFA after the appointment of PWC. The OIG noted commendable good practice in the LFA services delivered by PWC in Nigeria including having a customized software for reviews; identifying some critical performance issues and recognizing fraud risk as a grant related risk. That said, a key question that the OIG's audit raises is why the LFA did not identify many of the more recent shortcomings raised by the OIG.

The Global Fund Secretariat

55. The Global Fund Secretariat coordinates the oversight arrangements for all grant programs. Between early 2003 and the end of 2008, established guidelines and controls in the operational manual were not followed which contributed to the weaknesses in the control environment within which grants were being implemented.

Country Audit of Global Fund Grants to Nigeria

56. In 2009, the West and Central Africa team working with the support teams at the Global Fund Secretariat undertook a review of risks that were affecting grants in Nigeria. The outcome of the effort were risk mitigation measures for each of the PRs. The OIG commends the Country Team for these efforts. Had the LFAs been doing their work effectively the risks identified by the OIG audit would have been identified much earlier.

Ineligible and Unsupported Expenses

57. The Global Fund Secretariat should recover US\$ 7,007,787 from the PRs in Nigeria. These amounts as detailed in the report relate to ineligible (expenses that were not in line with the grant work plan and budget) and unsupported expenses. The table below provides the details and respective entities:

Particulars	Paragraph Reference	Ineligible (US\$)	Unsupported (US\$)
YGC			
Funds drawn as management fees	83		659,905
Expenditure that was not supported	88		2,172,712
Transfers to YGC that were not recorded at NMCP	94		337,816
Transfers to CiSHAN that are not supported	95		302,617
Overcharging by CHAM-Medipharm	96	256,722	
Unsettled accountabilities from advances to CHAN-Medipharm	97		13,082
Sub-total		256,722	3,486,132
NACA			
Transactions without support documents	129		606,939
Proposal writing expenditure	128	72,241	-
Disbursements to HYGEIA that could not be supported	144		83,907
Sub-total		72,241	690,846
CHAN			
Losses due to irregular foreign exchange transaction	292		130,405
Salaries for non-program staff	296	395,688	
CHAN expenditure for which support documents could not be provided	302		389,761
Unsupported program support drawings	303	444,919	
Disbursements to SRs that could not be supported	309		1,141,073
Sub-total		840,607	1,661,239
Total		1,169,570	5,838,217
Total amount to be recovered			7,007,787

CCM and PRs' Comments on the Recoverable Amounts

58. Two principal recipients (PRs), Yakubu Gowon Center (YGC) and Christian Health Association of Nigeria (CHAN), contest the recommendation in this report to refund monies that were drawn from Global Fund grants as management fees. The PRs explain that these amounts were provided in grant budgets for expenses of an overhead nature and that no accountability was expected. The OIG, however, based on an interpretation of the grant agreement which the Secretariat support requested all the PRs to provide supporting documents for amounts drawn as management fees. The OIG was able to verify the use of management fees for the Society for Family Health (SFH) and the Association for Reproductive and Family Health (ARFH). However, YGC and CHAN did not provide ledgers or expenditure documents for the management fees. The PR and CCM comments to the amounts to be recovered as well as the OIG response are detailed in Annex 4.

Overall Conclusion

Based on the outcome of the audit, the OIG concludes that the internal control environment in all the PRs requires significant improvement due to multiple failures to adequately conform to applicable policies, operating standards, sound commercial practices, compliance with grant agreement and weak financial controls.

Actions by the Global Fund after the Audit

59. The Global Fund undertook the following actions to address risk identified in the audit:

- (a) Together with the CCM, the PRs, and in collaboration with national stakeholders and development partners, the West and Central Africa Regional Team, has identified and started implementation of mitigating measures to address identified challenges and risks related to program and financial oversight as well as procurement and supply chain management;
- (b) Nigeria is not one of the Countries under the Country Team Approach, which allows for more direct technical engagement at the Global Fund Secretariat; and
- (c) Grant agreements now include more stringent treasury management requirements.

Audit recommendations and the way forward

60. Based on comments and action plans prepared by the Country to address the audit recommendations, the OIG is pleased to acknowledge the effort and commitment of the Country to address the audit recommendations. According to the Country, some of the actions have already been completed and many more are on-going. The Global Fund Secretariat has already commissioned the LFA to validate the Country's progress in implementing the recommendations contained in this audit report.

Introduction and overview

Background

61. The Office of Inspector General (OIG), as part of its 2010 work plan, carried out an audit of Global Fund grants to Nigeria. The audit sought to provide assurance that the Global Fund grants provided were being spent wisely to save lives in Nigeria. The audit objectives were to:

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

62. The audit covered the grants that had been signed in Nigeria on 31 March 2010 :

Round	Component	Grant Start Date	Grant End Date	Grant amount	Disbursed
Yakubu Gowon Centre for National Unity and International Cooperation					
1	HIV/AIDS	01/01/2004	30/11/2004	1,687,599	816,305
2	Malaria	01/12/2004	31/05/2007	20,994,149	20,241,784
4	Malaria	01/01/2005	30/06/2010	43,900,696	38,481,707
8	Malaria	01/11/2009	31/10/2011	105,783,083	85,580,403
				\$172,365,527	\$145,120,199
National Action Committee on AIDS of the Federal Government of Nigeria					
1	HIV/AIDS	01/01/2004	31/05/2006	6,770,276	6,770,276
1	HIV/AIDS	01/01/2004	31/05/2006	12,948,323	12,948,323
				\$19,718,599	\$19,718,599
National Agency for the Control of AIDS					
5	HIV/AIDS	01/01/2007	31/12/2011	110,679,776	72,699,420
8	HSS	01/11/2009	31/10/2011	55,379,935	20,975,288
				\$166,059,711	\$93,674,708
Society for Family Health					
4	Malaria	01/01/2008	30/06/2010	30,641,591	25,670,295
5	HIV/AIDS	01/01/2007	31/03/2011	24,093,914	12,560,992
8	Malaria	01/08/2009	31/12/2011	77,596,646	48,402,067
				\$132,332,151	\$86,633,354
National Malaria Control Programme					
8	Malaria	01/11/2009	31/12/2011	\$101,526,897	\$69,126,600
Association for Reproductive and Family Health					
5	HIV/AIDS	01/01/2007	31/03/2011	26,406,149	15,378,638
5	TB	01/10/2009	30/06/2012	39,807,996	11,994,538
				\$66,214,145	\$27,373,176
Christian Health Association of Nigeria					
5	TB	01/01/2007	31/12/2008	23,932,485	23,932,485

Round	Component	Grant Start Date	Grant End Date	Grant amount	Disbursed
Grand Total				\$682,149,515	\$474,519,260

Table 1: Summary of GFTAM Grants by Principle Recipient (Source: The GF website)

Scope and Methodology

63. The OIG audit covered all aspects of the management and operations of the grant programs i.e. Principal Recipients (PRs), selected sub-recipients (SRs), Country Coordinating Mechanism (CCM) and the Local Fund Agent (LFA). The audit covered:

- (a) Compliance of the grant structures, systems and processes with the grant agreement, and applicable policies, procedures and guidelines and certain local laws;
- (b) The adequacy of internal control of the structures and systems in safeguarding grant assets against possible misuse and abuse;
- (c) Financial review to ensure that funds were utilized in accordance with the grant agreements; and
- (d) Grant management i.e. obtaining assurance that the systems, processes and controls in place are efficient and effective in supporting the achievement of grant objectives.

The Report

64. This report is presented by PR and by functional area that is (i) institutional arrangements; (ii) financial management; (iii) sub grant management; (iv) procurement and supply chain management; and (iv) public health. The service delivery, monitoring and reporting section lays out disease specific observations and is applicable to all three PRs. The report also has a section dedicated to the oversight of the Global Fund supported programs.

65. Good internal control practices or significant achievements found during the audit are mentioned in the report, but they are not discussed in depth given that the purpose of the audit was to identify important risks and issues that needed to be addressed. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist those providing oversight in deciding the order in which recommendations should be implemented.

66. The categorization of recommendations is as follows:

- (a) *High priority*: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- (b) *Significant priority*: There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not

managed, it could adversely affect the organization's interests, weaken internal control, or undermine achievement of aims and objectives; and

- (c) *Requires attention*: There is a minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the organization's benefit.

Events after the Audit Field Work

Delays in Report Finalization

67. The OIG commenced the initial fieldwork for the Country Audit of grants to Nigeria in March 2010. There has been a long delay in finalizing this audit report as explained in the sequence of events set out below:

- a. Initial audit field work took place between 1 March and 24 April 2010. At the end of the audit field work, questioned costs amounted to US\$ 17,561,688. At the request of the CCM, the OIG scheduled a follow-up visit after the initial field work to allow the PRs an opportunity to locate and present missing documentation.
- b. The second OIG mission took place between 14 June and 30 June 2010 and at the end of the review the total amount of questioned expenditure reduced to US\$ 11,261,427.
- c. Between July 2010 and April 2011, the OIG followed up on key fraud risks that were identified during the audit. OIG teams made several field missions to Nigeria during this time. The OIG needed to await the outcome of this work before sharing the draft audit report.
- d. A draft report was shared with in-country partners on 25 May 2011.
- e. In response to the draft report the OIG received additional documents from PRs on 28 July 2011. Along with the documents was a request from the CCM for the documents to be considered prior to report finalization. As the submitted documents were only photocopies, the OIG scheduled a field mission to review original documents. The authenticity of the photocopies presented by PRs 16 months late could not be verified remotely from the OIG offices in Geneva.
- f. Between 1 and 12 September 2011 the OIG reviewed original support documents that were presented in response to the draft report. During the review, the OIG gave consideration to all documents presented and found that: (i) some accountability was fabricated from transactions that the OIG had previously reviewed and cleared during the audit, and (ii) supporting documents could still not be presented for many of the expenses charged to the grants. At the end of the exercise, the OIG met with PR management to discuss the outcome of the review, providing detailed transaction by transaction explanations of the questioned expenses. At the end of the review, the amount of questioned expenditure reduced from US\$ 11,261,427 to US\$ 7,007,787.
- g. One of the PRs, NACA, presented additional support documents on 19 September 2011. The authentication of these documents, which were meant to support US\$ 244,055, was in doubt and so the documents have not been considered in finalizing the report.

68. The cause of report delays were mainly: (i) on-going investigation work following up from audit findings at four of the six PRs, and (ii) a failure by PRs to present audit information within sufficient time. The OIG was not provided with the reasons for the delay and failure by PRs to present documents for audit. However, the delays and failure to present documents for audit are reflective of a failure of internal controls to ensure that authentic documents are always filed for all program expenditure.

Actions Taken by the Global Secretariat

69. The Global Fund Secretariat has notified the OIG of certain actions taken to improve implementation arrangements for grants in Nigeria that have been undertaken since completion of the audit field work in April 2010. These actions which have not been independently reviewed should be taken into consideration in taking action on the recommendations contained in this report. The key actions taken in addressing grant related risks include:

- a. For the Round 9 and AMFm grants signed in October 2010, PRs and SRs are required to maintain two interest bearing accounts. All payments are to be effected by direct bank transfer with the signatories providing approval.
- b. The Country Team Approach now requires each respective technical team member to review all Conditions Precedent (CPs) in its technical area and provide its comments prior to decision making.
- c. In 2010, PRs were instructed that all foreign exchange transactions relating to Grant funds are to be carried out by the Beneficiary Bank into which Grant funds are received. The transfer or disbursement of any Grant funds, by any means, to third parties not directly related to the implementation of the Program is now prohibited
- d. A Country Risk Profile has been developed by the LFA and completed with the Nigeria Country Team in quarter 4 of 2010.

Yakubu Gowon Centre for International Cooperation (YGC)

Background

70. Yakubu Gowon Centre for International Co-operation (YGC) is an indigenous not-for-profit and non-governmental organization. It was established in 1992 in honor of General Dr Yakubu Gowon, the former Head of State of the Federal Republic of Nigeria, for his achievements in keeping the country united. YGC's vision is for *'a peaceful and united Nigeria, free of disease and poverty, where every citizen has an opportunity for self-expression and realization of their full potential'*.

71. YGC was appointed as PR for the Round 1 HIV/AIDS grant and the Malaria Round 2, 4 and 8 grants. The approved grants and amounts disbursed at the time of the audit are summarized in the table below:

Round	Component	Grant number	Grant amount	Disbursed
1	HIV/AIDS	NGA-102-G02-H-0	1,687,599	816,305
2	Malaria	NGA-202-G04-M-0	20,994,149	20,241,784
4	Malaria	NGA-404-G05-M	43,900,696	38,481,707
8	Malaria	NGA-809-G13-M	105,783,083	85,580,403
Total			\$172,365,527	\$145,120,199

72. The key interventions for the Round 1 HIV grant were to:

- Improve co-ordination of civil society responses to HIV/AIDS in Nigeria;
- Identify gaps in current databases of civil society groups working on HIV/AIDS and conduct mapping exercises in areas not previously targeted;
- Improve quality of service delivery by identifying and disseminating lessons learned from successful civil society projects; and
- Establish resource centres.

73. The key interventions for the Round 2 Malaria grant were to:

- Provide Insecticide Treated Nets (ITNs) for pregnant women and children under 5;
- Provide Malaria treatment for children under 5 years;
- Provide Intermittent Preventive Therapy (IPT) against Malaria to pregnant women; and
- Strengthen monitoring and evaluation and reinforce overall management of Roll Back Malaria (RBM) efforts.

74. The key interventions for the Round 4 Malaria grant were to:

- increase informed demand for Artemisinin-based Combination Therapy (ACT) through Information, Education and Communication / Behavior Change Communication (IEC/ BCC) and advocacy;
- treat malaria among children under 5 in selected states with ACTs; and
- train service providers in malaria case management.

75. The key interventions for the Round 8 Malaria grant were to:
- (a) Rapidly scale up the universal coverage of population at risk through distribution of Long Lasting Insecticide Treated Nets (LLINs);
 - (b) Increase prompt and effective anti-malarial treatment using ACTs;
 - (c) Scale up parasitological diagnosis at health facilities; and
 - (d) Increase outreach in communities with health workers through BCC.

Grant Performance

76. The Phase 2s of the two Malaria grants i.e. Rounds 2 and 4 were consolidated because the two grants had similar scope and activities and it was easier to manage the two grants as one grant. These grants had underperformance issues which remained unresolved at the time of consolidation the grants. Targets for key indicators were not met e.g.

Indicator	Target	Actual
The number of children under 5 years of age with access to prompt effective treatment funded (Round 4)	12.1 million	647,784
Number of insecticide treated nets distributed to pregnant women (Round 2)	581,192	111,000
Number of insecticide treated nets distributed to children under the age of five (Round 2)	1,162,388	372,812
Number of uncomplicated cases of malaria in children under five years of age treated with ACT (Round 2)	4,000,000	1,066,033
Number of pregnant women receiving correct IPT (two doses) (Round 2)	500,000	282,364

Institutional Aspects

77. The Centre was registered as an NGO with a Board of Trustees (BOT) and a Governing Council (Council). The Council provided oversight to the Centre and is the policy making body and also appointed key managerial staff. The Centre has a vision and mission but does not have a strategic plan. Without this strategic plan, the Centre is unable to articulate the necessary strategies required to meet its vision and mission. The Centre was also noted to be highly reliant on the Global Fund resources i.e. Global Fund resources account for 75% of YGC funding. There is a need to develop a resource mobilization and sustainability strategy.

78. The Centre's constitution does not have sufficient detail to guide the Council's operations. For instance, the constitution does not provide guidance on frequency of meetings and conduct of business at meetings. The Council only met ten times throughout the seven year period and in the 18 months period between 10 May 2006 and 28 November 2007, the council had not met. There was no evidence that issues pertaining to the programs were brought to the attention of the Council.

79. The Centre was managed by a Chief Executive Officer (CEO) who resided in Lagos and was not directly involved in the management of the Abuja based Centre.

The Deputy CEO supervised a Director of Programs who was responsible for managing the Global Fund programs. In an attempt to address the Organization's poor programmatic performance and widespread financial system weaknesses, at the time of the audit the Deputy CEO has been removed from managing the Global Fund supported programs. No officer was appointed to supervise the Director of Programs.

80. During the Round 8 negotiations YGC developed a new organogram and structure aimed at strengthening its management and oversight of Global Fund supported grants. However at the time of the audit:

- a. The proposed structure was still in draft form and had not been approved by the Council although parts of the new and old structure were in effect;
- b. The overall responsibility for the Global Fund supported programs still lay with the Deputy CEO despite his removal;
- c. According to the revised organogram zonal pharmacy logistics co-coordinators were reporting to the M&E manager instead of the PSM Specialist;

These observations point to a failure to effectively implement the revised organogram, casting doubt on whether there would be improved grant performance.

Recommendation 1 (Significant)

The Board of YGC could consider undertaking the following actions to improve governance and institutional arrangements:

- i. Develop and implement a strategic plan with a resource mobilization and sustainability strategy.*
- ii. Develop a guideline or a manual to further outline operations of the Council and its interactions with YGC management*
- iii. Management should provide the Council with periodic program reports on Funded programs. Council minutes should document decision points detailing actions required, responsible parties and implementation time lines.*
- iv. Develop and implement one comprehensive organization structure for the Center. The structure should clarify lines of authority and also define who will supervise the director of programs. The Council should approve this structure before it is implemented.*

Audit Arrangements

81. At the time of the audit, the Centre has been audited by the same audit firm since the inception of the Global Fund grants in 2004. The external auditors informed the OIG that they were involved in preparing the Centre's financial statements due to a lack of skills in the finance department. Retaining external auditors for a long time and their involvement in preparing financial statements may have impaired the auditors' independence and objectivity.

82. The audited financial statements did not capture all the center's financial transactions as seen by a difference noted between audited financial reports and YGC cashbooks. The OIG noted several key control weaknesses that were widespread in the Centre throughout the six years covered by the external

auditors but which were never brought to attention in management letter. This was a missed opportunity to strengthen the control environment within which the grants were being implemented. Management did not have documentation to show that the external auditors were selected in a competitive manner, with due consideration to competence and cost.

83. At the time of the audit, the Center did not have an audit committee to consider the work of internal and external auditors. The internal audit unit had only two staff and they reported to the deputy CEO. The staff number was inadequate to provide reasonable coverage of program activities. The internal audit department did not apply a risk based audit approach but were involved in the processing of financial transactions i.e. through the pre-audit of payments which impaired their independence and objectivity.

Recommendation 2 (High)

- a. *Management should improve the external audit arrangements by:*
 - i. *Selecting the external auditors through a transparent process and following the “Global Fund guidelines for PR external audits”;*
 - ii. *External auditors should not be involved in management functions including the preparation of financial statements;*
 - iii. *External auditors should be replaced after three to four years, and*
 - iv. *External audit reports should be considered by the Governing Council.*

- b. *The Center’s Internal Audit arrangements should be strengthened by:*
 - i. *Establishing an audit committee of the board to consider the work of internal audit*
 - ii. *Adopting a risk-based approach to audit and stop pre-audit, and*
 - iii. *Recruiting additional audit staff*

Compliance with the Grant Agreement

84. The grant agreement lists Conditions Precedent (CPs) to disbursements which address capacity gaps identified during PR assessments. The PR did not meet the CPs stipulated in the grant agreements particularly under the Round 8 grant. For example, the CPs relating to the hiring of a PSM specialist and appointment of an audit implementation committee had not been met in the time prescribed in the grant agreement. There was also no evidence of alternative measures taken to address the risks that the CPs were meant to address.

Recommendation 3 (High)

The Centre should comply with the grant agreement by implementing all CPs within the timelines stipulated in the grant agreement.

Financial Management

Use of funds for non-program related activities

85. The Centre made foreign exchange transfers to foreign bank accounts of third parties which were not program related. Naira deposits were effected into the local YGC program bank account. The transfers occurred between 2004 - 2007 and amounted to US\$ 15.8 million. These transfers resulted in high bank charges. This issue is the subject of an ongoing OIG investigation and will be reported on in a subsequent report.

86. The Centre drew at least US\$ 659,905 from the grant bank accounts and categorized them as “management fees”. With regard to the “management fees” YGC declined to provide the OIG with: (i) transaction lists to which the figure of US\$ 659,905 could be verified; (ii) cash books or ledgers; (iii) bank statements, and (iv) support documents. In the absence of the above documents, the OIG cannot give assurance of the accuracy, and appropriate use of these amounts. In these circumstances, US\$ 659,905 should be refunded to the Global Fund.

87. There were cases of inter-grant borrowing involving a total of N 21,659,950 (US\$ 164,000) of Round 4 Malaria funds spent on Round 8 Malaria activities and a total of N 6,720,180 (US\$ 51,000) of Round 2 Malaria grant funds spent on Round 4 Malaria activities. These funds were not refunded to their respective grants. Inter grant borrowings should not take place because they can interrupt program implementation.

Books of Account Maintained

88. The Centre did not maintain proper financial records throughout the grant period. No cashbook was available for the HIV Round 1 US dollar bank account and the Crown Agents bank account from January 2005 to 2008. The Chief Accountant explained that these cash books had been misplaced. In cases where cash books were available, their balances could not be reconciled to the audited financial statements.

89. The Centre hired a consultant to upgrade its accounting software. There were no terms of reference and work plan available for this project. Although all the fees had been paid, the system was not operational at the time of the audit. In consequence, no Round 8 transactions had been posted and the Centre could not prepare the required financial reports.

90. The Centre did not have any internal financial and programmatic reporting mechanisms in place, other than those required by the Global Fund i.e. the quarterly Progress Update Disbursement Request (PUDRs). Management could not reconcile the PUDRs submitted to the Global Fund to their financial records. This casts doubt on the integrity of reports submitted to the Global Fund.

91. The PR's record-keeping was poor with management lacking a proper archiving system for key Round 1, 2 and 4 documents. Documents relating to the

same transaction were held by different people and in different locations. There were no supporting documents i.e. payment vouchers, invoices, receipts etc. for expenditure worth N 325,906,783 (US\$ 2,172,712) and the OIG could not provide assurance that these amounts were spent for program purposes.

92. The OIG's review of advances revealed that advances made to staff and SRs were expensed on payment. There was no system in place to track outstanding staff advances and receipt of SR accountabilities. In consequence, additional advances were made before prior advances were accounted for.

Recommendation 4 (High)

- a. *YGC should refund the amounts for which no appropriate documentation was provided for audit i.e. expenditure of N 325,906,783 (US\$ 2,172,712) and US\$ 659,905 classified as management fees.*
- b. *Management should improve financial management systems including:*
 - i. *Timely and accurate recording of financial transactions*
 - ii. *Conducting all foreign exchange transactions through banks*
 - iii. *Put in place a record keeping and archiving system*
 - iv. *An advances tracking system with further monies given only after full accountability for previous advances*

Sub Recipient Management

93. The Centre had a grant management plan that detailed its planned SR activities but lacked a manual to guide grant implementation. There were no mechanisms in place to monitor program implementation by SRs under Rounds 1, 2 and 4. There was also no evidence that SR visits were undertaken and PR/SR coordination meetings aimed at promoting the sharing of experiences and addressing implementation challenges were not held. Disbursement of funds to SRs was request driven and not performance based.

The National Malaria Control Program

94. The National Malaria Control Program (NMCP) was a SR under the Round 2 and 4 grants. NMCP also did not have work plans to guide implementation. The SR, NMCP: did not maintain proper books of accounts, financial and programmatic reports were not prepared regularly and there was not follow up by the PR.

95. The NMCP did not maintain a program bank account for the period as SR of YGC. Checks for program activities were written in the names of NMCP staff. The audit revealed that N 106,768,950 (US\$ 711,793) was recorded as disbursed by YGC, but not received at NMCP. NMCP management did not acknowledge receipt of these monies. The un-reconciled amounts i.e. N 50,672,542 (US\$ 337,816) have been included in the unsupported amounts for which repayment is sought.

Civil Society Consultative Group on HIV/AIDS in Nigeria (CiSHAN)

96. CiSHAN was an SR under the HIV Round 1 grant. The Centre did not have documentation to evidence CiSHAN's selection and assessment. A total of US\$ 442,879 was disbursed to the SR and CiSHAN did not have documentation to support expenditure for N45,392,654 (US\$ 302,617). These amounts have been included in the unsupported amounts for which repayment is sought.

CHAN-Medipharm (Medipharm)

97. The Centre contracted CHAN-Medipharm under the Malaria Round 4 grants to distribute health products from the state medical stores to health facilities. Medipharm was paid for deliveries made at commercial rates. Medipharm was also registered as an SR with all its operational costs met by the Centre. However, Medipharm did not reduce its delivery rates to reflect the fact that its operational costs had been met by the PR. The grant program has therefore been overcharged by US\$ 256,722 and recoveries should now be sought.

98. Medipharm was also contracted to conduct logistics management training for state and LGA officers. Medipharm did not account for N 1,962,300 (US\$ 13,082) and these funds were not refunded to the PR.

Recommendation 5 (Significant)

- (a) The Centre should establish a grant management procedures manual that covers at least disbursement and accountability, reporting, procurement, budgeting, maintenance of accounting records, monitoring of SRs, assets management including inventory management, allocation of common costs etc. The Centre should also strengthen its monitoring of SRs.*
- (b) Service providers should be contracted either as contractors or SRs but not both. The contract with CHAN Medipharm should be amended to reflect this recommendation. Appropriate refunds should be sought.*
- (c) All SRs should maintain grant specific bank accounts. The Centre should only make transfers to program bank accounts. Proper books of accounts and supporting documentation should be maintained for all funds spent at SR level. The Centre should refund the following amounts:
 - (i) US\$ 337,816 unrecorded transfers between YGC and NMCP;*
 - (ii) US\$ 302,617 that was unaccounted for by CiSHAN;*
 - (iii) US\$ 13,082 that was not accounted for by CHAN Medipharm in respect of logistics training;*
 - (iv) US\$ 256,722 overcharging by CHAN Medipharm for deliveries to stores and health facilities**

Procurement and Supply Chain Management (PSM)

Planning and Management

99. The Procurement Committee provided oversight of the Centre's procurement process. Its terms of reference needed to be revised in order to clarify its roles and responsibilities. The Committee did not enforce the Centre's procurement procedures. Specifically competitive processes were not always followed when identifying service providers.

100. The Centre's procurements amounted to US\$ 105 million, 88% of the total grant funds and called for multi stakeholder collaboration thus calling for a fairly senior person to head the department. The Centre provided for a PSM expert in its organogram. However, the position had not been filled at the time of the audit. The position was downgraded from a managerial to an officer level and the job description did not reflect the skills, qualifications and experience for the caliber of person required.

101. The Centre had a procurement procedures manual which needs to be strengthened by: (i) defining the procurement methods that should be applied for different funding thresholds. The terminology 'high value goods and services' should be explained to remove ambiguity; (ii) making provision for negotiations before awarding contracts; and (iii) incorporating ethical standards that staff involved in procurement processes should follow e.g. declarations of conflicts of interest.

PSM Planning

102. A PSM stakeholders meeting² was held in February 2007. This meeting aimed at strengthening PSM systems by defining the roles and responsibilities of different partners to facilitate effective coordination. It was agreed that the Centre, NMCP and SFH would come together to work on setting up a Logistics Management Information System (LMIS), transport optimization, quantification and forecasting and storage infrastructure assessment. At the time of the audit, the Centre had not signed MOUs with key stakeholders to guide the implementation of the collaborative activities. The Centre was also behind schedule in undertaking an assessment of storage infrastructure.

103. The OIG noted that not much progress had been made in improving the quality of PSM plans since the inception of the Global Fund supported programs. The Round 8 plan did not address the weaknesses identified at this stakeholders meeting specifically: (i) having competent staff to handle PSM; (ii) instituting quality assurance in line with the relevant Global Fund PSM policies; and (iii) addressing deficiencies in the coordination and distribution of commodities. The

² Meeting organised by Management Sciences for Health (MSH)'s Rational Pharmaceutical Management Plus (RPM Plus) program which works to improve the availability and use of quality medicines, supplies, and basic medical equipment in the public and private sectors and to promote practical, sustainable changes in pharmaceuticals management by developing capacity within cooperating countries and fostering collaboration between countries.

Centre has enlisted the Global Fund's Capacity Building Services / Supply Chain Management Assistance (CBS/SCMA)³ program to provide technical assistance.

Forecasting and Quantification

104. Forecasting and quantification of ACTs, LLINs and related commodities e.g. rapid diagnostics test kits (RDTs) was based on population projections and estimates since accurate morbidity and consumption data were not available. There was no evidence that consumption data was being collected to enable the Centre to move its distribution strategy from the 'push' to the 'pull' strategy. The "push" strategy emphasized supply of the commodities to facilities, on the basis of forecasts, while the "pull" strategy distribution is based on inventory demand from facilities and regional medical stores.

105. The PSM stakeholders meeting and prior LFA assessments reported that the LMIS was inadequate due to weak enforcement, logistical support and supervision of the system. Although the state Roll Back Malaria (RBM) coordinators collected consumption data on a monthly basis, the Centre did not have a system to consolidate and analyze the data. Ensuring high quality data collection was also a challenge because the states and LGA authorities that collected data were outside the Centre's jurisdiction. It was expected that this would be addressed by the CBS/SCMA program.

Distribution System

106. The stakeholders' meeting described the distribution system for ACTs and RDTs as '*placing emphasis on the one off delivery with little emphasis placed on establishment of systems of delivery*'. Inventory procedures were not clearly defined and reordering/ stock inventory forms were not in use. Actions to address the weaknesses were included in the technical assistance envisaged under the Round 8 grant.

107. YGC rented storage facilities in Abuja for pharmaceuticals but the premises were not licensed by NAFDAC (the regulatory agency). The warehousing arrangements were inappropriate because they exposed the pharmaceuticals to sunlight. This was addressed by deciding that all ACTs would be delivered directly to state medical stores. However the OIG noted that the Centre had not terminated the rental arrangements and the warehouse space was being used to store stationery. This decision was not cost effective and the rental should be terminated.

108. There were reports of ACT and SP leakages in the distribution system from Novartis and the Crown Agents Nigeria Limited (CANL) e.g. leakages of SP were found on sale in some pharmacies Lagos and Anambra states. These reports go as far as March/April 2006 and were as recent as January 2009.

³ The CBS/SCMA is the long term strategy, providing services for strengthening in-country procurement and supply management systems to PRs.

Quality Assurance and Quality Control Arrangements

109. The Global Fund quality assurance policy states that samples for tests at WHO recognized laboratories should be taken along the whole supply management chain. In practice there was no testing after the port of entry.. There were also poor storage conditions and multiple handling by different storage facilities and transportation companies and this affects the quality of products delivered to beneficiaries.

Procurement Processes

110. The Centre appointed Crown Agents Nigeria Limited (CANL) as a third party procurement agent (TPPA). The appointment of CANL was not competitive. Under the Round 2 grant, CANL was sole sourced with management explaining that this was because CANL had contributed to the development of the PSM plan. For the Round 4 Phase 2 and Round 8 grants, YGC and SFH ran a joint procurement process to identify a suitable TPPA but YGC overrode the selection committee decision in favor of CANL.

111. The OIG reviewed a sample of the procurements undertaken by CANL and noted that process were properly documented. However there were delays in procurements. YGC opted to use the VPP for the procurement of LLINs and ACTs under Round 8.

Recommendation 6 (Significant)

- (a) The Centre should consider elevating the profile of the procurement officer's job description to ensure that a suitably qualified person is identified for the job. The Centre should also revise its procurement manual so that it addresses the risks identified in the control environment within which the procurements are undertaken and provides adequate guidance to all stakeholders involved in PSM activities.*
- (b) All products should be quality assured in accordance with the Global Fund assurance policy.*
- (c) The Centre should liaise with the CBS/SCMS service provider, JSI, to accelerate the implementation of the planned LMIS. YGC should consider using the data collected by the RBM coordinators as a basis for reviewing quality of consumption information available.*
- (d) YGC together with NMCP and SFH should develop a commodity tracking system to minimize leakages in the market. An analysis should be undertaken on the causes of product leakages and points of weakness strengthened.*

Events after Audit Field Work

112. After the audit field work in April 2010, the PR submitted additional documents for review in June 2010 and July 2011. The total for questioned costs reduced from US\$ 6,683,894 in April to US\$ 5,221,000 in June 2010 and US\$ 3,742,854 after the final follow on review in September 2011.

Conclusion

113. At the time of the audit, YGC had significant capacity weaknesses in the areas of governance, financial management, sub grant management and procurement. The OIG noted the following significant weaknesses that pointed to a failure by the PR to safeguard grant funds: (i) transactions that could not be explained by the PR; (ii) costs that were not related to the grant programs, and (iii) expenses for which management failed to provide supporting documents. In the OIG's view YGC did not have the systems in place to safeguard Global Fund grant resources.

114. YGC should refund to the Global Fund US\$ 3,486,132 for which no appropriate support documents were provided and ineligible expenditure of US\$ 256,722. The questioned amount of US\$ 3,742,854 is analyzed in the table below:

Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)
Funds drawn as management fees		659,905
YGC expenditure that is not supported		2,172,712
Transfers between YGC and NMCP that were not recorded		337,816
CiSHAN (SR) expenditure that is not supported		302,617
Overbilling by CHAN-Medi-pharm	256,722	
CHAN-Medi-pharm expenditure that is not supported		13,082
Total	256,722	3,486,132
Total of questioned expenditure to be refunded		3,742,854

National Action Committee on HIV/AIDS in Nigeria (NACA)

Background

115. National Agency for the Control of AIDS (NACA) was established in 2006 to coordinate a broad spectrum of Nigeria's response to HIV/AIDS. NACA has so far signed four grant agreements with the Global Fund for Round 1, 5 and 8 grants as PR for HIV/AIDS Programs. The approved grants and amounts disbursed at the time of the audit are summarized in the table below:

Round	Component	Grant Number	Grant amount	Disbursed
1	HIV/AIDS	NGA-102-G01-H-00	6,770,276	6,770,276
1	HIV/AIDS	NGA-102-G03-H-00	12,948,323	12,948,323
5	HIV/AIDS	NGA-507-G07-H	110,679,776	72,699,420
8	HSS	NGA-809-G12-S	55,379,935	20,975,288
Total			\$185,778,310	\$113,393,307

116. The purpose of the first Round 1 grant was to expand the PMTCT centres of excellence by:

- (a) Increasing access to testing, treatment and care for pregnant women and their families;
- (b) Enhancing knowledge of PMTCT in the general community; and
- (c) Conducting operational research to identify best practices in PMTCT.

117. The purpose of the second Round 1 grant was to expand anti-retroviral therapy in Nigeria with its key objectives including:

- (a) Expanding equitable access to quality ART; and
- (b) Strengthening collaboration between the government and private health care providers, NGOs and PLWHA.

118. The purpose of the Round 5 grant was to scale up HIV/AIDS treatment, care and support in Nigeria by:

- (a) Scaling up comprehensive HIV/AIDS treatment, care and support for People Living With HIV/AIDS (PLWHA) in 37 states in the country;
- (b) Increasing capacity of the private sector to implement workplace HIV/AIDS programs in 12 states; and
- (c) Strengthening capacity of implementing institutions for effective program management, coordination, monitoring and evaluation

119. The purpose of the Round 8 grant was to strengthen health systems and community systems to:

- (a) Enable basic health service systems to scale up AIDS, Tuberculosis and Malaria (ATM) intervention through accelerated national roll out of the Ward Minimum Healthcare Package in 925 PHCs covering 37 states by 2013;
- (b) Improve national health commodity supply chain management systems;
- (c) Strengthen health information, monitoring and evaluation systems; and
- (d) Promote community based networks and community level committees to ensure that they have minimum capacity to deliver quality ATM services.

Achievements and Challenges

120. Some of the achievements of NACA included (i) spearheading the development of a National Strategic Plan for HIV/AIDS; (ii) establishing a network of HIV/AIDS clusters with HCT, ART, PMTCT and Care and Support sites; (iii) developing and implementing guidelines and standard protocols; (iv) achievement of some targets in the work plans; (v) establishing a board and sub-committees with clear terms of reference to oversee the programs; and (vi) ensuring that books of accounts of both the PR and SRs are audited on an annual basis.

121. The attainment of results has however been constrained by: (i) the sub-optimal set up and use of the accounting system; (ii) high turnover of key program staff; (iii) delays in disbursement of funds from the Global Fund; and (iv) inadequate monitoring of SR performance.

Institutional Aspects

122. The NACA Board and its sub committees give strategic oversight to the organization. NACA is headed by a Director General (DG) and it has six departments all headed by directors namely finance, administration, policy and strategy, strategic knowledge management, partnerships and programs. Four other units report to the DG namely legal, communications, internal audit and resource mobilization.

123. NACA did not integrate Global Fund supported programs within existing structures but placed the programs under the resource mobilization unit. At the time of the audit, this unit was headed by a consultant contracted on three-month revolving contracts. Program staff primarily reported both to their respective functional heads and also to the resource mobilization unit. This matrix reporting structure led to distorted lines of authority and resulted in conflicts among staff, their functional heads and the resource mobilization unit.

124. NACA's high staff turnover adversely affected program implementation. The failure to attract and retain competent staff was attributed to the staff compensation package offered. The OIG noted that NACA staff salaries were significantly lower than the rates paid by the other PRs. NACA also had capacity gaps in both skills and numbers across its key departments. The departments/units that were affected were:

- (a) *Program department*: This department was managed by consultants on 3 month renewable contracts which was likely to have affected the continuity of the program and the commitment of staff to the program;
- (b) *Internal audit*: there is only one internal auditor for all NACA's operations;
- (c) *Procurement unit*: two staff were responsible for all NACA's procurements. The work load compromised ability to effectively monitor the procurement and distribution functions; and
- (d) *Finance*: the number of staff that maintained the program books of accounts were inadequate to handle NACA's responsibilities as PR as well provide financial oversight over the 11 SRs.

Recommendation 7 (Significant)

- (a) *To the extent possible, the programs should be integrated into the existing NACA structure and the complex matrix reporting systems that distort lines of authority and cause confusion among staff removed.*
- (b) *NACA should consider recruiting or allocating more staff to the finance, procurement and program units to enhance their capacity to manage the Global Fund grants. Consideration should also be given to hiring key staff on a more permanent basis to ensure continuity.*

Audit Arrangements

125. NACA's audit reports were submitted later than stipulated in the grant agreement and the NACA Establishment Act. For example contrary to the requirement to submit an audit report within six months after the year end, the audit for the period ended May 2006 was completed in June 2008. The issues raised by the external auditors were not always addressed by management. The recurring audit findings included:

- (a) The accounting system was not used for budget monitoring;
- (b) Staffing in the finance department was inadequate;
- (c) The internal audit reports were not sufficiently detailed; and
- (d) Transactions posted to the accounting system were not approved.

