



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

## **Audit of Global Fund Grants to the Republic of Djibouti**

### **Executive Summary**

**GF-OIG-10-015-A**  
**29 October 2012**

### **EXECUTIVE SUMMARY**

1. This report presents the results of the audit of the grants to Djibouti by the Office of the Inspector General (OIG) of the Global Fund. From 12 April to 21 May 2010, the OIG Audit Unit undertook an audit of all grants to Djibouti up to 31 March 2010. The audit followed reports by the Local Fund Agent that significant management deficiencies and financial shortcomings were found as part of its normal periodic reviews and its “special verification reviews”. As a result of the audit, a referral was made to the Investigations Unit in OIG. Upon referral, the OIG Investigations Unit undertook an investigation, initiated in March 2011. All the amounts recommended to be recovered as a result of this audit and the follow-on investigation are included in the investigation report GF-OIG-015-I, which is available under separate cover.

### **Summary of Findings Concerning the Principal Recipient, the Executive Secretariat for the Fight against AIDS, Malaria and Tuberculosis**

2. The audit found that there was extensive scope for improvement in the PR’s financial management, particularly in documenting policies and procedures; correcting deficiencies in the financial accounting system; improving budgetary control and cash and bank management; consistently recording income in the books of account; ensuring archiving controls; keeping complete asset records; reconciling payroll records; and putting in place procedures for selecting and evaluating sub-recipients.

3. In addition, the PR did not comply with specific requirements as stipulated in the grant agreements including: (a) remitting accurate and timely PU/DRs within the required 45 days; (b) consistently appointing an external auditor within the required time frames; (c) submitting an SR audit plan and ensuring that SR audits were performed; (d) informing the Global Fund about its tax exemption status within 90 days from the start of Round 6 grants; (e) providing the name, title and authenticated signature of authorized disbursement request signatories; and (f) obtaining approval from the Global Fund on the monitoring and evaluation plan for the Round 6 malaria grant.

### **Summary of Findings Concerning Sub-Recipients and the Three National Programs**

4. The OIG audit of the financial management processes for sub-recipients, including the three national programs to combat HIV/AIDS, Tuberculosis and Malaria, identified numerous areas for improvement, including particularly in documenting policies and procedures for employee travel and advances; resolving variances between program records maintained by the sub-recipient and financial returns submitted to the Global Fund; ensuring adequate segregation of duties; correcting weaknesses in cash and bank management; ensuring adequate bank reconciliation procedures; improving budgetary controls; and addressing weaknesses in HR and payroll processes, in particular to reconcile payroll records and effect payment of salaries on time.

5. The audit of sub-recipient expenditures showed that grant agreements were not consistently adhered to. Improvements are needed to avoid unbudgeted expenses and tax payments; the use of program funds for non-program purposes; supporting documents not being made available for OIG review; ensuring adequate supporting documents to verify procurement processes; and the use of grant funds to cover overdraft charges.

### **Summary of Findings on Service Delivery, Monitoring and Reporting**

6. The programs funded by the Djibouti grants had been successful in the areas of HIV awareness, condom distribution and TB testing rates. However, the programs needed to strengthen service delivery. Following the termination of World Bank support in mid-2008, the PR redirected Global Fund financing away from program activities to pay program staff salaries and top-up payments to government staff without Global Fund authorization. This shift in fund allocation had detrimental effects on the programs, resulting in drug stock-outs, reduced patient numbers and a loss of trained and experienced staff. Government funding of the programs remained inadequate, as the government's contribution only paid for the salaries of government employees assigned to the PR and to the provision of office space.

7. To measure the progress of the fight against the three diseases, the PR established a national monitoring and evaluation plan and engaged in data collection through service providers that utilized internationally accepted indicators. Program data were collected on a monthly basis and reported quarterly to the Executive Secretariat and the Global Fund against national targets aligned to Millennium Development Goals. However, the audit found the working relationship between the national Health Information System (HIS) and the monitoring and evaluation procedures of the Executive Secretariat to be weak, with only the malaria program having direct access to the HIS database. The HIV/AIDS and TB programs were reporting directly to the M&E function in the Secretariat but were not linked to the HIS system.

### **Summary of Findings on Procurement and Supply Chain Management**

8. The PR had scope for improving the reliability of its system to undertake, manage and monitor procurement of program-related goods and services.

9. The audit found that the PR required a stronger management and coordination ability to ensure efficient and effective availability of drugs for patients. While the forecasting of need was periodically updated, and based on simple and easy to use quantification tools, adequate validation procedures for basic data needed to be put in place to avoid emergency procurements and inaccurate quantification. Controls over planning and procurement of health products require strengthening to avoid non-competitive prices and delays in delivery. In addition, the PR should put in place a formal agreement for warehousing and distributing drugs; maintain inventory and purchase records; ensure adequate monitoring of the storage and distribution of drugs; avoid stock discrepancies and errors in records; and avoid issuance of expired drugs to health centers. The PR must ensure that programs have in place effective quality assurance arrangements.

