



OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

Country Audit of Global Fund Grants to Nigeria

**Audit Report GF-OIG-10-008
31 October 2011**

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.

¹ UNGASS Country Progress Report, Nigeria, 2010

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.

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.

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

Particulars	Paragraph Reference	Ineligible (US\$)	Unsupported (US\$)
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.