126. Contrary to best practice, the Internal Audit (IA) function reported to the DG and the function was involved in the operations of the program e.g. appraising SRs. The function's effectiveness was impacted by:

- (a) *Capacity:* There was only one auditor for all NACA and donor funded projects.
- (b) *Scope and approach:* The audits were not risk based to give emphasis to high risk functions and entities. The scope of the audits was also not sufficient comprehensive to provide the required assurance on controls;
- (c) *Guidance:* There was no internal audit manual, annual plans nor audit work programs to guide the execution of audits;
- (d) *Reporting:* the reports lacked content i.e. they did not contain sufficient details of the findings, lacked management comments and a time bound action plan. There was also no evidence of timely follow up of implementation of issues raised.

Recommendation 8 (Significant)

- (a) *NACA should consider setting up an audit committee to review the external and internal audit reports, approve the internal audit work plan, assess the performance of the internal and external auditor, and hold management accountable for implementing audit recommendations. This committee should ensure that external audits are carried out in a timely manner.*
- (b) *The internal audit function should be strengthened by (i) increasing staff; (ii) developing an internal audit manual, annual audit plans and detailed work programs; (iii) adopting a risk-based approach to their work; (iv) enhancing*

audit report content; and (v) undertaking follow up visits to check the status of implementation of recommendations raised.

Financial Management

127. NACA did not maintain proper books of account for the two Round 1 grants. NACA commingled the two Round 1 grant funds with those of some of its SRs e.g. NASCP. The accounting systems in place were unable to separate the funds received, spent and balances by grant. In consequence, the OIG could not verify the accuracy of the reports previously submitted to the Global Fund for Round 1 grants.

128. NACA purchased Sage Line 50 as its accounting software in 2004 but the setup and training of staff had not been completed at the time of the audit in 2010. Transactions therefore were recorded in both Sage and MS Excel which was inefficient. The system installed also did not incorporate basic functions such as comparing budgets to actual expenditure, an advances tracking function and preparation of bank reconciliations. There was no process for approving transactions before they were posted which raised the risk of errors going undetected. For example the 2005 opening balances in Sage differed from the 2004 closing balances but this was only identified during the OIG audit (and not identified by the PR's external auditor or KPMG, the LFA at the time).

129. Some aspects of NACA's budgets were not detailed enough to ensure budgetary control. For example the Round 5 budget line "*Provide support to strengthen programme management, supervision and management*" was not broken down which rendered the budgeting process as a control measure ineffective. There was also no process in place for comparing actual expenditure to budget and explaining significant variances. The budgets were not uploaded into the accounting system Sage, thus resulting in a missed opportunity to verify expenditure for eligibility. For example Round 5 funds were used to pay for Round 8 and 9 proposal writing costs amounting to US\$ 72,241.

130. NACA expensed all advances upon payment and did not maintain a ledger to track advances for which no accountability had been received. Therefore, NACA was not in a position to identify advances that were not accounted for. Some N 91,040,850 (US\$ 606,939) worth of transactions sampled during OIG's audit did not have supporting documentation. Furthermore, in instances where accountabilities were received, they were not comprehensively reviewed.

Recommendation 9 (High)

- (a) *Commingling of donor funds should be discouraged because it may result in non-program expenditure. In the event that this happens, proper books of account should be maintained and reconciliations prepared to show what Global Fund monies have been spent on and outstanding balances at any point in time.*
- (b) *The accounting software should be developed further by either extending its functionality or acquiring other software. Consideration should be given to*

addressing: (i) Functionality i.e. the system's ability to produce required information; (ii) Flexibility i.e. the system's adaptability to changing business practices; (iii) Ability to carry out self-diagnostic checks for integrity; and (iv) internal control to all system inputs, processing, and outputs to ensure that reliable data is obtained, maintained and reported.

- (c) NACA should strengthen its budgeting frameworks by providing sufficient details in the budget as a guide to expenditure. The detailed budget should be input into the accounting software with payments only processed against the relevant budget line. The PR should periodically compare actual expenditure to budgets with significant variances investigated and followed up.*
- (d) NACA should establish a ledger to track all outstanding advances. Additional advances should not be made to staff with outstanding advances. Long outstanding advances should be followed up. All unsupported and ineligible costs amounting to US\$ 606,939 and US\$ 71,241 respectively should be refunded.*

131. While NACA has a financial management manual, it is not in practice followed in many respects e.g. the requirement that an advances ledger should be maintained to track unretired advances was not complied with. Further, the financial manual was not amended to take into consideration specific requirements relating to Global Fund grants.

132. There was inadequate segregation of duties with one person writing a requisition, raising the payment voucher, writing and signing checks, withdrawing funds from the bank, posting transactions and reporting. The OIG did not see evidence of management's active supervision of the accountant as should be the case where segregation of duties is impossible due to limited resources. This system exposed the integrity of the financial system and its related data to the risk of fraud and error.

133. Payment vouchers were prepared by NACA staff and voucher numbers assigned manually which created room for errors and/or manipulation. Payments were made without adequate third party supporting documentation. Many payment vouchers lacked evidence of approval by a relevant senior official. Until 2009, the filing system was poor with payment vouchers not being matched with corresponding supporting documents and documents kept in envelopes. Payment vouchers and related supporting documents were not initialed "PAID" to prevent resubmission for payment. Large cash payments were also made to staff for trainings, meetings and workshops which exposed program funds to potential loss.

134. NACA did not maintain a fixed asset register between 2004 and 2006. The registers created subsequent to 2006 lacked key information such as asset serial numbers, asset identification numbers, insurance status, condition of assets etc. Tagging of assets with unique identification numbers only started in 2010. NACA had only undertaken one assets verification exercise but there was no evidence that issues identified were resolved.

135. NACA was not deducting and remitting Pay As You Earn (PAYE) taxes to the Federal Government as required by the law. This raises the risk of penalties from the relevant authorities. Taxes should be paid in accordance with relevant statutory regulations.

Recommendation 10 (Significant)

- (a) *NACA should ensure that the manual is complied with in order to strengthen the control environment within which programs are implemented. An addendum to the existing financial manual should be prepared to address Global Fund grant specific requirements.*
- (b) *To the extent possible, the PR should segregate incompatible duties by reassigning the current roles and responsibilities. In cases where segregation of duties is impossible due to limited resources, management should actively supervise the day to day financial operations.*
- (c) *NACA should adopt the use of pre-printed, serially pre-numbered payment vouchers. All payments should be approved, supported by appropriate supported documentation and stamped paid. To the extent practical, NACA should pay service providers by check or bank transfer in order to reduce the volume of uninsured cash transported by staff.*
- (d) *NACA should strengthen its asset management by maintaining a comprehensive fixed asset register, tagging assets with unique identifiers and undertaking regular physical verification of assets.*

SR Management

136. NACA was to a large extent a ‘pass through PR’ where the PR received funds and passed them to SRs for program implementation. The SRs under the different grants are listed in the table below:

Round 1	Round 5	Round 8
<ul style="list-style-type: none"> • National AIDS and STIs Control Program (NASCP) in the Ministry of Health 	<ul style="list-style-type: none"> • National AIDS and STIs Control Program (NASCP) • Society for Family Health (SFH) • Nigerian Business Coalition Against AIDS (NIBUCAA) • Family Health International (FHI) • Federal Ministry of Labour & Productivity (FMLP) • Hygeia Foundation and National AIDS 	<ul style="list-style-type: none"> • Family Health International (FHI) • Institute of Human Virology Nigeria (IHVN) • National Primary Healthcare Development Agency (NPHCDA) • Department of Planning, Research and Statistics • Department of Food and Drugs (DFD) • Action Aid

137. There was no evidence that NACA undertook formal assessments to

determine the adequacy of SR capacity to implement grant programs under the Round 1 and 5. However under the Round 8 grant, in response to a CCM directive, SR assessments were undertaken. The quality of the assessment processes was inadequate as evidenced by the selection of SRs that lacked the capacity to implement program activities. For example, while the DFD and NASCP scored highly in financial management capacity, they were unable to maintain their own books of account. In consequence, NACA's stretched capacity also took over the responsibility of maintaining the financial records for these two SRs.

138. NACA did not have a grant management manual to guide its SRs on the systems, policies and procedures they are obliged to comply with. This resulted in significant internal control weaknesses at SR level and exposed Global Fund resources to the risk of loss. The SRs also did not receive orientation on the specific requirements, tools and templates that should be used.

139. Disbursements under the Round 1, 5 and 8 grants were released to DFD and NASCP's individual staff bank accounts which exposed program funds to the risk of loss. Most of the funds that were disbursed to staff bank accounts under Rounds 1 and 5 remained unaccounted for at the time of the audit.

140. NACA did not verify SR compliance with their sub-grant agreements. Contrary to the grant agreement, NACA did not have a comprehensive audit plan for its SRs. In consequence some SRs did not have their financial records audited annually as required by the grant agreement. For the SRs that undertook audits, there was no evidence that NACA addressed the resultant audit findings.

141. The OIG could not tie SR reports to underlying books of accounts. Most of the grant funds were used to meet common administration costs yet there was no agreed upon basis for allocation of these costs across donors.

142. NACA did not have a proper monitoring framework through which to monitor the financial and programmatic performance of SRs. NACA did not maintain a ledger to track SR advances. Advances and accounts from as far back as 2004 had not been reviewed and yet the PR continued to disburse funds to the relevant SRs.

Recommendation 11 (High)

NACA should assess SR capacity to implement programs. A capacity building plan should be developed to strengthen the particular areas where capacity gaps are identified. NACA should also establish a grant management manual that covers at least disbursement and accountability, reporting, procurement, budget tracking, maintenance of accounting records, assets management including inventory management etc. Specifically NACA should strengthen the following areas:

- i. All SRs should have program designated bank accounts. The processing of disbursements to personal staff bank accounts should be discouraged.*
- ii. All SRs should be audited with NACA following up audit queries.*
- iii. An advances tracking system should be established and all accountabilities reviewed prior to making further disbursements.*
- iv. A proper monitoring framework should be established that defines SR indicators and targets; indicates when, how and by whom monitoring will be undertaken; and provides feedback to SRs.*

- v. *SRs should receive guidance on how common costs should be allocated across different funding sources.*

Family Health International (FHI)

143. Family Health International (FHI) implemented the HIV/ART programs. This program was also funded by the US President's Emergency Plan for AIDS Relief (PEPFAR). Global Fund resources constituted less than 10% of their HIV/ ART program. The same program results were however reported to PEPFAR and the Global Fund.

144. Specifically, in December 2009 NACA reported the number of patients receiving ART at Global Fund supported sites as 107,122 against a target of 56,940. The funds provided by NACA could not support a figure of 92,847 reported by FHI and by implication, some of the reported results related to PEPFAR funding. In consequence, the results reported to the Global Fund by NACA were overstated. The attribution of the same results to the two donors implies that there was duplicate funding of activities.

Hygeia Foundation

145. The OIG visited Hygeia Foundation and identified unsupported expenditure amounting to US\$ 83,907. There were inter-grant borrowings between Hygeia Foundation and Hygeia Group and this raised the risk that funds were not available when required for program implementation. Hygeia also did not maintain program funds in an interest bearing bank account as required in the grant agreement. Hygeia also did not submit taxes on staff salaries to the relevant authority on time.

Procurement and Supply Chain Management

Planning and Management

146. The Procurement and Supply Unit (PSU)'s two staff were responsible for all NACA's procurement related activities. The structure did not provide for a logistics expert. At the time of the audit, the head of procurement position had been vacant for two months and NACA depended on consultants to undertake some PSM related activities e.g. addressing the shortfalls identified under the Round 5 grant i.e. an unsatisfactory forecasting methodology, use of out-dated regimens and weaknesses in the storage and distribution systems.

147. Under the Round 5 grant, a technical working group that was external to NACA took responsibility for the PSM activities e.g. undertaking technical evaluations. This arrangement removed PSM related responsibility from the PR.

148. NACA had a PSM manual developed under an International Development Association (IDA) funded project. The manual lacked standard operating procedures and so did not provide guidance on key PSM aspects such as the roles and responsibilities that should be assigned to the people and departments involved in the PSM chain, procurement thresholds, preparation of procurement

matrices, management of contracts, records to be maintained etc. It also did not make reference to the relevant donor policies.

Quantification

149. NACA lacked the capacity and reliable consumption data to support the quantification process to quantify the ART program requirements. NACA opted to initially use the consumption method to quantify commodity requirements for existing patients with the morbidity method employed for new patients. NACA hired consultants to undertake the quantification process for drugs, laboratory equipment and reagents based on a needs assessment from 25 active ART sites.

150. At the time of the audit, NACA was unable to collect relevant data for quantification. JSI developed data collection tools which were used by the ART sites and all consumption data was collected in 2009. However at the time of the audit, no data had been collected for 2010. NACA was also not using available data to inform its quantification process. Under this TA, JSI was supposed to develop NACA capacity in quantification using the Quantimed tool.

151. Another source of information for forecasting could have been the bi-monthly reports that were submitted by ART sites detailing requisition, issue, delivery and receipt of drugs to the Federal Central Medical Stores (FCMS). However, NACA did not have the capacity to validate the data submitted and to follow up sites that did not submit reports. Data on the rate of submission of ART reports was not available at the time of this audit.

Procurement

152. The procurement of health and non-health products was undertaken by TPPAs i.e. CANL and IDA. There was no evidence to show that the procurement processes as defined by NACA were followed by the TPPAs i.e. NACA was not closely overseeing the work of the TPPAs. The roles and responsibilities of NACA and the TPPAs were not clearly defined and as a result, NACA was not involved in the key procurement stages e.g. specifications approval, sign off of bid evaluations, agreeing contract terms etc. The hiring of an agent to facilitate the procurement process did not exonerate NACA from its PSM responsibilities as PR. The TPPAs also did not submit periodic statements to NACA on the status of the procurement processes.

153. NACA provided the audit team with several templates covering various PSM related aspects but there was no evidence that these templates were in use. The completed procurement matrices lacked critical information such as the expected date of delivery (EDD) and the actual delivery date; and the quantities delivered.

154. NACA's procurement guidelines required that the PR advertise all bids in widely circulated newspapers. In several cases, the procurement unit did not advertise the bids but used the request for proposal method to identify suppliers. For the request for proposal method employed, NACA did not have a list of prequalified suppliers and so the basis for identifying bidders was not clear. Advance payments of up to 60% were also made to suppliers without performance

bonds to mitigate the risk of non-performance. Examples of such procurements include the following:

Date	Items purchased	Successful supplier	Amount in Naira	Equivalent in US\$
17/03/09	Refrigerators and Freezers	MSK Multi Services Ventures	N9,249,000	\$61,660
	Air Conditioners and Water Dispensers	SU International Services Limited	N3,850,000	\$25,667
	Fax Machines and Flip Chart Boards	Hurescon Limited	N3,238,168	\$21,588
	Furniture	Myke Ventures Limited	N4,468,000	\$29,787

155. The records for procurements undertaken were not available. NACA attributed this to a fire in 2008 that destroyed records. However these documents were also not available for procurements undertaken in 2009.

Recommendation 12 (Significant)

- (a) *NACA should strengthen its procurement function by defining its relationship with its TPPAs with roles clearly elaborated, and processes put in place to oversee and approve key procurement stages. The coordination of the PSM functions should be transferred to NACA with the TWG providing oversight to the activities undertaken by NACA. NACA should strengthen its PSM capacity by filling the vacant positions and identifying resources for the logistics function. NACA should update its manual to ensure it provides adequate guidance for the PSM function. Policies should be complied with especially with regard to tendering and prequalifying suppliers.*
- (b) *NACA should develop appropriate tools to plan and track procurement progress. Record keeping at NACA should also be strengthened. In order to strengthen its quantification, the collection and validation of consumption data from ART sites should also be improved.*
- (c) *In cases where significant advance payments are made to suppliers, NACA should obtain performance bonds to guarantee performance and protect the Global Fund resources.*

Storage and Distribution

156. NACA initially did not have an established and documented storage and distribution system in place which negatively affected the efficient distribution of commodities for Round 1 Phase 1. However by Round 5, a proper distribution system had been established for grant commodities. There are multiple ARV commodity supply chain systems in Nigeria. NACA used the Federal Central Medical Stores (FCMS) in Oshodi for storing pharmaceuticals and Chan Medi-Pharm for storing reagents and test kits. NACA used third party distributors i.e. Axios, Chan Medipharm and Darlez to distribute health products to the ART and PMTCT sites.

157. A visit to the FCMS revealed that the space allocated for storage of ARVs and OIs was adequate and the products were well organized and labeled. However

the storage conditions were not ideal for pharmaceuticals. The effectiveness of the FCMS storage staff was also affected by the lack of office space, ICT equipment and transport. Because there was no MOU between NACA and the FCMS, FCMS staff did not receive logistical support from NACA. This affected among other things the record keeping with records at FCMS level noted to be inaccurate.

158. The Round 5 HIV/AIDS commodities distribution assessment in 2008 identified a number of storage and distribution weaknesses. The weaknesses that remained unaddressed at the time of the audit were:

- (a) A lack of shelving in the warehouses which reduced the available storage space tremendously;
- (b) Inadequate materials handling equipment resulting in most activities being handled manually which was not efficient. For example hand-made wooden ladders were also used for stacking. At the time of the audit, a new folk lift procured could not be used because of the design of the store;
- (c) The roofs leaked which exposed stock to the risk of damage; and
- (d) The only delivery truck available was parked at FCMS due to a lack of tires.

159. NACA signed a contract with Chan Medipharm for storage and distribution services. This contract was reviewed as part of the Round 5 HIV/AIDS commodities distribution assessment undertaken by the LFA with the following resultant findings:

- (a) the use of Medipharm for storage and distribution represented inappropriate segregation of duties;
- (b) the services offered by Medipharm did not represent value for money given the level of service offered and the rates charged. The cost structure was based on direct cost and value of goods, while it may have been more appropriate to base costs on volume and weight of products;
- (c) Medipharm lacked the capacity to distribute commodities to over 200 sites;
- (d) Medipharm's contract did not detail NACA's expectations nor did it list terms and conditions against which performance would be assessed; and
- (e) the contract did not provide details on transportation, reporting, management and supervision functions.

There was no evidence that actions had been taken to address the shortcoming identified during the audit.

160. There were complaints received of ARV stock outs at some Hygeia sites. The TWG reviewed one distribution cycle which revealed several instances where commodities collected by Medi-pharm had not reached their intended recipients or where recipients only received part deliveries.

161. FHI hired Axios Foundation and Darlez as a stop gap measure while NACA was finalizing the contract with Medipharm. It was expected that Medipharm would take over all deliveries by December 2008. However at the time of the audit, Axios was still making deliveries. The pipeline handled by Darlez had been taken over by the Federal Ministry of Health. At the time of the audit, NACA was in the process of identifying a distribution agent. Chan-Medipharm was retained to service 19 of 37 states (36 states plus Federal Capital Territory, Abuja) despite the weaknesses noted in the commodities distribution assessment. The rest of the States were allocated to Axios.

Recommendation 13 (Significant)

- (a) *The selection and contracting of the distribution agent should take into account the findings of the commodities distribution assessment to ensure value for money is obtained from the distribution services. A new distribution contract should be entered into to include NACA's expectations, terms for reporting, management and supervision and include performance based service level terms and conditions.*
- (b) *NACA should strengthen its contract management function which should include monitoring the performance of service providers against contractual terms.*

Logistical Support

162. NACA did not have a logistics management information system (LMIS). At the time of the audit, NACA had appointed JSI to develop a LMIS. NACA relied on submission of forms by treatment sites to the FCMS by e-mail, the practicality of which was dependent on the sites having internet connectivity. The forms submitted by did not provide for documentation of losses and therefore NACA could not track the losses in the supply chain. The OIG noted during field visits instances of stock outs of ARVs and Cotrimoxazole. There were also instances of short dated and expired stock for ARVs and OIs noted.

163. The Calabar State Hospital was holding expired drugs. The drugs had expired in 2009 and these included 2592 units of Tenofovir 300mg tablets; 21 units of Tinidazole 500mg tablets; 176 units of lamivudine 10mg/ml syrup; 183 units of Nevirapine syrup 50mg/ml; 896 units of Cotrimoxazole vaginal tablets; and 32 units of Zidovudine suspension 50mg/ml. NACA had not provided implementers with guidelines on how short dated and expired stock should be handled. There was no plan to destroy the expired drugs.

164. Good inventory management systems were noted at the Calabar and Lagos state hospitals. This was attributed to the support received from the Global HIV/AIDS Initiative Nigeria (GHAIN). GHAIN instituted proper inventory control procedures and these included the management of expired drugs. Periodic stock counts were undertaken and reports prepared for decision making. GHAIN also instituted a buffer stock system for the state medical stores which ensured that there were no stock outs. There was also stock redistribution among hospitals to cater for stock excesses and expiries. The GHAIN/Axios stores provided a good example of effective partnership and constituted good warehouse practices.

Recommendation 14 (Significant)

- (a) *Proper guidelines should be developed to guide lower level staff on how to deal with expired drugs. This should be in line with the MOH disposal guidelines.*
- (b) *In order to improve inventory management systems in the supply chain, NACA should replicate the best practice implemented by GHAIN across the various Global Fund supported districts.*

Events after Audit Field Work

165. After the audit field work in April 2010, the PR submitted additional documents for review in June 2010, July 2011 and September 2011. The total for questioned costs reduced from US\$ 1,517,234 in April 2010 to US\$ 833,000 in June 2010 and US\$ 763,087 after the July 2011 submission. In September 2011, the PR made a further submission of support documents for US\$ 244,055 whose review was not finalized as the OIG was not able remotely verify their authenticity.

Conclusion

166. NACA should strengthen its capacity to manage Global Fund grants especially in financial management, procurement and sub grant management. NACA should refine its systems and policies to ensure a seamless implementation of the Global Fund grant, proper supervision of SRs and enhance accountability. NACA should refund the Global Fund US\$ 763,087 which could not be adequately accounted for or which was not in the approved work plan and budget.

Details	Amount US\$
Proposal writing costs (ineligible costs)	72,241
NACA unsupported costs	606,939
Hygeia unsupported costs	83,907
Total	763,087

Society for Family Health (SFH)

Background

167. Society for Family Health (SFH) was founded in 1983 and registered as a Trust in 1985. SFH implements several programs on behalf of donors and partners in the areas of family planning, HIV/AIDS and Malaria. SFH primarily focuses on behavior change communication and social marketing to improve access to essential health information, services and products by motivating the adoption of healthy behaviors.

168. SFH was PR for three Global Fund supported grants: Round 4 malaria, Round 5 Phase 2 HIV and Round 8 Phase 1 malaria. SFH was also an SR to NACA under the Round 5 HIV grant Phase 1. The details of the grants at the time of the audit were:

Round	Disease	Grant number	Grant amount US\$	Amount disbursed US\$
4	Malaria	NGA-407-G10-M	30,641,591	25,670,295
5	HIV/AIDS	NGA-506-G08-H	24,093,914	12,560,992
8	Malaria	NGA-809-G11-M	77,596,646	48,402,067
			132,332,151	86,633,354

169. The goal of the Round 4 Malaria grant was to reduce Malaria morbidity and mortality among under 5 children and pregnant women in 18 states of Nigeria. The specific objectives were to:

- (a) Provide LLINs to pregnant women and children under 5 years;
- (b) Treat children under 5 years of age with ACTs;
- (c) Provide IPT to pregnant women, and
- (d) Create a demand for ACTs, SPs and LLINs.

170. The goal of the Round 5 grant was to reduce morbidity and mortality from HIV and AIDS in Nigeria by expanding access to testing and counseling services in 37 States. The specific program activities were to:

- (a) Establish and accredit 222 counseling and testing centres in the country by the end of the second year;
- (b) Improve quality of counseling and testing in 222 health facilities including laboratories by the end of the second year, and
- (c) Train 666 health workers in the counseling and testing process for the 222 health facilities.

171. The goal of the Round 8 grant was to reduce by 50% the 2000 malaria morbidity and mortality figures by 2013 and minimize the socio-economic impact of the disease. The specific program activities were:

- (a) Malaria prevention by providing LLINs;
- (b) Malaria treatment by providing ACTs;
- (c) Malaria treatment by providing test kits and microscopic diagnosis;
- (d) Providing a supportive environment through BCC outreach activities to communities; and
- (e) Health systems strengthening.

Achievements and Challenges

172. For the Round 4 Malaria grant, SFH implemented all activities stipulated in the work plan i.e. the distribution of LLINS, ACTs, SP for IPT and training of health workers. For the Round 5 HIV, most of the activities had been implemented i.e. training on HIV counseling and testing (HCT) and quality assurance, the accreditation of VCT sites and provision of testing and counseling services to clients. However, the collection and testing of dry blood samples had not been implemented.

173. In most cases, SFH exceeded the targets set in the performance framework. Quarterly data quality assessments (DQAs) were carried out by program managers to verify the programmatic results. The achievement of results was however constrained by: (i) Insufficient monitoring of SR performance; (ii) Delays in disbursement of funds from the Global Fund; and (iii) Fires at the Head Office leading to the loss of key documents in December 2008 and March 2010.

Institutional Aspects

174. SFH has a Board of Trustees comprising of eight members, three of whom are PSI designees as stipulated in the constitution. The Board, which is composed of experienced professionals from diverse backgrounds, it meets at least three times a year. The SFH constitution only provides limited guidance on how the Board would operate. A manual is provided for in article 13 (on rules and regulations) of the SFH constitution.

175. SFH is utilizing its core management structures to manage the Global Fund supported grants. There was a Global Fund directorate headed by the Director Global Fund Projects and assisted by 2 Associate Directors (HIV and Malaria). This division is supervised by SFH's Chief Operating Officer. At the time of the audit, no minutes were maintained of the monthly management meetings held.

176. SFH did not have a risk management framework in place for responding to risks that may threaten achievement of its objectives. SFH has had some fires and this was attributed to poor electrical wiring and power surges. The two fires caused significant disruption: (i) the December 2008 that destroyed equipment and documents and (ii) the March 2010 fire in the server room disrupted operations for the entire duration of the OIG audit.

Recommendation 15 (Requires Attention)

- (a) *The SFH Global Fund Directorate should maintain minutes with actions to follow up from each meeting.*
- (b) *SFH could consider developing a manual defining: Board responsibilities; conflict of interest issues including specific procedures for related party transactions, and definition of the Board Committees and their specific terms of reference.*
- (c) *Management should develop a risk management framework as a response to risks that may threaten the achievement of organization and program*

objectives. Such a framework should include a disaster recovery plan in the event of fire, floods and other disasters.

177. PSI's Overseas Financial Operations Group (OFOG) carries out internal control assessments from time to time. These assessments cover a review of the field office's compliance with PSI finance policies and donor agreements and evaluate their internal control systems.

178. SFH's internal audit function was initially outsourced but it was returned in house in 2009. At the time of the audit, the board finance and audit committee did not review internal audit reports. The Internal audit department also did not have a charter or manual to guide its operations. There was also limited progress on implementation of audit recommendations with some outstanding recommendations going as far back as 2005 e.g. the aging of advances, the installation of temperature control devices and monitoring tools at all MDS depots and the recording of stock movement on the bin cards.

179. For the period under review, SFH submitted its audited financial statements late. The grant agreement requires that audited financial statements are submitted to the Global Fund within 6 months after the end of financial year. For the year to 31 December, a draft unsigned audit report 2008 was submitted to the Global Fund Secretariat on 03 July 2009. The audit reports for 2007 and 2008 that were submitted to the Global Fund were signed on 24 March 2009 and 30 October 2009 respectively. Late submission of audit reports contravenes the grant agreement.

Recommendation 16 (Significant)

The audit arrangements should be strengthened by:

- (a) Review of internal audit work plans and reports by the finance and audit committee of the Board*
- (b) Implementing audit recommendations.*
- (c) Developing and implementing an internal audit manual..*

Financial Management

180. SFH's QuickBooks accounting software did not have a multicurrency functionality resulting in SFH maintaining separate QuickBooks for each grant, region and currency. At the time of the audit, there were fifteen QuickBooks that SFH had to reconcile manually on a monthly basis. The process was laborious, tardy and may result in errors. At the time of the audit, the SFH Board has approved the implementation of an Enterprise Resource Planner (ERP) software.

Recommendation 17 (Requires attention)

SFH management should consider obtaining appropriate accounting software, which allows for:

- i. Multiple currencies;*
- ii. Quick and efficient reconciliation of branch accounts, and*
- iii. Tracking of advances to staff and SRs.*

181. There were instances of inter-grant borrowings between Round 4 and the Comprehensive Integrated Approach to HIV Prevention and Care in Nigeria (CIHPAC) project funded by DFID. Although these amounts were repaid, the grant agreement states that all funds shall be used solely for program purposes. SFH also had inter-grant borrowings i.e. between Rounds 4 and 8. Because disbursements are based on reasonable cash flow needs for a specified period, this may result in funds not being available for program implementation.

182. SFH paid N 200,000 for a CCM conference in Kaduna. This purpose of the expenditure is not in line with the grant agreement, which does not allow support of CCM activities from grant funds. These amounts i.e. N200,000 (US\$ 1,333) are ineligible and should be returned to the grant bank account.

Recommendation 18 (High)

SFH management should stop inter-grant borrowing of grant funds.

Gede Foundation

183. Gede Foundation responded to an advertisement for SRs to Global Fund grants managed by SFH. In response to their application, management of SFH wrote to Gede Foundation appointing them as training contractors and not SRs. Apart from the contract nature, in practice Gede Foundation was treated as an SR, for instance, on 18 February 2009 the PR sent to the contractor an SR management letter. Gede Foundation also implemented grant programs in accordance with a grant work plan and budget just like the SRs. In addition, the training services contracted to Gede Foundation were not open to supplier competition, which could have assured best value for money.

184. The OIG visited and reviewed the financial management documentation at Gede Foundation and noted that documentation supporting training activities under the grant contained inconsistencies:

- a. One hotel that was stated to have accommodated up to 48 participants had only 23 rooms.
- b. In another case accommodation invoices stated that rooms cost N 7,000 per night although the OIG was informed by hotel management that this tariff only applied to 3 of its 50 rooms with the rest at lower rates.

Recommendation 19 (High)

SFH management should contract SRs separately from contractors. Activities to be contracted to SRs or suppliers should be tendered out to allow for competition.

Sub Recipient Management

Africare

185. Africare was an SR for SFH under Rounds 4 and 8 and distributed LLINs and ACTs for the Global Fund supported program. Africare also distributed nets from SFH for a USAID funded program. There was no evidence that SFH tracked the LLIN distribution to ensure that financed by the Global Fund were not diverted to other

non-Global Fund financed activities. SFH should put mechanisms in place to ensure that program products are not used for non-program activities.

Planned Parenthood Federation of Nigeria (PPFN)

186. A visit to the PPFN revealed that program funds were commingled in one account and funds were spent from this common pool. There was no accounting system in place to separate the funds by donor. The OIG also noted that the expenditure charged to the program was based on the budgets instead of actual expenditure.

Family Health International (FHI)

187. FHI incurred common costs across various donors e.g. salaries and administration but did not have a clear basis for allocating costs to the various donors. The OIG could not give assurance that the charges to the program were reasonable. SFH should strengthen its review of SR financial reports.

Recommendation 20 (Requires attention)

SFH should strengthen its SR grant management and ensure:

- i. Monitoring of delivery of program commodities i.e. LLINs and ACTs;*
- ii. Review of SR expenditure, verifying financial records and program results, and*
- iii. Disbursements to SRs with outstanding advances should be discouraged.*

Procurement and Supply Management

Planning and Management

188. SFH's procurement department is comprised of six people and they undertook all SFH's procurements. The PSM activities were however fragmented across different departments i.e. procurement, programs, finance, and the sales and distribution departments. This weakened the procurement unit's ability to coordinate and control all the procurement activities. In order to address the coordination issue raised by the LFA, an Associate Director was appointed to head the Unit who did not have expertise in pharmaceutical procurement. However over time, SFH staff gained experience in the procurement of ACTs and LLINs.

189. Improved PSM coordination is critical with the expected increase in geographical coverage and increased scope as a result of the Round 8 grant incremental program implementation. SFH was receiving technical support from PSI's Procurement and Logistics (P&L) Department and was also engaged with the Global Fund CBS with the main focus on transport optimization.

190. SFH had a procurement tracking tool that only tracked local purchase orders (LPOs). At the time of the audit, the tool was not up to date. The tool was also not comprehensive as it did not track tendering timelines, contract implementation status and delivery lead times by the suppliers. In consequence, SFH could not

coordinate the timing of procurements which could result in delayed and missed procurements.

Recommendation 20 (High)

SFH should strengthen the capacity of its procurement unit by ensuring that staff have appropriate skills and tools to manage the procurement process.

Procurement Policies and Procedures

191. SFH procurements were guided by a manual that was prepared in 2008. The manual had not been updated to reflect changes in the PSM environment. For instance the contracting process was not spelt out in the manual.

192. SFH's warehouse manual had also not been updated to reflect changes in the operating environment and did not cover storage and distribution of health commodities for the grants. The weaknesses in the manual were noted in the 2008 LFA assessment but remained unaddressed at the time of the audit. These included:

- (a) Timelines of activities were not defined. The manual used the term "regularly" for activities like stock taking.
- (b) The manual did not limit access to storage areas only to authorized staff.
- (c) Handling of stock discrepancies was not described.
- (d) There was no coding system to ease item identification. The Global Fund and SFH stock could not be separated by distinct codes.
- (e) The mechanisms for ensuring good storage and inventory systems at the SRs were not defined.

Recommendation 21 (High)

SFH should review its procurement and warehouse operations manuals and ensure that they are aligned to PSM best practice. These manuals should be operationalized in order to strengthen the control environment within which PSM related activities are undertaken.

Forecasting and Quantification of Commodities

193. SFH worked with YGC, NMCP and Roll Back Malaria partners on the forecasting of ACTs and LLINs for Round 4 and Round 8. The forecasting and quantification of ACTs was based on estimated targets and not consumption data. The forecasting process described for Round 4 was too general without specific information on the source of the data for the estimates used. Under Round 8 there was no description of the process that would be followed to determine the quantity of ACTs required. The validation process for the forecasting was also not described.

Quality Assurance Arrangements

194. The Round 4 PSM plan indicated that SFH's Quality Assurance Group would coordinate all QA activities for the health commodities. The OIG did not see

evidence that such a group existed and/or was functional. The quality assurance arrangements were inadequate post-port clearance.

Storage and Distribution System

195. ACTs and LLINs were stored in SFH's central warehouse and at Manufacturers Distribution Services (MDS) storage facilities in the country. SFH hired third party service providers to distribute the stocks from MDS to the health facilities. At the time of the audit, the conditions at the SFH central warehouse were not ideal for the storage of health products. The areas that needed to be addressed included establishing appropriate temperature control mechanisms, securing of the warehouse, resurfacing the warehouse floor etc. SFH stated that it was committed to upgrading the warehouses so that they are appropriate for health products. There were no specific code numbers for identifying program stock.

196. The SFH Lagos warehouse maintained both electronic and manual stock recording systems. SFH's records lacked critical information such as unit of issue, item code numbers, location in the warehouse, bin card number, expiry date, batch number and signature of issuing person. There was only evidence of one stock-take undertaken by the SFH auditors in December 2009.

197. The SFH warehouse manager was unable to retrieve information relating to commodity receipts and issues during the OIG audit. Stores staff could not provide stock status reports i.e. quantity available, expiry dates etc. In consequence, reports could not be generated from the electronic system to enable the OIG team to verify stocks its visit. The product movement reports that were subsequently provided revealed inconsistencies when compared to the data on the bin cards.

198. Two MDS warehouses were visited during the audit period, one in Lagos and one in Calabar. The storage areas for ACTs at both warehouses were temperature controlled although due to power failures, temperatures exceeded the recommended level. The storage arrangements for LLINs was not ideal with nets stored on the floor.

199. Stock transfers were effected from the SFH depot in Lagos to the 16 MDS depots. The only problem noted with this distribution system was the inflexibility in distribution arrangements in cases of emergencies. This resulted into the SFH warehouse having stock while MDS reported stock outs e.g. the stock out of Larimal tablets noted at Calabar MDS for over a week while the drugs were available at SFH.

200. MDS had a good inventory management system with appropriate checks and reconciliations in place. However there was no evidence that reconciliations were made between physical stock and the bin cards maintained. There was no evidence of authorization of stock adjustments and corrections on the bin cards.

201. There was no documentation to support the identification of distribution agents. SFH did not sign contracts with the transporters. SFH stated that

transporters were monitored through annual performance reports but could not provide the 2009 distribution reports. However, SFH held a meeting with the transporters to discuss their 2009 performance and discussed general issues such as delayed response time by transporters, drivers' role during truck loading, physical status of delivery trucks and long lead times for delivery. Key aspects such as reporting on quality of products, losses and adjustments, products pharmaceutical standards and remaining shelf life of products on receipt were not covered.

Recommendation 22 (Significant)

- (a) SFH should strengthen stock recording mechanisms at its warehouse in order to address issues identified in this report*
- (b) SFH should consider building some flexibility in its distribution systems in order to accommodate emergency requirements in the supply chain. SFH should also strengthen its monitoring of distributors.*
- (c) SFH should establish a formal and competitive tendering system for identifying and selecting third party transporters for distribution of grant commodities. Formal contracts should be signed between SFH and transporters and a formal evaluation system for evaluating the performance of transporters developed and implemented.*

Events after Audit Field Work

202. After the audit field work in April 2010, the PR submitted additional documents for review in June 2010, and July 2011. The total for questioned costs reduced from US\$ 2,393,691 in April 2010 to US\$ 1,666,469 in June 2010 and US\$ 1,333 after the July 2011 submission. A significant portion of expenditures that were originally questioned related to: (i) management fees (US\$ 861,895), and (ii) unsupported technical assistance fees (US\$ 736,887). The PR has committed the funds drawn as management fees to procurement and implementation of an Enterprise Resource Planner (ERP). The OIG has since been provided with support documents for expenditure towards technical assistance.

Concluding Observations

203. SFH has the requisite capacity, experience and structures in place to effectively implement the Global Fund grant activities. There is however scope to improve management of sub recipients and to strengthen controls over PSM arrangements.

National Malaria Control Programme (NMCP)

Background

204. The National Malaria Control Programme (NMCP) is a department under the Directorate of Public Health in the Federal Ministry of Health. The NMCP is responsible for the development and implementation of policies and programs that enhance the national health system to effectively and efficiently reduce the burden and impact of Malaria on the population.

205. The NMCP was nominated as PR for the Round 8 Malaria grant with the agreement signed in October 2009. Prior to being appointed as PR, the NMCP had been an SR to the Yakubu Gowon Centre under Rounds 2 and 4. The NMCP had three SRs under the Round 8 grant namely Family Health International (FHI), Association for Reproductive and Family Health (ARFH) and Institute of Human Virology Nigeria (IHVN). At the time of the audit, the Global Fund had disbursed US\$ 69,126,600 out of the US\$ 101,526,897 grant to the NMCP.

