



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

Report

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

MESSAGE FROM THE GENERAL MANAGER 5

COMMENTS FROM THE COUNTRY COORDINATING MECHANISM 7

BACKGROUND 9

METHODOLOGY 12

GRANT OVERSIGHT..... 13

PROGRAM MANAGEMENT 18

**PRINCIPAL RECIPIENT: THE EXECUTIVE SECRETARIAT FOR THE FIGHT
AGAINST AIDS, MALARIA AND TUBERCULOSIS 22**

SUB-RECIPIENTS AND THE THREE NATIONAL PROGRAMS..... 30

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT 35

ANNEXES

Annex 1: Abbreviations

Annex 2: Recommendations and Management Action Plan.....

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

Audit of Global Fund Grants to Djibouti

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.

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

Audit of Global Fund Grants to Djibouti

verification review of grant expenditures on both Round 4 and 6, resulting in the recovery of a significant amount¹ 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 and fiduciary recommendations stemming from the detailed testing performed during the audit. Twelve of these recommendations are rated "critical"; a further eleven are "significant".

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

Audit of Global Fund Grants to Djibouti

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.

Audit of Global Fund Grants to Djibouti

MESSAGE FROM THE GENERAL MANAGER



10 YEARS
OF IMPACT

Gabriel Jaramillo, General Manager

gabriel.jaramillo@theglobalfund.org
www.theglobalfund.org

T +41 58 791 1842
F +41 58 791 1641

Chemin de Blandonnet 8
1214 Vernier, Geneva
Switzerland

Our ref: OGM/GJ/JK/2012.10.25-DJIBOUTI

25 October 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the audit of Global Fund grants to the Republic of Djibouti.

The audit was carried out from 12 April to 21 May 2010 and covered all grants to Djibouti up to 31 March 2010. More than US \$34 million of grants had been approved and over US \$20 million disbursed to the country as of 6 April 2010.

A referral was made to the Office of the Inspector General's Investigations Unit as a result of the audit. The findings of the ensuing investigation, initiated in April 2011, are included in a separate report, also published today, which recommends that sums of grant money should be recovered.

Djibouti has a generalized HIV epidemic and its transmission is mainly heterosexual. HIV prevalence has stabilized at 3.1 per cent since the early 2000s. The country has a very high prevalence of all forms of tuberculosis and an estimated 10-15 per cent of the population is at risk for malaria.

The audit found that the programs supported by the Global Fund demonstrated positive achievements in the areas of HIV awareness, condom distribution and TB testing rates. However the audit also concluded that there was scope for improvement in service delivery for all three diseases and identified lapses in oversight and weak control systems.

Based on the findings in the audit, the Office of the Inspector General said it considered controls in place over implementation of public health programming in Djibouti to be effective. However, controls over procurement and supply chain management and financial and sub-recipient management of Global Fund-supported programs were not satisfactory. Consequently, the Office of the Inspector General was not able to provide the Global Fund board with reasonable assurance over the effectiveness of controls in place to manage risks at the time of the audit.

The Global Fund Secretariat has taken far-reaching action in response to the audit. Measures include: replacement of the leadership of the Principal Recipient and of the Country Coordinating Mechanism (CCM); providing training to the CCM via USAID's Grant Management Solutions; delaying Phase 2 funding; requiring the Principal Recipient to use Pooled Procurement; limiting disbursements and programmatic activities to essential services; requiring the use of an external fiduciary agent; and working with the CCM to identify alternatives to the historical Principal Recipient.



Audit of Global Fund Grants to Djibouti

Audit reports by the Office of the Inspector General are an essential form of quality control for the Global Fund. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Yours sincerely



MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

Monsieur l'Inspecteur Général du Fonds mondial,

Nous accusons bonne réception de la version définitive du rapport d'audit sur les subventions du Fonds Mondial accordées à la République de Djibouti.

En date du 18 septembre, des commentaires et actions concrètes portés à la fois par le CCMI et par le Secrétariat Exécutif, en sa qualité de PR, sur le rapport d'audit vous ont été transmis dans les délais impartis.