### **Summary of Findings on Grant Oversight**

10. Management oversight of Global Fund-supported programs is provided by the Country Coordinating Mechanism (the Comité de Coordination Multisectoriel et Inter-Partenaire; CCM), the PR, the Local Fund Agent and the Global Fund Secretariat. At the time of the audit, the CCM required improved and updated guidelines, and needed to strengthen the documentation of its evaluation of the PR's capacity to implement the program.

11. The Swiss Tropical & Public Health Institute (Swiss TPH) has been the Local Fund Agent since the inception of the Global Fund's support to programs in Djibouti. The limited number of Swiss TPH staff physically in Djibouti resulted in slow submissions of assessments to the Global Fund Secretariat, and was initially insufficient to effectively review program implementation at the required level of detail. The Swiss TPH maintained insufficiently detailed working papers documenting the transaction testing performed as part of its PU/DR reviews.

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12. Notwithstanding these observations, it is important to note that it was Swiss TPH that originally raised concerns about fiduciary lapses surrounding the grants in 2008. Under direction from the Global Fund, the LFA also expended significant effort to perform a special verification review of grant expenditures on both Round 4 and 6, resulting in the recovery of a significant amount<sup>1</sup> of grant funds.

### **Overall Conclusion**

13. The programs demonstrated positive achievements in the areas of HIV awareness, condom distribution and TB testing rates, although there was scope for improvement in service delivery for all three diseases. However, there was a risk that this success may be undermined by lapses in oversight and weak control systems. Financial management required particular attention, with an urgent need to improve the capacity at both Principal and Sub-Recipient levels. Procurement and supply chain management needed to put in place controls to ensure transparency in the procurement process, ensure proper quantification and quality assurance of products. Grant oversight arrangements had scope for improvement in the Country Coordinating Mechanism and by the Local Fund Agent.

14. Based on the findings in this audit, the OIG considered the controls in place over the implementation of public health programming in Djibouti effective and that governance and oversight mechanisms were adequate. However, controls over procurement and supply chain management, financial and sub-recipient management over Global Fund-supported programs were not satisfactory. Overall, the OIG was not able to provide the Global Fund Board with reasonable assurance over the effectiveness of controls in place at the time of the audit to manage the risks impacting the Global Fund-supported programs in Djibouti.

### **Actions Subsequent to the Audit**

15. The Secretariat has put in place a number of mitigating actions in response to the audit. These measures included the replacement of the leadership of the PR and the CCM; providing training to the CCM via USAID's Grant Management Solutions; delaying Phase 2 funding; requiring the PR to use Voluntary Pooled Procurement; limiting disbursements and programmatic activities to essential services; requiring the use of an external fiduciary agent; and working with the new CCM to identify alternatives to the historical PR. The Global Fund Secretariat has extended Round 6 grant disbursements under the continuation of essential services mechanism through December 2012 and a new PR to administer the Round 9 and 10 Tuberculosis and Malaria grants was identified. The PR assessment will be initiated during October 2012 by the LFA.

16. Informed by the OIG audit, the Global Fund Secretariat addressed the LFA capacity by (i) scheduling a Program Evaluation Tool review in July 2011, (ii) an In-Country Evaluation in September 2011, and (iii) requesting increased physical capacity in-country and at Swiss TPH headquarters by October 2011 in preparation for Round 9 and 10 signing with the new PR.

17. The CCM has (i) developed new guidelines, appointed working groups and is rebalancing its membership, (ii) benefitted from five technical support visits from Grant Management Solutions, (iii) participated in the MENA Regional Conference on the CCM Dashboard in November 2010, and (iv) acted upon the conflict of interest concerns concerning the Chair of the CCM in March 2011.

18. Given that the current PR and the existing SRs may continue to play a role in future grant funding, the Global Fund Secretariat should ensure that the fiduciary control lapses observed do not repeat themselves. To this end, this report includes specific programmatic

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<sup>1</sup> Please refer to the report of the Investigation of Global Fund Grants to Djibouti, GF-OIG-10-015-I, for details of sums involved.

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and fiduciary recommendations stemming from the detailed testing performed during the audit. Twelve of these recommendations are rated “critical”; a further eleven are “significant”.

19. The PR with support from the CCM and the Global Fund Secretariat has committed to implementing all the recommendations offered and has put in place the management action plan (Annex 2) for implementation of those recommendations.