206. The objectives of the Round 8 grant were to:

- (a) Contribute to the rapid scale up of universal coverage of the population at risk of malaria in 2010, through 100% coverage and 80% use of LLINs and sustaining this through 2013;
- (b) Contribute to increasing prompt and effective anti-malaria treatment using ACTs within 24 hours of onset of fever and sustaining the program coverage throughout the program term;
- (c) Scale up parasitological diagnosis of malaria in patients above five at health facilities to 80% by 2013;
- (d) Reach at least 80% of the population at risk (communities, families, care providers, and health workers) by 2010 through BCC for awareness and appropriate action on malaria prevention and treatment and sustaining this through 2013; and
- (e) Contribute to health systems strengthening including community-system strengthening through malaria control activities.

Achievements and Challenges

207. At the time of the audit, the NMCP had established a functional PMU to manage and coordinate activities of the Program. All PMU staff had been recruited and deployed and three SRS engaged to implement the program. In addition to this, the NMCP had developed a monitoring and evaluation plan.

208. Program implementation was already underway with the NCMP having conducted training-of-trainers' courses in case management, home management of malaria, medical laboratory scientists and Rapid Diagnostic Tests (RDT). The PMU also performed a Procurement and Supply Chain Management (PSM) review of current Logistics Management Information System (LMIS) design for anti-malaria medicines and commodities.

209. The Ministry of Health also established the Malaria Technical Working Group (TWG) to coordinate national malaria interventions and to ensure challenges and experiences were shared across implementing partners. Working under the Malaria TWG, the NMCP led collaboration efforts towards harmonizing the reporting tools related to the universal LLIN distribution. The TWG met on a monthly basis with its initial meetings focusing on initiating efforts to coordinate the malaria PRs. Technical assistance provided by DFID SunMAP to the process was commendable.

210. Program implementation was however constrained due to delays in the procurement of ACTs and LLINs through the Global Fund's Voluntary Pooled Procurement (VPP) program.

Institutional Arrangements

211. A Program Management Unit (PMU) was set up in January 2010 to manage the implementation of Global Fund grants including coordination of the activities of the sub-recipients. The PMU was led by a Program manager who reported to the National Coordinator who in turn reported to the Director of Public Health (DPH) in the Federal Ministry of Health (FMoH). However, there was no evidence of FMoH interaction, supervision and oversight over the program activities implemented by the NMCP. For example, the OIG was not provided with any reports from the NMCP to FMoH updating them on the progress of the program.

212. The NMCP has six departments namely Case Management, Integrated Vector Management, Advocacy, Communication and Social Mobilization, Monitoring and Evaluation, Programme Management, Administration, Finance & Accounts and Procurement and Supply Chain Management. It was envisaged that these various departments would provide technical and administrative support to the Global Fund programs implemented by NMCP.

The OIG also noted that transactions especially in finance and procurement functions were completed in the PMU without any input from the functional departments. In consequence, the checks and balances that were inbuilt in the NMCP structure were not applicable to the program related transactions which weakened the control environment within which the grants were being implemented.

213. Oversight over the program activities was provided by the Malaria TWG and its six sub committees. The National Coordination Framework stipulated that the TWG and its committees would meet on a monthly basis. Although the TWG met regularly, the OIG did not see any evidence of its sub-committees being operational. There were also no minutes available from the monthly NMCP management committee meetings that review national and donor funded program activities. The PMU management team was supposed to meet weekly but had only met twice since inception of the grant.

214. The PMU's internal audit function was comprised of only one staff member that covered both the PR and their SRs. The auditor did not have an audit manual to guide the performance of audits. The function also lacked an annual plan and detailed programs to guide audit exercises. The internal auditor's work was not

risk based and did not cover Round 2 and 4 grant transactions. The resultant reports lacked depth and did not contain management comments nor an action plan to address weaknesses identified.

215. At the time of the audit, the financial and the human resources manuals were still in draft. There was no evidence that the manual had been reviewed and approved by management to ensure that they provided the required guidance to program implementers and were aligned to the core Ministry regulations. A review of the draft finance manual revealed that some of the conditions stipulated in the manual were not complied with e.g. the capitalization of assets. The manual provided for making personal loans out of grant funds which was not in line with the grant agreement provisions.

Recommendation 23 (High)

- (a) *A mechanism should be instituted for regular information sharing between FMoH and NMCP. The finance manuals should be reviewed and formally approved by management. All PMU staff should be trained in the use of these manuals so as to enable faster implementation.*
- (b) *NMCP management should ensure that the coordination framework oversight structures are established and applied. All committees and management structures should meet as mandated and the Global Fund supported programs should be reviewed at these meetings. Minutes of the meetings should be maintained.*
- (c) *The internal audit function should be strengthened by increasing the staff component, developing an internal audit manual, adopting a risk-based approach to the internal auditor's work, developing annual audit plans and work programs and enhancing reports by providing details of audit findings, management comments and an action plan.*

Compliance with the Grant Agreements

216. The grant agreement conditions that were not complied with are listed below:

- (a) The NMCP spent grant funds amounting to N 5 million (USD 32,697) on activities that were not part of the approved work plan and budget and without prior approval of the CCM and/ or Global Fund;
- (b) The Naira bank account was not an interest bearing account;
- (c) The NMCP did not deduct and remit Pay as You Earn (PAYE) from program staff salaries as required by the law thus exposing the program to the risk of penalties; and
- (d) NMCP did not insure all program assets as required in the grant agreement.

217. The NMCP did not meet all the CPs to disbursements which were meant to address capacity gaps identified during its assessment by the LFA as detailed below:

- (a) NMCP did not enter into a Memorandum of Understanding with other malaria PRs i.e. NMCP, SFH and YGC that detailed how they would collaborate their

various program activities by 31 December 2009. This is critical in order to avoid duplication and wastage of scarce resources.

- (b) The NMCP did not obtain tax exemption status for the Global Fund supported program within the stipulated 90 days after the start of the grant. At the time of the audit, program funds N 1,228,040 (US\$ 8,587) were used to pay taxes.
- (c) The NMCP did not inform the Global Fund about who their external auditor was within the stipulated three month period after the start of the grant. The external auditors had not yet been appointed at the time of the audit.
- (d) The waiver from the Accountant General to ensure that the key program staff were not transferred within the first phase of program implementation in order to ensure program continuity had not been obtained by April 2010.

Recommendation 24 (High)

The NMCP should ensure that conditions stipulated in the grant agreement to safeguard program assets are complied with. Specifically management should ensure that:

- a. *Program funds are spent in accordance with the approved plans and budgets;*
- b. *Program funds are maintained in an interest bearing account;*
- c. *The programs complies with all applicable laws of the country including income tax laws; and*
- d. *All program assets are insured with a reputable insurance company*

Financial Management

218. The OIG noted that the issue of non-authentic supporting documentation had also been highlighted by the YGC's internal auditor during his review of accountabilities presented by NMCP as SR to YGC. At that time, management requested the officials implicated to refund the money, but no further steps were taken to prevent the use of non-authentic documents from recurring.

219. The procurement processes were not transparent with NMCP inviting related companies to bid. The OIG was unable to locate some suppliers at their registered offices. The transactions resulted in purchases at prices that were higher than prevailing rates and did not represent value for money. There was evidence of management override of controls such as ignoring set procurement guidelines when undertaking procurements.

220. Program funds were used to pay for activities that were not in the approved work plan and budget. N 2,742,619 (US\$ 18,284) was used to pay top up allowances to staff that were not working on Global Fund supported programs. Program funds N 4,475,990 (US\$ 29,840) were also spent on proposal writing and the World Bank Booster Program. The ineligible expenditures related to Round 2 and 4 Malaria grants for which NMCP was an SR to YGC. NMCP was not able to

reconcile accountability for up to US\$ 337,816 received from YGC as SR under Rounds 2 and 4 grants. The amounts to be repaid are part of the YGC section.

Recommendation 25 (High)

NMCP management should ensure that grant funds are used only for activities that are listed in the grant work plan and budget.

Technical Assistance

221. In October 2009, the NMCP appointed KPMG Business Performance Services to help build the PMU's financial management capacity. The award of this contract did not follow a competitive process and there was no signed contract in place for the TA arrangement. In consequence there was no documented agreement on the obligations of either party which resulted in the consultant being involved in undertaking mundane tasks like making cash payments instead of building the PMU's capacity. There was also no evidence that the PMU considered leveraging on the NMCP financial management capacity already in place.

222. The draft contract valued the technical assistance at N 2.8 million (US\$ 18,667) per month over a two year period. The contract did not provide for a performance framework against which the work of the consultant would be evaluated. This was contrary to the LFA recommendation that technical assistance be provided for a six month period and only renewed after a review of performance. At the time of the audit, the NMCP had not reviewed KPMG's performance as recommended by the LFA. The OIG audit revealed that despite the technical assistance, the program's financial management systems remained weak.

223. NMCP contracted the World Health Organization to provide National Programme Officers (NPO) to support the NMCP activities at state level in six states. The contract worth US\$ 1.3 million for a two year period was signed on 27 January 2010 and NMCP advanced USD 681,000 to WHO to cover the first year of the contract. At the time of the audit, WHO had only provided one NPO on 1 March 2010 with the rest coming on board on 1 April 2010. In consequence, WHO was overpaid by some US\$ 170,000 in year one.

Recommendation 26 (High)

- (a) *The NMCP should consider hiring a full time finance manager to support the program since it may result in better value for money than hiring a professional services firm. Should the NMCP decide to continue with the KPMG arrangement, it should finalize the TA contract. This contract should have clearly defined responsibilities with milestones set against which performance will be assessed.*
- (b) *NMCP management should put in place mechanisms to monitor budgets and work plans of service providers. Management should initiate discussions with WHO to agree on the use of the excess funds arising from the delayed recruitment of NPO.*

Control Weaknesses

224. The NMCP made large cash payments to staff or directly into staff personal bank accounts for activities such as training, meetings and workshops. Advances were also made to staff long before activities took place i.e. up to two weeks before the activity was planned. For example, N 44 million (US\$ 295,000) was paid into a staff member's bank account on 18 January 2010 and was only accounted for after two months. The reconciliation included a refund of Naira 6,182,675 (US\$ 41,218) which at the time of the audit was still held in the personal account of the accountant. Large advances into staff personal bank accounts expose program funds to misuse.

225. Advances were also expensed upon payment. No advances ledger was maintained to track advances with pending advances. Staff also received additional advances without having accounted for earlier advances taken. Advances also remained outstanding for long periods of time for instance Although the finance manual stipulated 5 days, staff advances were settled two months after an activity was undertaken. The documents submitted were not effectively reviewed by the PMU, and in some cases were observed to be not. Some of the documentation provided as accountabilities was not authentic.

226. The fixed assets were not marked with unique identification numbers. The PMU also did not undertake physical verification of assets held resulting in the PMU losing control of its assets. For example NMCP changed offices and left a generator procured under the Round 4 grant at its former offices and this only came to the attention of management during the audit. The generator was recovered and returned to YGC.

227. The PMU procured accounting software Sage Pastel in January 2010 and paid 60% of the cost upon signing the contract. However at the time of the audit the software had not been installed, which management attributed to a delay in the procurement of servers. Consequently the PMU was using MS Excel to record its accounting transactions and that system lacked checks and balances and therefore there was a risk that errors in recording, processing and reporting transactions were not detected. The installation of the accounting software should be expedited.

228. The OIG reviewed the use of budgets as cost controlling mechanisms and noted that there were instances of budget padding. For example, the actual monthly salary costs were 40% of the budgeted amount which had not been brought to attention by the LFA and although a provision of US\$ 275,862 was included in the budget to cover rent, the PMU was located in the Ministry and therefore did not need to pay rent. There were also no processes in place for comparing and explaining significant variances between the periodic expenditures incurred and the approved budget.

Recommendation 27 (High)

(a) Depositing grant funds into staff accounts, granting advances long before the planned activities and giving large amounts of cash to staff to carry to the

field should stop. The PR should consider prequalifying service providers for services such as hotel, stationery, air ticketing etc. with payments effected directly to the service providers.

- (b) An advances ledger to track outstanding advances should be maintained. Advances should be reconciled within the stipulated period with penalties instituted for long outstanding advances e.g. not granting additional advances to staff with outstanding advances and reconciliations. Management should ensure that all accountabilities are comprehensively reviewed.*
- (c) All fixed assets purchased should be given unique numbers and tagged for ease of identification. Physical verification of fixed assets should be undertaken periodically with any exceptions noted resolved.*
- (d) NMCP should develop detailed activity based budgets with assumptions to estimate the funds required for each activity clearly articulated. Budget variance analysis reports should be undertaken periodically and corrective action taken to address large variances.*

Sub Recipient Management

229. The NMCP did not select the SRs but accepted the SRs recommended by the CCM. However, the PMU did not subsequently assess SR capacity to implement programs. The audit revealed that some SRs had significant capacity weaknesses, but there was no capacity building plan in place to address gaps identified.

230. The OIG commends the PMU for preparing an SR grant management plan but it had not been fully implemented at the time of the audit. Specifically, the SRs did not submit monthly program and quarterly financial reports as required and there was no evidence of follow up of these reports. In consequence, the NMCP was not kept abreast of the status of program implementation by the SRs. The planned monthly SR coordination, planning and review meetings were also not held.

231. The disbursement of funds to SRs was not based on a plan of activities nor performance of the SR but on availability of funds. Funds were disbursed to SRs that had outstanding accountabilities, that had not submitted periodic reports and for which there was no evidence of performance against set targets. These disbursements were usually late which resulted in delays in the implementation of activities and the achievement of program targets.

Recommendation 28 (Significant)

- (a) The NMCP should establish a well-documented process for identifying potential SRs. It should include an assessment of potential SRs for programmatic and financial management capacity in order to identify gaps that would affect program implementation.*
- (b) The PMU should comply with the provisions of its grant management plan since this will strengthen the management of SRs. Specifically, the PMU should ensure that all SRs submit programmatic and financial management*

reports as stipulated in the plan. The envisaged monthly SR coordination meetings should also be held.

- (c) *The NMCP should strengthen the SR disbursement process by ensuring that disbursements are effected on a timely basis and against a work plan and budget. The NMCP should ensure that all previous disbursements are accounted for before additional disbursements are effected.*

Events after Audit Field Work

232. After the audit field work in April 2010, the PR submitted additional documents for review in June 2010 and July 2011. The total for questioned costs reduced from US\$ 141,905 in April to US\$ 131,958 in June 2010. Since the questioned expenditure related to transactions for which NMCP was an SR to YGC, any unaccounted for funds have now been reflected in the YGC section.

Conclusion

233. The current NMCP capacity and control environment was inadequate to safeguard the Global Fund resources in the areas of governance, financial management and procurement. Consideration should be given to improving the internal control systems at PMU incorporating adequate checks and balances to prevent irregular transactions and improve grant management.

Association for Reproductive and Family Health (ARFH)

Background

234. The Association for Family and Reproductive Health (ARFH) was established in 1989 as a not for profit, non-governmental organization (NGO). The founders sought to meet the health and social needs of disadvantaged groups in rural and urban communities. The mission of ARFH is to initiate, promote and implement sustainable sexual and reproductive health and family planning services for youth and adults in partnership with other organizations.

235. ARFH has grown significantly since it became a PR. The Global Fund grants resulted in an increase in funding and staff from N 81.7 million (US\$ 639,280) in 2006 with approximately 60 staff to N 860 million (US\$ 5.7 million) and 88 employees.. During this time, the area covered by ARFH expanded from Ibadan to three Regional. The Global Fund grants constituted over 80% of funding to the Association and this percentage was expected to increase as ARFH becomes PR for the Round 8 TB and Malaria grants.

236. The approved grants and amounts disbursed at the time of the audit were:

Round	Component	Grant Number	Grant amount US\$	Disbursed US\$
5	HIV	NGA-506-G09-H	26,406,149	15,378,637
5	TB (Phase 2)	NGA-509-G15-T	39,807,996	11,994,538
8	Malaria (SR)	NGA-809-G14-M	1,312,565	216,131
Total			66,214,145	27,373,175

237. The goal of the Round 5 HIV grant was to reduce morbidity and mortality from HIV/AIDS in Nigeria. The specific program objectives were to:

- (a) Strengthen the role of the community, civil society organizations and networks of PLWHA in providing and supporting HIV/AIDS treatment and care; and
- (b) Increase the access to care and support services for orphans and vulnerable children (OVCs).

238. The goal of the Round 5 TB grant was to significantly reduce the burden, socio-economic impact and transmission of tuberculosis in Nigeria. The specific program activities were to:

- (a) Strengthen the technical and managerial capacity of the National Tuberculosis and Leprosy Control Program (NTBLCP);
- (b) Promote behavior change in the community;
- (c) Improve the timely detection and quality treatment of TB cases; and
- (d) Reduce the incidence of TB among people living with HIV/AIDS (PLWHA).

Achievements and Challenges

239. ARFH responded quickly to identifying and filling capacity needs in order to effectively manage the Global Fund grants. The procurements required to start implementation were completed within four months of receiving the initial disbursement. The teams for the Round 8 grants had already been established at the time of the audit.

240. The OIG also commends ARFH for being able to secure bridging funds to ensure continuation of program implementation. This was during quarters 10-12 i.e. before the Phase 2 funding was approved. The funds were provided by the National Youth Service Corps, and Peer Education Training from UNICEF and SFH.

241. ARFH has achieved most of the set targets and exceeded some targets for the HIV Round 5 Grant. Some of the notable achievements included:

- (e) Training over 15,000 Youth Corps as Peer Education Trainees;
- (f) Supporting over 2,400 OVCs and the establishing 80 support Groups over the first two years of the HIV grant;
- (g) Training over 780 community group members in caring for OVC (psychosocial support training for CBOs and care givers);
- (h) Supporting over 15,000 patients under the home based care support; and
- (i) Supporting 148 groups through the Network of People Living with HIV/AIDS in Nigeria (NEPWHAN).

242. The lengthy approval and negotiation process for the ARFH grant resulted in a delay in the disbursement of funds for the Round 5 Phase II HIV grant funds and this affected program implementation. The other challenges faced during program implementation included:

- (a) Identification of OVCs in need of education and health;
- (b) Inadequacy of the OVC budget to cover the needs of the selected OVCs;
- (c) Significant under-budgeting for home based care kits;
- (d) There were few active CBOs working in the field of OVC in Nigeria;
- (e) The definition for OVCs did not include 'HIV/AIDS' meaning that there was no special emphasis was given to OVCs affected by HIV; and
- (f) Inadequate capacity at SR, Federal, State and Local Government counterparts caused by delays in the reporting process.

Institutional Aspects

243. ARFH as a 'Trustee registered' organization has three oversight organs i.e. a Board of Trustees (BoT), a Board of Directors (BoD) and an Executive. The BoT holds the organization in trust for the community. The BoD provides governance and strategic oversight to the Association. The BoT meets annually while the BoD meets twice a year. The Executive runs the day to day affairs of the organization and reports to the BoD. The BoD is headed by a chairman and has committees for advocacy, ethics, finance, fundraising and program management.

244. ARFH has a constitution that guides the operations of the BoT, the BoD and the Executive. However the constitution was not signed or dated. There was no evidence that amendments made to the constitution were passed in the manner

prescribed in the constitution and that they were registered with the Corporate Affairs Commission. The composition of the Board could also be strengthened by diversifying its membership to encompass more representation from the legal, medical, finance professions.

245. ARFH did not have a Board charter or terms of reference and yet the constitution did not provide adequate guidance on how the BoT and BoD should be coordinated. For example, while the constitution provided for board committees it did not define how committee members would be selected and their terms of reference. It also did not provide guidance on how conflicts of interest should be managed.

246. There were instances noted where the constitution was not adhered to. For example, the constitution specified that Board members would serve for two terms with each term lasting four years. However, some BoT representatives had served for more than the stipulated term. The BoT was required to meet at least once a year but the OIG noted that no BoT meeting was held in 2009. The Board also did not review the reports from the Internal Audit Department.

247. The Chief Executive Officer (CEO) and Deputy CEO sat on the BOT and BOD and this compromised the separation between the oversight bodies and the implementing body. The lack of a policy on conflict of interest meant that management was involved in making policy decisions that directly affected them e.g. their participation in the approval of the staff compensation plan at the December 2007 meeting.

Recommendation 29 (Requires attention)

- (a) The ARFH should establish guidelines in form of a charter or manual to guide the operation of the Board of Trustee and Board of Directors. All amendments to the constitution should be made in accordance with procedures defined in the constitution. All amendments should be registered with the CAC with documentation to evidence the registration maintained.*
- (b) The ARFH should consider separating oversight responsibilities from the executive responsibilities by removing the CEO and deputy CEO from the two Boards above. Members of the executive should be able to attend Board meetings as observers but not as voting members.*

Audit Arrangements

248. In 2007 ARFH's Board appointed Ernst & Young as ARFH's auditors. ARFH did not have documentation evidencing the auditor selection process and there were no terms of reference for the work of the auditors. ARFH had an internal audit department which reported to the President. This is contrary to best practice since it restricts the independence and objectivity within which that department operates.

249. The Internal Audit department had two staff members, one of whom was fully dedicated to reviewing the Global Fund supported programs. However, having only one staff member was inadequate given the size of the program activities.

The job descriptions stated that the internal auditors reported to the Chief Operating Officer, a position that did not exist. They also stated that the auditors were expected to design and implement systems. This is contrary to best practice. The internal auditors were also involved in the processing of financial transactions i.e. through the pre-audit of all payments which is discouraged since it affects auditor independence and objectivity.

250. The department did not have a charter that defined its roles and responsibilities, the scope of the audits, the methodology to be followed, type of reports to be issued etc. The department had an audit plan that should be strengthened by ensuring it covers key risk areas like verification of OVCs, accountability for advances related to OVC support, budgetary controls, compliance with the grant agreement, review of key processes such as procurement, recruitment and the selection of OVCs, review over Income Generating Activities (IGAs) etc.

251. The SR audit reports were shared with the respective SRs but there was no requirement for the SRs to provide a formal response nor commit to a specific timeline to correct the weaknesses identified. In consequence, the SRs did not address identified weaknesses and this resulted in issues recurring in subsequent reports.

Recommendation 30 (Significant)

- (a) ARFH should consider establishing an audit committee that is responsible for approving the audit work plan, assessing the performance of the Chief Internal auditor, reviewing internal audit reports and holding management accountable for implementing internal audit recommendations.*

- (b) The internal audit function should be strengthened by (i) increasing staff to carry out the internal audit function; (ii) developing an internal audit charter to guide the audit process; (iii) amending the job descriptions to reflect the role of the auditors; (iv) following up recommendations and ensuring that they are implemented; and (iv) not being involved in the day to day running of ARFH.*

- (c) ARFH should be encouraged to report any control weaknesses that come to their attention in the course of the audit.*

Compliance with the Grant Agreement

252. The ARFH did not comply with the conditions of the grant agreement and the laws of the country as detailed below:

- (a) ARFH had not yet obtained its tax exemption at the time of the audit.
- (b) ARFH did not comply with the Federal and State tax laws that require that staff salaries are taxed at specific rates. The OIG noted that PAYE was computed at the rates of 2.5% and later on 1%, which were extremely low when compared to the statutory rate which is approximately 10.

Recommendation 31 (Significant)

ARFH should comply with the grant agreement. Specifically, management should deduct taxes from staff salaries in accordance with State and Federal Tax laws and pursue tax exemption status.

Financial Management

253. The Finance Department is headed by the Finance Director who is supported by the Finance Manager and two accountants. The function also supported two of its SRs i.e. FMWA and the National Youth Service Corps (NYSC).

Use of Program Funds

254. There were a number of instances between 2007 and 2009 where large withdrawals of US\$ were effected with the translated amounts deposited on the Naira account in installments. In some cases the last transfer would reach the Naira account a month after the date when funds were initially withdrawn from the US\$ account. This exposes program funds to the risk of loss. The OIG was not provided with an explanation for this unusual practice.

Recommendation 32 (High)

The management of ARFH should effect all foreign exchange transactions using program bank accounts

Books of Accounts Maintained

255. The Finance team provided more than one trial balance for the programs and some of them were not consistent with the general ledger and the audited accounts. The OIG could not reconcile the trial balances to the audited accounts because the base trial balances used by the auditors were not available. In consequence, the OIG did not obtain assurance that the financial reports to the Global Fund were accurate.

256. The Quick Books accounting software used by ARFH could not record transactions that were bigger than 9 digits. The transactions that were bigger than N 100 million had to be split into several entries of smaller digits. In cases where transactions had to be split in order to record transactions, the bank reconciliations were prepared outside the software system. Given the increase in the number of grants and transactions the QuickBooks accounting system would not, in the OIG's view, to meet the ARFH's accounting needs.

257. The system was also unable to record multiple currencies and therefore the US\$ transactions were maintained in MS Excel and the consolidation of all expenses undertaken in MS Excel which was inefficient. The Excel system lacked appropriate checks and balances and therefore there was a risk that errors in recording, processing and reporting transactions going undetected.

258. The QuickBooks accounting system automatically posted transactions once they were entered into the accounting system without allowing for a review and approval stage. This resulted in a number of errors in the entries in the system e.g.

the posting of incorrect amounts and payment voucher numbers to the general ledger. Some of these errors had not been corrected two years after the year-end (and this was not brought to attention by the LFA).

259. ARFH's document archiving system should be strengthened. Key documentation such as minutes of key meetings, trip reports, and authorization of transactions could not be located at the time of the audit. Training reports were maintained on the computers of the officers who had prepared them. Consequently the documents prepared by officers that had left ARFH could not be retrieved. This exposed ARFH to the risk of loss of key documents and information.

Recommendation 33 (High)

- (a) The ARFH should maintain proper financial records of all program transactions. ARFH should improve its archiving system to ensure that supporting documents are properly referenced and filed. Such records should be maintained for at least three years after the date of the last disbursement to ensure any claims arising or audit findings can be resolved.*
- (b) The accounting software should be developed further or replaced in order to cater for the increase in capacity requirements i.e. by extending its functionality or alternatively consideration should be given to acquiring a new financial management system. This software should be able to handle figures with over 9 digits and multi-currency transactions. The system should also provide for reviews of transactions before they are posted.*

Internal Controls

260. The OIG reviewed the use of budgets as cost controlling mechanisms and noted that there were significant savings during implementation which would not be expected with effective budgeting. For example, ARFH only spent 43% of the approved HIV Round 5 budget on the purchase of assets. ARFH was able to save some US\$ 700,000 i.e. 13% of the total budget without this affecting the program results. There were also no processes in place for comparing and explaining significant variances between the periodic expenditures incurred and the approved budget.

261. ARFH expensed all advances upon payment. It did not maintain an advances ledger to track amounts disbursed for which no financial reports had been received. ARFH was therefore unable to identify and track advances that were not accounted for. Large amounts were advanced to staff to cover OVC fees and related costs e.g. staff on average received between N 2.1 million and N 4.3 million. These staff did not submit timely reports but were able to get up to five additional advances. This exposed ARFH to the risk of loss of funds.

262. The fixed assets register was not comprehensive. The audit revealed that some assets had not been recorded in the register. The register also recorded some transactions that did not qualify to be termed as assets e.g. the cost of transporting laptops from Ibadan to Abuja. The ARFH did not undertake periodic asset verifications to confirm the existence and condition of assets held.

Recommendation 34 (Significant)

- (a) ARFH should institute an advances monitoring system for its staff and SRs. All prior advances should be confirmed as having been settled before additional advances are provided.
- (b) ARFH should strengthen its asset management by defining assets in its financial manual, maintaining a comprehensive record of all transactions that qualify to be called assets and undertaking physical verification of assets and updating records accordingly.
- (c) ARFH should strengthen its budgeting framework to cover proper preparation backed by proper work plans and reasonable costs and undertaking periodic review of expenditure against budget and providing management with explanations for variances noted.

Policies and Procedures

263. ARFH prepared a financial policy manual in 2006 for the Round 5 HIV grant. The manual had not been updated since its development and ARFH's growth required amendment to some sections in areas such as:

- (a) The accounting policies that described the basis of accounting e.g. expenditure recognition, capitalization, revenue recognition etc.;
- (b) Fixed asset management;
- (c) Management of foreign exchange transactions;
- (d) Comprehensive departmental organization chart, reporting lines and authorization limits etc.;
- (e) Chart of accounts;
- (f) Preparation of bank reconciliations including frequency of preparation; and
- (g) Periodic reporting i.e. formats, frequency, deadlines etc.

264. ARFH developed a personnel policy manual (PPM) in August 1997 and a staff compensation plan in 2008. The staff compensation plan was designed to mitigate the shortcomings of the PPM e.g. the lack of a salary structure. The PPM can be strengthened by covering (i) payment and retirement of travel advances; (ii) performance review guidelines; (iii) conflict of interest; (iv) unpaid leave guidelines; and (v) the process for the amendment of the organization chart. The OIG noted some instances of non-compliance with the PPM.

Recommendation 35 (Significant)

ARFH's finance manual and PPM should be amended to ensure that they are comprehensive to provide adequate guidance to program, implementers. ARFH's management should ensure that the manuals are operationalized in order to strengthen the control environment within which the programs are being implemented.

Sub Recipient Management

265. ARFH had four SRs under the Round 5 HIV grant namely the Civil Society for HIV and AIDS in Nigeria (CiSHAN), Network of People Living with HIV/AIDS in Nigeria (NEPWHAN), National Youth Service Corps (NYSC) and Federal Ministry of Women Affairs and Social Development (FMWA). The SRs were selected because of their national coverage in at least one service delivery areas i.e. stigma reduction,

respect for confidentiality, community treatment and adherence programs, home based care (HBC), youth education and care and support to OVCs. A cluster approach that brought together ART, HBC, OVC and support groups to deliver a comprehensive service was used to implement activities.

266. ARFH has two SRs for the Round 5 Phase II TB grant i.e. the National TB and Leprosy Control Programme (NTBLCP) and the International Leprosy Program (ILEP). These SRs worked through sub-SRs namely the State TB and Leprosy Control Programme, Nigerian Institute of Medical Research (NIMR), Nigerian Supreme Council for Islamic Affairs (NSCIA) and the Christian Health Association of Nigeria (CHAN) and WHO.

267. ARFH applies a 'mentorship' approach to the SR supervision process which is commendable. Under this approach, an ARFH manager mentors the SR with formal mentorship reports produced. ARFH also held quarterly retreats as part of its supervision process where the financial and programmatic performance of the SRs were reviewed.

Civil Society for HIV and AIDS in Nigeria (CiSHAN)

268. CiSHAN is the umbrella coordinating organization for civil society organizations working on HIV/AIDS within the Nigerian National Response. CiSHAN was the CSO representative at the CCM and the chairman of its council was the Chairman of the CCM. As SR, CiSHAN was responsible for the stigma reduction and Home Based Care for PLWHAs. At the time of the audit, CiSHAN had selected 370 CBOs to implement program activities. The selection process can be strengthened by developing an action plan for SRs to address identified weaknesses during the assessment phase.

269. There was scope for improving CiSHAN's Monitoring and Evaluation department. The OIG noted that the M&E officers did not have a complete list of CBOs under their management. There was no evidence that CBOs were visited periodically for support supervision. The M&E department was also unable to reconcile the HBC kits received to the kits provided to CBOs between 2007-2008.

270. The competence and number of finance staff was inadequate for the Global Fund supported program. Interaction with finance staff revealed that they had limited knowledge of the QuickBooks accounting software and the internal auditor had to support the finance team to extract basic financial reports. A review of CiSHAN's expenditure revealed the following weaknesses:

- (a) There were instances of over-payment of hotel bills noted e.g. three payments to Paradise Inn exceeded the invoices by N 141,200 (US\$ 928).
- (b) Working advances were expensed on payment and CiSHAN did not maintain a ledger to track outstanding advances.
- (c) CiSHAN's controls over program assets needed strengthening e.g. the former Executive Director left with a program laptop and camera in August 2009 and these had not been recovered at the time of the audit.
- (d) The stores system at CiSHAN could not provide information on items received and the number of HBC kits distributed. The store in which the

items were kept was inappropriate for medical items with direct sunlight streaming into the store and was not well organized.

- (e) CiSHAN did not have a comprehensive system for backing up key information. In cases where back-ups were made, there was no system for securing the backed up information e.g., the backups for the M&E Department were on a laptop that was stolen.

Recommendation 36 (High)

ARFH should work with CiSHAN to ensure that identified weaknesses are addressed and identified risks mitigated. ARFH should recover all the amounts that were overpaid to Paradise Inn.

The Federal Ministry of Women Affairs and Social Development (FMWA)

271. FMWA was responsible for OVC care and support with implementation undertaken through State OVC desk offices. During site visits, the OIG was informed that the FMWA had no jurisdiction over the State OVC Desk Officers since they were accountable to the Permanent Secretary of the State Ministry of Women Affairs and Social Development (SMWA). A failure to actively engage with the SMWA hindered timely commencement of programs at the State level.

272. No MOUs were signed between the FMWA and the SMWAs to define the contractual relationship between these two entities and this created implementation challenges. For example at the time of the audit, some state desk officers had not accounted for advances despite repeated requests by FMWA for the balances to be remitted.

273. It was also apparent that FMWA lacked the capacity to follow up and review the accountabilities submitted by the SMWA and the ARFH finance department had stepped in and supported the FMWA in undertaking this role.

274. The desk officers were initially responsible for identifying and verifying OVCs and making disbursements to the CBOs i.e. for year 1 and 2 of the HIV Round 5 grant. However in the third year, the process was changed to a team of three headed by an ARFH officer and supported by the State OVC desk officer and a state officer from the Association of OVCs NGOs in Nigeria (AONN). These teams verified the OVCs in the first two years and then developed the list for those that would be funded under year 3. Funds were disbursed to the team leader who was required to submit a report on completion of the verification process.

275. ARFH had not received all the reports from the verification exercise e.g. for the Osun and Ondo states. The reports received did not reflect the oral representations made by ARFH staff to the OIG. For example the reports did not reflect that some OVCs did not exist, some CBOs were fictitious, and other OVCs that were supported did not qualify to be termed as vulnerable and in dire need.

Recommendation 37 (Significant)

The SR and SSR set-up at FMWA should be strengthened by signing an MOU that guides the roles and relationship between FMWA and SMWA. FMWA should liaise

with the SMWA to recover outstanding funds from the state officers. ARFH should establish and implement standard formats of reports for OVC verifications and disbursements to ensure that all relevant information is captured and actions developed to address weaknesses.

Network of People Living with HIV/AIDS (NEPWHAN)

276. The Network of People Living with HIV/AIDS (NEPWHAN) was responsible for implementing the stigma reduction and respect for confidentiality and community treatment and adherence programs service delivery areas. These activities were implemented through support groups that were identified during the expansion of ART sites. NEPWHAN had a clear documented organization structure and manuals that detailed policies and procedures. At the time of the audit, the Internal Auditor position had not been filled.

277. NEPWHAN supported the groups by paying rent, salaries and providing office equipment. NEPWHAN procured the office equipment on behalf of the support groups. A review of the procurement process for these items revealed that NEPWHAN did not follow a competitive procurement process. All procurements in year 3 were from one supplier and there was no evidence that this supplier had been selected competitively.

278. NEPWHAN also needs to strengthen its advances systems by ensuring that all payments made as advances are properly supported. The OIG noted instances of incomplete retirement of advances and significant delays in retiring other advances. There were also instances noted where consultants that did not travel outside Abuja were paid daily subsistence allowances and the amounts involved should be recovered.

279. There were several issues that arose with income generating activities (IGAs). The IGA started by the national office were not successful because all fish involved were apparently stolen. Other IGAs needed strengthening in the following areas:

- (a) NEPWHAN did not assess the feasibility of the projects before disbursing funds for the IGA ventures. In consequence, a number of businesses collapsed e.g. a number of support groups ventured into palm oil with the hope that the prices would rise. However they were not been able to sell their stock because the prices fell.
- (b) All IGA projects received the same amount of funds irrespective of group size, nature of project, location of projects etc.
- (c) Basic business training was not provided to groups before the IGAs were approved and funded. The groups were not able to maintain basic records for their businesses.
- (d) NEPWHAN's supervision reports gave an impression that all the businesses were successful when in actual fact most of them were not performing well. For example, one business was reported as successful yet the entire stock of palm oil bought had been stored for almost 10 months waiting for the prices to rise.

Recommendation 38 (Requires attention)

The procurement process at NEPWHAN should be strengthened by ensuring that it is undertaken competitively. NEPWHAN should strengthen the identification, assessment, management and monitoring of IGA grants to support groups.

Events after Audit Field Work

280. After the audit field work in April 2010, the PR submitted additional documents for review in June 2010 and July 2011. The total for questioned costs reduced from US\$ 721,954 in April to US\$ 504,000 in June 2010. After the audit field work in April 2010, the PR was able to obtain retroactive approval from the Global Fund Secretariat for the following expenses: (i) procurement of land (US\$ 180,000) from funds earlier drawn as management fees; (ii) grant pre-finance costs (US\$ 63,319), back-dated staff salaries (US\$ 84,940). In September 2011, the PR also refunded to the Global Fund US\$ 9,184 for which no proper accountability was presented by FMWA.

Conclusion

281. While ARFH has the requisite capacity, experience and structures in place to effectively implement the Global Fund grant activities. ARFH should strengthen the controls over sub recipient management and oversight.

Christian Health Association of Nigeria (CHAN)

Background

282. Christian Health Association of Nigeria (CHAN) is an ecumenical, not for profit service organization established to coordinate church sponsored health care activities in Nigeria. The Organization has a membership of 140 hospitals and 187 clinics and these institutions contribute over 40% of Nigeria's health care services. CHAN member institutions are coordinated through 23 major Nigerian churches at the federal, state and local government area levels.

283. The CCM nominated CHAN as a PR for the Round 5 Phase 1 TB program which run between 1 January 2007 and 30 June 2009. During this period, the Global Fund disbursed US\$ 23.9 million against a budget of US\$ 25.7 million. The CCM changed the grant PR after Phase 1 due to poor program performance.

284. The key interventions for the CHAN TB grant were to:

- (a) Strengthen human resources of the National Tuberculosis and Leprosy Control (NTBLCP) in order to improve technical and managerial capacity at the federal, state and local government area (LGA) levels and ensure achievement of at least 80% implementation rate of program activities;
- (b) Increase advocacy to promote behavior change in communities about TB
- (c) Expand laboratory network to increase treatment success of all TB cases detected by 85%;
- (d) Intensify TB case finding in congregate settings and reduce incidence among persons living with HIV/AIDS; and
- (e) Improve quality treatment of TB cases with Directly Observed Treatment, Short-course (DOTS) through strengthening existing services and establishing new DOTS centers in areas not covered.

Achievements and Challenges

285. A significant proportion of the program activities were implemented through SRs. CHAN signed grant agreements and disbursed funds to eight SRs. The program promoted the adoption of the DOTS strategy and integration of the TB program into the Primary Health Care system. Guidelines and standard protocols for DOTS, TB/HIV, TB infection control and MDR TB were developed and used. Logistics Management Units (LMU) were established at the central and zonal levels.

286. The human resource capacity of the NTBLCP central unit was also strengthened. The unit recruited staff with support from the program i.e. two public health medical officers, an epidemiologist, and a project accountant. Logistical support for the national and state level supervision was strengthened through procurement of nine vehicles that were distributed to the states.