Ces commentaires et actions convenues ont été repris dans la version finale du rapport d'audit d'octobre 2012.

Des constatations et conclusions ont été dressées et argumentées à l'encontre du bénéficiaire principal, le Secrétariat Exécutif de lutte contre le SIDA, la tuberculose et le paludisme, et auprès des trois programmes nationaux en leur qualité de sous-bénéficiaires, et ce sur la mise en œuvre des activités et sur la supervision des subventions (avec les partenaires habilités).

En guise de conclusion générale, il est clairement fait mention de résultats positifs dans la mise en œuvre des activités pour les trois maladies. Or, ces progrès sont compromis par des défaillances et faiblesses en matière de gestion financière et programmatique et de dispositifs de supervision des subventions accordées.

Des nouvelles perspectives sont envisagées et des mesures correctives sont initiées et mises en œuvre auprès du CCMI et du Secrétariat Exécutif (PR) tout en maintenant une continuité des activités dans le cadre d'un programme dédié aux activités essentielles. Cela impliquait nécessairement un renforcement des capacités du LFA et des changements d'envergure pour le CCMI et le PR.

En définitif, il est concédé que le Bénéficiaire principal (le Secrétariat Exécutif) et les sous-bénéficiaires (programmes nationaux) pourraient continuer à jouer un rôle dans les futures subventions accordées par le Fonds mondial à la République de Djibouti.

Le Bénéficiaire principal, avec le soutien du CCMI et du Secrétariat du Fonds Mondial, s'engage fermement à mettre en œuvre toutes les recommandations présentées dans la version finale du rapport d'audit par le biais d'un plan d'actions de gestion desdites recommandations.

Je vous prie d'agréer, Monsieur l'Inspecteur Général, l'expression de mes salutations distinguées.

AHMED SAAD SOULTAN

Président du CCMI

18 octobre 2012

*Message reçu par courriel, 18 octobre 2012

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

For the Attention of the Inspector General of the Global Fund

Dear Sir,

We have received the final version of the audit report on the Global Fund grants allocated to the Republic of Djibouti.

On September 18th, you were informed, in due course as requested, of a number of comments made and concrete measures taken regarding the CCMI and the Executive Secretariat, in its role as PR.

The comments and agreed measures were discussed in the final version of the audit report, dated October 2012.

The comments and conclusions drawn have been put to the principal recipient, the Executive Secretariat for the fight against AIDS, tuberculosis and malaria, and the three national programmes in their capacity as sub-recipients, concerning the implementation of the activities in question and the supervision of the grants (with the authorised partners).

The conclusion refers to the positive results obtained in implementing actions regarding the three diseases, but notes that the progress made has been compromised by failures and weaknesses concerning financial management and programming, and supervision of the monies allocated.

New perspectives have been opened and corrective measures introduced and implemented within the CCMI and the Executive Secretariat (PR) whilst at the same time maintaining continuity in the activities as part of a special programme of key activities. This has necessitated a strengthening of LFA capacity and significant changes for the CCMI and the PR.

To conclude, the Principal Recipient (the Executive Secretariat) and the sub-recipients (national programmes) are to be allowed to continue their involvement with future grants allocated to the Republic of Djibouti by the Global Fund.

The Principal Recipient, supported by the CCMI and the Global Fund Secretariat, resolutely undertakes to implement all the recommendations described in the final version of the audit report, through a special action plan put in place to manage the implementation of said recommendations.

Yours sincerely,

AHMED SAAD SOULTAN

CCM Chair

18 October 2012

*E-mail from 18 October 2012

BACKGROUND

Contextual Background

20. The Republic of Djibouti has a population of some 800,000 citizens spread across five rural districts (Ali Sabieh, Arta, Dikhil, Tadjourah and Obock)² with over three quarters of the population living in the capital, Djibouti City. Djibouti has a generalized HIV/AIDS epidemic, the transmission of which is mainly heterosexual. The prevalence of HIV/AIDS has stabilized at 3.1 percent since the early 2000s, and is higher in urban than in rural areas, with no significant difference between men and women. The country has a very high prevalence of all forms of tuberculosis. The incidence rate is estimated at 869 per 100,000 with the incidence rate for smear positive pulmonary TB at 340 per 100,000 in 2008/2009. The population at risk for malaria is estimated at 10-15 percent of the population. Approx. 5,000 cases per year of uncomplicated malaria make up 90 percent of total cases.