287. The implementation of the grant was constrained by the inadequate PR capacity in terms of staff numbers and skills to implement a nation-wide program. The program was unable to report on some indicators because the existing TB

health information system did not capture the relevant data. There was also a delay in the development and roll out of data collection tools and so CHAN could not collect and report data on these indicators.

288. CHAN procured equipment for setting up six zonal MDR-TB laboratories. However, this equipment was not installed and MDR-TB zonal laboratories were not functional at the time of the OIG audit because the infrastructure at these zonal laboratories did not meet the required architectural standards. The planned baseline survey on TB prevalence was not carried out by WHO due to insufficient funds.

Institutional Aspects

Oversight

289. The National Executive Council (NEC) was responsible for providing governance and oversight over CHAN's activities and operations. The NEC comprised of representatives from member institutions. The NEC had four sub committees i.e. finance, appointment, promotions and discipline, building/tender and management. CHAN had a constitution which guided its operations and those related to its NEC. This constitution had been last updated in June 1995 and had not been updated to capture the emerging issues in the organization over the years.

290. There was no evidence that the NEC provided oversight over the Global Fund supported programs. The NEC held only two meetings throughout the period the Association was PR which was contrary to the constitution that required that at least three meetings be held annually. There was no evidence that the four NEC sub-committees held any meetings. A review of the two NEC meeting minutes revealed that no attention was given to the Global Fund program despite the performance challenges the program was facing and the fact that Global Fund grants made up some 74% of CHAN's total grants income.

291. At the inception of the TB grant a technical advisory committee (TAC) was formed to assist the PR in implementing the TB program. The TAC comprised of WHO, CDC, NTBLCP and implementing SRs. The committee met during the first financial year but most of their recommendations were not implemented by CHAN which impacted program performance. There was no evidence seen that this committee met in subsequent years of the grant and this resulted in a gap in the oversight of the program activities.

292. CHAN appointed a program director that was responsible for the implementation of the program. CHAN recruited 12 staff in order to strengthen its capacity but the staff numbers and skills remained inadequate for the program as seen by a failure to monitor grant implementation with the evidence of monitoring reports and support documentation for financial activities. No new staff received any orientation and did not have prior experience in managing Global Fund supported programs.

293. There was evidence of management override of controls which led to a further break down of the internal control system as seen by use of program funds for non-program activities, payment of significant program funds to non-program staff and transfer of program funds to non-program related foreign bank accounts. These transactions which were approved by senior management were in contravention of the grant agreement. A total of US\$ 130,405 was lost due to these irregular transactions. The amount of US\$ 130,405 is composed of the following:

- a. Comparing the exchange rates at which CHAN translated forex with the Central Bank rate revealed a loss of US\$ 44,000;
- b. There was a failure to bank cash of US\$ 38,506, and
- c. Bank charges incurred due to the large cash withdrawals and deposits amounted to US\$ 47,889.

Audit Arrangements

294. Contrary to the grant agreement requirement to have the program audited annually, CHAN was first audited 18 months into program implementation. The auditors were not competitively selected as required by the Global Fund guidelines related to audit arrangements and the report was submitted after its due date. There were no audit arrangements for the SRs with the exception of the German Leprosy Relief Association.

295. The quality of the external audit reports was reflected in the fact that the audited financial statements had errors e.g. grant income was understated by over US\$ 10m. These auditors were unable to identify key control weaknesses that were pervasive at CHAN. The management letter did not identify the significant weaknesses identified by the OIG.

296. The OIG noted that contrary to corporate governance best practice, the internal auditor reported to the Secretary General and not the NEC. As a result, the independence and objectivity of the internal audit function was impaired. Other issues that affected the effectiveness of the internal audit function were:

- (a) *Manual*: there was no internal audit manual to define the mandate and charter of the internal audit function and guide the performance of internal audits;
- (b) *Planning*: there were no annual audit plans prepared nor detailed internal audit programs to guide the execution of audits;
- (c) *Scope and approach*: the audits were not risk based with emphasis placed on high risk functions and entities;
- (d) *Reporting*: the audit reports were lacking in content and depth;
- (e) *Follow up*: the reports reviewed did not have management comments, actions to be taken, responsible persons or key deadlines for implementation of the recommendations raised. There was also no evidence of timely follow up of implementation of issues raised.

Compliance with the Grant Agreement

297. Management used program funds to pay for expenses that were not in the approved work plan and budget. A total of N 59,353,163 (US\$ 395,688) was used to pay for salaries for staff that were not involved in the Global Fund supported program. All funds used for non-program activities should be refunded to the Global Fund.

298. Other areas of non-compliance noted were:

- (a) Inter-grant borrowing where program funds were lent to another program e.g. CHAN used program funds to pay for USAID funded technical assistance to CHAN. These funds were later recovered but resulted in bank charges amounting to US\$ 1,389 that were charged to the Global Fund program account. These charges should be refunded to the Global Fund.
- (b) There were delays in submission PUDR reports and in consequence delayed receipt funds from the Global Fund. The table below showed a sample of PUDR reports and their corresponding delays in report submission:

Date of Progress Update	Date of submission by PR	Report due date	Delay (days)
31/12/2007	20/03/2008	15/02/2008	28
31/03/2008	23/05/2008	15/05/2008	8
30/06/2008	27/08/2008	15/08/2008	12
31/03/2009	30/06/2009	15/05/2009	45

- (c) At the time of the audit, CHAN was still holding unexpended program funds amounting to N 7,599,503 (US\$ 50,663) on the Naira account and US\$ 530 on the US\$ account as at 28 February. The balance of amounts after undertaking a close out audit should be refunded to the Global Fund.
- (d) CHAN did not remit Pay as You Earn tax deductions to the State Inland Revenue Service as required by the law.

Financial Management

299. CHAN maintained its books of accounts manually and later started using MS Excel spread sheets. CHAN procured an accounting software called Tally six months before the end of the grant. The software was not used because the program staff were not trained in its use. CHAN hired a consultant from the software vendor to post transactions in the system. At the time of the audit, the staff could not retrieve the financial statements from the system.

300. The accounting records indicated that CHAN paid US\$ 749,155 to WHO for technical assistance to undertake a TB prevalence baseline survey. A review of this transaction revealed:

- (a) WHO confirmed that they had received US\$ 723,710 which was less than the CHAN records by US\$ 25,445. This amount should be refunded to the Global Fund.

- (b) One of the transfers to WHO was made by withdrawing N 71,341,987.5 in cash from the bank account and translated into dollars that were given to WHO. No documentation was available to evidence the rate funds were translated at.
 - (c) The funds for the TB prevalence survey amounted to US\$ 505,200. WHO explained that this survey was not conducted because the funds provided were insufficient. The funds disbursed were used to procure equipment for the survey leaving a balance of only US\$ 54,765. WHO required another US\$ 900,000 which if not provided would result in the loss of all funds invested thus far.
301. The work plan and budget provided for the training of state and national TB medical officers in the management of TB. This training according to the work plan was supposed to take place in Arusha, Tanzania. However CHAN made payments of US\$ 155,219 to Fondazione Salvatore Maugeri of Italy and John Hopkins to undertake this training. CHAN did not provide justification for the change of the choice of college. There were no third party supporting documents to evidence that the targeted staff had actually received this training.
302. CHAN did not maintain an advances ledger to monitor the retirement of advances and did not review accountabilities to retire advances. At the time of the audit there were unretired imprests amounting to NGN 5,225,640 (US\$ 38,078) which comprised of advances to CHAN staff to carry out Global Fund activities. A significant portion of these funds (73%) were paid out in 2007 and remained outstanding at the time of the audit. These funds should be refunded to the Global Fund.
303. CHAN had payments amounting to US\$ 389,761 (N31,364,593 or US\$ 209,097 and US\$ 180,664) for which no accountability was presented. These funds were recorded in the cash records as payments for various Global Fund program activities effected by CHAN on behalf of NTBLCP. These transactions did not have payments vouchers nor third party supporting documents. These funds should be refunded to the Global Fund.
304. CHAN management drew US\$ 444,919 from the budget line item of project support costs. With regard to the drawing, CHAN management declined to provide the OIG with: (i) transaction lists to which the figure of US\$ 444,919 could be verified; (ii) cash books or ledgers; (iii) bank statements, and (iv) support documents. In the absence of the above documents, the OIG assurance of the accuracy, and appropriate use of these amounts. The amount of US\$ 444,919 should be refunded to the Global Fund. .
305. CHAN procured MDR-TB laboratory systems at a cost of US\$ 522,412 for setting up six zonal MDR-TB laboratories. With the exception of the equipment installed at NIMR, the other equipment was not installed. This was because the infrastructure of these zonal laboratories was not ready to meet the required

standards. Unless the laboratories are renovated to take up this equipment, there is a risk that the money invested in this equipment will be lost.

Recommendation 39 (High)

CHAN should refund all unsupported and ineligible funds:

- i. US\$ 130,405 due to losses arising from irregular forex transactions;*
- ii. US\$ 389,761 for which no support documents were presented to the OIG;*
- iii. US\$ 444,919 fund drawn as project support costs, and*
- iv. US\$ 395,688 used to pay salaries for non-program activities*

Sub Recipient Management

306. A significant proportion of the program activities were implemented through SRs namely (i) the National Tuberculosis and Leprosy Control Program (NTBLCP); (ii) the Nigeria Institute of Medical Research (NIMR); (iii) German Leprosy Relief Association (GLRA); (iv) the Leprosy Mission of Nigeria (TLMN); (v) the Netherland Leprosy Relief (NLR); the Nigeria Supreme Council for Islamic Affairs(NSCIA); the Network of People With HIV/AIDS in Nigeria (NEPWHAN); and the International Centre for Gender and Social Research (INTER-GENDER).

307. CHAN developed SR selection guidelines with the assistance of the CCM. However these guidelines were not followed during the selection of the SRs. SRs were selected without going through a proper assessment process e.g. the NSCIA. Two of the SRs i.e. GRLA and NLR did not turn up for the selection assessment meeting but were selected. CHAN management informed the OIG that these SRs were subsequently visited and assessed although there was no documentation to evidence this.

308. There were delays noted in signing of Memoranda of understanding (MoU) with the SRs. For example the MoU between CHAN and the NTBLCP was signed six months after the program had started and at time of the audit, the funds remained unaccounted for.

309. Funds for the implementation of NTBLCP activities were paid to individual NTBLCP officers' bank accounts. CHAN management informed OIG that this was done to avoid government bureaucratic processes that would cause delays to program implementation. These funds remained unaccounted for at the time of this audit. The NTBLCP National Co-coordinator borrowed grant funds amounting to NGN 3,589,129 (US\$ 26,586) for personal use. These funds had not been refunded at the time of the audit.

310. SRs did not submit proper accountability for the funds disbursed to them. Funds transferred to SRs amounting to US\$ 1,141,073 were not supported by payment vouchers or relevant third party support documents. CHAN did not provide documents to support SR expenditure for: German Leprosy Relief Association (US\$ 273,594), NEPHWAN (US\$ 6,841), NSCIA (US\$ 127,248), NTBLCP (US\$ 468,728), NIMR (97,457) Inter-Gender (US\$ 145,864), NLR (US\$ 20,773) and TLMN (567). Accountability of funds to NTBLCP (504,497) is the subject of an on-going investigation.

Events after Audit Field Work

311. After the audit field work in April 2010, the CHAN submitted additional documents for review in June 2010 and July 2011. The total for questioned costs reduced from US\$ 6,103,010 in April 2010 to US\$ 2,905,000 in June 2010 and US\$ 2,501,847 after the final follow on review in September 2011. During the review in September 2011, the OIG reviewed further documents relating to SRs: Inter-Gender, Nigeria Institute of Medical Research (NIMR), and Netherland Leprosy Relief (NLR).

Conclusion

312. CHAN should refund the Global Fund US\$ 2,501,846 of unsupported and ineligible expenditure. The amounts to be recovered are summarized in the table below:

Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)
CHAN expenditure that was not supported		389,761
Losses incurred due to irregular forex transactions		130,405
Used to pay salaries for non-program staff	395,688	
Funds drawn as project support costs	444,919	
SR unsupported expenditure		1,141,073
Total	840,607	1,661,239
Total of questioned expenditure to be refunded		2,501,846

Disease Specific Systems that Support Program Implementation

HIV/ AIDS

Background

At the time of the audit, the HIV prevalence in Nigeria was estimated at 3.6%, and 4.6% among pregnant women. In 2009, approximately 2.98 million people were living with HIV/AIDS with 192,000 recorded AIDS deaths. One of the most significant HIV/AIDS social and economic impacts is the ever increasing number of AIDS orphans estimated at 2.12 million and 2.175 million in 2008 and 2009 respectively⁴. The government of Federal Republic of Nigeria has shown strong commitment to the national HIV/AIDS response. The National AIDS Control Agency coordinated the multi-sectoral response to HIV/AIDS. However, the country has a number of health system barriers, which seriously hinder the effectiveness of service delivery for Global Fund supported HIV/AIDS grant programs.

313. There is significant variation in prevalence among the different zones. At the zonal level, prevalence is lowest in the South West (2.0%) and highest in the South-South (7.0%). Age group specific prevalence is highest in the age group 25-29 years (5.6%) and lowest in the 40-44 years age group (2.9%)⁴.

314. The HIV/AIDS national response in Nigeria has made some noteworthy achievements. These include good government political commitment and a multi-sectoral response to HIV/AIDS. Furthermore, the country has developed a framework for HIV/AIDS programs with HCT, ART, PMTCT, HBC and OVC support provided by clusters. NACA has coordinated the development of elaborate national guidelines and protocols for HIV/AIDS treatment & care, and home based care.

315. The country has a number of health system barriers, which hinder the effectiveness of service delivery. These mainly include:

- (a) Limited access to ART/PMTCT services;
- (b) Insufficient expansion (penetration) of ART/PMTCT/HCT, particularly to PHC level;
- (c) Significant human resources shortages at all levels;
- (d) Poor infrastructure particularly at PHC level; and
- (e) Weak public private partnerships (PPP).

Implementation of Grant Program Activities

316. The implementation of the Global Fund supported programs started in 2004 under the Round 1 with NACA as PR. The grant focus was on the establishment of ART, PMTCT and HCT sites at tertiary level hospitals. However, this grant was not provided with additional funding under Phase II. The Global Fund attributed the decision not to continue funding to data unreliability, an inadequate M&E system, late and insufficient reporting by the PR and failure to achieve targets set.

⁴ UNGASS Country Progress Report, Nigeria, 2010

317. Implementation of the Round 5 HIV/AIDS grant started in January 2007 with three PRs taking responsibility for the implementation of the grant. NACA was responsible for objectives 1,5 and 6 i.e. (i) scaling up comprehensive HIV AIDS treatment care and support for PLWHA in the country; (ii) increasing capacity of the private sector to implement workplace HIV/AIDS program in 12 States; and (iii) strengthening the capacity of implementing institutions for effective program management, coordination, monitoring and evaluation.

Most of the activities were implemented by NACA as planned. However, OIG could not obtain evidence for implementation of the activity “Development of Guidelines and Conduct Training on TB/Hepatitis and STI program their linkage with HIV/AIDS.”

318. SFH was responsible for objective 2 i.e. expanding access to HIV testing and counseling to cover all 37 states in the country. All program activities were implemented as planned and program targets exceeded.

319. ARFH was responsible for objectives 3 and 4 i.e. strengthening the role of the community, CBOs and networks of PLWHAs in providing and supporting HIV/AIDS treatment and care and increasing access to care and support services for OVCs. ARFH implemented most of the activities as planned, except for: (i) income generation activities which stopped at the end of Phase 1 due to accountability problems with beneficiaries; and (ii) patient adherence alarms which were not purchased and distributed due to insufficient funds. ARFH’s PUDR for the quarter ended on 31 December 2009 showed that the following targets had not been met:

- (a) Number of stigma reduction outreach program conducted;
- (b) Number of orphans and vulnerable children in dire need receiving financial support for Health/Education from the OVC Fund; and
- (c) Number of HIV positive people receiving home based care.

Monitoring and Evaluation

Monitoring and Evaluation (M&E) Plans and Indicators

320. The OIG noted that some of the results reported were inaccurate. This arose from the indicator definitions that stated that required reporting of results attributable to the funding from the Global Fund. The results reported did not relate exclusively to the Global Fund but included funds from other donors. The affected indicators were:

- (a) *‘Number of people with advanced HIV infection receiving ART at sites receiving Global Fund Support’* where NACA reported 107,122 against a target of 70,300 for the quarter ended 31 December 2009. The results were attributed to both the Global Fund and PEPFAR and because the Global Fund only contributed 10% of the total cost outlay, it was misleading to attribute the total results to the Global Fund.
- (b) *‘Number and percentage of HIV infected pregnant women receiving a complete course of ARV prophylaxis for PMTCT receiving Global Fund*

support where the above scenario was also applicable to the results reported under this indicator.

- (c) *'Number of service delivery points providing antiretroviral combination therapy'* where NACA reported 137 sites against a target of 143 sites as at December 31 2009. However the program funds were used to equip only 24 sites with the rest financed by the PEPFAR program.

321. There were also results reported that could not be tied to the underlying records. These related to the following indicators:

- (a) *'Percentage of people still alive 12 months after initiation of antiretroviral treatment'*, where NACA reported a result of 96% for the quarter ended 31 December 2009. NACA's source of data was the cohort analysis of eleven facilities across the country. However this data was only available from FHI's system i.e. LAMIS⁵ which reported a different figure i.e. 81.15%.
- (b) *'Percentage of infants born to HIV infected mothers that are born HIV positive'* where NACA reported the results for the quarter ended 31 December 2009 as 6%. NACA stated that this indicator was calculated based on data from early infant diagnosis but the source of this data was not clear since FHI, the largest SR implementing PMTCT activities in 109 public hospitals, did not maintain data on PMTCT.

Quality of Data

322. Within the framework of Round 5 HIV/AIDS grant, NACA conducted a number of Data Quality Assessments (DQA) with the aim of validating the data submitted by SRs to the PR and evaluating data availability, consistency, validity and accuracy. The OIG noted that data validation was not undertaken for outcome indicators such as *'Percentage of people still alive 12 months after initiation of antiretroviral treatment'* and *'Percentage of infants born to HIV infected mothers that are born HIV positive'*. The adjustment factors that arose from the May 2008 DQA were also not incorporated in the subsequent DQAs.

Recommendation 40 (High)

NACA should review its monitoring and evaluation system to ensure that the reported results are in line with the indicators. NACA should also strengthen its data quality mechanisms to improve the quality of data.

Quality of Service Delivery

There are few PHC facilities with functional HIV Counselling and Testing (HCT) sites and as a result HCT coverage among the population is still low. There is a good potential for increasing HCT coverage among the general population through NGO/FBO community outreach. There are significant delays between testing HIV positive and patients starting ART and this was attributed to the long waiting time to get CD4 count tested and transportation problems from the remote areas to ART sites. There was no effective patient follow up to ensure that they did not default

⁵ Lafyia Management Information System

on treatment. There were also stock outs noted of ARVs, isoniazid and cotrimoxazole in some ART sites.

HIV Counselling and Testing (HCT)

323. The public hospitals had a very high patient load for HCT/ART/PMTCT services while the private clinics remained significantly underutilized. The investment to the public and private institutions in terms of laboratory equipment, training and provision of drugs is the same but access to the latter is limited due to patient registration fees charged. This therefore brings into question the effectiveness of investing program funds in private clinics which should be addressed. The FBOs that provide HCT as part of their community outreach projects may be another alternative to increasing HCT coverage among the general population.

324. A testing algorithm is included in the national policy.⁶ However, this algorithm could not always be used because the required test kits were not available at some HCT sites. At some sites, the only available test kit was Determine, whereas Unicode and Stat Pack were also required to undertake a test. HCT guidelines were not available at some of the sites visited and not all providers were trained in counseling techniques. There were also no Standard Operating Procedures (SOPs) or guidelines for HCT quality control.

325. Test kits should be stored in rooms with a temperature between 2-30 degrees Celsius. However, temperatures in this area often exceeded 30 degrees Celsius e.g. Calabar General Hospital and Cross River State. This subjected the test kits to extreme conditions which can affect their effectiveness and the validity of the test results.

Recommendation 41 (High)

- (a) NACA should train all service providers working at HCT sites, ensure availability of HCT guidelines, HIV test kits as well as adequate storage conditions and quality control procedures to ensure compliance with the national testing algorithm accordingly.*
- (b) NACA should expand the provision of HIV/AIDS services to the population by:*
 - i. expanding the support to faith-based not for profit hospitals;*
 - ii. bringing NGOs/FBOs on board in a bid to increase HCT coverage through community outreach; and*
 - iii. consider removing financial access barriers for patients seeking care at private clinics through the subsidising fees.*

Anti Retroviral Treatment (ART)

326. People that tested positive at PHC centres were referred to particular ART sites. However, there is no mechanism in place to follow up patients and ensure that they went to the ART sites. During the field visits, PHC providers could not

⁶ HIV and AIDS treatment and care in adolescents and adults, Federal Ministry of Health, Abuja, Nigeria, May 2007

confirm that people that tested positive at their clinics had sought treatment at ART sites.

327. There were significant delays noted between the testing of patients and their enlisting on to the ART program. This delay was caused by the long waiting time for CD4 count tests at public hospitals as well as problems with transportation to ART sites from the remote areas. For example the Katsina Ale general hospital's one CD4 count machine was insufficient for the number of patients that turn up for tests. On average, 120 patients were tested every week and because of the distance to the hospital, some people had to sleep in the open near the hospital in order to make the list for the day.

328. ART sites in public hospitals had reached saturation point and so they could not enrol new patients. ARVs were generally available but the poor infrastructure, lack of necessary equipment, and trained HR compromised the effectiveness of the ART program. Some instances of stock outs were noted in ART sites e.g. Tenofovir in Wose General Hospital Abuja and Tenofovir and Zidovudine in Calabar General Hospital Cross River.

329. Treatment adherence counselling was conducted at hospital pharmacies which was not effective due to the high patient load in the pharmacy e.g. Wuse General Hospital Abuja. There was no formalised patient follow up mechanism to reduce the risk of defaulting from treatment. Some clusters established Patient Support Groups (PSGs) that followed up patients but the effectiveness of this was reduced by the lack of proper linkages between the support group and ART sites and the fact that very few PSG members had received the relevant training in providing psycho-social support.

Recommendation 42 (High)

- (a) *NACA and the FMOH should prioritise the strengthening of ART site capacity especially in the public hospitals in order to make the process for initiating patients into the ART program more efficient. This may call for increasing necessary equipment e.g. CD4 count machines as well as training of medical staff and lab specialists to improve their knowledge and skills in the aforementioned technique.*
- (b) *NACA and the FMOH should formalise the process for clinical follow up of patients in order to strengthen treatment adherence of patients receiving ART. Providers should be trained in clinical follow up of patients receiving ART and linkages should be built between ART sites and PSGs that provide psycho-social support and community based care to AIDS patients in targeted communities.*

Management of opportunistic infections (OIs) including TB

330. Free drugs to treat opportunistic infections among PLWHA were not provided. Patients therefore are obliged to buy such medicines and this has created a significant financial burden for them.

331. The TB screening (clinical symptoms/signs) was not done at HYGEA supported sites. The TB screening that is offered at Family Health International (FHI) supported ART sites is by assessing the patients for certain clinical symptoms and signs. The X-ray examination is at a cost, which was not affordable to all PLWHAs.

332. The national policy⁷ provides for Isoniazid preventive therapy (IPT). However its application is not widespread among PLWHA. This is due to (i) failure to communicate the national policy to providers; (ii) no consensus on IPT among stakeholders and health providers; and (iii) limited capacity at ART sites to diagnose active TB which is critical before initiating IPT.

333. The OIG noted that there no isoniazid and cotrimoxazole available at ART sites for prophylactic treatment e.g. in FCT. Providers working at ART sites were not knowledgeable on the benefits of using isoniazid and cotrimoxazole on PLWHA.

Recommendation 43 (High)

NACA and the FMOH should promote the proper management of OIs including TB. NACA should ensure that there are adequate selection and quantities of drugs available at facilities for management of OIs as well as free X-ray for TB screening. NACA should consider training all providers at ART sites in management of OIs including TB among PLWHA.

Prevention of Mother-to-Child Transmission (PMTCT)

334. PMTCT services were rendered to pregnant women at so called “comprehensive sites” operating mostly in general hospitals. The patient load in such sites at public hospitals was very high e.g. the PMTCT site at Wose general hospital FCT attended to 120-150 patients a day. As with the case of HCT, the utilization of PMTCT services in private clinics was very low. The FBOs working in community outreach programs found many pregnant women that had not been tested for HIV. This supports the argument that HCT services should be expanded.

335. At some PMTCT sites, the follow-up registers were not comprehensively completed. Key elements like HIV status and child outcome were not completed. The staff had been trained in PMTCT in public hospitals but no training materials were given to the participants for the in-house training. In some HYGEIA comprehensive sites (private clinics), providers were not trained in PMTCT.

Home Based Care (HBC)

336. There was a high demand for HBC but this demand could not be met due to inadequate funding to meet the demand. This resulted in an inadequacies in the number of HBC kits and the quantity of items in each kit. Furthermore, exhausted items in the HBC kits were not refilled for up to 8 months. The OIG also noted that CiSHAN was not successful in facilitating linkages between general hospitals and

⁷ HIV and AIDS treatment and care in adolescents and adults, Federal Ministry of Health, Abuja, Nigeria, May 2007

CBOs/FBOs trained so that they can work together. Some hospitals refused to work with the CBOs/FBOs.

337. The roles with appropriate linkages between the key players at community level were not clearly defined i.e. PSGs and CBOs. There were also no distinct geographical boundaries for the communities attached to the ART sites e.g. Abuja had six comprehensive ART sites but the target population for each was not defined. This can result in duplication of services and wastage of resources.

338. Instances were noted where there was a lack of collaboration in the work done by CiSHAN which implemented the HBC program and NEPWHAN which implemented the PSG component. In these cases there was no linkage between CBOs working on HBC and PSGs in the same community. At the same time, there were good models noted at some sites where the PSG was instrumental in recruiting and referring patients in need of HBC to the relevant CBOs. The model that promotes collaboration between HBC and PSG service providers should be replicated to other sites.

Recommendation 44 (High)

NACA should strengthen HBC by encouraging cooperation between CiSHAN and NEPWHAN to work together. The effectiveness of the HBC interventions can be increased with providing adequate quantities of HBC kits.

Orphan and Vulnerable Children (OVCs)

339. The Round 5 HIV/AIDS grant framework focused on OVCs generally and not necessarily on OVCs from HIV/AIDS affected households. In some states e.g. FCT, NGOs working on this component did not have documentation to support the selection process for the OVCs that were supported by the program. The OIG found some discrepancies between the list of beneficiaries in various states for various assistance activities and the OVC main registry. There were also delays noted in the distribution of the items.

Organization of Services

340. An HIV/AIDS commodity logistics management information system was in use. However the OIG noted that daily consumption forms and stock cards for ARVs/OIs were not filled in regularly at some ART sites. This may have contributed to the episodes of stock out of drugs and HIV test kits observed by the OIG.

341. The ART monitoring information system was in place and functional. The public hospitals supported by FHI had most of the standard forms for patient management and monitoring duly completed. The shortcomings observed related to lack of medication adherence assessment forms and pre ART registers that had not been updated. Patients that qualified as “loss to follow up” in the ART registry were not included in the patient retention tracing registry suggesting that such patients were not followed up. In the Hygeia supported private clinics, the patient management and monitoring system was not functional.

342. At the time of the audit, FHI had recruited 18 engineers to provide Planned Preventive Maintenance (PPM) services for the laboratory equipment at its ART sites. In cases where the PPM services were available, standard registration books were not maintained. In some hospitals e.g. Calabar General Hospital and Cross River, the CD4 machine had not been functional for over six months. Hygeia did not have PPM arrangements for its sites. The OIG noted that some CD4 machines in some private clinics were not working e.g. Rainbow Hospital FCT.

Recommendation 45 (High)

NACA should give consideration to strengthening its ART monitoring information system especially in the HYGEIA supported sites as well as establishing PPM for laboratory equipment.

Tuberculosis

TB remains a major public health problem in Nigeria as demonstrated in Nigeria having one of the highest TB incidence/prevalence rates in the region. Although, there have been notable achievements in the National TB and Leprosy Control Programme during recent years, important challenges remain unaddressed. These include a heavy dependence on donor funding in TB control, significant human resources shortages at all levels, inadequate laboratory networks for MDR-TB diagnosis etc. All these challenges together represent serious obstacles to the effective control of the TB epidemic.

Background

343. The 2009 WHO Global TB Control report placed the TB burden in Nigeria as one of the highest in the region. According to this report, Nigeria had an estimated 920,000 cases of all forms of TB, a prevalence of 610/100,000; and 200,000 new smear positive cases, an incidence rate of 130 per 100,000.⁸ The prevalence of the MDR-TB situation in Nigeria remained unknown because of the lack of a systematic nation-wide TB drug resistance survey. WHO estimated that 1.9% of new TB cases and 9.3% of re-treatment cases in Nigeria were MDR-TB⁹.

344. The Federal Ministry of Health has demonstrated serious commitment in fighting the disease. There is a dedicated National TB and Leprosy Control Program (NTBLCP) with a separate federal budget. DOTS has been expanded across the country and there is a steady supply of first line anti-TB drugs. Under the NTBLCP, the National MDR-TB Committee was established to develop and support implementation of MDR-TB programs in the country.

345. However, the following health system barriers exist in the country, which hinder the effectiveness of services delivered within the framework of the TB program:

- (a) heavy dependence on donor funding in TB control;
- (b) significant human resource shortages at all levels;

⁸ Global tuberculosis control: a short update to the 2009 report, WHO

⁹ Global tuberculosis control: 2008 report, WHO

- (c) high turnover of staff including those trained under the Global Fund supported program;
- (d) lack of an effective laboratory network for MDR-TB diagnosis;
- (e) poor infrastructure particularly at PHC level; and
- (f) weak Public Private Partnerships (PPP).

Implementation of Grant Program Activities

346. CHAN was nominated as PR for the Round 5 TB grant in January 2007. During phase 1 the following major activities were implemented:

- (a) Training of laboratory workers in smear microscopy;
- (b) Training of health care providers (both public and private) in DOTS;
- (c) Distribution of donated anti TB first line drugs;
- (d) Training for CBOs and Community Volunteers; and
- (e) Procurement and distribution laboratory equipment and reagents for smear microscopy.

347. The following planned activities were not implemented with the relevant program performance rated between B₂ and B₁. This poor performance resulted in a change of PR from CHAN to ARFH:

- (a) The baseline survey on TB prevalence was not carried out due to the lack of funds. There was no evidence that the PR tried to seek additional funding;
- (b) Equipment for six zonal MDR-TB Labs was purchased. However this equipment was not installed due to the infrastructure of the zonal laboratories not meeting the bio security (BSL 3/2) requirements. The MDR TB laboratories were not functional at the time of the audit;
- (c) The program could not report on the indicator “Number of TB cases detected in prisons” given that existing TB health information system did not capture this data; and
- (d) Most of the targets for the following indicators were not met:
 - Number of public sector health care workers trained to provide DOTS;
 - Number of community DOTS volunteers trained in administering TB services in their communities; and
 - Number of health facilities delivering DOTS.

348. The CCM changed the PR from CHAN to ARFH for the Round 5 Phase II grant. The Phase 2 grant started in October 2009 and was still under implementation at the time of the audit. ARFH was on schedule in implementing most of the activities in the work plan. The only activities that were not implemented related to the MDR-TB laboratories. However, the program had not met the following targets for the quarter ended 31 December 2009:

- (a) Training of laboratory staff on AFB microscopy according to National guidelines -589 against a target of 950;
- (b) Number of general health care workers trained on TB DOTS including TB/HIV collaborative activities (includes prison and armed forces) - 2,440 against a target of 4,524;
- (c) Number of sputum smear positive TB cases detected under DOTS - 98,980 against a target of 128,505; and
- (d) Number of health facilities delivering DOTS - 717 against a target of 2,937.

Monitoring and Evaluation - TB

M&E Plans and Indicators

349. The country does not have a national TB M&E Plan. A review of the Round 5 TB grant phase 1 performance framework revealed the following shortcomings:

- (a) The program could not report on 'Number of TB cases detected in prisons' because there was no health information system in place to collect this data;
- (b) The indicator 'Number of patients co-infected with TB and HIV receiving IPT could not be reported on since IPT was not given to TB/HIV patients; and
- (c) The targets for the following indicators were low i.e. (i) Number of PLWHAs that were tested for TB; (ii) Number of health staff trained in TB/ARV/VCT; and (iii) Number of TB patients tested for HIV.

350. A review of the Round 5 TB grant phase 2 performance framework revealed the following shortcomings:

- (a) The indicator "Number of PLWHA screened for TB" showed very good progress. However the results were misleading in the country context of screening.
- (b) Some indicators reported numbers yet they would have been more informative if proportions were reported instead e.g. the number of registered TB patients tested for HIV and the number of co-infected persons initiated on Cotrimoxazole.
- (c) The indicator "Proportion of suspected cases of MDR TB tested for drug susceptibility" was not calculated correctly. ARFH used number of cases diagnosed as MDR-TB in 3 centres as numerator, and the total number of tested in these 3 centres as denominator as opposed to using the total number of MDR-TB suspects as the denominator. This calculation produced misleading results.

Data Quality

351. No data quality assessments were undertaken under Phase 1 and 2 of this grant. The PR did not have data verification mechanisms for data reported by the SRs. The LFA (KPMG) had also not undertaken data validation for most of the indicators reported.

Recommendation 46 (Significant)

ARFH should improve the definition of indicators to make them more specific and meaningful. ARFH and the LFA should verify the data routinely.

Quality of Service Delivery

<p>TB diagnosis and treatment in Nigeria is delivered through a network of DOTS centres. Standard first-line DOTS treatment regimens are administered in line with WHO recommendations. The case detection rate is low compared with</p>
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international standards. Not all providers working at DOTS centres have received training in the DOTS strategy. At the community level, there is inadequate patient support to ensure proper adherence to TB treatment. There is a lack of integrated approach for TB/HIV care at PHC level. Serious limitations exist with referral of MDR-TB suspects to MDR-TB laboratory diagnosis and treatment.

Directly Observed Therapy for TB (DOTS)

352. WHO estimates the case detection rate for new smear positive cases at 24% in 2008¹⁰ having increased from 12% in 2000. Although there was a marked improvement in the case detection rate, it remained relatively low when compared with the global target of 70%. This may be caused by a number of factors including: (i) insufficient DOTS population coverage; (ii) some providers have not been trained in DOTS; (iii) the high staff turnover resulting in the loss of trained laboratory workers in DOTs; (iv) poor sputum collection/ transportation practice; and (v) insufficient community education/ mobilization to raise population awareness on TB.

353. The OIG noted that some of the providers working in DOTS centres at PHC level had not been trained in this therapy. WHO advises that all TB patients should have at least the first two months of their therapy (and preferably the whole of it) observed. This means an independent observer should watch patients swallow their drugs. However the DOTS program in Nigeria was not “directly observed” with most of the patients receiving drugs for a week or two at one time.

354. The program supported CBOs to work on Community TB Care (CTBC). The main objective of CTBC was twofold i.e. improving case detection by referring patients suspected to have TB to the DOTS sites and supporting treatment adherence i.e. through administering DOTS, recognizing danger signs and common side effects and making appropriate referrals. The OIG noted that very few community volunteers were trained and involved in CTBC. The CBOs received limited financial support to undertake the CTBC work.

355. The national policy requires that contact children with household members with active TB should be treated with isoniazid prophylactic treatment. This was not implemented. There was therefore a fear among health care providers that this may contribute to drug resistance.

TB/HIV Care

356. HIV testing among TB patients was routinely undertaken e.g. in the Garki PHC, 46 out of 54 TB patients were tested for HIV. There was no link between TB and HIV services at PHC levels. So while providers knew the HIV status of TB patients, they did not know the patients’ clinical and CD4 count status and so could not refer them for ART services. Service providers working at DOTS centres had also not been trained in the management of TB/HIV co-infection.

¹⁰ Global tuberculosis control: a short update to the 2009 report, WHO

MDR-TB

357. There was some progress in the initiation of MDR-TB treatment. An application for the treatment of 50 identified MDR-TB patients had been submitted. A Green Light Committee (GLC) mission visited the country to help develop the country plan and evaluate the program's preparedness to initiate an MDR-TB program under the GLC Initiative.

358. There was very limited referral of MDR-TB suspects for testing, diagnosis and treatment. This is due to the serious limitations of MDR-TB laboratory diagnosis already mentioned. However, work was underway to commission new MDR-TB laboratories and this was with the involvement of various implementing partners such as CDC and FHI.¹¹

359. The DOTS providers interviewed were also not very knowledgeable about MDR-TB. There were no guidelines and SOPs for MDR-TB at DOTS centres. Similarly there were no clearly defined tasks and responsibilities in terms of MDR-TB patients' referral and treatment through the provision of DOTS using second line anti-TB drugs.

Recommendation 47 (High)

- (a) *ARFH and NTBLCP should do its part in improving case detection through increasing DOTS coverage, training of DOTS providers in TB diagnosis and improving sputum collection, transportation and smear microscopy through continuous supervision and quality control.*
- (b) *ARFH and NTBLCP should consider enhancing community education/mobilization to raise population awareness of TB. Special efforts have to be made to increase CBO support to work on Community TB Care implementation to improve case detection and anti TB treatment adherence.*
- (c) *ARFH and NTBLCP should establish an effective link between TB and HIV care and support an integrated approach for TB/HIV so that DOTS providers can play an active role in referring co-infected patients for ART services.*
- (d) *There is a need to strengthen TB/HIV by training providers in management of TB/HIV co-infection.*
- (e) *The MDR-TB laboratory network should be renovated and properly equipped. Arrangements will have to be made (through development of guidelines and standard operating procedures, through training of staff and community volunteers, increasing support to CTBC, etc.) to ensure timely identification of MDR-TB cases and their referral to initiate treatment with second line drugs.*

¹¹ Assessment report of six zonal TB reference laboratories in Nigeria, FHI, 2009

Organization of services

Management of Drugs and Supplies

360. The logistics management information system (LMIS) for TB logistics was weak according to a comprehensive assessment undertaken by JSI¹². There was no standardized inventory management system across the health facilities and states, and inconsistent recording, reporting, and ordering practices. Stock cards at DOTS centres were not available and microscopy centres were not using the stock cards provided. The OIG's visits to the DOTS centres confirmed the findings of this assessment.

361. There were stock outs of anti-TB drugs noted in Garki village PHC center, FCT and Katsina-Ala general hospital Benue. Similarly, sputum specimen containers were not available in these facilities. There was no temperature control regimen followed at most of the DOTS centres. This was mainly due to the problems with electricity supply.

362. There were no TB infection control plans at the DOTS centres. Patient waiting areas were poorly ventilated, and organized in such a way that allowed TB patients and HIV clients to mix freely in waiting areas. Personal protective equipment was also not available.

363. There was weak supportive supervision of DOTS centres. The main focus of the LGA supervision visits was to ensure proper stocking of medicines. Key areas like case detection, quality assurance, treatment adherence, community involvement, etc., were not covered.

Recommendation 48 (High)

- (a) *ARFH and NTBLCP should consider developing a comprehensive LMIS for drugs and medical supplies including laboratory supplies. This should be followed by provision of logistics training to designated staff at all levels.*
- (b) *ARFH and NTBLCP should strengthen infection control practices at DOTS centers through the introduction of relevant administrative and environmental control measures, and by providing personal protective equipment. This should be undertaken in conjunction with training of staff, laboratory diagnosis personnel and those involved in care as well as provision of adequate materials and supplies for effective infection control.*
- (c) *ARFH and NTBLCP should strengthen its supervision of DOTS centres by developing a standard format that focuses on both clinical and logistics issues. This form should be used by supervisors during supervisory visits.*

¹² Nigeria: TB logistics system assessment , JSI, 2009

Malaria

Background

Malaria remains a major public health problem in Nigeria. National malaria strategies, which are in line with WHO strategies developed for the region, include comprehensive measures to ensure availability of and access to prevention, treatment and care services. Serious constraints at health system level significantly hinder the effective national response to fight malaria. Furthermore, serious shortcomings are observed at programmatic level put the program at risk. These are mainly related to ensuring the availability of ACTs and LLINs to the population through both public and private sectors.

364. Malaria remains a major public health problem in Nigeria. The- estimated number of clinical cases is about 70-110 million per year. It accounts for about 60% of all outpatient attendances and 30% of all hospital admissions with annual deaths for children under 5 years estimated to be around 300,000 (285,000-331,000). Currently, malaria causes 30% of childhood mortality and 11% of maternal death.¹³ Although coverage for malaria control interventions have increased substantially across the country, coverage levels remain considerably under the targeted 60% levels. If coverage was over 60%, the interventions would significantly impact the disease burden.

365. The national response to malaria in Nigeria is coordinated by the National Malaria Control Program (NMCP) of the FMOH. The malaria response has received considerable donor support with major achievements being recorded e.g. good collaboration in universal LLIN distribution, harmonization of reporting tools, Artemisinin-based Combination Therapy (ACTs) and Long Lasting Insecticide Impregnated Nets (LLINs) procured under Voluntary Pooled Procurement (VPP).

366. However, a number of health system barriers, as reported under HIV and TB sections above, still exist in the country and these hinder the effectiveness of services delivered within the framework of Malaria program. The main barriers include: (i) significant shortage of human resources in facilities at all levels; and (ii) high turnover of staff including those trained by the grant program.

367. YGC was the sole PR when it started implementing the Global Fund Round 2 and 4 Malaria grants. Phase 2s of the Round 2 and 4 Malaria grants were consolidated. This was because the two grants had similar scopes and activities and it was easier to manage the grants as one. The two grants were consolidated when they had serious underperformance issues and the OIG did not see evidence that these issues were addressed at the time the two grants were merged.

368. Society for Family Health (SFH) became second PR for the Round 4 Malaria Phase 2 grant. Under this grant, SFH led the malaria response activities in the private sector whilst YGC focused on the public sector. There was a one year delay

¹³¹³ Framework for the coordination of malaria control programme in Nigeria. Federal Ministry of Health, 2009

in moving the grant from Phase 1 to 2 due to the need to reprogram grant activities between the two PRs.

369. Whilst the proposal for the Round 2 grant included provision of Insecticide Treated Nets (ITNs) for distribution and Chloroquine for treating malaria, the developments in the knowledge on prevention and treatment of malaria necessitated the shift to ACTs and LLINs. This resulted in the revision of the set targets downwards to cater for the increased cost of the new interventions.

370. The Round 8 malaria grant program implementation started in November 2009 with three PRs responsible for implementation. The program had the following key activities in the targeted states:

PR	Key activity	Target sector and states
YGC	Distribution of LLINs (Objective 1)	Public sector facilities in 18 states
NMCP	Provision of ACTs (Objective 2)	Public sector facilities in 19 states
SFH	HSS (Objective 3)	Private facilities nationwide Behavior Change Communication

371. Even though NMCP was a PR under the Round 8 program, NMCP continued to be YGC's SR and was responsible for the sentinel surveillance, PCR analysis and insecticide susceptibility studies. It was not clear why these components were not moved to NMCP's grant budget.

Implementation of Grant Program Activities

372. According to the results for the quarter ended 31 December 31 2009, the target for LLINs was met for pregnant women i.e. 1,019,739 against a target of 894,899. The LLIN distribution results for children under 5 came in slightly below target i.e. 2,061,615 against a target of 2,103,510. There were also ACT stock outs in public health facilities e.g. there were no ACTs from September to October 2009 which YGC attributed to weaknesses in the quantification of ACTs and delays in the procurement process.

373. At the time of the audit, YGC had not started the design and installation of the central national Health Management Information System. The TORs were technically very poor for the typical system that should be implemented. There was also a disagreement between YGC and the NMCP where NMCP wanted to create a parallel system whereas YGC wanted to enhance the existing national Health Management Information System (NHMIS).

374. The challenges noted with the implementation of the Round 4 grant managed by SFH were: (i) there was a risk of leakage with no visible distinction between ACTs distributed by SFH and those in the general private sector; (ii) there was no mechanisms to ensure compliance of Proprietary Patent Medicine Vendors (PPMVs) and pharmacies with set prices¹⁴. Because supply was lower than demand,

¹⁴ Private clinics are supposed to provide subsidized LLINs and ACTs to children under the age of five years and pregnant women, and IPT to pregnant women whilst the community pharmacies,

this resulted in a higher price. The program therefore relied on the good will of the vendor to charge reasonable prices. There was also no evidence that end users were aware that the commodities were subsidized.

375. With regard to the implementation of the Round 8 activities, the OIG noted the following problems:

- (a) There was a delay in the procurement of LLINs and ACTs. The LLINs were procured through the Global Fund's Voluntary Pooled Procurement (VPP). It was explained by delays in making ready the warehouses in which the LLNs were to be stored.
- (b) Training in malaria M&E was done simultaneously for three different target groups i.e. the national M&E team, the state M&E officer & Malaria program managers and health workers of public/private health facilities. However the content and scope of the training was the same and yet it should have been different for all these groups.

Monitoring and Evaluation - Malaria

M&E plans and indicators

376. There is a national M&E plan for RBM initiative in Nigeria which was endorsed by the government. However, this plan was prepared in 2003 and needed to be updated. The OIG reviewed M&E plans and indicators for the Rounds 2, 4 and 8 grant programs. A review of the Round 2 and 4 malaria grants revealed that there were only process/coverage indicators and no impact/outcome level indicators reported within the program's Phase 1 performance frameworks.

377. The Round 8 malaria phase 1 grant targets appeared unrealistically high when compared to the baselines. The Table below shows the targets when compared with the baselines:

Indicator	Baseline	Target
Percentage of children under five sleeping under ITN/LLINs the previous night	3.5%	80%
Percentage of Pregnant women sleeping under ITN/LLINs the previous night	3.1%	80%
Percentage of households with at least two LLIN/ITNs	2.7%	80%

Data collection mechanism

378. A number of Data Quality Assessments (DQAs) and data verification exercises were conducted within the frameworks of the Round 2, 4 and 8 grant programs. All these assessments and verifications reported that the data was of poor quality. For example there were variances of up to 90% between actual and reported data. Some reported figures could not be tied to underlying

PPMV and Role Model Mothers provide subsidized ACTs both to pregnant women and children under five years of age

documentation. There was no evidence seen of measures put in place to address the data quality issues noted.

379. Some results were also inaccurate when reviewed against the available information. For example YGC reported the proportion of health facilities with no stock outs (ACT) for one week or more within the past 3 months at 33% against a target of 80%. YGC reported the number of children under 5 that were treated appropriately with ACTs within 24 hours of an onset of fever as 16,669,860 against a target of 16,248,656. However it remained questionable how YGC could surpass its treatment target when 67% of the facilities had stock outs. The OIG was also not provided with documentation for ACT treatment.

Recommendation 49 (High)

All PRs should institute measures to address poor data quality noted. The proposals should be submitted to the Global Fund through the LFA.

Quality of service delivery

Diagnosis and Case Management of Malaria

380. At primary care level, malaria diagnosis is based on clinical symptoms, whereas microscopy is undertaken at secondary level. There were no malaria rapid diagnostic tests (RDTs) available in the PHC facilities visited by the OIG. Staff at primary and secondary level facilities had not received training on RDTs and malaria microscopy, respectively.

381. There were stock outs of ACTs in the majority of PHC centres, general hospitals, and private clinics visited by the OIG. The majority of the PPMVs visited by OIG had zero stocks of the subsidized ACTs e.g. in Garki village FCT, there are 7 PPMVs and none of them had the subsidized ACTs. As a result of these stock outs, in some places PPMVs were giving only Chloroquine syrup to children suffering from malaria yet there was evidence of high resistance to Chloroquine in Nigeria. Similarly, there were stock outs of Sulfadoxine/Pyrimethamine (SP) for Intermittent Preventive Treatment (IPT) of malaria during pregnancy. Few PHC centres had SP available.

382. There were no mechanisms in place to ensure that the ACTs provided by SFH were sold by pharmacies and PPMVs at the agreed price. The price at which the ACTs were sold was dependent on the goodwill of the pharmacy or PPMV and the awareness of the end-consumer that they should be purchasing the ACTs at the subsidized price. The OIG noted during its field visits that these ACTs were sold at higher prices than stipulated for the SFH Private Sector Malaria program.

383. Despite the pricing problem, the OIG noted that PPMVs showed higher commitment to this program than private pharmacies as reflected by the number of people that accessed ACTs through this channel per month.

384. There was no training conducted on malaria case management at some primary and secondary level facilities visited. Some of the public and private

health facilities did not have copies of the standard treatment guidelines or treatment protocols available at the health facilities. The number of registered malaria cases was very high in the sites visited which may be a reflection of the effectiveness of the malaria interventions in Nigeria.

LLINs

385. At some of the pharmacies visited, LLINs that should have been distributed freely were on sale as seen by the labels. At the same time there were no subsidized LLINs in the majority of the private clinics visited. Where LLINs were available, they were on sale at prices higher than the established price. For example one of a facility in Abuja FCT was selling nets at N 1,600 instead of N 300.

386. The “not for sale” caption on the LLIN packages distributed to private health facilities was reported to cause confusion among communities who did not understand why they had to pay for the subsidized nets. The OIG also noted from the field visits undertaken that the usage of nets was low. The net beneficiaries explained that the temperatures were too high for them to sleep comfortably under a net.

Recommendation 50 (High)

- (a) *SFH should institute measures to control the prices charged by their clients. This can take on different forms e.g. having promotion drives emphasize the recommended product price, monitoring suppliers, requiring sellers to display the recommended price, informing the population during public events, etc. In addition monitoring should be undertaken and this can take many forms including having a mystery buyer.*
- (b) *FMOH and NMCP should improve case management of malaria through expanding the use of RDTs and microscopy at primary and secondary level, respectively. Health care providers working at primary and secondary level should be adequately trained in malaria diagnosis and case management.*

Organization of Services

387. There was weak supervision provided by the Roll Back Malaria (RBM) managers to LGA RBM focal persons and health facilities on malaria case management and control. There were no guidelines, SOPs and checklists for supportive supervision in these facilities.

Recommendation 51 (Significant)

FMOH and NMCP should strengthen the NHMIS so that it is able to capture all the necessary data elements to generate sound epidemiological information for disease control as well as management information for drugs, medical supplies, laboratory supplies, as well as other materials needed for malaria control (e.g. LLINs). FMOH and NMCP should improve supportive supervision and continuous technical assistance provided by RBM managers to LGA RBM focal persons and health facilities on malaria case management and control.

Grant Oversight

Country Coordinating Mechanism

Background

388. The CCM Nigeria had a comprehensive governance manual that set out roles and responsibilities and also outlined the CCM's procedures for oversight over program implementation. The manual was prepared with the support of USAID funding. The CCM held orientation workshops in 2009 and 2010. The orientation workshops were facilitated by resource persons from UNDP in 2009 and USAID in 2010. The orientation of new members into their roles and responsibilities was commendable.

389. The CCM had three sub-committees namely the Executive Committee, Portfolio Development Committee and Oversight Committee. There were task teams established under each subcommittee i.e.: (i) a communications task team under the Executive Committee; (ii) a fundraising task team under the portfolio development committee, and (iii) a finance & procurement and technical task teams under the Oversight Committee. This structure was broad in content, and if activated would provide an effective oversight mechanism.

390. The CCM also achieved the following commendable aspects:

- (a) The CCM Executive Committee sought technical assistance from development partners to improve the functioning of the CCM;
- (b) Committees were set up to assess the PR capacity prior to selection;
- (c) The civil society involvement in the activities of the CCM was significant;
- (d) The CCM undertook a deliberate advocacy drive to increase government participation in its activities; and
- (e) The CCM Secretariat maintained an active dashboard datasheet for each grant for performance monitoring.

391. The attendance for CCM members was an average of 17 out of the expected 33. The CCM constitution provides for a simple majority of all members as quorum for a meeting. The average attendance barely meets the constitutional quorum requirement, but is also too low to reflect effective representation and active participation. At the time of the audit, there was no mechanism to monitor attendance and ensure follow up of poor attendees. The OIG also noted that CCM meetings sometimes ran for a whole day which could partially explain the poor attendance.

Oversight

392. The manual stipulated that the oversight committee would establish a calendar of quarterly oversight activities. The CCM depended on WHO to lead the oversight activities. WHO was however significantly involved in proposal preparation, assessment of potential PRs and grant implementation in Nigeria e.g. provision of technical assistance. In consequence, while WHO may participate in the oversight, it should probably not lead the oversight function.

393. A review of the minutes of CCM meetings revealed that oversight field visits were undertaken twice i.e. in 2008 and 2009. The number of visits was significantly lower than was stipulated in the governance manual and was inadequate to cover key grant implementation activities. The OIG also noted that although the findings of the oversight visits were critical, the CCM did not take any actions / decisions to address the issues noted. The lack of action undermined the effectiveness of the CCM's oversight function.

394. The CCM in its meeting of 18 May 2008 raised concerns over the suitability of YGC as PR for the Round 8 Malaria grant. The CCM was critical of the performance of YGC, reasoning that the capacity of the PR should have improved after being PR for Global Fund grants for several years. The oversight committee also conducted site visits with results being presented to the CCM in July 2009. The oversight committee found significant implementation gaps in the programs managed by YGC. There was not however evidence that the CCM took specific steps to address the issues identified nor did it take steps to increase oversight of this PR.

Recommendation 52 (Significant)

- (a) *The CCM Secretariat should actively follow up member attendance by maintaining an attendance register and improve the communication and coordination of meetings. The CCM should also make the requirements for attendance more stringent, to ensure continuity of participation.*
- (b) *The CCM's oversight over grant implementation should be strengthened by:*
 - i. *Undertaking more frequent oversight activities as stipulated in its governance manual;*
 - ii. *Regulating involvement of WHO in the CCM's oversight activities. WHO should be recused from overseeing all activities in which it is involved as an implementer; and*
 - iii. *The outcome of oversight reviews and field visits undertaken by the CCM committee should be synthesized into an action plan. The action plan should be time bound and the CCM Secretariat should monitor its implementation.*

CCM Secretariat

395. The CCM Secretariat faced funding challenges. At the time of the audit, the CCM Secretariat was receiving administrative support from USAID through MSH. The CCM's office space was provided by DFID's SunMap project. The funding levels were inadequate to cover the required oversight and coordination activities given the number and size of grants, diversity of representation, and size of country. A review of the sustainability of the CCM Secretariat revealed the lack of an effective strategy to mobilize funds for the CCM.

396. The CCM Secretariat, with support from the private sector representative contracted a local audit firm to audit its books. The firm audited the CCM's books' of account for the fifteen months period to 31 August 2009. The CCM's initiative to be accountable to its donors is commendable. However, the audit

process can be strengthened by developing proper audit terms of reference for the auditors and appointing a well-qualified auditor. The CCM's Executive Committee dismissed the audit report as inappropriate due to the following weaknesses:

- (a) The auditors stated that there were no accounting policies or internal control systems and yet they issued a contradictory clean audit opinion;
- (b) The auditors acknowledged that there were no books of account to audit. This brings into question the basis on which the audit was conducted; and
- (c) The auditors stated that they did not see the supporting documentation of the assets so they just estimated the value of assets donated to the CCM. This again brings into question how the figures for corresponding liabilities, income and expenditure were obtained in the absence of source documents.

397. An operations manual was developed to guide the functions of the CCM Secretariat. Although the CCM had an established Secretariat, the Secretariat was not in a position to manage and report on funds awarded to the CCM. In consequence, some of its administrative functions such as human resources management and financial management were undertaken by Management Sciences for Health (MSH).

Recommendation 53 (Requires attention)

- (a) *The CCM should in collaboration with development partners develop a fundraising strategy for the CCM Secretariat.*
- (b) *The CCM should identify reputable auditors through a competitive process. The auditors should be contracted on the basis of clear terms of reference to give to give assurance over the use of funds.*

Local Fund Agent

398. Following the LFA retender process at the end of 2008, there was a change in LFA from KPMG to PricewaterhouseCoopers (PwC). The former LFA, KPMG was based in Lagos, Nigeria while the current LFA, PwC, is based in Accra, Ghana. Despite the distance, the in-country partners reported an improvement in the interaction with the LFA after the appointment of PwC.

399. After the change of LFA, there was a handover process, through which KPMG shared with PwC brief reports on each PR. The format and content of these reports was insufficient to allow a smooth hand over of LFA services. In-coming LFAs would benefit from previous reports submitted to the Global Fund and possibly a higher than normal level of effort in the first work orders.

PricewaterhouseCoopers (PwC)

400. The OIG noted good practice in the LFA services delivered by PwC in Nigeria which included:

- (a) PwC had a customized software for the processes of Verification of Implementation as well as PR Assessments. These automated audit working enabled standardization and consistent application of review procedures. The software was in line with ISA 3000, the audit standard that guides non-audit assurance services;

- (b) After taking on LFA Services, PwC brought several critical issues to the attention of Global Fund, that were previously not reported by the previous LFA; and
- (c) The LFA methodology took into consideration the risk of fraud, and procedures were designed to address these risks.

401. Although risks were identified during the LFA's planning stage, the risks were sometimes not followed through during the execution of the LFA's work. For example PwC identified non-existence of funds in the relevant banks as high risks. The LFA team agreed to address the risk through independent verification of bank balances. The OIG however did not see evidence that work was undertaken to address this risk.

402. The LFA is meant to be the 'eyes and ears' of the Global Fund in country. It is expected that the LFA reports all risks that would impact grant implementation to the Global Fund Secretariat in a timely manner. During the audit, the OIG came across several key risks and weaknesses that had not been reported by the LFA during their work. The issues raised by the OIG include the following:

403. The OIG observed a disconnect between the OIG findings with generally positive LFA assessments at YGC, with regards to the following:

- (a) Although the PR had a governing council, at the time of the audit, it had not met to consider Global Fund grants in 18 months
- (b) YGC had been audited by the same auditors for seven years which could have impaired their independence. A review of the auditor's reports revealed that key control weaknesses were not addressed, which exposed the grants to significant risks.
- (c) YGC had procured an accounting package using grant funds. This package was however not in use, and excel worksheets were used instead. This raised the risk of error, inaccurate reports and weak financial controls.
- (d) There was a disconnect between reported good performance with distribution of ACTs for the Malaria program and the high level of stock outs that was reported and also evidenced during field visits. This brought into question the effectiveness of PSM arrangements of the PR and whether distributed drugs reached the intended recipients.

404. The OIG observed some issues that should reasonably have been brought to the attention of the Global Fund Secretariat by PwC in connection with NACA:

- (a) NACA did not have a ledger to track advances made for program purposes. The weaknesses in management of advances could be attributed to failure to account for US\$ 3.6m at the time of the audit.
- (b) NACA was not deducting PAYE taxes on staff salaries as required by Federal Government laws.
- (c) The PR reported that performance for "number of people with advanced HIV infection receiving antiretroviral combination therapy at sites receiving Global Fund Support" was 120% against the target. The reported performance of 107,122 patients was provided by two SRs: FHI and HYGEIA, 92,847 and 14,275 patients respectively. During the audit, the OIG visited FHI and found that the same results (92,847 patients) were reported to

USAID who provided the Organization with the most of funding. It was not possible to establish use and value from Global Fund resources.

Recommendation 54 (High)

As part of its assignment planning, the LFA should carry out comprehensive risk assessments at the entity and process level. All identified risks should form the basis of detailed work undertaken. In addition, the work of the OIG should form part of the issues that the LFA follows up in subsequent reviews.

KPMG

405. The LFA guidelines required that at least one On-Site Data Verification (OSDV) should be undertaken for each grant annually. The OIG noted that until 2007, only one OSDV was undertaken by the LFA. The first OSDV undertaken by KPMG was in July 2008 and it only covered YGC.

406. The LFA did not report critical financial and programmatic issues affecting grants in Nigeria. The OIG lists below some issues that KPMG should have identified during its verification of implementation, and brought to the attention of the Global Fund Secretariat:

- (a) SR disbursements were made to individual's bank accounts instead of contracted SRs. This practice resulted in significant unaccounted for funds, and a lack of assurance that program funds were used as planned;
- (b) YGC did not have complete books of account for the Round 1, 2 and 4 grants. However the LFA undertook verification of implementation (VOI) and recommended grant disbursements on the basis the PR's financial records were complete. This brings into question the basis of VOIs undertaken by the former LFA;
- (c) YGC did not prepare bank reconciliation statements prior to June 2009. The OIG did not get assurance that there was a reasonable basis by which the LFA certified the cash balance in the PUDR reports submitted;
- (d) Some PRs used grant funds to pay non-program staff and in some cases a single transaction amounted to more than US\$ 1 million. These anomalies were not reported by the LFA; and
- (e) The basis of ARV treatment data reported by NACA was not in line with basis of targets set which misrepresented the results reported against set targets.

407. The Global Fund guidelines for the audit of recipient financial statements require that annual audits are undertaken by PRs and SRs. Terms of reference of audits as well as audit reports should be reviewed by the LFA to ensure compliance with Global Fund requirements. The table below shows an analysis of review of audit reports by the LFA (KPMG) prior to submission to the Secretariat:

	NACA	SFH	CHAN	ARFH	YGC
2004	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
2005	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
2006	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2007	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2008	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

LFA review of audit report

408. As shown in the table above, only 4 out of 18 audit reports were reviewed and commented upon by the LFA prior to submission to the Global Fund Secretariat. The PRs also could not provide the OIG with SR audit plans although these are stipulated in the grant agreement.

Global Fund Secretariat

409. In 2009, the West and Central Africa team working with the technical support teams at the Global Fund Secretariat undertook a review of risks that were affecting grants in Nigeria. The outcome of the effort were risk mitigation measures for each of the PRs, which were contained in a memo from the FPM to the Director of Country Programs. The OIG commends the Country Team for actions taken to improve oversight of grant programs since 2009.

410. There were cases noted where conditions were written into the grant agreement at Phase I and the same conditions were still applicable under the Phase II grant agreement. In the following instances, conditions were set in the grant agreement with YGC in 2005 but deficiencies were still evident at the time of the audit:

- a. Development of an internal audit manual and work plan
- b. Staffing of an internal audit department

411. The Global Fund introduced OSDV in 2006 in order to address the risk of poor data quality and inappropriate reporting of performance targets. The related policy required that OSDVs are undertaken for all grants at least once a year. The OIG noted that since then OSDVs for Nigeria had only been commissioned in 2008. This represented a missed opportunity to check data quality in an environment noted to have data issues.

412. The relevant OPN requires that Grant Performance Reports (GPRs) should be maintained for all grants. The grant performance reports include information on the submission of audit reports and annual reviews by the PR. The OIG noted that audit reports for all grants in Nigeria were submitted except NACA (2005, 2006) and CHAN (2008). The 2007 audit report for SFH was signed in 2009, although it should have been submitted six months after the year-end. The OIG also noted that most of the programmatic reports were submitted by the PRs with the exception of SFH (Round 5 - HIV for 2008); NACA (HIV Round 5- HIV for 2006); YGC (2007) and CHAN (Round 5 - TB for 2008).

Recommendation 55 (High)

The Global Fund Secretariat should ensure that procedures set out in the Operational Policy Manual are followed. A failure to adhere to Board approved policies should result in appropriate actions taken.

Conclusion

413. The Global Fund, and grant implementers in Nigeria would have benefited from more effective oversight effort by the previous LFA, KPMG. KPMG failed to report critical accountability and system challenges at some of the PRs. There has been a significant improvement in the quality of LFA services since the change in PR from KPMG to PWC.

414. Between early 2003 and the end of 2008, There was a breakdown in compliance with established guidelines and controls for the grants in Nigeria. This too was reflected in grant performance, with regard to financial management systems, PSM, and M&E arrangements.

Annex 1: The Country Coordinating Mechanism's Overall Comments



Country Coordinating Mechanism (CCM) Nigeria

Investing in our Future



The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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25/10/2011

John Parsons,

Chemin de Blandonnet 8,

1214 Vernier,

Geneva, Switzerland

Dear Mr. John Parsons,

Re: RESPONSE TO OIG FINAL AUDIT REPORT

CCM Nigeria acknowledges the OIG audit visit that began in March 2010 and the receipt of the final audit report on the 4th of October 2011. Efforts have since commenced in addressing the recommendations in the OIG report. Most of these recommendations have been addressed while actions are in progress towards addressing the outstanding issues as they affect the respective organisations (PRs, SRs) and CCM.

Global Fund support has contributed immensely to the fight against Aids, Tuberculosis, and Malaria and health systems strengthening (HSS) in Nigeria. The disease burden will continue to reduce with the continued support from Global Fund and other partners in collaboration with the Government of Nigeria. The CCM further notes the significant contributions of the Global Fund support to the current programmatic achievements in the key areas namely:

- ✓ 360,000 People currently on ARTs
- ✓ 140,000 New smear-positive TB cases detected and either treated or receiving treatment
- ✓ 29,000,000 Nets distributed (ITNs and LLINs)

There is no doubt that continued engagement with the Global Fund will impact on programmatic outcomes. Given the period being audited (2002 – 2009), the CCM wishes to note that the delay in commencing audit process posed significant challenges to PRs, SRs and implementing Partners as most institutional memories could have been lost.

Nonetheless, the recovery of the unsupported and ineligible expenditures as contained in the OIG final report will be fully addressed and the capacity of the affected PRs/Organisations considered in the refund plan. In addition, the CCM will consult with the Parent Ministry in seeking ways to recover funds owed by its respective agencies/organizations/Parastals and individuals in line with Country System.

The CCM also wishes to inform the OIG and TGF that its oversight functions have increased since the beginning of the year. The CCM now conducts quarterly site visit to assess program achievement against targets to complement the quarterly PUDR and Dashboard review. Amongst the objectives are to underscore the importance of value for money and resolve bottlenecks affecting implementation progress. The CCM also wishes to note that all the Principal recipients and their Sub-recipients developed a Risk Management Plan in March 2011 as a measure to mitigate the risk associated to implementation. The following thematic areas were considered: Program Management and coordination, Finance and fiduciary control, Procurement and supply management and monitoring and evaluation. Of recent, the need for the CCM to develop a risk management plan has been considered and this will be finalized at the retreat slated for early December 2011 as part of the overall reform process to enhance full commitments to transparency and accountability for Funds received and spent in Nigeria to help achieve impact.

I hereby forward the Country Response to the final OIG Report which consists the responses received from the affected PRs and comments reflecting the observations of the CCM on the issues raised. However, contentious issues raised by the affected PRs may require further review.

Your kind considerations will be most appreciated.

Yours faithfully,


Mr. Mohammed Bukar.

Chairman

Annex 2: The Global Fund Secretariat's Overall Comments

18 October 2011

John Parsons
Inspector General
Office of the Inspector General
The Global Fund
Chemin de Blandonnet 8
1214 Vernier
Geneva, Switzerland

Country Audit of the Global Fund Grants to Nigeria

The Secretariat would like to thank the Office of the Inspector General (OIG) for its collaboration during the Audit of the Global Fund grants in Nigeria.

The OIG findings and recommendations reinforce the Risk Mitigation strategies initiated and pursued by the Global Fund Secretariat over the last 2 years with the objective to effectively strengthen fiduciary controls and programmatic implementation arrangements of the grants and achieve value for money, quality of services and sustainable impact with GF investments.

The CCM and the PRs, in collaboration with partners and the Secretariat, have already started implementing key recommendations with some even completed to date. The Secretariat will continue working closely with CCM Nigeria and the LFA to monitor the implementation of agreed upon audit recommendations.

Contextual Background

The Global Fund has significantly invested resources in Nigeria in HIV/AIDS, tuberculosis, malaria and health systems strengthening with a major scale-up of program funding being provided via the Round 8 Malaria and HSS and the Round 9 HIV/AIDS and TB grants operating at a national scale (signed in Oct 2009 and 2010). The Nigeria grant portfolio is one of the largest country portfolios in the Global Fund with approved proposals of USD 1.37 billion, currently USD 836 million approved funding and USD 597 million disbursed to date. The funding complements partners' support and is based on national strategies, operational plans and targets with notable results achieved to date. The Global Fund closely cooperates with major donors and partners as well as key national stakeholders.

Despite considerable progress made, Nigeria is still lacking behind towards achieving the MDGs 4, 5 and 6 which requires a much stronger political commitment and national counterpart funding to leverage Global Fund and donor funding and achieve impact. Nigeria has a weak health infrastructure namely at primary health care facility level with limited access to quality health services for most of the 150 million population and a huge disease burden in the 3 diseases (ranking no. 1 in HIV/AIDS, TB and Malaria in Africa in absolute terms). The grant implementation environment is highly challenging which needs to be taken into consideration: a largely diverse and complex socio-cultural setting; a political 3-tier structure with Global Fund grants being implemented in all 37 independent States with their independent local governments; weak national health procurement and supply chain management systems; weak national M&E systems and poor data

Country Audit of Global Fund Grants to Nigeria

quality/culture; 50% of the 22,000 primary health care facilities are in a devastating condition and non-functional, staff attrition and frequent strikes by public health workers.

A tailored grant and risk management has been pursued for the Nigeria grant portfolio over the past 2 years with 11 new or updated/ consolidated grants signed since the OIG conducted its country audit in March-April 2010 (nine signed in September 2010 and two in 2011). All country portfolio grants have now been fully aligned with the national reporting cycle (7 SSF grants) and contain conditions precedent and special conditions addressing key OIG audit findings. The Global Fund grants also include investments for strengthening local capacity and fiduciary systems (at PR and SR levels) as well as substantial investments in the national M&E and PSM system (having used the VPP Capacity Building Services). In addition, LFA services have been tailored to the major risks of the portfolio since end 2010 with quarterly reviews being undertaken, SR spot audits, regular procurement reviews, and currently a Procurement and Supply Chain/drug theft review conducted as well as the annual OSDV (incl. assessment of quality of services) up to facility and community level throughout 6 States in Nigeria.

Considerable progress has been made in the three disease portfolios. Performance of key indicators as on 30th of June 2011 is outlined below:

HIV

- 359,181 people with advanced HIV infection receiving antiretroviral combination therapy (National) - (71% of the target.)
- 10,671 HIV-infected pregnant women who received antiretroviral drugs to reduce the risk for mother-to-child transmission (National) (38% of the target)
- 189 enterprises that actually implement the workplace policy (90% of the target).

Malaria

- 37,181,518 LLINs distributed to end users (59% of the target) - universal coverage expected to be achieved by end 2011.
- 1,601,417 children under five with uncomplicated malaria receiving ACT treatment according to the national guidelines (National) (6 % of the target) - delay due to procurement challenges.
- 3,499,990 people (over five) with uncomplicated malaria receiving ACTs treatment according to national guideline (National) (12 % of the target) - delay due to procurement challenges.
- 984 public and private health facilities offering diagnosis through RDTs/ microscopy (National) (31% of the target)

TB

- 24,109 new sputum smear positive TB cases detected under DOTS (59 % of the target)
- 19,786 detected sputum smear positive TB cases successfully treated (69% of the target)

However sustainable impact with Global Fund and partner investments can only be achieved with increased counterpart funding and increased political commitment in health at both the Nigerian Federal and State Governments levels.

Losses and recoveries

Once the audit report for Nigeria is published, the Secretariat will initiate the recovery process. This will be based on CCM feedback on the losses identified as per the OIG breakdown of ineligible and unsupported expenditure previously shared with the PRs. The Secretariat will negotiate reimbursement terms with each PR to ensure both timely recovery and minimal disruption to the Global Fund programs. Amounts contested by the CCM/PRs based on the rationale provided by the PRs (e.g. CHAN related to ineligible Project Costs and salaries paid of USD 840,607) shall be reviewed by the OIG and the Global Fund (in consultation with the LFA as required) to determine the final amount to be reimbursed. NACA provided additional supporting documents in September 2011 which are currently still under review by the OIG¹⁵. The outcome will determine the final amount to be claimed from NACA.

Replacement of Malaria PR (YGC) and transfer of grant

Based on the draft OIG audit report issued on May 25, 2011 and OIG findings reported therein the Global Fund, CCM Nigeria and YGC agreed on the transfer of the grant to a new PR. On October 13, 2011 the CCM Nigeria decided that the Round 8 YGC grant shall be taken over by its Co-PRs NMCP and SFH for the remaining period of Phase 1 and to select a new 3rd PR via a transparent and competitive process for Phase 2. In an Implementation Letter dated August 31, 2011 YGC agreed to the transfer of the grant to a selected Replacement PR, the decommitment of funds for such transfer and to orderly close the grant by November 30, 2011. The Global Fund is currently in discussions with NMCP and SFH regarding the rapid transfer of the YGC grant which shall be completed within the next 3 weeks and enable continuation of Malaria interventions in the public sector in the 19 YGC States.

Summary of key risks identified and actions taken and planned by the Secretariat

The following are the major risks to the Global Fund grants that are identified in the OIG report and the Secretariat actions taken or to be taken for mitigating the identified risks.

Challenges and Key risks	Secretariat comments and actions to address the identified risks
Oversight	
<p>Inadequate CCM oversight and actions, lack of sustainable funding and quality audit: despite good CCM structures and systems in place, a lack of effective CCM oversight and action to address PR underperformances and implementation challenges has been noted. Further lack of CCM funding as a basis for adequate functioning.</p>	<p>Since January 2011, CCM Nigeria receives funding from the Global Fund under the new CCM funding policy which has helped to start more effective CCM oversight activities (with quarterly field visits). However the current poor governance and increased potential conflict of interests among CCM and CCM committee members need to be addressed quickly to assure a well-functioning CCM and CCM oversight.</p> <p>Actions by the Global Fund: 1. The CCM has agreed to a review of the current CCM functioning and challenges by an independent</p>

¹⁵ The documents were not considered as authenticity was in doubt. (Report paragraph 166)

	<p>consultant funded by the Global Fund scheduled to start his work in Nov 2011. Findings and recommendations will be used to agree and formulate an action plan for improvements of the CCM functioning in a CCM retreat end November 2011.</p> <p>2. The LFA has been contracted to (a) undertake an audit of CCM expenditures between 2008-2010, (b) conduct a performance review and effectiveness of CCM activities undertaken under the new CCM funding policy and (c) review the updated CCM work plan and budget to verify adequate use of funds and to support attracting additional donor and counterpart funding.</p> <p>3. The Global Fund Secretariat together with the CCM organized an in-country Risk Management workshop for PRs, SRs, CCM and partners from February 28-March 1, 2011. Cross-cutting and PR specific risk management plans were developed during and after the workshop, which are currently being finalized and shall be used for improved CCM oversight and risk management led by country stakeholders (and thereby strengthen the in-country accountability framework with risk prevention and mitigation actions and timelines assigned to different parties).</p>
Harmonisation and Alignment	
<p>Risk of double-counting and inefficient use of funding due to poor management and coordination as well as duplication of systems at national and state levels.</p>	<p>The Global Fund has initiated a mapping of key interventions in HIV/AIDS, TB and Malaria (e.g. ART, PMTCT, HCT, DOTS, ACTs, RDTs, LLINs) in collaboration with other donors at central and state level to document the scale and scope of funding provided by Government and other partners (expected to be completed by December 2011). This information will be useful for harmonising Global Fund investments in Phase 2 of the Round 8 Malaria grant, and next commitment periods of all SSF grants upcoming for review in 2012. The objective is also to (a) improve synergies for effective program delivery at national, state and facility levels, (b) discuss and agree with government and partners an optimized allocation of resources and responsibilities based on comparative advantages and risk management capacity towards maximizing value for money and program impact.</p> <p>The Global Fund has initiated discussions with CCM, PRs and partners in June 2011 to identify a few states for concentrated efforts by Global Fund, partners and Government leading to the rapid creation of success models that can be replicated across the country. The objective is to support the</p>

	<p>country in achieving MDGs 4,5 and 6 via effective partnership, more efficient use of funds and leverage additional government and state resources for health.</p> <p>HIV: The Global Fund and PEPFAR are perusing an MoU between both parties to ensure strengthened collaboration and accountability in HIV/AIDS and HSS (with particular focus on PMTCT). Concrete plans for achieving this objective will be discussed during upcoming Global Fund mission in November 2011 and conclusion of an MOU is expected to be signed by end 2011.</p> <p>TB: The Global Fund funds capacity building of the National TB program in partnership with TB Care (USAID funded) and has facilitated a coordination mechanism between the TB implementers, donors and technical partners. The Global Fund is pursuing scale up of such partnerships.</p> <p>Malaria: The Global Fund closely cooperates with the RBM partners who have established best practice coordination structures on various technical topics to support program implementation. NMCP will however need to provide a stronger leadership role to assure that the 6 technical working groups are actively working and engage RBM support to resolve implementation bottlenecks. The Global Fund has been closely collaborating with Worldbank on joint PSM system strengthening.</p> <p>The Nigeria Country Team has also encouraged and facilitated the partnership by PRs with the private sector to make use of the complementary skills and competencies (e.g. currently, NMCP is in discussions with PIA on Supply Chain Management and BCC).</p>
<p>Program Management</p>	
<p>Weak Sub-recipient management capacity: identified by the OIG as a major risk that cuts across all the PRs which were audited by the OIG. The recommendations of OIG include improving the programmatic and financial oversight and systems for all PRs over its SRs.</p>	<p>The Secretariat agrees that all PRs need to focus much more on effective SR oversight and strengthen their SR management systems. For the 11 new or updated/ consolidated grants signed in 2010 and 2011, the Global Fund has paid particular attention on SR management capacity of the PRs and included respective conditions in the new/updated grant agreements. Particular focus has been paid to building effective SR management and oversight systems and increased fiduciary controls at PR level.</p> <p>The following are the actions undertaken by the Global Fund to ensure effective SR management by PRs:</p> <ol style="list-style-type: none"> 1. To assure effective program implementation, the Country Team has instituted the requirement for all PRs of detailed Program Implementation Plans (the "PIP") outlining clear roles and responsibilities for the Principal Recipient, Sub-recipients and Sub-sub-

	<p>recipients and each of their contractors, representatives and agents consistent with the PIP. This special condition is incorporated in the all the Round 9 grants and has been accomplished by most of the PRs.</p> <p>2. All PRs have hired additional program, financial and internal audit staff to assure better monitoring and follow-up with SRs in regular/ mostly quarterly SR meetings and have been requested to provide orientation, on-going trainings and other capacity building based on needs to its SRs as required to support grant implementation.</p> <p>3. Global Fund grant funds have been used to invest in strengthened internal audit functions for all PRs with a major focus on SR and contractor oversight. Key findings, recommendations and corrective actions taken are reported on a biannual basis to the Global Fund along with the PU/DRs.</p> <p>4. All PRs have been required to develop a Comprehensive Manual of policies and procedures for the management of Sub-recipients, including disbursements to and expenditure monitoring of Sub-recipients. Most PRs have completed this condition to date. The LFA is following up on the implementation of these guidelines on a quarterly basis.</p> <p>5. The LFA has been undertaking SR reviews since early 2011 on a semi-annual basis. Recommendations from these reports are being shared with the PRs and CCM for follow up. Through the regular PU/DRs and strict monitoring of grant conditions, the Nigeria Country Team is closely following up on the process of selection, assessment and contracting of new Sub-recipient and other conditions.</p> <p>The Secretariat has conducted a 2 day Risk Management Workshop in-country from Feb 28-Mar 1, 2011 to which all Program Managers and technical experts (Finance, M&E, PSM) were invited. The first part of the workshop was an overview/ training on Global Fund requirements followed by the joint identification of risks to Global Fund programs and definition of risk mitigation measures with the PRs. - More in-depth finance trainings to PRs and their SRs are scheduled for end Nov 2011.</p>
<p>Monitoring and Evaluation</p>	
<p>HIV/AIDS: Weak HIV M&E system, in particular poor data quality and absence of a robust electronic database system</p>	<p>Data quality is a major concern as reflected by the variations on reported data on number of people on ART. The underlying reason for this is an overall capacity gap for coordination and establishing a single system for data reporting. Thus there are several parallel M&E systems for ART. On the other</p>

	<p>hand, NACA was not able to develop and submit a national HIV/AIDS M&E plan (and work plan) aligned to the NSP for 2011-2015. In addition, the electronic database at NACA does not comprehensively capture service delivery data (such as ART, and HCT) from all service delivery points in the country, and does not capture PMTCT.</p> <p>NACA with investments under Global Fund grants and support from partners (including other HIV/AIDS PRs) is making efforts to strengthen the National HIV/AIDS M&E system. Some of the progresses made are strong initial steps in developing an electronic database system (e.g. the Logistics and Health Program Management Information System (LHPMIS)); the development and implementation of an internal data quality assurance tool; and the establishment of a National HIV M&E Technical Working Group which provides an oversight and technical support on M&E among key implementing and technical partners and donors.</p> <p>The following are the agreed action points between NACA and Global Fund, which are being followed up by the Secretariat (items 1-4 are included in the HIV/AIDS grant agreement with NACA).</p> <ol style="list-style-type: none"> 1) NACA to submit a National M&E plan and work plan by October 2011. 2) NACA to establish a National electronic information system/database which is: i) integrated and compliant with the National HMIS at FMOH; ii) captures service delivery data including services on ART, PMTCT and HCT; iii) avoids double counting on ART and tracks people currently on ART (due date: December 2012) 3) Improve collaboration and data sharing between NACA and FMOH HIV Division by establishing an MoU to i) set-up a single information/report flow from service delivery point to central level, which minimizes double counting and avoids data/report discrepancies at the National level; ii) clarify roles and responsibilities and resource/data sharing in order to strengthen the National HMIS at FMOH (due date: December 2011) 4) Ensure and provide evidence that all service delivery points in the country have received data collection and reporting forms including the newly introduced indicators on PMTCT (October 2011), and provide on-site training for health workers at the facility (PHC) level in their use. 5) The LFA is currently undertaking on-site data verification (OSDV) for all HIV/AIDS, HSS, TB and Malaria grants including an assessment of quality of services using the new Rapid Service Quality Assessment tool (RSQA) as developed between
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	<p>Global Fund and partners. Actions taken on recommendations from OSDV of 2010 are also being followed up and verified; as will those for OSDV and RSQA for 2011 (report expected mid Nov 2011).</p>
<p>TB: Low DOTs coverage, case detection and weak TB/HIV collaboration. For example, the January-March 2011 PU/DR indicates only 55% TB cases detected (11365 out of 20493). This is primarily linked to the expansion of the community DOTs services and low reporting coverage from all service delivery points. Data sharing between TB and HIV Unit is also minimal.</p>	<p>Over the last two years, the Global Fund has been closely working with the CCM, PR, the National TB Program and technical partners (WHO and TB Cap) to support the rapid expansion of the Community DOTs, build capacity at implementation level (namely for the National TB Program) and establish a functioning National M&E system for TB and TB/HIV.</p> <p>The Global Fund-funded community DOTs program has been in place for 2 years, implemented by a competent PR (ARFH) who closely cooperates with the National TB Program (NTBLCP) as the major SR, and is showing promising results. However, data reporting at the community level is challenging. The M&E system of the TB program has increasingly shown improvements since 2009. In this regard, the country has developed a comprehensive National M&E plan. The country has also established a National M&E Technical Working Group for TB (covering all key implementers and technical partners and donors) which oversees M&E functions and provides technical support.</p> <p><u>Further Action points/ recommendations:</u> The PR responses to expand DOTs services are too general. Therefore, ARFH and NTBLCP need to provide clear strategies and actions to accelerate expansion of DOTs services. ARFH and NTBLCP also need to provide an action plan to enhance collaboration between HIV and TB units and data sharing between the two programs (HIV and TB). Expansion of services at the community level will also require tailored, innovative M&E approaches such as cell phone technologies for data transfer/reporting) .</p>
<p>Malaria: Poor data quality and implementation of a national electronic M&E system. NMCP, with support from the M&E Technical Working Group, committed and initiated to establish a National electronic database (DHIS). However, this has not been materialized since the start of the initiative in 2009/2010. Reporting on ACTs received is currently still based on drugs distributed to service delivery</p>	<p>Over the last two years, the Global Fund has been closely working with the CCM, PRs, RBM partners and key donors to support the scale-up of the National Malaria program in Nigeria with ambitious national targets (increase coverage of Malaria prevention and quality treatment services from 2-5% up to 80% within 2 years) and establish a functioning National M&E system. Global Fund grants have been funding substantial WHO Technical Assistance with 6 National Program Officers (NPOs) based in 6 Zonal offices across Nigeria and TA from regional and headquarter offices to support the national scale-up of comprehensive Malaria control interventions with</p>

<p>points and NOT based on consumption data. Also, the reporting mechanism to NMCP does not cover the private sector where a large proportion of malaria treatment services are carried out in the country.</p>	<p>special focus on M&E, trainings and case management (new ACT and RDT expansion). As compared to previous years, the National M&E system for malaria is performing well due to substantial technical assistance received from WHO. As confirmed by members of the National M&E Technical Working Group for malaria, there is increased awareness and commitment for malaria M&E. Standard data collection tools have been developed and deployed both in the public and private health facilities as well as community level. A data verification tool has been developed, and the National malaria indicator survey has been completed (MIS 2010).</p> <p><u>Further Action points/recommendations:</u> NMCP needs to provide stronger leadership in coordinating the strengthening of the National M&E system for Malaria. Specific actions as agreed between NMCP and the Global Fund (items 1-4 included in the grant agreement with NMCP):</p> <ol style="list-style-type: none"> 1) submission of a revised National M&E plan including ACT tracking system up to the consumer/patient level (due date: October 2011) 2) develop an electronic database system/DHIS linked to or compatible with the National HMIS; (due date: December. 2012) 3) establish a system to capture and report on ACT consumption data using forms developed with technical assistance from WHO and on-site training of health workers on their use; (due date: December. 2012); and 4) establish an enforcement mechanism to capture malaria data from the private sector (due date: December 2012) 5) The LFA is currently undertaking the on-site data verification (OSDV) for all HIV/AIDS, HSS, TB and Malaria grants including an assessment of quality of services using the new Rapid Service Quality Assessment tool (RSQA) as developed between Global Fund and partners. Actions taken on recommendations from OSDV of 2010 are also being followed up and verified; as will those for OSDV and RSQA for 2011 (report expected mid November 2011).
<p>Procurement and Supply Chain Management</p>	
<p>Weak and /or poor compliance with Procurement Procedures: Weaknesses noted in the PRs' procurement procedures as well as non-compliance to laid down procedures resulting in</p>	<p>Over the last two years, the Global Fund has been working with the PRs to ensure that the necessary procurement and supply chain management capacity is built through actions such as employment of suitably qualified and experienced staff, training and revision of procurement guidelines and</p>

<p>procurement that was not in line with Global Fund Procurement and Supply Management Policies.</p>	<p>development of standard operating procedures for procurement and supply management of health products. Measures such as VPP, use of Procurement Agents and LFA review of tenders prior to being awarded have been applied to ensure efficiency, effectiveness and compliance with quality standards, procedures and guidelines. All procurement of health products under Global Fund grants is being done by either using VPP or reputable Procurement Agents as selected via a transparent and competitive process. LFA regularly verifies procurement of non-health products as part of the quarterly PU/DR reviews. The Global Fund has agreed with the LFA that the Procurement expert from now on be part of the quarterly LFA review team (integrated Program/ Public Health, Finance and Procurement review) instead of previous separate missions.</p>
<p>Weak Supply Chain Management: The national Supply Chain Management System for health products is generally weak and needs significant improvement in most of the areas. Staffing at central, state and facility levels, forecasting and quantification, warehousing and storage, inventory management, and recording & reporting systems, among others need to be strengthened.</p>	<p>Weak supply chain management for health products is a major risk that cuts across the three disease portfolios in Nigeria. The Global Fund has been closely working with the CCM, PRs and partners to address the key challenges and risks in supply chain management given the large scale-up in interventions and provision of quality drugs funded under the Round 8 and 9 grants. Below are the key action points that have been followed up by the Secretariat since October 2009. Stringent conditions precedent and special conditions have been included in the Grant Agreements for all PRs with health product procurement and compliance is being closely followed-up by the Global Fund Secretariat and LFA. 1. The Global Fund has been working with the Federal Government in strengthening the central medical store. 2. Since November 2009 Global Fund grant funds have been invested in strengthening the national PSM system, PR capacity and other PSM costs (Round 8 HSS and Malaria grants) as follows: (a) renovation of state medical stores that have been previously assessed and found to be inadequate to meet the WHO minimum quality standards, (b) establishment of an LMIS for HIV, TB and Malaria and integrated LMIS under HSS grant and (c) development of SOPs and training of logistical staff at central and state medical stores and at health facilities for adequate inventory management, (d) security measures, (e) hiring of additional qualified PSM staff and capacity building trainings, (f) Quality Assurance of drugs and</p>

	<p>pharmacovigilance (e.g. AMFm grants). Given the huge PSM risks and challenges in Nigeria to be addressed as a condition for the successful implementation of the large scale-up grants, the Global Fund has pro-actively engaged its new Technical Assistance facility, the VPP/Capacity Building Services (CBS) since signing of the Round 8 Malaria and HSS grants in Oct-Nov 2009. The Global Fund CBS team has worked with the CCM, PRs, partners and service providers (incl. John Snow Inc. (JSI), the Global Drug Facility for TB, UNICEF, WHO, World Bank, USAID, PMI etc.) to identify critical areas that need improvement and jointly agree on the scope of the CBS TA complementary to TA and system strengthening investments already being done by other partners and donors.</p> <p>To date substantial work has been undertaken in store assessments and renovations, design and roll out of LMIS for the malaria program, as well as updating of standard operating procedures for inventory management. Capacity building in forecasting and quantification has also been done through CBS for Malaria grants. The PRs are encouraged to continue collaborating with partners in further PSM system strengthening. The PRs have also been requested to contract private sector providers in supply chain management (storage, distribution) as currently being used by SFH to assure full compliance with Global Fund requirements.</p> <p>3. A CCM-subcommittee on PSM was established in January 2011 to oversee the implementation of PSM system strengthening measures undertaken by various PRs (under the leadership of NACA) and mobilize additional funding from the Government in order to meet the quality requirements under Global Fund grants.</p> <p>4. LFA and the PRs are currently conducting a national PHPM supply chain review and drug risk assessment using a sampling methodology across 6 States up to health facility level (September-October 2011, report expected for mid November 2011). Correct usage of developed SOPs and LMIS and inventory management will be verified among others.</p> <p>The findings from this review shall be discussed with the PRs, the CCM-PSM subcommittee, and other partners to formulate an action plan in 3rd week of November 2011. The follow up actions from this review as agreed and PSM related OIG recommendations will be closely monitored by the LFA and the Global Fund on a quarterly basis in 2012. The CCM PSM subcommittee is also requested</p>
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	to follow-up on the agreed action plan.
Financial Management System	
<p>The main risks highlighted by the OIG include inadequate fiduciary controls due to insufficient PR capacity and financial management systems in place, weak financial SR oversight, lack of supporting documents (mainly for earlier grants), non-retirement of advances, ineffective role of internal auditors, inadequate financial manuals and/or lack of adherence to established financial rules, concerns on value for money.</p>	<p><u>Global Fund actions and risk mitigation measures:</u></p> <ol style="list-style-type: none"> 1. Over the last 2 years the Global Fund has been paying particular attention to strengthening the PRs' financial management systems and capacity via hiring of additional qualified staff, computerized accounting system and updated accounting software put in place, revised financial manuals and regulations developed, training of staff in new financial regulations, systems and manuals for improved SR financial monitoring put in place. 2. All PRs have strengthened their internal audit function (with additional staff and internal audit plan in place) or established an internal audit department. Also in line with best practice, all internal audits are no longer reported only to the CEO, but are reported to a Board Audit committee to address any potential conflict of interest. - PRs are requested to report on internal audit findings, recommendations and follow-up actions on a semi-annual basis to the Global Fund. 3. Global Fund and LFA are closely following up on contracting of external audits (prior review of TORs and approval of auditor before selection) and external audit quality versus LFA findings from spot audits. 4. Global Fund requires strict compliance with grant conditions precedent before making a disbursement which has led to increased discipline on unretired advances, supporting documents and other compliance with financial regulations and conditions. 5. Risk Management workshop conducted end-Feb 2011 and close follow-up by Global Fund on implementation of risk mitigation measures. Further finance training of PR and SR finance staff is scheduled for end-Nov 2011. 6. To ensure regular account reconciliations and other financial follow-ups at the SR level, the LFA has been tasked since early 2011 undertake SR spot checks on a semi-annual basis and as required as part of the quarterly PU/DR reviews and submit a report to the Global Fund. <p>It has to be noted that at the time of the OIG audit not all above mentioned measures were yet in place or at an advanced stage. Latest status can be obtained from the CCM response on the OIG recommendations (several completed) and CP status of the Round 8 and 9 grants (GPR on the Global Fund website). Good progress has been made to date by most of the PRs in building up</p>

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	strengthened financial management systems and capacity, a functioning internal audit department, improved external audits, compliance with financial regulations and pursuing improved SR financial oversight. - However more needs to be done by some PRs and most SRs. Global Fund and LFA are closely monitoring compliance on a quarterly and on-going basis.
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The Secretariat thanks the Office of the Inspector General for its draft report and is looking forward to constructive engagement during follow up on recommendations and on matters raised in this letter.

Sincerely,

Mark Eldon-Edington
Director of Country Programs

Annex 3: Global Fund Secretariat’s Comment to Country Action Plan

Prioritization of recommendations

a. High priority: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization’s interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management.

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

c. Requires attention: There is a minor control weakness or noncompliance within systems and proportional remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the organization’s benefit.

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
YGC - Governance	<p>Recommendation 1 (Significant) The Board of YGC could consider undertaking the following actions to improve governance and institutional arrangements:</p> <p>i. Develop and implement a strategic plan with a resource mobilization and</p>	<p>YGC constitution is very clear on the roles and responsibilities of the Council. It also provides for the frequency of the Council meeting and guides its operations. It’s minutes and conclusions documents decision points and detail actions required for implementation. A grants management manual developed with technical support of GMS/GF is being finalized for approval by the council. The manual provided more details as</p>	CEO/YGC	Dec. 2011	<p>The Secretariat agrees on the recommendation for the PR to develop a strategic plan focused on sustainable resource mobilization for the organization. Establishing the Resource Mobilisation Committee is an important step.</p> <p>LFA confirms that the PR’s constitution clearly</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>sustainability strategy.</p> <p>ii. Develop a guideline or a manual to further outline operations of the Council and its interactions with YGC management</p> <p>iii. Management should provide the Council with periodic program reports on Funded programs. Council minutes should document decision points detailing actions required, responsible parties and implementation time lines.</p> <p>iv. Develop and implement one comprehensive</p>	<p>specified in the recommendation.</p> <p>The Council has established 3 Committees namely: 1) Oversight committee which supervises operations of YGC. 2) Audit committee which examines the reports of the internal and external auditors. 3) Resource mobilization committee to increase the base of financial support of the Centre.</p> <p>YGC has rationalized the staffing situation and the CEO will supervise the Program Director directly. See draft organization structure/organogram which reflects the supervision of Director</p>			<p>outlines the operations of the Council and that Council minutes clearly outline decision points. The Secretariat agrees with the recommendations for PR is to ensure minutes are shared with the Management and for Management to share program reports with the Council to ensure efficient and timely sharing of information between all stakeholders.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>organization structure for the Center. The structure should clarify lines of authority and also define who will supervise the director of programs. The Council should approve this structure before it is implemented.</p>	<p>of Program to be presented for approval of the Council.</p>			
<p>YGC - Financial Management and System</p>	<p>Recommendation 2 (High) a. Management should improve the external audit arrangements by: i. Selecting the external auditors through a transparent process and following the “Global Fund guidelines for PR external audits”; ii. External auditors should not be</p>	<p>YGC External Auditors have been replaced by Ernst &Young (a) The Internal auditors no longer participate in the day to day work of the Finance Dept (b) A risk assessment/management manual has also been developed with a view to adopting a risk-based approach, (c) The new organogram has clearly reflected the reporting lines of the Internal Auditor and an Audit Committee has been established</p>	<p>CEO/YGC</p>	<p>Done</p>	<p>The Secretariat agrees to this recommendation and action taken by the PR.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>involved in management functions including the preparation of financial statements;</p> <p>iii. External auditors should be replaced after three to four years, and</p> <p>iv. External audit reports should be considered by the Governing Council.</p> <p>b. The Center's Internal Audit arrangements should be strengthened by:</p> <p>i. Establishing an audit committee of the board to consider the work of internal audit</p> <p>ii. Adopting a risk-based approach to audit and stop pre-audit, and</p> <p>iii. Recruiting additional audit staff</p>				

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
YGC - Governance/Program	<p>Recommendation 3 (High) The Centre should comply with the grant agreement by implementing all CPs within the timelines stipulated in the grant agreement.</p>	<p>Most of the conditions precedent for round 8 have now been met: a PSM Specialist was hired in July 2010 and an audit implementation committee has been constituted. Some conditions precedent are still being jointly addressed by other PRs.</p>	CEO/YGC	Dec. 2011	<p>Several key conditions have been met in the last year related to financial management, recruitment of finance staff and finance staff training. A few conditions related to the establishment of an audit implementation committee and technical assistance are in progress. Main outstanding CPs relate to PSM.</p> <p>The Secretariat notes that several of the financial risks outlined by the OIG for this PR were addressed through the Rd 8 grant conditions.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
YGC - Financial Management and System	<p>Recommendation 4(High) a. YGC should refund the amounts for which no appropriate documentation was provided for audit i.e. expenditure of N 325,906,783 (US\$ 2,172,712) and US\$ 659,905 classified as management fees.</p>	<p>This is noted. Proper financial records are now maintained by YGC. The Centre's archiving system (electronic and manual) has been improved and documents can be located with relative ease.</p>	<p>CEO/YGC</p>	<p>December 2011</p>	
	<p>b. Management should improve financial management systems including: i. Timely and accurate recording of financial transactions ii. Conducting all foreign exchange transactions through banks iii. Put in place a record keeping and archiving system iv. An advances</p>	<p>A tracking system has now been established which does not allow additional advances to be given to people with outstanding advances. In addition, punitive measures have been introduced for staffs who default.</p>	<p>CEO/YGC</p>	<p>Done</p>	<p>b) As mentioned above, the LFA confirms that YGC's financial management and capacity has improved significantly over the last year. YGC is encouraged to maintain and continue improving its financial management.</p> <p>The issue of advances applies to almost all PRs. To enforce the monitoring system, more rigorous measures such as deductions from employee salaries should be established.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>tracking system with further monies given only after full accountability for previous advances</p> <p>c. Based on the fact that these Global Fund provided monies were not used for a purpose approved by the Global Fund, YGC should repay the Global Fund the full amount of USD\$ 276,000 which it incorrectly used for the freight payment.</p>				
<p>YGC - Financial Management and System/ Program</p>	<p>Recommendation 5 (Significant)</p> <p>a) The Centre should establish a grant management procedures manual that covers at least disbursement and accountability, reporting, procurement,</p>	<p>A grant management procedures manual has been established detailing the mechanism for implementation. However, this has not yet been operational</p>	<p>CEO/YGC</p>	<p>On-going</p>	<p>The proposal for manuals to be prepared by PRs is good. However, manuals are often prepared by consultants and not employees. Although this is not specific to YGC, the sharing of such manuals at all levels and ensuring its</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>budgeting, maintenance of accounting records, monitoring of SRs, assets management including inventory management, allocation of common costs etc. The Centre should also strengthen its monitoring of SRs.</p> <p>b) Service providers should be contracted either as contractors or SRs but not both. The contract with CHAN Medipharm should be amended to reflect this recommendation. Appropriate refunds should be sought.</p> <p>c) All SRs should maintain grant specific bank accounts. The Centre should only make transfers to program bank accounts. Proper books of accounts and</p>	<p>The recommendation is noted for compliance. The contract with CHAN Medipharm ended with the round 4 grant. YGC has written to CHAN Medipharm for appropriate refunds as noted by OIG.</p> <p>The recommendation is noted. The recommendation is noted. Supporting documents so far submitted by SRs are as follows:</p> <p>i. NMCP :US\$268,470 while outstanding is \$443,323</p> <p>ii. NMCP- Of the N10.4M (US\$78,768) released to NMCP, N10.2M (US\$77,253.28) was paid for the rent which included agency fees and legal fees (see annex 91b). The balance of N0.2M (US\$1,514.77) is still available with the NMCP.</p> <p>iii. CiSHAN US\$397,729.65 while outstanding is US\$45,249</p> <p>iv. CHAN-Medipharm awaiting response</p>		<p>On-going</p> <p>July 2011</p>	<p>implementation by a strong internal audit is amongst the ways to ensure impact.</p> <p>b) The LFA confirms that YGC's contract with CHAN Medipharm has ended with the round 4 grant and that as at the time of the R8 grant implementation, YGC had no contract with CHAN MediPharm.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>supporting documentation should be maintained for all funds spent at SR level. The Centre should refund the following amounts:</p> <ul style="list-style-type: none"> i. US\$ 337,816 unrecorded transfers between YGC and NMCP; ii. US\$ 302,617 that was unaccounted for by CiSHAN; iii. US\$ 13,082 that was not accounted for by CHAN Medipharm in respect of logistics training; iv. US\$ 256,722 overcharging by CHAN Medipharm for deliveries to stores and health facilities 				

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
YGC - PSM	<p>Recommendation 6 (Significant)</p> <p>a) The Centre should consider elevating the profile of the Procurement Officer's job description to ensure that a suitably qualified person is identified for the job. The Centre should also revise its procurement manual so that it addresses the risks identified in the control environment within which the procurements are undertaken and provides adequate guidance to all stakeholders involved in PSM activities.</p> <p>b) All products should be quality assured in accordance with the Global Fund</p>	<p>YGC Procurement manual has also been revised. A procurement manager has now been hired</p> <p>This observation is noted. However, YGC is working with the Roll Back Malaria team to improve the quality assurance processes in country, including setting up the group and strengthening the national quality assurance group. There are efforts to strengthen NAFDAC Laboratory to attain the minimum standard of quality assurance of ACTs.</p> <p>This has been handled at the National level. NMCP has finalized engagement of a consultant for setting up DHIS as a data base for</p>	CEO/YGC	<p>Done</p> <p>On-going</p> <p>On-going</p>	<p>a) PR is encouraged to revisit their procurement manual on a regular basis to ensure that the risk mitigation measures are appropriate and take into account other procurement risks that might be identified or develop. It is noted that the PR has already recruited a Procurement Manager.</p> <p>b) The LFA verifies that the Procurement is being conducted in line with the Global Fund Quality Assurance Policy on Pharmaceutical products. The main weakness remains ensuring that pharmaceuticals are randomly sampled and quality control tested in the supply chain once they are in country. While the country is working to strengthen the capacity of the</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>assurance policy</p> <p>c) The Centre should liaise with the CBS/SCMS service provider, JSI, to accelerate the implementation of the planned LMIS. YGC should consider using the data collected by the RBM coordinators as a basis for reviewing quality of consumption information available.</p> <p>d) YGC together with NMCP and SFH should develop a commodity tracking system to minimize leakages in the</p>	<p>all malaria control activity information in the country. Windows will be created for both public and private information. In addition, through the Capacity building services provided by TGF through Work Order 1, an LMIS system is being rolled out to adequately track commodities.</p> <p>An interim tracking tool was developed at the National level by all the Malaria PRs and is being used by YGC particularly in tracking the round 8 commodities.</p>		<p>On-going</p>	<p>National Drug Regulatory Authority, the Secretariat has requested the PR to seek services of a WHO prequalified or ISO 17025 certified laboratory to conduct quality control of pharmaceuticals.</p> <p>c) The LMIS forms have been designed with the assistance of GF CBS through JSI.</p> <p>d) It is expected that the roll out of the LMIS system will assist in commodity tracking. The warehousing and distribution practices are also being strengthened to adhere to good practices to minimise product leakages.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	market. An analysis should be undertaken on the causes of product leakages and points of weakness strengthened.				
National Action Committee on HIV/AIDS in Nigeria (NACA)					
NACA - Institution aspects	<p>Recommendation 7 (Significant)</p> <p>(a) To the extent possible, the programs should be integrated into the existing NACA structure and the complex matrix reporting systems that distort lines of authority and cause confusion among staff removed.</p> <p>(b) NACA should consider recruiting or allocating more staff to the finance, procurement and program units to enhance their capacity to manage</p>	<p>Programme is being integrated into existing structure and organogram is being modified</p> <p>NACA has advertised for three new finance positions. In addition, three new Accounting staffs were posted to NACA from the Office of the Accountant General of the Federation (OAGF).</p>	<p>Director General (DG)</p> <p>DG</p>	<p>Recruitment expected to be completed by Sept. 30, 2011</p>	<p>The LFA verifies that NACA has integrated the Global Fund project team in its organogram and has identified focal points for each activity. In addition, the PR has submitted the list of staff members and the LOE on Global Fund supported grants as part of the documentation submitted for the HSS /HIV consolidation. The Global Fund has reviewed these arrangements and has emphasized the need for strengthening Finance and management components. The Secretariat appreciates the step to depute</p>

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Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>the Global Fund grants. Consideration should also be given to hiring key staff on a more permanent basis to ensure continuity.</p>				<p>additional staff members from the Office of the Account General. The NACA HR capacity (the number, the structure, and training) has been instituted as a special condition in the HIV/HSS consolidation to be accomplished by 31st of October 2011.</p>
<p>NACA - Institution aspects - Audit arrangements</p>	<p>Recommendation 8 (Significant) (a) NACA should consider setting up an audit committee to review the external and internal audit reports, approve the internal audit work plan, assess the performance of the internal and external auditor, and hold management accountable for implementing audit recommendations. This committee should ensure that external audits are</p>	<p>The Finance Committee of the Board is already responsible for implementing the recommendation</p> <p>i) 2 new staff posted from the Office of the Accountant General of the Federation to strengthen the unit. The process is already on to employ two additional staff from a general employment exercise being handled by the Agency. ii) The</p>	<p>DG</p> <p>DDIA</p>	<p>October 1, 2011.</p>	<p>The PR's finance committee in the Board is responsible to assume the roles and responsibilities of an audit committee. The Secretariat agrees that NACA needs to strengthen the internal and external audit functions especially in the planning and the internal audit functions and having an appropriate structure in implementing it. LFA verifies that NACA has taken some positive steps in bringing more staff capacity from the</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>carried out in a timely manner.</p> <p>(b) The internal audit function should be strengthened by (i) increasing staff; (ii) developing an internal audit manual, annual audit plans and detailed work programs; (iii) adopting a risk-based approach to their work; (iv) enhancing audit report content; and (v) undertaking follow up visits to check the status of implementation of recommendations raised.</p>	<p>development of internal audit plans and detailed work programs and general capacity building is being implemented with support of ENR Consultants. (iii) risk based approach to management and (iv) enhancement of audit report content are noted and already being implemented. (v) undertaking follow up visits to check status of imlemntation is already included in the Department's 2011 Work plan.</p>			<p>office Accountant General of the Federation to strengthen the unit. The Secretariat is expecting the comprehensive internal audit plan from the PR soon, which is a Special Condition that NACA needs to meet by the 30th of September 2011.</p> <p>NACA has recently submitted their audit report for 2010 and is processing the results and recommendations. The Secretariat will follow up with them closely on this.</p> <p>NACA has agreed with the Global Fund that, it will receive the approval from Global Fund on the terms of reference and scope of the work of the external auditor for 2011 before launching the recruitment process.</p> <p>b) NACA is currently</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
					strengthening their internal audit function by recruiting an internal auditor, as well as additional finance staff.
NACA - Finance Management	<p>Recommendation 9 (High)</p> <p>(a) Commingling of donor funds should be discouraged because it may result in non-program expenditure. In the event that this happens, proper books of account should be maintained and reconciliations prepared to show what Global Fund monies have been spent on and outstanding balances at any point in time.</p> <p>(b) The accounting software should be developed further by either extending its functionality or acquiring another</p>	<p>The observation is noted. The practice has already been discontinued.</p> <p>NACA is implementing a new and robust enterprise software - SAP All-in-One. The consultant has already commenced work</p>	DG	<p>Estimated go-live date is September 1, 2011</p> <p>September 1, 2011</p>	<p>a) The LFA verifies that the PR has discontinued the practice and maintains separate bank accounts and financial records for each grant.</p> <p>b) NACA has acquired and installed SAP accounting software. LFA has verified that it is fully operational as of end September.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>software. Consideration should be given to addressing: (i) Functionality i.e. the system's ability to produce required information; (ii) Flexibility i.e. the system's adaptability to changing business practices; (iii) Ability to carry out self-diagnostic checks for integrity; and (iv) internal control to all system inputs, processing, and outputs to ensure that reliable data is obtained, maintained and reported.</p> <p>(c) NACA should strengthen its budgeting frameworks by providing sufficient details in the budget as a guide to expenditure. The detailed budget</p>	<p>Budgeting frameworks and staff capacity are being improved to provide details in the budget</p> <p>i. Advances Ledger is now in place, and prompt retirement of advances is being institutionalized</p> <p>ii. NACA has compiled a list of the 'unsupported expenditure', most of which are expenses incurred in 2004/05.</p> <p>iii. We have contacted the persons and hospitals involved. However, because of the age of these transactions,</p>		<p>September 1, 2011</p> <p>Dec. 1, 2011</p>	

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>should be input into the accounting software with payments only processed against the relevant budget line. The PR should periodically compare actual expenditure to budgets with significant variances investigated and followed up.</p> <p>(d) NACA should establish a ledger to track all outstanding advances. Additional advances should not be made to staff with outstanding advances. Long outstanding advances should be followed up. All unsupported and ineligible costs amounting to US\$ 606,939 and US\$ 71,241 respectively should be refunded.</p>	<p>responses from the affected persons have been slow. As a last resort, we intend to use consultants or debt collection agents to track these retirements</p>			<p>c) The PR improved on its budget preparation and explanation of assumptions during the preparation of the consolidated R9+HSS grant.</p> <p>PR should plan to periodically compare actual expenditure to budgets with significant variances investigated and followed up.</p> <p>d) NACA currently maintains records of all outstanding advances in an excel sheet. It is expected that advance codes will be created when the accounting software is fully operational.</p> <p>NACA has initiated the process of recovering the amounts from the persons or organisations involved.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
NACA - Financial Management	<p>Recommendation 10 (Significant)</p> <p>(a) NACA should ensure that the manual is complied with in order to strengthen the control environment within which programs are implemented. An addendum to the existing financial manual should be prepared to address Global Fund grant specific requirements.</p> <p>(b) To the extent possible, the PR should segregate incompatible duties by reassigning the current roles and responsibilities. In cases where segregation of duties is impossible due to limited resources, management should actively supervise the day to day financial</p>	<p>NACA has recently revised its Financial Manual. Once approved by the Board, we will hold sensitization sessions to ensure the Manual is used by all.</p> <p>Proper segregation of duties will be achieved as new staffs join the team. The Department has been restructured to make for this checks and balances</p> <p>All PV are now pre-printed and pre-numbered. The rest of the recommendation is noted for implementation.</p>	DG	<p>Oct. 1, 2011</p> <p>Sept. 1, 2011</p> <p>Dec. 2011.</p>	<p>a) The LFA confirms that the PR's finance manual has been revised but is yet to be approved by the Board.</p> <p>The PR and LFA will report on compliance with the financial manual in the PUDR.</p> <p>The LFA confirms that NACA has recruited new staff and mainstreamed TGF activities into its core structure. This has created room for segregation of duties.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	<p>operations.</p> <p>(c) NACA should adopt the use of pre-printed, serially pre-numbered payment vouchers. All payments should be approved, supported by appropriate supported documentation and stamped paid. To the extent practical, NACA should pay service providers by check or bank transfer in order to reduce the volume of uninsured cash transported by staff.</p> <p>(d) NACA should strengthen its asset management by maintaining a comprehensive fixed asset register, tagging assets with unique identifiers and undertaking regular physical verification</p>	<p>Asset register is now in place for the Global Fund and World Bank. The process is already on to put together on for assets procured with Government of Nigeria funds. These will be consolidated when the SAP all-in-one is implemented. Periodical updates and tagging of assets with unique identifiers are being planned.</p>			<p>c) NACA has adopted the use of serially numbered and pre-printed PVs and all supporting documentation are invalidated after use. Service providers are also paid via cheques. The LFA will monitor this practice during the PUDR reviews.</p> <p>d) The PR maintains a register of fixed assets acquired with TGF resources. Assets are tagged with unique identifiers and verified on a regular basis.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	of assets.				
NACA - Sub Recipient Management	<p>Recommendation 11 (High) NACA should assess SR capacity to implement programs. A capacity building plan should be developed to strengthen the particular areas where capacity gaps are identified. NACA should also establish a grant management manual that covers at least disbursement and accountability, reporting, procurement, budget tracking, maintenance of accounting records, assets management including inventory management etc. Specifically NACA should strengthen the following areas:</p> <p>i. All SRs should have program designated</p>	<p>Rigorous assessment was carried out before SRs were selected for the GF Round 9 Grant. An SR Management Manual is being developed to ensure proper management of SRs. Programs and financial reports will be reviewed periodically going forward.</p> <p>Regular orientation and capacity building programs will be organized to assist SRs that need support to deliver on the program targets.</p> <p>The rest of the recommendation is noted for action.</p>	DG	Dec 2011.	<p>NACA is has done assessment of all SRs in Round 9. NACA has used a tool that was structured into seven (7) sub-categories/areas to capture strengths and weaknesses in key organizational areas. The areas are: governance, administration, human resource management, financial management, organizational management, program management and project performance management. However, it is important for NACA to ensure that the SR weaknesses are addressed and the action for addressing the weakness are monitored regularly.</p>

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	<p>bank accounts. The processing of disbursements to personal staff bank accounts should be discouraged.</p> <p>ii. All SRs should be audited with NACA following up audit queries.</p> <p>iii. An advances tracking system should be established and all accountabilities reviewed prior to making further disbursements.</p> <p>iv. A proper monitoring framework should be established that defines SR indicators and targets; indicates when, how and by whom monitoring will be undertaken; and provides feedback to SRs.</p> <p>v. SRs should receive guidance on how common costs should be allocated across different funding</p>				<p>The Secretariat agrees that NACA needs to strengthen SR management functions. This has increasingly become important after the consolidation of the HIV/HSS grants where the number of SRs has increased to 14.</p> <p>The Secretariat has agreed with NACA on the implementation of following steps for improving SR management:</p> <p>(a) NACA to monitor Sub-recipient disbursement and expenditures through the centrally installed Integrated Financial Management and Accounting software (by 30 September 2011)</p> <p>(b) NACA to implement a system for comprehensive SR management including SR assessment, programmatic, financial</p>

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	sources.				progress (30 September 2011) (c) NACA to develop and Internal audit plan capturing the Sub-recipients (30 September 2011) (d) NACA to train all Sub-recipients on its obligations and liabilities with Principal Recipient under the grant agreement (30 September 2011) (e) NACA to implement a systematic method for disbursing funds for trainings to SRs.
NACA - Procurement and Supply Chain Management	Recommendation 12 (Significant) (a) NACA should strengthen its procurement function by defining its relationship with its TPPAs with roles clearly elaborated, and processes put in place to oversee and approve key procurement stages. The coordination of	NACA has advertised for new procurement agents and have detailed the functions of the procurement agent as well as the relationship between NACA and the PA in the scope of work.	DG	December 30, 2011	(a) The PR is in the process of recruiting a new Procurement Agent. Bids received from possible contractors are being reviewed. The Secretariat is actively involved in reviewing the on-going selection process of the Procurement agent. The Secretariat will also review the contracts to ensure that clear roles

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	<p>the PSM functions should be transferred to NACA with the TWG providing oversight to the activities undertaken by NACA. NACA should strengthen its PSM capacity by filling the vacant positions and identifying resources for the logistics function. NACA should update its manual to ensure it provides adequate guidance for the PSM function. Policies should be complied with especially with regard to tendering and prequalifying suppliers.</p>				<p>and responsibilities are contained. It has been noted that NACA is planning to recruit additional staff including for PSM to strengthen its functions. The PR will be requested to revise its procurement manual to ensure that it adheres to Global Fund Policies.</p> <p>At this stage, the Secretariat is reviewing all the major procurements prior to award of contracts and ensuring that health products are procured using Procurement agents to mitigate risks.</p>

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NACA - Procurement and Supply Chain Management	<p>(b) NACA should develop appropriate tools to plan and track procurement progress. Record keeping at NACA should also be strengthened. In order to strengthen its quantification, the collection and validation of consumption data from ART sites should also be improved.</p> <p>(c) In cases where significant advance payments are made to suppliers, NACA should obtain performance bonds to guarantee performance and protect the Global Fund resources.</p>	<p>Additional staff has been recruited in the procurement unit and more will be added when the ongoing recruitment exercise is completed. The procurement manual will be updated to provide for the gaps identified.</p> <p>As mentioned above, the present procurement tracking tool has the capability of tracking key order monitoring indicators but had gap in the area of monitoring compliance by the procurement agents. Presently this has been addressed and the procurement agents and all other PSM backbone members now report on monthly basis using the agreed templates.</p> <p>The practise has been replaced by performance bonds.</p>	DG	Done	<p>b) The Secretariat will work with the PR to ensure that appropriate procedures are in place to track and record procurement activities. The recently reviewed quantification for the HIV/HSS consolidated grant shows significant improvements in quantification of health products.</p> <p>c) We note that the PR will be issuing Performance Bonds.</p>

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<p>NACA - Procurement and Supply Chain Management</p>	<p>Recommendation 13 (Significant) (a) The selection and contracting of the distribution agent should take into account the findings of the commodities distribution assessment to ensure value for money is obtained from the distribution services. A new distribution contract should be entered into to include NACA's expectations, terms for reporting, management and supervision and include performance based service level terms and conditions.</p>	<p>New distribution agents have been selected and the process took into cognition the findings of the distribution assessment.</p>	<p>DG</p>	<p>Done</p>	<p>(a) The distribution service providers have been selected after the needs assessment. The LFA has been asked to review the terms of the contract and the performance of the service providers against the agreed performance indicators and advise the Global Fund.</p>
	<p>(b) NACA should strengthen its contract management function which should include monitoring the performance of service providers</p>	<p>Measures have been put in place to ensure that appropriate indicators are enshrined in the contract agreement and proper tools developed and adequately used to monitor the functions of the engaged service providers.</p>	<p>DG/PPO</p>	<p>Done</p>	

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	against contractual terms				(b) The supply chain review that will be undertaken by the LFA from 2011 (2011 review currently underway) will provide opportunity to monitor the PA contract management.
NACA - Procurement and Supply Chain Management	<p>Recommendation 14 (Significant)</p> <p>(a) Proper guidelines should be developed to guide lower level staff on how to deal with expired drugs. This should be in line with the MOH disposal guidelines.</p> <p>(b) In order to improve inventory management systems in the supply chain, NACA should replicate the best practice implemented by GHAIN across the various Global Fund supported districts.</p>	<p>NACA will work closely with the ministry of health to provide detailed guidelines to the facilities on management of short dated and expired commodities.</p> <p>This is Noted. Nigeria is currently moving towards harmonization of logistics system and elimination of parallel systems in the country and adopting best practices to ensure efficiency.</p>	DG	<p>December 30, 2011</p> <p>December 30, 2011</p>	<p>a) The LFA confirms that the PR is in discussion with the Federal Ministry of Health to develop the guidelines to deal with expired drugs. The Secretariat will follow up with the PR on the progress on implementing this recommendation.</p>
					b) Noted.

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	<p>framework as a response to risks that may threaten the achievement of organization and program objectives. Such a framework should include a disaster recovery plan in the event of fire, floods and other disasters.</p>	<p>A new risk management plan is being finalized for Board approval by end of Q3 2011.</p>			<p>c) The PR has developed a draft disaster recovery plan which includes back up plan and actions to mitigate effect of disaster if it happens. It also describes the frequency of which each department should back up its data.</p>
	<p>Recommendation 16 (Significant) The audit arrangements should be strengthened by: (a) Review of internal audit work plans and</p>	<p>The SFH has a Board Audit and Compliance Committee. The committee has recently developed a Charter which has been finalized</p>	<p>CEO/SFH</p>	<p>December 30, 2011</p>	<p>a) There is an Audit and Compliance Committee of the Board responsible for the roles and responsibilities outlined in the report. A draft</p>

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	<p>reports by the finance and audit committee of the Board</p> <p>(b) Implementing audit recommendations.</p> <p>(c) Developing and implementing an internal audit manual.</p>	<p>and awaiting Board approval at the next Board meeting in October 2011. The Board Charter addresses all the recommendations of the OIG.</p> <p>The internal audit manual is currently being developed and will be submitted for board approval by Q4.</p>	CEO/SFH	December 30, 2011	<p>charter for the committee has been developed and is waiting for the Board's approval in October 2011.</p> <p>The PR has developed an internal audit work plan for review of activities at the PR level. This should be revised to incorporate reviews of SRs. Timelines should also be indicated for each of the activities in the work plan.</p> <p>c) The PR is in the process of developing an internal audit manual.</p>
SFH - Sub Recipient management	<p>Recommendation 17 (Requires attention)</p> <p>SFH management should consider obtaining appropriate accounting software, which allows for:</p> <ul style="list-style-type: none"> i. Multiple currencies; ii. Quick and efficient reconciliation of branch accounts, 	<p>SFH had a system of tracking advances and disbursement using specific tools. There is also budget monitoring and forecasting tools available.</p> <p>SFH visited SRs to monitor grants implementations and the reports of these visits were shared with the OIG team.</p>	CEO/SFH	Done	<p>The PR performs financial review of its SRs. However, there is still room for improvement as some issues in reports submitted by SRs are not followed up.</p> <p>It also keeps track of staff advances but</p>

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	and iii. Tracking of advances to staff and SRs.				stopped performing ageing analysis due to challenges with the accounting software. It has now acquired SAP software and should be able to track its advances well.
	Recommendation 18 (High) SFH management should stop inter-grant borrowing of grant funds.	SFH has ceased inter-grant funding for all donors.			The LFA verifies that the PR has ceased inter-grant borrowing and we will continuously monitor this and report appropriately if it happens again.
	Recommendation 19 (High) SFH management should contract SRs separately from contractors. Activities to be contracted to SRs or suppliers should be tendered out to allow for competition.	(SFH has not had a chance to respond directly to this recommendation)			The Secretariat agrees with this recommendation and the LFA confirms that the PR has made a clear distinction between contractors and SRs in its recent procurement of services,
	Recommendation 20 (Requires attention) SFH should strengthen the capacity of its	As part of the capacity building of PSM unit, Associate Director of the			The LFA verifies that SFH's procurement unit

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	procurement unit by ensuring that staff have appropriate skills and tools to manage the procurement process.	PSM unit underwent a one-month internship at the procurement unit of PSI in May 2010. Additionally, 3 other staff members of SFH PSM team participated in a one week training on the procurement and storage of ACTs in Amsterdam in 2010. SFH commits to continued strengthening of the PSM team.			has improved with the recruitment of the Associate Director. (See below.)
SFH - Procurement and Supply Management	<p>Recommendation 21 (High)</p> <p>SFH should review its procurement and warehouse operations manuals and ensure that they are aligned to PSM best practice. These manuals should be operationalized in order to strengthen the control environment within which PSM related activities are undertaken.</p>				The on-going improvements and the Procurement manual, which has been submitted to and revised by the Global Fund, will be reviewed as part of the PR's capacity assessments.
	<p>Recommendation 22 (Significant)</p> <p>(a) SFH should strengthen stock recording mechanisms at its warehouse in order</p>	SFH PSM unit under the leadership of the Associate Director has made significant improvement in the coordination of our PSM activities. As part of the capacity building of PSM unit, Associate Director of the PSM unit underwent a one-month internship at the procurement unit	CEO/SFH	On-going	The LFA and Secretariat will follow up on the implementation of these issues as part of the supply chain reviews and LFA assessments. The systems should be

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	<p>to address issues identified in this report</p> <p>(b) SFH should consider building some flexibility in its distribution systems in order to accommodate emergency requirements in the supply chain. SFH should also strengthen its monitoring of distributors.</p> <p>(c) SFH should establish a formal and competitive tendering system for identifying and selecting third party transporters for distribution of grant commodities. Formal contracts should be signed between SFH and transporters and</p>	<p>of PSI in May 2010. Additionally, 3 other staff members of SFH PSM team participated in a one week training on the procurement and storage of ACTs in Amsterdam in 2010. SFH commits to continued strengthening of the PSM team.</p>			<p>strengthened to minimise the need for emergency supplies.</p>

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	a formal evaluation system for evaluating the performance of transporters developed and implemented.				

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<p>NMCP - Institutional Arrangements</p>	<p>Recommendation 23 (High) (a) A mechanism should be instituted for regular information sharing between FMoH and NMCP. The finance manuals should be reviewed and formally approved by management. All PMU staff should be trained in the use of these manuals so as to enable faster implementation</p> <p>(b) NMCP management should ensure that the coordination framework oversight structures are established and applied. All committees and management structures should meet as mandated and the Global Fund supported programs should be reviewed at these meetings. Minutes of the meetings should be maintained.</p>	<p>NMCP currently shares information with the FMoH through the ATM meeting and regular meetings with the HMH</p> <p>The manuals have been finalized and all finance staff have been trained on how to use them</p> <p>a. All sub committees are now operational and meet regularly</p> <p>b. GF supported activities are discussed at senior management meetings</p> <p>c. Minutes are taken at all the meetings</p>	<p>NC, Heads of branches, PM.</p> <p>Financial Management TA</p> <p>Heads of Branches, RBM Partners</p> <p>NC, Programme Management Branch</p> <p>Same as b above</p>	<p>On-going.</p> <p>On-going</p>	<p>a) The LFA confirms that monthly ATM meetings are conveyed by FMoH where all units (including NMCP) under the Ministry provide update/progress on projects being implemented. This serves as a platform for the exchange of ideas and sharing of information among the various units and the Ministry.</p> <p>The finance manual of the PR was approved by the National Coordinator on 24 June 2011.</p> <p>b) The chair persons of PSM and Case management committees were stationed outside Abuja prior to the OIG audit as such regular meetings could not be held by the committees. The chairpersons of the two committees have since been changed and regular meetings are being held. TGF activities are discussed at such meetings as it is the most active grant being implemented by the PR. The LFA confirms that minutes</p>

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	<p>(c) The internal audit function should be strengthened by increasing the staff component, developing an internal audit manual, adopting a risk-based approach to the internal auditor's work, developing annual audit plans and work programs and enhancing reports by providing details of audit findings, management comments and an action plan.</p>	<p>d. Audit plan has been developed and submitted to the GF.</p> <p>e. NMCP is also in the process of recruiting more staff for internal audit</p>	<p>Internal Auditor</p> <p>NC and NMCP management</p>	<p>September 2011</p>	<p>of the meetings are appropriately filed.</p> <p>c) Assistant internal auditor has been recruited by the Ministry to support NMCP's internal audit unit. She assumed post in August 2011. The PR has developed an internal audit manual and audit plan which specifies timelines and key activities to be undertaken. The internal audit reports do not contain any management comments. The analysis by the internal audit unit should improve based on a risk-based approach.</p>

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<p>NMCP - Institutional Arrangements</p>	<p>Recommendation 24 (High) The NMCP should ensure that conditions stipulated in the grant agreement to safeguard program assets are complied with. Specifically management should ensure that</p> <ul style="list-style-type: none"> a. Program funds are spent in accordance with the approved plans and budgets; b. Program funds are maintained in an interest bearing account; c. The programs complies with all applicable laws of the country including income tax laws; and d. All program assets are insured with a reputable insurance company. 	<ul style="list-style-type: none"> i. The programme funds are spent based on approved work plans and budgets ii. PR is in discussions with the bank to ensure that this happens. iii. PR is working with the federal Inland revenue service to ensure funds for taxes are remitted as quickly as possible iv. Programme Assets are insured by Industrial and General Insurance. 	<p>Programme Manager, Finance Unit of</p>	<p>On-going.</p>	<ul style="list-style-type: none"> a) Program funds are spent in accordance with the approved plans and budgets. b) The PR earns interest and pays charges on the US\$ bank account. However it does not pay charges or earn interest on the Naira bank account. c) The PR has initiated the process of registering with the Federal Inland Revenue Service (FIRS) for Tax Identification Number (TIN). The PR however deducts PAYE from staff salaries on monthly basis but does not remit to FIRS because the PR does not have TIN. d) All assets are insured with IGI.

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NMCP - Financial management	<p>Recommendation 25 (High) NMCP management should ensure that grant funds are used only for activities that are listed in the grant work plan and budget.</p>	<p>The funds spent was to offset the outstanding rent for office space incurred when NMCP was SR to YGC. A letter for the refund was written to YGC and the management promised to pay. NMCP is yet to be reimbursed for this payment</p>	<p>NC, Programme Manager</p>	<p>When funds are released to YGC</p>	
NMCP - Financial management Technical Assistance	<p>Recommendation 26 (High) (a) The NMCP should consider hiring a full time finance manager to support the program since it may result in better value for money than hiring a professional services firm. Should the NMCP decide to continue with the KPMG arrangement, it should finalize the TA contract. This contract should have clearly defined responsibilities with milestones set against which performance will be assessed. (b) NMCP management should put in place mechanisms to</p>	<p>KPMG contract according to grant agreement is one year renewable following approval by the GF Capacities have been built in the finance unit and systems are in place to ensure proper financial management of the grant. An assessment of the finance unit by the LFA to the GF will ascertain this.</p> <p>Noted and the WHO issue has been addressed.</p>	<p>NC/NMCP</p> <p>NC/NMCP.</p>	<p>August, 2011</p> <p>Done</p>	<p>a) The contract with KPMG was not renewed after the first year. The PR now has finance staff performing the financial management functions.</p> <p>b) The Secretariat agrees with the recommendation on the</p>

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	<p>monitor budgets and work plans of service providers. Management should initiate discussions with WHO to agree on the use of the excess funds arising from the delayed recruitment of NPO.</p>				<p>issues of using funds for the recruitment of NPO. PR has responded that this issue has been addressed. However, the PR needs to provide detailed documentation on what has been agreed with WHO on the use of funds for NPOs (by October 2011). The savings were deducted from a subsequent request made by WHO as detailed in NMCP letter dated 25 October to WHO and agreed by WHO via letter dated 26 October 2010.</p>
<p>NMCP - Financial management Control weaknesses</p>	<p>Recommendation 27 (High) (a) Depositing grant funds into staff accounts, granting advances long before the planned activities and giving large amounts of cash to staff to carry to the field should stop. The PR should consider prequalifying service providers for services such as hotel, stationery, air ticketing etc. with payments effected directly to the service providers.</p>	<p>This is however noted and steps have been taken to ensure that majority of funds for activities are transferred to the accounts of service providers to reduce the said risk.</p>	<p>NC/NMCP</p>	<p>Ongoing</p>	<p>a) This practice has improved. NMCP is in the process of establishing a black list for staff who do not retire funds.</p> <p>LFA confirms that the PR now makes direct payments to the hotels and service providers while per diem for participants are paid through staff.</p> <p>With regards to prequalifying service providers for services,</p>

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	<p>(b) An advances ledger to track outstanding advances should be maintained. Advances should be reconciled within the stipulated period with penalties instituted for long outstanding advances e.g. not granting additional advances to staff with outstanding advances and reconciliations. Management should ensure that all accountabilities are comprehensively reviewed.</p> <p>(c) All fixed assets purchased should be given unique numbers and tagged for ease of identification. Physical verification of fixed assets should be undertaken periodically with any exceptions noted resolved.</p> <p>(d) NMCP should develop detailed activity based</p>	<p>This is noted. An advance register is already in place</p> <p>All fixed assets have unique identification numbers and the physical verification of assets are now done periodically</p> <p>NMCP maintains a sources</p>	<p>NC/NMCP</p> <p>NC/NMCP</p> <p>NC/NMCP</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	<p>the Secretariat will follow up on these recommendations.</p> <p>b) The LFA confirms that the PR maintains an advance ledger in the accounting software to track advances given to staff. It also maintains a manual advance ledger to assist in tracking of staff advances. All unretired advances after four weeks are deducted from staff salaries. However, reviews have indicated that some advances are expensed before they are retired.</p> <p>c) The LFA confirms that all PR's assets are labeled and physical verification of assets is performed by the internal auditor during his reviews.</p> <p>d) The PR prepared a detailed</p>

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	budgets with assumptions to estimate the funds required for each activity clearly articulated. Budget variance analysis reports should be undertaken periodically and corrective action taken to address large variances.	and uses of funds document which clearly matches all expenditures against the budget and shows the variances. This document is reviewed by the LFA on a quarterly basis.			budget for the Rd8+AmFM grant. It also performs budget/actual variance analysis of activities in the budget. The LFA confirms that this is done on quarterly basis and informs the PR's cash request.
NMCP - Sub Recipient Management	<p>Recommendation 28 (Significant)</p> <p>(a) The NMCP should establish a well-documented process for identifying potential SRs. It should include an assessment of potential SRs for programmatic and financial management capacity in order to identify gaps that would affect program implementation.</p> <p>(b) The PMU should comply with the provisions of its grant management plan since this will strengthen the management of SRs. Specifically, the PMU should ensure that all SRs submit programmatic and</p>	<p>NMCP now has SR assessment checklist which assesses all relevant areas of SR capacity to manage grant fund i.e. programmatic and governance, procurement supply chain management, financial management and Monitoring and evaluation.</p> <p>The SRs have been submitting monthly and quarterly reports for financial management and programmatic reports. Initially at the onset of the grant it was decided that monthly meetings would</p>	<p>NC/NMCP</p> <p>NC/NMCP</p>	<p>Done</p> <p>Ongoing</p>	<p>a) The CCM advertises for institutions to apply as PR/SR and initially assessed before they are included in the proposal. NMCP selected its SRs from the pool nominated by the CCM. The PR has developed a checklist for assessment of its SRs. The checklist was used to assess SRs under the AMFm grant.</p> <p>b) The LFA confirms that all SRs under the R8+AMFm grant submit quarterly financial and programmatic reports to the PR. The PR/SR coordination meetings are also held on quarterly basis instead of monthly as envisaged in the</p>

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	<p>financial management reports as stipulated in the plan. The envisaged monthly SR coordination meetings should also be held.</p> <p>(c) The NMCP should strengthen the SR disbursement process by ensuring that disbursements are effected on a timely basis and against a work plan and budget. The NMCP should ensure that all previous disbursements are accounted for before additional disbursements are effected.</p>	<p>hold but during the implementation it was observed that to get value out of the meeting, the meetings should hold quarterly. However when issues arise impromptu meetings could hold.</p> <p>No fund is ever disbursed to the SRs outside the work plan and the SR reports are reviewed quarterly prior to further disbursement. The initial funds were disbursed to the SRs' to ensure there was no break in grant implementation</p>	NC/NMCP.	Ongoing	<p>budget. It will be programmatically inefficient to meet on monthly basis.</p> <p>c) The PR disburses funds to the SRs through their bank accounts. The amount disburse are based on what is in the approved budget and in line with PR/SR's workplan. The LFA confirms that SRs submit quarterly financial and programmatic reports on previous disbursements before subsequent ones are made.</p>
Association for Reproductive and Family Health (ARFH)					
ARFH - Institutional Aspects	<p>Recommendation 29 (Requires attention)</p> <p>(a) The ARFH should establish guidelines in form of a charter or manual to guide the operation of the Board of Trustee and Board of Directors. All amendments to the constitution should</p>	<p>ARFH's Constitution has been revised and submitted to Corporate Affairs Commission (CAC) for registration reflecting all the concerns raised above. Copy has been forwarded to LFA in August 2010.</p>	COO/ARFH	Dec 2011	<p>a) The PR has developed a Board Charter and revised its constitution which has been filed with the CAC.</p>

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	<p>be made in accordance with procedures defined in the constitution. All amendments should be registered with the CAC with documentation to evidence the registration maintained.</p> <p>(b) The ARFH should consider separating oversight responsibilities from the executive responsibilities by removing the CEO and deputy CEO from the two Boards above. Members of the executive should be able to attend Board meetings as observers but not as voting members.</p>	<p>The Board charter/manual which also addressed the issue of conflict of interest (page 15) has now been developed and ratified by the Board of Directors at their meeting of June 2010.</p> <p>The recommendation on diversification of the board membership has been taken into consideration by replacing the retired members with people of relevant professions and background to the organization's need.</p>			<p>b) The Chairman and Vice Chairman position of the BoT are now held by non-executive members. However, the CEO and deputy CEO still have voting rights.</p>
ARFH - Institutional Arrangements - audit Arrangements	<p>Recommendation (Significant) 30</p> <p>(a) ARFH should consider establishing an audit committee that is responsible for approving the audit work plan, assessing the performance of the Chief Internal auditor, reviewing internal audit reports and holding</p>	<p>Finance and Audit committee to oversee and review audit report now established.</p> <p>The ARFH internal audit department reporting line has now been redirected to the Board of Directors through her Finance and Audit Committee.</p>	COO/ARFH	Done	<p>a) The Finance Committee has been established and a charter developed for the committee. The charter outlines among other things the membership of the committee, roles and responsibilities and frequency of meetings during the year.</p>

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	<p>management accountable for implementing internal audit recommendations.</p> <p>(b) -The internal audit function should be strengthened by (i) increasing staff to carry out the internal audit function; (ii) developing an internal audit charter to guide the audit process; (iii) amending the job descriptions to reflect the role of the auditors; (iv) following up recommendations and ensuring that they are implemented; and (iv) not being involved in the day to day running of ARFH.</p> <p>(c) ARFH should be encouraged to report any control weaknesses that come to their attention in the course of the audit.</p>	<p>The Internal audit department has been strengthened with additional personnel as of October 2010. The job description of the internal auditors has been reviewed to take care of the issues raised by OIG among other things. The observation made regarding internal audit procedure is noted and accepted.</p> <p>Presently, part of additional strategies in place to mitigate the risk of non compliance to procedures is the development of a 'Harmonized Financial Management Procedures' manual, to ensure the SRs follow standard accounting procedures. This document was developed with inputs from all the SRs, and had</p>			<p>b) The internal audit practices of the PR has been reviewed and amended in line with the recommendation made by OIG.</p> <p>The internal audit is currently underway.</p>

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		<p>been reviewed and approved by Global Fund as an excellent document for good accounting practices. We have also reviewed our reporting template to enable SRs provide a formal response and timeline for correction to the audit issues.</p>			
<p>ARFH - Compliance with grant Agreements</p>	<p>Recommendation 31 (Significant) ARFH should comply with the grant agreement. Specifically, management should deduct taxes from staff salaries in accordance with State and Federal Tax laws and pursue tax exemption status.</p>	<p>ARFH has contacted the relevant tax authorities who have re-assessment individual staff monthly remittance. Effective from January 2011, Pay As You Earn has been deducted from staff salaries and remitted in line with the assessment.</p> <p>A tax waiver is in the process of being secured. In the interim, we have an MOU with the WHO for duty free clearance of the TB drugs, reagents and lab consumables using their diplomatic privileges.</p>	<p>COO/ARFH</p>	<p>Done</p>	<p>a) The Federal Inland Revenue Service performed PAYE assessment of staff of the PR and came up with the PAYE that should be paid by each staff through a letter dated 18 January 2011. ARFH has since being paying PAYE based on that assessment.</p> <p>The PR wrote to the Federal Ministry of Finance on 17 March 2011 requesting for tax waiver. The Ministry indicated in a letter dated 5 April 2011, that the exemption will be done based on merit of each transaction. WHO currently clears TB drugs, reagents and lab consumables on behalf of</p>

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					the PR and WHO enjoys tax exemptions.
ARFH - Financial management - Use of program funds	<p>Recommendation 32 (High) The management of ARFH should effect all foreign exchange transactions using program bank accounts</p>				LFA confirms that the PR's foreign exchange transactions were carried out by the Beneficiary Bank into which Grant funds are disbursed. This was confirmed during the financial review.
ARFH - Financial Management - Books of accounts maintained	<p>Recommendation 33 (High) (a) The ARFH should maintain proper financial records of all program transactions. ARFH should improve its archiving system to ensure that supporting documents are properly referenced and filed. Such records should be maintained for at least three years after the date of the last disbursement to ensure any claims arising or audit findings can be resolved. (b) The accounting software should be developed further or replaced in order to cater for the increase in capacity</p>	<p>ARFH now has in place data back-up system, central archiving system, and hard copies filed and preserved in safe location and this procedure is extended to our SRs and a copy of it was sent to the LFA and Global Fund.</p> <p>ARFH has obtained and installed the most recent version (as at the time of instalment) of the QuickBooks accounting</p>	COO/ARFH	Done	a) The PR has improved its archiving system. Photocopies of supporting documentation are kept in the Ibadan office, key documents are maintained in a safe. Softcopies of documents are kept on the server. Information on the server is backed up every two weeks. The SRs also back up their information on external drives.

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	<p>requirements i.e. by extending its functionality or alternatively consideration should be given to acquiring a new financial management system. This software should be able to handle figures with over 9 digits and multi-currency transactions. The system should also provide for reviews of transactions before they are posted.</p>	<p>software. This has helped to overcome the entire shortcomings observed with the earlier version. We also undertook the strengthening of the capacity of the finance staff both at the PR's office and at the SRs' level to cope with the new version.</p>			<p>b) The PR has purchased and installed a higher version of the Quickbook accounting software which is able to handle figures above 9 digits and multi-currency transactions.</p>
	<p>Recommendation 34 (Significant) (a) ARFH should institute an advances monitoring system for its staff and SRs. All prior advances should be confirmed as having been settled before additional advances are provided. (b) ARFH should strengthen its asset management by defining assets in its financial manual, maintaining a comprehensive record of</p>	<p>The tracking of advances is now better documented with the use of the new version of the Quick Books accounting software. This recommendation is noted. Necessary adjustments have been made. All the staff advances have been fully retired. ARFH maintains a standard fixed asset register that has</p>	<p>COO/ARFH</p>	<p>On going</p>	<p>a) The LFA confirms that the PR has created advance codes in the accounting software for all staff and such advances are not expensed until they are retired. b) The LFA confirms that ARFH has a comprehensive fixed assets register and performs</p>

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	<p>all transactions that qualify to be called assets and undertaking physical verification of assets and updating records accordingly.</p> <p>(c) ARFH should strengthen its budgeting framework to cover proper preparation backed by proper work plans and reasonable costs and undertaking periodic review of expenditure against budget and providing management with explanations for variances noted.</p>	<p>all the required information (see attached, annex 273). The comment on inclusion of cost of transportation is noted.</p> <p>Budgeting frameworks and staff capacity are being improved to provide details in the budget</p>			<p>physical verification of assets twice a year.</p> <p>c) The PR provides detailed analysis of its budget figures and has developed a budget tracking template which compares the actual expenditure per each activity against the budget.</p>
ARFH - Financial Management - Policies and procedures	<p>Recommendation 35 (Significant) ARFH's finance manual and PPM should be amended to ensure that they are comprehensive to provide adequate guidance to program, implementers. ARFH's management should ensure that the manuals are operationalized in order to strengthen the control environment within which the</p>	<p>Personnel Manual and the Staff Compensation Plan has been amended and ratified by the Board at their June 2010 meeting.</p> <p>During the six months period the staff was at work from April 10, 2010 to July 26, 2010 (see attached, annex 278). ARFH usually ensure that</p>	COO/ARFH	Done	The finance manual and personnel manual have been revised and endorsed by the Board.

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	programs are being implemented.	staff are remunerated for time worked. The issue regarding the senior manager in question has been fully explained above. As already stated above, ARFH has contacted the relevant tax authorities who have re-assessed individual staff monthly remittance. Effective from January 2011, Pay As You Earn has been deducted from staff salaries and remitted in line with the assessment.			The LFA confirms that the PR pays staff for time worked and salary increases have been in line with the signed grant agreement.
ARFH - Sub Recipient Management	Recommendation 36 (High) ARFH should work with CiSHAN to ensure that identified weaknesses are addressed and identified risks mitigated. ARFH should recover all the amounts that were overpaid to Paradise Inn.	CiSHAN is however no longer a Sub-recipient to ARFH. Paradise Inn payment was done in error. It has now refunded to CiSHAN i.e. N89,500.	COO/ARFH	Done	The LFA confirms that the amount has been refunded to the SR/PR.
ARFH - Sub Recipient Management	Recommendation 37 (Significant) The SR and SSR set-up at FMWA should be strengthened by signing an MOU that guides the roles and relationship between FMWA and SMWA. FMWA should liaise with the SMWA to recover	The FMWA is no longer an SR in charge of the full implementation of OVC funds disbursement to the States because another SR was selected to handle that SDA.	COO/ARFH	Done	Not required as FMWA is not in charge of the SDA under the existing grant.

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	<p>outstanding funds from the state officers. ARFH should establish and implement standard formats of reports for OVC verifications and disbursements to ensure that all relevant information is captured and actions developed to address weaknesses.</p>	<p>In June 2010, after the OIG team’s follow up visit to ARFH, a total sum of N2,914,562,34 (I.e. \$20,818.30), funds disbursed for the education and health support of some selected OVC in dire need was still outstanding as unretired balances. The breakdown is as follows:</p> <table border="1" data-bbox="786 746 1178 995"> <thead> <tr> <th>S/N</th> <th>Item</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Unutilized bank bal with SMWASD</td> </tr> <tr> <td></td> <td>Cash Balances with CBO</td> </tr> <tr> <td>2</td> <td>Unretired advances</td> </tr> <tr> <td></td> <td>TOTAL</td> </tr> </tbody> </table> <p>All these unutilized bank balances with SMWASD and CBOs have been recovered and deposited in ARFH’s HIV/AIDS project account (tellers and bank statements available).</p> <p>All the outstanding advances with the SMWA have been</p>	S/N	Item	1	Unutilized bank bal with SMWASD		Cash Balances with CBO	2	Unretired advances		TOTAL			<p>The Secretariat agrees with the need for ARFH to strengthen its follow-up and reporting on OVCs. The 2010 OSDV also revealed lack of proper documentation at CBO and service delivery points to verify delivery of OVC and HBC services. Therefore, PR needs to provide evidence to the Secretariat that CBOs and SRs have received written guidelines and standard data capturing tools on OVC and HBC services (timeline: December 2011).</p>
S/N	Item														
1	Unutilized bank bal with SMWASD														
	Cash Balances with CBO														
2	Unretired advances														
	TOTAL														

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		<p>retired and all cash balances recovered.</p> <p>The standard formats of reporting for OVC verifications and disbursements have been developed.</p>			
ARFH - Sub Recipient Management	<p>Recommendation 38 (Requires attention) The procurement process at NEPWHAN should be strengthened by ensuring that it is undertaken competitively. NEPWHAN should strengthen the identification, assessment, management and monitoring of IGA grants to support groups.</p>	ARFH provided mentoring on procurement process to NEPWHAN before their SDA was moved to another PR (CISHAN) under Round 9 HIV/AIDs project.	COO/ARFH	Done	Noted that procurement has been moved to CiSHAN.
CHRISTIAN HEALTH ASSOCIATION OF NIGERIA (CHAN)					
CHAN - Financial Management	<p>Recommendation 39 (High) CHAN should refund all unsupported and ineligible funds:</p> <ul style="list-style-type: none"> i. US\$ 130,405 due to losses of irregular forex transactions; ii. US\$ 389,761 for which no support documents were presented to the OIG; iii. US\$ 444,919 fund drawn 	<ul style="list-style-type: none"> 1. Bank charges on funds lent to other projects. USD 1,389.00 2. Cash balance at program end still outstanding USD 15,470.00 3. Dollar account balance USD 530.00 			

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	<p>as project support costs, and iv. US\$ 395,688 used to pay salaries for non-program activities</p>	<p>Total USD 17,389.00</p>			
DISEASE SPECIFIC SYSTEMS THATSUPPORT PROGRAM IMPLEMENTATION					
<p>HIV - Monitoring and Evaluation</p>	<p>Recommendation 40 (High) NACA should review its monitoring and evaluation system to ensure that the reported results are in line with the indicators. NACA should also strengthen its data quality mechanisms to improve the quality of data.</p>	<p>NACA has put in place data quality mechanisms such as quarterly data quality assessment, PR and SR quarterly report review meeting to further strengthen data quality. The NACA M&E system upgrade has started and the process is still ongoing. The National M&E plan (NOP2) for 2011-2015 is being finalized. Data collection and reporting tools harmonization is almost concluded.</p>	<p>DG/NACA</p>	<p>December 2011</p>	<p>The Secretariat fully agrees with the observed M&E system capacity gap. The PR responses are broad and do not show concrete actions that will be implemented to improve the system. Based on the OIG as well as 2010 OSDV findings, the Secretariat recommends NACA to address the following specific areas:</p> <p>1) NACA to submit a National M&E plan and work plan by 30 September 2011 (this action point is included in the HIV/AIDS grant agreement with NACA).</p> <p>2) NACA to establish a National electronic information system/database which is: i) integrated to or compliant</p>

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					<p>with the National HMIS at FMOH/HIV Division;</p> <p>ii) captures service delivery data including services on ART, PMTCT and HCT;</p> <p>iii) avoids double counting on ART and tracks people still alive and currently on ART.</p> <p>3) Establish an MoU with FMOH/HIV Division to:</p> <p>i) set-up single information/report flow from service delivery point to central, which minimizes double counting and avoids data/report discrepancies at the National level;</p> <p>ii) clarify roles, responsibilities and opportunities for resource sharing in order to strengthen the National HMIS at FMOH.</p> <p>4) Ensure and provide evidence that all service delivery points in the country have received data collection and reporting forms including the newly introduced indicators on PMTCT.</p>

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HIV - HCT	<p>Recommendation 41 (High)</p> <p>(a) NACA should train all service providers working at HCT sites, ensure availability of HCT guidelines, HIV test kits as well as adequate storage conditions and quality control procedures to ensure compliance with the national testing algorithm accordingly.</p> <p>(b) NACA should expand the provision of HIV/AIDS services to the population by:</p> <ul style="list-style-type: none"> i. expanding the support to faith-based not for profit hospitals; ii. bringing NGOs/FBOs on board in a bid to increase HCT coverage through community outreach; and iii. consider removing financial access barriers for patients seeking care at private clinics through the subsidising fees. 	<p>NACA through the Federal Ministry of Health- HIV/AIDS Division has continued to provide leadership in the development of Policies, Guidelines, training manuals and enforcement of National protocols. It is also in the forefront of ensuring that the capacity development of health care workers across the country not only for HCT but other service delivery area is adequately addressed. The availability of test kit remains major challenge but is been addressed through multi-partner collaboration with the FMOH providing leadership.</p> <p>NACA had since ensured that HIV/AIDS service delivery is expanded to the faith based and not for profit facilities. NACA even created a National Faith based Coordination platform (NFACA) for the coordination of the response in the sector. Key actors include</p>	DG/NACA	Ongoing	The PR response is too general. It should focus on the specific actions and timeline to address the OIG observations on HCT.

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		<p>CHAN, CHAN-MEDIPHARM, CRS etc. Financial barriers have been removed for patients seeking care in private clinics now and NGOs and FBOs now offer HCT thus expanding access and coverage. More needs to be done still to expand coverage even further.</p>			
HIV -ART	<p>Recommendation 42 (High)</p> <p>(c) NACA and the FMOH should prioritise the strengthening of ART site capacity especially in the public hospitals in order to make the process for initiating patients into the ART program more efficient. This may call for increasing necessary equipment e.g. CD4 count machines as well as training of medical staff and lab specialists to improve their knowledge and skills in the aforementioned technique.</p> <p>(d) NACA and the FMOH should formalise the process for clinical follow up of</p>	<p>The process of strengthening ART site capacity particularly in public hospitals is ongoing through the Federal Ministry of Health and the State Ministries of Health across the 36 States of the federation and the FCT.</p> <p>The process of formalizing clinical follow up of patients has been receiving the attention of the National</p>	DG/NACA	On-going	<p>c) The Secretariat agrees that strengthening and monitoring the ART site capacity should be a priority of all the stakeholders. An electronic database that can track the treatment of each patient is an immediate priority.</p> <p>d) The Secretariat also concludes that the follow up of</p>

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	<p>patients in order to strengthen treatment adherence of patients receiving ART. Providers should be trained in clinical follow up of patients receiving ART and linkages should be built between ART sites and PSGs that provide psycho-social support and community based care to AIDS patients in targeted communities.</p>	<p>ART Technical Working Group.</p>			<p>the patient in the community is a weak link in the National HIV program. The Round 9 Cluster model addresses this issue by strengthening the community participation at the community level.</p>
<p>HIV - OIs</p>	<p>Recommendation 43 (High) NACA and the FMOH should promote the proper management of OIs including TB. NACA should ensure that there are adequate selection and quantities of drugs available at facilities for management of OIs as well as free X-ray for TB screening. NACA should consider training all providers at ART sites in management of OIs including TB among PLWHA.</p>	<p>The Process for selection and quantification of OI drugs including TB has been strengthened through the National Medicines Committee of the Food and Drugs Directorates in the FMOH. This is evidenced by the reduction in the incidence of stock-outs as well as the expansion in the variety of drugs available at the facilities Recommendation to provide X-ray services free of charge to patients is a valid one but has funding challenges and</p>	<p>DG/NACA</p>	<p>December 2011</p>	<p>The Secretariat notes these improvements and suggests that they be monitored closely by the PR and LFA to maintain and build upon the progress made on improving selection and reducing stock outs at health facilities.</p>

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		by implication sustainability issues which need to be fully assessed.			
HIV - HBC	<p>Recommendation 44 (High) NACA should strengthen HBC by encouraging cooperation between CiSHAN and NEPWHAN to work together. The effectiveness of the HBC interventions can be increased with providing adequate quantities of HBC kits.</p>	<p>NACA is strengthening this collaboration. Several collaborative meetings have been held between NEPWHAN and CiSHAN.</p>	DG/NACA	Ongoing	<p>The Secretariat fully agrees with the OIG observations. NACA should support both CiSHAN and NEPWAN to ensure standard approaches and quality service delivery on HBC. NACA can specifically support in standardizing the selection criteria of HBC beneficiaries and standardizing on the type of services provided by CiSHAN and NEPWAN.</p>
HIV - Organization of Services	<p>Recommendation 45 (High) NACA should give consideration to strengthening its ART monitoring information system especially in the HYGEIA supported sites as well as establishing PPM for laboratory equipment.</p>	<p>NACA has put in place data quality mechanisms such as quarterly data quality assessment, PR and SR quarterly report review meeting to further strengthen data quality. The PPM Culture is gradually being established through the implementation of the HSS Rd 8. A PPM Training module was developed, facility staff trained and contracts for the</p>	DG/NACA	December 2011	<p>The Secretariat agrees with the OIG's recommendation specifically on the data quality on ART (Please see Secretariat response under OIG recommendation #40).</p>

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		maintenance of equipment awarded to the equipment manufacturers for maintenance.			
TB - Monitoring and Evaluation TB	<p>Recommendation 46 (Significant) ARFH should improve the definition of indicators to make them more specific and meaningful. ARFH and the LFA should verify the data routinely.</p>	ARFH had reflected these in the current Performance Framework and M&E for Round 9.	COO/ARFH	Ongoing	The PR has submitted a National TB M&E plan that includes clear indicator definitions. Through the R9 TB grant negotiation, indicator definitions have also been fine-tuned.
TB - Quality of Service Delivery	<p>Recommendation 47 (High) (a) ARFH and NTBLCP should do its part in improving case detection through increasing DOTS coverage, training of DOTS providers in TB diagnosis and improving sputum collection, transportation and smear microscopy through continuous supervision and quality control. (b) ARFH and NTBLCP should consider enhancing community education/mobilization to raise</p>	<p>Noted and this is in progress</p> <p>Noted and this is in progress</p>	COO/ARFH	Ongoing	<p>The Secretariat agrees with the OIG’s observation on limited DOTs coverage. In this regard, the Jan.-March 2011 performance of on TB cases detected was only 55% of the PF target. The PR responses to OIG observations are too general and do not demonstrate clear actions to expand DOTs services.</p> <p>Also, the 2010 OSDV showed that data sharing between the TB and HIV Units is minimal. ARFH and NTBLCP need to</p>

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	<p>population awareness of TB. Special efforts have to be made to increase CBO support to work on Community TB Care implementation to improve case detection and anti TB treatment adherence.</p> <p>(c) ARFH and NTBLCP should establish an effective link between TB and HIV care and support an integrated approach for TB/HIV so that DOTS providers can play an active role in referring co-infected patients for ART services.</p> <p>(d) There is a need to strengthen TB/HIV by training providers in management of TB/HIV co-infection.</p> <p>(e) The MDR-TB laboratory network should be renovated and properly equipped. Arrangements will have to be made (through development of</p>	<p>Noted and this is in progress</p> <p>Noted and this is in progress</p> <p>Noted, Rd 9 grant and other IPs and Nigerian Government are addressing these.</p>			<p>provide clear next steps to enhance collaboration between HIV and TB units, as well as data sharing between the two programs (HIV and TB).</p>

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	<p>guidelines and standard operating procedures, through training of staff and community volunteers, increasing support to CTBC, etc) to ensure timely identification of MDR-TB cases and their referral to initiate treatment with second line drugs.</p>				
<p>TB - Organization of Services</p>	<p>Recommendation 48 (High) (a) ARFH and NTBLCP should consider developing a comprehensive LMIS for drugs and medical supplies including laboratory supplies. This should be followed by provision of logistics training to designated staff at all levels.</p>	<p>Rd 9 has addressed this. Training has been conducted for designated staff. The National Program has introduced an LMIS and a Standard Operating Manual which was developed and is being used by officers at all levels. The SOP is made to streamline reporting systems and harmonising the supply chain system. Further to this M & E Officers in the states have been provided with ICT Equipment (Reporting, analysing and communication tools). The country has also introduces logistic software. This</p>	<p>COO/ARFH</p>	<p>Ongoing</p>	<p>a) The PR has made significant improvements in the roll out of the LMIS and operationalization of the SOPs for managing health products. The gradual improvements will be regularly followed up by the Secretariat.</p>

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	<p>(b) ARFH and NTBLCP should strengthen infection control practices at DOTS centers through the introduction of relevant administrative and environmental control measures, and by providing personal protective equipment. This should be undertaken in conjunction with training of staff, laboratory diagnosis personnel and those involved in care as well as provision of adequate materials and supplies for effective infection control.</p> <p>(c) ARFH and NTBLCP should strengthen its supervision of DOTS centres by developing a standard format that focuses on both clinical and logistics issues. This form should be</p>	<p>software facilitates unified data entry, verification and validation from facilities to central level. Nevertheless, all these processes are still in progress, while supportive supervision and mentoring have been entrenched to embed the process quickly. Supervision is now ensuring the use of standard inventory control tools and adoption of the LMIS.</p> <p>Noted and in progress</p> <p>Noted and supervisory checklists addressing these are being utilised.</p>			

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	used by supervisors during supervisory visits.				
Malaria - Monitoring and evaluation - Malaria	<p>Recommendation 49 (High) All PRs should institute measures to address poor data quality noted. The proposals should be submitted to the Global Fund through the LFA.</p>	<p>PRs are collaborating to improve on the data quality and monitoring process by:</p> <ul style="list-style-type: none"> i) Quarterly data quality audits (DQA); ii) M&E refresher trainings for SR focal persons; iii) Recruitment and training of field-based MIS consultants; iv) The District Health Information MIS system 	CEOs of all PRs	Ongoing	<p>The Secretariat agrees with OIG observations on data quality. To address the issues, NMCP should coordinate and lead the strengthening of the National M&E system for malaria. The specific actions include:</p> <ul style="list-style-type: none"> i) submission of a revised National M&E plan, which was a Condition Precedent to be met by end of Oct.2011; ii) develop an electronic database system/DHIS which NMCP has been planning for a long time but not yet accomplished; iii) establish the system to capture and report on ACT consumption data; and iv) establish an enforcement mechanism to capture malaria data from the private sector (due dates: #i by Oct.2011; #ii, iii) & iv by 2012)
Malaria - Quality of	<p>Recommendation 50 (High) SFH should institute measures</p>	SFH has instituted the			The Secretariat agrees with

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service delivery (LLINs)	to control the prices charged by their clients. This can take on different forms e.g. having promotion drives emphasize the recommended product price, monitoring suppliers, requiring sellers to display the recommended price, informing the population during public events, etc. In addition monitoring should be undertaken and this can take many forms including having a mystery buyer.	<p>followings:</p> <ul style="list-style-type: none"> i) Community policing activities where community leaders reported PPMVs who did not comply with the recommended retail prices for the ACTs to SRs. These PPMVs were subsequently blacklisted. ii) Social Mobilization activities also emphasized the prices of the products. iii) Outlets are branded with kite signs which were promoted as sign of quality, affordability and partnership. iv) The kite sign mass media campaigns disseminated the price of the product. v) SFH receives monthly market intelligence reports, which include price monitoring. A mystery buyer/exit interviews survey has been planned for ACTs in 2011. 	CEO/SFH	Dec 2011	the measures instituted by the PR and will follow up closely to monitor their appropriateness and impact.

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Malaria - Organization of services	<p>Recommendation 51 (Significant) FMOH and NMCP should strengthen the NHMIS so that it is able to capture all the necessary data elements to generate sound epidemiological information for disease control as well as management information for drugs, medical supplies, laboratory supplies, as well as other materials needed for malaria control (e.g. LLINs). FMOH and NMCP should improve supportive supervision and continuous technical assistance provided by RBM managers to LGA RBM focal persons and health facilities on malaria case management and control.</p>	<p>NMCP has finalized engagement of a consultant for setting up DHIS as a data base for all malaria control activity information in the country. Windows will be created for both public and private information. In addition, through the Capacity building services provided by TGF through Work Order 1, an LMS system is being rolled out to adequately track commodities.</p>	NC/NMCP	Dependent on release of fund under R4	See Secretariat response under OIG recommendation #49.
GRANT OVERSIGHT					
Grant oversight - CCM	<p>Recommendation 52 (Significant) (a) The CCM Secretariat should actively follow up member attendance by maintaining an attendance register, and</p>	<p>The CCM does have an active system for following up on CCM attendance. Please see the answer to 408 and 409. In addition, with Global Fund support, the CCM Secretariat</p>	Chair/CCM	Ongoing	The Secretariat reiterates the need for strengthening the functioning of the current CCM.

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	<p>also improve the communication and coordination of meetings. The CCM should also make the requirements for attendance more stringent, to ensure continuity of participation.</p> <p>(b) The CCM's oversight over grant implementation should be strengthened by:</p> <p>i. Undertaking more frequent oversight activities as stipulated in its governance manual;</p> <p>ii. Regulating involvement of WHO in the CCM's oversight activities. WHO should be recused</p>	<p>procured equipment to establish two landlines with the intent to establish better communication with CCM members. It should be noted that while this equipment is a significant improvement, the reoccurring monthly costs for keeping the phones operation may continue to be problematic.</p> <p>The CCM's 2010-2011 work-plan spells out oversight functions, some of which are new. The workplan includes several activities that are being implemented: spot checks at facilities, additional site visits, a quarterly review of results as posted on the dashboard. See section 410 for additional detail on the improvements made to site visits. Action plans that are time bound and are closely monitored by the CCM Secretariat is a process that is currently ongoing.</p> <p>In addition, the CCM can</p>			<p>The GF recommends that the CCM complete the self-assessment using a GF tool before the submission of the Phase 2 request of Round 8 Malaria grants. In addition, the revised CCM guidelines and the compliance to those can be assessed during this self-assessment. The resulting action plan and CCM secretariat work plan should be harmonised.</p>

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	<p>from overseeing all activities in which it is involved as an implementer; and</p> <p>iii. The outcome of oversight reviews and field visits undertaken by the CCM committee should be synthesized into an action plan. The action plan should be time bound and the CCM Secretariat should monitor its implementation.</p>	<p>document specific examples of actions taken to resolve issues, including: involving the Minister of Health, MDG and SGF in obtaining funds for distributing LLINs, for systemic PSM issues the CCM wrote to the GF for approval to upgrades warehouse and distribution systems in Nigeria.</p> <p>Please see the answer to point 409, regarding the bullet pertaining to WHO.</p>			
Grant Oversight - CCM	<p>Recommendation 53 (Requires attention)</p> <p>(a)The CCM should in collaboration with development partners develop a fundraising strategy for the CCM Secretariat.</p>	<p>The CCM has a fundraising strategy and meets regularly with the Development Partners Group in an attempt to leverage funds. The CCM has routinely leveraged funding for travel, the CCM retreat, the attendance of CCM members at UNAIDS meetings and</p>	Chair/CCM	Ongoing	<p>The Secretariat agrees with this recommendation and actions taken by PR.</p> <p>A CCM audit has been proposed for November 2011.</p>

Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
	(b)The CCM should identify reputable auditors through a competitive process. The auditors should be contracted on the basis of clear terms of reference to give to give assurance over the use of funds.	other activities. Please see paragraph 413.			
Grant Oversight - LFA - PWC	Recommendation 54 (High) <i>As part of its assignment planning, the LFA should carry out comprehensive risk assessments at the entity and process level. All identified risks should form the basis of detailed work undertaken. In addition, the work of the OIG should form part of the issues that the LFA follows up in subsequent reviews.</i>	A country risk profile document has been developed and approved by GF Secretariat. The document highlights the various risks associated with each PR and the country as a whole, proposed mitigation measures and the responsible parties. This was further discussed at the Country team Approach initial meeting in France in December 2010 and updated accordingly. The document formed the basis for the scope of work planned for 2011 in Nigeria.	LFA- Engagement Leader and team	Completed, end 2010	As mentioned in the response, a country risk profile document has been developed by the LFA and approved by GF Secretariat. The document highlights the various risks associated with each PR and the country as a whole, proposed mitigation measures and the responsible parties. In addition, the PRs and Secretariat have developed their own risk management plans which they plan to review on a regular basis. The Secretariat notes that several of the financial risks outlined by the OIG were addressed through the Rd 9

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Audit Area	Recommendation	Response and Action	Responsible Official	Completion Date	Secretariat Comments/ Observations
					grant conditions, e.g.: grant specific bank accounts, foreign exchange bank transactions carried out by the Beneficiary Bank, and transfers to third parties.
		<p>As a follow up on the OIG audit debriefing, we have agreed with the Secretariat and commenced the following:</p> <ul style="list-style-type: none"> -quarterly PUDRs instead of semester -quarterly reviews at SRs level; - bi-annual PSM reviews in country; - detailed review of CPs and compliance reviews. - Sub-recipient spot checks - Review of training plans; - Periodic asset verifications 	LFA- Engagement Leader and team	Commenced and ongoing	
Grant Oversight - LFA - Global Fund Secretariat	<p>Recommendation 56 (High) The Global Fund Secretariat should ensure that procedures set out in the Operational Policy Manual are followed. A failure to adhere to Board approved policies should result in appropriate actions taken.</p>				The Secretariat agrees.

Annex 4: PR and CCM Comments on the Recoverable Amounts

Report text	PR Comment	CCM RESPONSE	OIG Comment												
Yakubu Gowon Centre (YGC)															
<p><i>Line 113:</i> At the time of the audit, YGC had significant capacity weaknesses in the areas of governance, financial management, sub grant management and procurement. The OIG noted the following significant weaknesses that pointed to a failure by the PR to safeguard grant funds: (i) transactions that could not be explained by the PR; (ii) costs that were not related to the grant programs, and (iii) expenses for which management failed to provide supporting documents. In the OIG's view YGC did not have the systems in place to safeguard Global Fund grant resources.</p> <p>114. YGC should refund to the Global Fund US\$ 3,486,132 for which no appropriate support documents were provided and ineligible expenditure of US\$ 256,722. The questioned amount of US\$ 3,742,854 is analyzed in the table below:</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Ineligible expenditure (US\$)</th> <th>Unsupported expenditure (US\$)</th> </tr> </thead> <tbody> <tr> <td>Funds drawn as management fees</td> <td></td> <td>659,905</td> </tr> <tr> <td>YGC expenditure that is not supported</td> <td></td> <td>2,172,712</td> </tr> <tr> <td>Transfers</td> <td></td> <td>337,816</td> </tr> </tbody> </table>	Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)	Funds drawn as management fees		659,905	YGC expenditure that is not supported		2,172,712	Transfers		337,816	<p>We challenge without reservation paragraph 112 which demands the refund of US\$ 3,742,854 to Global Fund (GF) by Yakubu Gowon Centre (YGC) because it is baseless and without foundation with respect to:</p> <p>a. <u>FUNDS DRAWN AS MANAGEMENT FEE</u>: This amount was clearly discussed during negotiations between top management of both parties. It was agreed that the amount could be deployed for general administration of the project and was paid on quarterly basis. It amounts to renegeing on the agreement for YGC to be asked to pay back this amount because it failed to account for same.</p>	<p>CCM Nigeria notes with appreciation the contributions made by Global Fund in YGC in terms of institutional development and Global Fund programme implementation. It also notes the extensive experience domiciled in YGC in the management of development issues. It further notes the difficulties experienced by YGC in non-release of funds for the payment of staff salaries which has created some hardship for YGC staff and indirectly affected program implementation.</p> <p>It specifically notes that the sum of US\$ 659,905.00 was deployed by YGC as management fees in line with grant implementation conditionalities. Although documentations on the expenditures concerning management fees are yet to made available to CCM. Therefore, in tune with country fiduciary procedure, unretired expenditures should be refunded. However, CCM strongly advised that YGC and TGF could interact further to re-dress the situation. Failure in this direction may</p>	<p>Here below is the OIG's response the PR comments:</p> <p>a. <u>FUNDS DRAWN AS MANAGEMENT FEES</u> Article 7 of the initial grant agreement between the Global Fund and YGC states that, "the principal recipient shall maintain accounting books, records, documents and other evidence relating to this Agreement, adequate to show, without limitation, all costs incurred by the Principal recipient under the Agreement and the overall progress toward completion of the program ("Agreement books and records")".</p> <p>As stated in paragraph 86 of the report, and contrary to the grant agreement, "With regard to the "management fees" YGC declined to provide the OIG with: (i)</p>
Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)													
Funds drawn as management fees		659,905													
YGC expenditure that is not supported		2,172,712													
Transfers		337,816													

Country Audit of Global Fund Grants to Nigeria

Report text			PR Comment	CCM RESPONSE	OIG Comment
between YGC and NMCP that were not recorded			<p>b. <u>YGC EXPENDITURE NOT SUPPORTED BY DOCUMENTS.</u> Documents to support these amounts were produced by the YGC's Chief Accountant in accordance with accepted accounting practices in Nigeria and presented to the OIG team. However, the team chose not to accept the supporting documents presented without valid reason.</p>	<p>necessitate the engagement of the Country recovery system.</p> <p>The CCM noted with great concern that staffs of YGC are frustrated due to non-payment of outstanding remunerations. The CCM therefore recommends continued engagement with the YGC and release of staff salaries to further encourage and inspire the staff towards the resolution of the outstanding issues.</p>	<p>transaction lists to which the figure of US\$ 659,905 could be verified; (ii) cash books or ledgers; (iii) bank statements, and (iv) support documents. In the absence of the above documents, the OIG cannot give assurance of the accuracy, and appropriate use of these amounts.</p> <p>b. <u>YGC EXPENDITURE NOT SUPPORTED BY DOCUMENTS.</u></p> <p>As detailed in paragraph 112 of this audit report, the YGC was provided with sufficient time and opportunity to present expenditure support documents to the OIG for review. More than 16 months were allowed for the PRs after the initial audit field work to locate and present missing documents.</p> <p>Between 1 and 12 September 2011 the OIG reviewed original support documents that were presented in response to the draft report. During the review, the OIG gave</p>
CiSHAN (SR) expenditure that is not supported		302,617			
Overbilling by CHAN-Medi-pharm	256,722				
CHAN-Medi-pharm expenditure that is not supported		13,082			
Total	256,722	3,486,132			
Total of questioned expenditure to be refunded		3,742,854			

Country Audit of Global Fund Grants to Nigeria

Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>c. <u>TRANSFER BETWEEN YGC AND NMCP</u>: Necessary documentation was provided as proof that these amounts were paid to the NMCP Accountant, staff and State RBM Managers through of Access Bank and Guaranty Trust Bank with statements confirming the names of payee, date of payment and the</p>		<p>consideration to all documents presented and found that: (i) some accountability was fabricated from transactions that had previously reviewed and cleared during the audit, and (ii) supporting documents could still not be presented for many of the expenses charged to the grants. As a result of this the amount of unsupported expenditure reduced from US\$ 6,683,894 to US\$ 3,742,854. YGC management has been provided with a transaction by transaction listing of the questioned expenditure. The listing provides clear reasons for questioning each expense.</p> <p>c. <u>TRANSFER BETWEEN YGC AND NMCP</u> YGC did not provide bank records or a cashbook extract for amounts that were reportedly transferred to NMCP. Only vouchers were presented to the OIG. To the extent</p>

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>amount paid. NMCP did not open a dedicated account solely for the GF project as SR to YGC because the account opened with Oceanic bank was being used for other non GF related activities and it has both 'A ' and 'B 'Signatories in the Ministry while there was only 'A ' signatory at NMCP. There were times the absence of 'B 'signatory who was in the Ministry prevented or delayed NMCP from carrying out some programme activities. The above reasons led to the disbursement of funds on activity basis and cheques being raised in the name of NMCP Accountant, staff and State RBM Managers for the implementation of the programme activities. All fund requests for training and other programme activities for which cheques were raised were also written and submitted by NMCP to YGC. This is an acceptable practice in Nigeria.</p> <p>d. <u>CISHAN EXPENDITURE</u>: CISHAN was selected based on the recommendation of the CCM. At the request of the OIG, CISHAN produced the documents to support the expenditure for the disbursements made by YGC. YGC cannot directly produce these documents as the related activities were carried out by the SR (CISHAN). It is therefore unfair to</p>		<p>that the voucher detailed could be traced to the YGC cashbook and bank statements, transactions were deducted from the un-reconciled figure leaving a balance of US\$ 337,816. YGC was provided with the outcome of the review in writing and the relevant documents were signed off by the YGC Chief Accountant.</p> <p>d. <u>CISHAN EXPENDITURE</u> YGC was principal recipient for the grants for which CISHAN financial transactions are questioned. YGC management was provided the outcome of the OIG review of CISHAN records. The outcome of the review is detailed transaction by transaction and therefore</p>

Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>ask YGC for a refund of the amounts related to these documents, because confirmation by CISHAN was sufficient.</p> <p>e. <u>OVERBILLING BY CHAN</u>: The contract between YGC and CHAN stated clearly the costs to be incurred in the distribution of health products from the state medical stores to health facilities. These payments were made and recorded as overtime by YGC and was reviewed and approved by the Local Fund Agents (LFA). YGC was never told that the contract with CHAN had any shortcomings until the OIG came. It is thus unfair that YGC should be asked to refund money paid to CHAN. If the supposed shortcomings on this contract had been pointed out to us earlier, the contract would have been revised or nullified. However, CHAN is being asked to refund the amount.</p> <p>f. <u>CHAN MEDIPHARM EXPENDITURE</u>: The documents for (c), (d) and (e) above were provided and sighted by the OIG team; in addition to the fact that the work was carried out on ground. Again, the OIG team took the decision not to accept the documents because GF informed the Nigerian media of “massive</p>		<p>provides sufficient basis for YGC to interact with CISHAN to follow up recovery.</p> <p>e. <u>OVERBILLING BY CHAN-MEDIPHARM</u>: The OIG finding points to a double payment i.e. contracting CHAN-MEDIPHARM as a supplier paid at a commercial rate and then in addition charging the grant with the supplier’s office running and staff costs. The OIG takes the view that the overhead costs should be recovered by the PR and refunded to the Global Fund.</p> <p>f. <u>CHAN MEDIPHARM EXPENDITURE</u> The PR comment refers to items (c), (d) and (e), are not related to the finding on CHAN-MEDIPHARM. The PR presented support documents to the OIG in July 2011, which reduced the amount unsupported</p>

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>fraud” that did not exist and required evidence for this purpose to justify this statement.</p> <p>g. PAYMENT FOR NOVARTIS: The case of Novartis was simply a case of fair exchange to ensure unencumbered discharge of duties. In mid 2006, Novartis made a contribution of US\$ 276,000 to NMCP for training workshops on malaria management in 19 non- Global Fund States that were not taken care of by the Global Fund Budget. NMCP was SR (sub-recipient) to YGC at that time. Novartis paid the money into YGC account because NMCP did not at that time have a domiciliary account. YGC utilized that money to pay Crown Agents for freight for Novartis ACTs (antimalaria drugs) and thereafter used the equivalent Global Fund Nigerian Naira to pay for the training workshops. It was just an exchange of Novartis USD for the Malaria program Naira. Since YGC paid for Global Fund activity, it should not be expected to refund the sum of USD 276,000. There is nothing in the grant agreement that stipulates that exchanges of this nature cannot take place.</p> <p>h. It is very clear that OIG team in the circumstance cannot reject the</p>		<p>for CHAN-MEDIPHAM accountability for training activities from US\$ 77,000 to US\$ 13,082.</p> <p>g. <u>PAYMENT</u> <u>FOR</u> <u>NOVARTIS</u></p> <p>The recommendation to repay the amount has now been deleted from the report.</p> <p><u>COMMENTS h) to n)</u> As detailed in paragraph 67 of this audit report, the Principal Recipients were</p>

Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>supporting documents provided by YGC even in instances that proved that the work had been fully executed satisfactorily. In our view, it is ridiculous to ask YGC to refund money which was used for activities that have impacted on the lives of people and the malaria programme landscape.</p> <p>i. Every one of these payments was reviewed by LFA who are the bona fide funding agents appointed by GF whose mandate is to verify and approve funding transactions of PRs. It is therefore illogical that disbursements made by YGC that had been reviewed by LFA are now being rejected by GF. Since these payments were passed by LFA who were sent by GF for this specific purpose, there is no basis in our view to countermand these approvals of LFA.</p> <p>j. It will be recalled that Nigerian newspaper based on ICPC's statement wrote "The anti-graft agency stressed that the probe became imperative sequel to a pronouncement by an international financing institution that invests the world's money to save lives under the global fund initiative. ICPC said it was concerned over threat by the international 'good Samaritans' to</p>		<p>provided with sufficient time and opportunity to present expenditure support documents to the OIG for review. More than 16 months were allowed for the PRs to locate and present missing documents. At the end of the exercise, a transaction by transaction listing of the questioned expenditure was shared with PR management. The listing provides clear reasons for questioning each expense.</p> <p>From 1st to 12 September 2011, the OIG returned to Nigeria to view and take into account all new documentation provided.</p> <p><u>Disclosure of audit findings</u> In accordance with OIG policy, the draft audit report was sent to the CCM Chair for onward submission to the PRs. Public disclosure of the draft report to the public prior to finalization is regrettable; however, this was not caused by the OIG.</p>

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>terminate its funding to organizations in Nigeria owing to the massive fraud. Specifically, it was the Office of the Inspector-General of Global Funds to Nigeria that called the attention of the commission to this alleged fraud.” We are convinced that the questions being raised by GF does not fit the set answers of massive fraud, as there is none.</p> <p>k. It is therefore safe to conclude that while the local “conspirators” failed to achieve the objective as contained in the publication of June 2011 (paragraph 10) with which they tried to get the ICPC to discredit the Centre; the Audit Report has attempted to do just that, because it was often said in the local parlance that YGC does not “Pay Public Relations”. Please be reminded of our claim of the total sum of ₦299,983,187.21 as outstanding commitments as at September 27, 2011.</p> <p>l. YGC is proud to say that it entered into partnership in the venture of “fund managers” to mitigate the impact caused by HIV/Aids, Tuberculosis and Malaria with GF and not in any master and servant relationship. YGC also entered into the partnership with some</p>		<p><u>Non-release of funds for payment of staff salaries</u> The OIG empathizes with the staff. However, this unfortunate situation does not change the substance of the audit findings. In the comment to this report, The Global Fund Secretariat has stated that this matter will be closed in the next few weeks.</p>

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>reputation in its achievement in the eradication of guinea worm in Nigeria with Carter Foundation and the Carter Award is prominently displayed at the foyer of our office. However because of the nature of Global Fund and the resources involved (\$172 million), YGC decided to scale down its activities in the political field and to concentrate on the health aspect until it has consolidated. This reasoning could not and should not attract negative comments.</p> <p>m. It is clear from the above that there is a coincidence of interest which developed into a “conspiracy” that can be read into the Audit which has placed a huge dent on the credibility and integrity of the Report. In the circumstance, we demand that the Audit Report be re-evaluated and the amount of ₦299,983,187.21 due to YGC be paid immediately.</p> <p>n. Fortunately, an Arbitration clause as provided in Article 35 of the Agreement is available to either party should there be a disagreement. We are convinced that it is in the interest of the donors and the recipients that aid providers should work in good faith and in partnership. In this regard,</p>		

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Report text	PR Comment	CCM RESPONSE	OIG Comment										
	nothing the officials of YGC have done as shown above has run contrary to the Nigerian Law or the directives from GF.												
National Agency for the Control of AIDS (NACA)													
<p><i>Line 161:</i> NACA should strengthen its capacity to manage Global Fund grants especially in financial management, procurement and sub grant management. NACA should refine its systems and policies to ensure a seamless implementation of the Global Fund grant, proper supervision of SRs and enhance accountability. NACA should refund the Global Fund US\$ 763,087 which could not be adequately accounted for or which was not in the approved work plan and budget.</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Amount US\$</th> </tr> </thead> <tbody> <tr> <td>Proposal writing costs (ineligible costs)</td> <td>72,241</td> </tr> <tr> <td>NACA unsupported costs</td> <td>606,939</td> </tr> <tr> <td>Hygeia unsupported costs</td> <td>83,907</td> </tr> <tr> <td>Total</td> <td>763,087</td> </tr> </tbody> </table>	Details	Amount US\$	Proposal writing costs (ineligible costs)	72,241	NACA unsupported costs	606,939	Hygeia unsupported costs	83,907	Total	763,087	<ol style="list-style-type: none"> 1. NACA accepts responsibility for the ‘ineligible expenses’ of US\$71,241, as computed by OIG. 2. The ‘unsupported expenditures’ of US\$679,000 are made up of payments to third parties for activities under the GF grant. Most of the payments were made under the GF Round 1 grant (2004 - 2007). NACA has identified all the organizations and individuals who received the payments and who carried out the activities. Some of the affected individuals and organizations have recently submitted reports/receipts and supporting documents for the amounts they collected. These supporting documents are available for OIG’s review. <p>For the organizations/individuals that are yet to submit their reports/receipts and other supporting documents, NACA has engaged the services of Soji Olowolafe & Co (Legal</p>	<p>NACA has since commenced a multi-stage capacity strengthening initiative ranging from the recruitment of additional personnel to the acquisition of SAP software designed to enhance the Agency’s program management efficiency and reporting capabilities. In addition, SR management manuals have been developed and the rules on program and financial reporting, and expense retirements are being strictly enforced.</p> <p>We are convinced that these and many more initiatives being undertaken by NACA would enhance the Agency’s overall effectiveness and efficiency in its program management and coordination roles.</p> <p>On the refund of US\$ 763,087 to Global Fund, NACA:</p>	<p>From 1st to 12 September 2011, the OIG returned to Nigeria to view and take into account all new documentation provided. NACA had not provided documents for review.</p> <p>As reported in paragraph 164, the OIG was not able to finalize the review of documentation for US\$ 244,055 presented on 19 September 2011. The authenticity of these documents, which were shipped to the OIG in Geneva, could not be established. The documents were composed of photocopies and where original documents were attached, they had inconsistencies that cast doubt on their authenticity.</p> <p>The OIG recognizes the PR’s willingness to repay</p>
Details	Amount US\$												
Proposal writing costs (ineligible costs)	72,241												
NACA unsupported costs	606,939												
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Total	763,087												

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>Practitioners) to compel these individuals and organizations to retire the expenses or refund same to Global Fund.</p> <p>In addition, NACA is writing a formal letter to the Minister of Health to solicit his assistance in compelling all affected individuals/organizations within the Ministry of Health and its associated departments, teaching hospitals, and medical centres to submit their reports/retirements without further delay.</p> <p>We expect all the documents to be duly collected from the affected individuals/organizations within the next 4 months. After which time, the supporting documents will be presented to the OIG for review and clearance.</p> <p>3. All other recommendations in the OIG report, bothering on enhancing program efficiency and strengthening NACA’s internal capacity, are duly noted and strategic steps have been taken to address observed weaknesses.</p> <p>NACA has since commenced a multi-</p>	<p>3. Accepts responsibility for the ‘ineligible expenses’ of US\$72,241, as computed by OIG.</p> <p>4. The ‘unsupported expenditures’ of US\$606,939.00 are made up of payments to third parties for activities under the GF grant. Most of the payments were made under the GF Round 1 grant (2004 - 2007). NACA has identified all the organizations and individuals who received the payments and who carried out the activities. Some of the affected individuals and organizations have recently submitted reports/receipts and supporting documents for the amounts they collected. These supporting documents cover about US\$200,000.00 and are available for OIG’s review. Please note that additional supporting documents covering the sum of US\$200,000.00 has been received by NACA and therefore be discounted from the sum to be refunded.</p> <p>For outstanding amount of USD\$406,939.00, the responsible</p>	<p>the ineligible expenditure of US\$ 72,241. The OIG also commends the measures instituted by NACA and the CCM to recover monies from staff and organizations that have not settled accountabilities.</p> <p>The Global Fund will review any further documentation provided by NACA and modify the recoverable amount. This includes the documents provided by Hygeia, and for NACA.</p>

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Report text	PR Comment	CCM RESPONSE	OIG Comment
	<p>stage capacity strengthening initiative ranging from the recruitment of additional personnel to the acquisition of SAP software designed to enhance the Agency's program management efficiency and reporting capabilities. In addition, SR management manuals have been developed and the rules on program and financial reporting, and expense retirements are being strictly enforced.</p> <p>We are convinced that these and many more initiatives being undertaken by NACA would enhance the Agency's overall effectiveness and efficiency in its program management and coordination roles.</p>	<p>organizations/individuals are yet to submit complete reports/receipts and other supporting documents. NACA has engaged the services of Soji Olowolafe & Co (Legal Practitioners) to compel these individuals and organizations to retire the expenses or refund same to Global Fund.</p> <p>In addition, NACA has formally informed the Minister of Health seeking his assistance to compel all affected individuals/organizations within the Ministry of Health and its associated departments, teaching hospitals, and medical centres to submit their reports/retirements without further delay.</p> <p>5. Hygeia Foundation has submitted its retirement for the entire amount of USD\$ 83,240 which is also available for OIG's review.</p> <p>6. NACA expect all the outstanding documents to be duly collected from the affected individuals/organizations</p>	

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		within the next 4 months. After which time, the supporting documents will be presented to the OIG for review and clearance.																									
Christian Health Association of Nigeria (CHAN)																											
<p><i>Line 307.</i> CHAN should refund the Global Fund US\$ 2,501,847 of unsupported and ineligible expenditure. The amounts to be recovered are summarized in the table below:</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Ineligible expenditure (US\$)</th> <th>Unsupported expenditure (US\$)</th> </tr> </thead> <tbody> <tr> <td>CHAN expenditure that was not supported</td> <td></td> <td>389,761</td> </tr> <tr> <td>Losses incurred due to irregular forex transactions</td> <td></td> <td>130,405</td> </tr> <tr> <td>Used to pay salaries for non-program staff</td> <td>395,688</td> <td></td> </tr> <tr> <td>Funds drawn as project support costs</td> <td>444,919</td> <td></td> </tr> <tr> <td>SR unsupported expenditure</td> <td></td> <td>1,141,073</td> </tr> <tr> <td>Total</td> <td>840,607</td> <td>1,661,239</td> </tr> <tr> <td>Total of</td> <td></td> <td>2,501,847</td> </tr> </tbody> </table>	Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)	CHAN expenditure that was not supported		389,761	Losses incurred due to irregular forex transactions		130,405	Used to pay salaries for non-program staff	395,688		Funds drawn as project support costs	444,919		SR unsupported expenditure		1,141,073	Total	840,607	1,661,239	Total of		2,501,847	<p>1. CHAN accepts responsibility for the under listed and request for time to recover outstanding funds;</p> <p>(a) Losses incurred due to irregular forex exchange transactions; USD 130,405.00</p> <p>(b) CHAN is working with the SRs on unsupported expenditure by them to the tune of US\$ 1,141,073.00 on how these funds can be recovered from them.</p> <p>(c) One of the SRs (GLRA) have objected to the amount attributed to them as unsupported expenditures and would like further justifications as to why some of their documents were rejected by the OIG team.</p> <p>(d) CHAN expenditure that was not supported USD 389,761.00</p> <p>These transactions have been traced to the individuals and groups which were given advances for activities that were not retired with satisfactory documents. For these, work is already in progress through CHAN legal adviser and the management to recover same.</p>	<p>The CHAN team could not meet as scheduled during the last OIG visit because of the tension in Jos. However, below are the responses to the issue raised:</p> <p>a) CHAN expenditure that was not supported USD\$389,761.00.</p> <p>These transactions have been traced to individuals and groups which were given advances for activities that were not retired with satisfactory documents. Effort is on going through CHAN legal adviser and the management to recover same. In addition, it was clear that some of the amounts reflected as advances were actually cancelled cheques.</p> <p>b) It is not felt that the losses incurred as a result of foreign exchange transaction should be held against it in view of the fact that these are foreign exchange controlled</p>	<p>OIG response to CCM Comment (c):</p> <p><u>Use of grant funds to pay salaries for non-program staff</u></p> <p>Article 4 of the grant agreement signed between the Global Fund and CHAN states that, “the Principal recipients may only use grant funds for program activities which occur during the program term or as otherwise agreed in writing by the Global Fund”.</p> <p>CHAN management did not provide the OIG with documentation that links the expenditure in question with activities undertaken by staff for which salaries were paid. Moreover CHAN did not have Global Fund program activities in the location where the staff in question were located.</p>
Details	Ineligible expenditure (US\$)	Unsupported expenditure (US\$)																									
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Report text			PR Comment	CCM RESPONSE	OIG Comment
questioned expenditure to be refunded			<p>However, it was clear that some of the amounts reflected as advances were actually cancelled cheques and the spread sheet to this effect had already been given to the Executive Secretary in the Secretariat detailing the amount to that effect. When the amounts of the cancelled cheques are taken in to consideration, the figures will change. The OIG team left earlier than the schedule given to us by CCM, thus this was not presented to them for verification considering the security challenges in Jos at the time of their last verification visit.</p> <p>2. Amount drawn down as project support cost (US\$ 449,919 and US\$ 395,688). Both expenditures were project support cost of 1.7% duly approved in the budget/ project document as signed before the project commenced. CHAN used US\$ 395,688.00 for salaries of 12 CHAN staff who put in 75% of their time in Global Fund project, considering the shortfall in the number and quality of staff that were recruited for the project. CHAN is of the opinion that it is not justifiable to ask her to refund money that was used to pay part of CHAN staff salaries that worked timelessly for the project to fill in gaps identified. The organization feels</p>	<p>transaction beyond the control of CHAN based on extant fiscal and monetary policies in Nigeria.</p> <p>c) The amount drawn as project support cost (US\$ 395,688.00 and US\$ 449,919.00) were project support cost of 1.7% duly approved in the budget/project document. CHAN used US\$ 395,688.00 for salaries of 12 CHAN staff who put 75% of their time in Global Fund taken in to account the number of staff that was recruited as approved for the project. The refund should be re-considered in view of the fact that USD\$ 395,688.00 falls under the management component of the project.</p> <p>Similarly, the US\$ 444, 919.00 for systems strengthening to perform GF activities optimally through trainings, governance meetings and other expenses falls under the same management component of the project.</p> <p>d) SR unsupported expenditure. CHAN is currently working on the affected SRs to recover the said amount USD\$1,141,073.00.</p>	<p><u>Project support costs</u> Article 13 of the grant agreement between the Global Fund and CHAN states that, “the principal recipient shall, and ensure that Sub-recipients shall, maintain accounting books, records, documents and other evidence relating to this Agreement, adequate to show, without limitation, all costs incurred and revenues earned by the Principal Recipient for the Program and the overall progress toward completion of the program (“Program Books and Records”)”.</p> <p>The OIG sought to review books of account and documents for expenditure classified as project support costs. As no documents were provided, no assurance could be provided by the OIG over the use of these amounts.</p> <p><u>CCM response (b)</u> The OIG notes the PR’s willingness to repay grant funds lost due to irregular</p>

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	<p>that the amount is what forms part of management fee to support the project at the zonal and national level of our structure.</p> <p>Similarly, the amount of US\$ 444,919 was used as part of systems strengthening to be able to perform GF activities optimally through trainings, governance meetings and other expenses which were detailed in how this amount was expended. Since there was no clear guideline at the beginning of the project to provide a work plan/ budget on the use of support costs, the PR used her discretion to apply the funds where necessary.</p> <p>CHAN agrees to refund: (a) US\$ 130,405 forex losses (b) Work with the SRs to recover US\$ 1,144,074 (c) Already working to recover outstanding funds of US\$ 389,761 for individuals /staff and the cancelled cheques which are part of this amount will be presented.</p> <p>CHAN still objects to the refunds in relation to project support cost which used as part salary to pay staff that worked 75% of their time on the</p>	<p>The supporting retirement/supporting documents will be made available as soon as the exercise is completed. The recovery of retirement and supporting documents for funds disbursed to SRs by CHAN is proceeding. Proof of programme implementation by SRs exists.</p> <p>e) One of the SRs (GLRA) has objected to the amount attributed to them as unsupported expenditures and would like further clarification as to why some of their documents were rejected by the OIG team. It appears additional clarification on this specific issue is needed.</p>	<p>foreign exchange transactions.</p> <p><u>Unsupported amounts (CCM Comments (a), (c) (d) and (e))</u></p> <p>Details of unsupported transactions were shared with CHAN management in July 2011. After the follow-on mission in September 2011, the outcome of the review was also provided to CHAN. CHAN management should therefore be in position to provide GLRA with a detailed breakdown of the questioned expenses with the reasons for the OIG conclusions.</p>

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	<p>Project and the support of the organisational development which was classified as draw down on project support cost.</p> <p>CHAN is very ready to work with the team in order to facilitate the country response accordingly.</p>		