21. The World Bank initiated an HIV/AIDS grant program in 2003, which continued for five years. The Global Fund contributed to this program through a Round 4 HIV/AIDS³ grant in 2005, with the following objectives: To intensify the program and improve the quality and availability of drugs and supplies; to recruit more technical staff at all levels; and to increase coverage to all regions and facilities. The HIV/AIDS program in Djibouti was further assisted by a Round 6 HIV/AIDS⁴ grant.

22. The national TB program had also received World Bank funding and subsequent Global Fund financing through a Round 6 grant⁵. The Ministry of Health started its national malaria program before 2007, and continued with the support of Round 6 Global Fund grant⁶.

23. Under Global Fund grant rounds 4 and 6, the Republic of Djibouti applied for funding of USD 40 million, of which more than USD 34 million had been approved and over USD 20 million disbursed to the country as of 6 April 2010. (Round 9 and Round 10 grant funding were still under negotiation at the time of the audit.)

² "*Communication Officielle des Resultats du Recensement Général de la Population*". Ministère de l'Economie, des Finances et de la Planification, Djibouti. 2010.

<http://www.ministere-finances.dj/RECENSEMENTDE%20LA%20POPULATION.html>. Retrieved 18 February 2011

³ DJB-404-G01-H; 24 January 2005

⁴ DJB-607-G04-H; 1 June 2007

⁵ DJB-607-G04-T; 1 June 2007

⁶ DJB-607-G04-M; 1 June 2007

Audit of Global Fund Grants to Djibouti

Summary of grants by disease program and funding Round (in USD as of 6 April 2010)⁷

	Total Funding Approved ^[1]	Committed at Phase 1	Committed at Phase 2	Total Funds Disbursed ^[2]
HIV/AIDS				
Round 4	11,998,400	7,271,400	4,346,901	11,978,365
Round 6	17,724,756	7,885,027	N/A	5,128,704
Sub Total:	29,723,156	15,156,427	4,346,901	17,107,069
Malaria				
Round 6	4,528,221	3,007,388	N/A	2,825,406
Tuberculosis				
Round 6	5,973,885	2,269,098	N/A	1,743,928
Total:	40,225,262	20,432,913	4,346,901	21,676,403

OIG Audit Unit

24. The OIG Audit Unit provides independent and objective assurance on the design and effectiveness of controls in place to manage the key risks affecting the Global Fund's programs and operations, with the aim of ensuring accountability and enabling the Global Fund to achieve better results.

25. To this end, the OIG carried out an audit in Djibouti. The objectives of this audit were to assess the adequacy and effectiveness of the controls in place to ensure:

- Achievement of value for money from funds spent;
- Accomplishment of programmatic objectives, including quality of service;
- Compliance with Global Fund grant agreements, related policies and procedures, and relevant laws and regulations;
- Safeguarding of grant assets against loss, misuse or abuse; and that
- Risks were effectively managed.

In undertaking this audit an important focus was to identify opportunities to strengthen grant management.

Background to the Audit

26. Until 2008, the LFA had given satisfactory performance ratings to all active grants in Djibouti (B1 or better). However, systematic and significant delays in submission of PU/DRs and in the disbursement of funds to sub-recipients resulted in a downgrade of ratings after that time. The LFA noted that the PR was systematically late in the preparation and submission of its periodic PU/DRs and that when provided the reports were generally not of high quality and required significant clean-up and follow-up by the LFA prior to submission to the Global Fund.⁸

27. Subsequent to the depletion of Round 4 HIV funds around October 2008, the PR took more than one year⁹ to provide the LFA with PU/DRs for the final period January to

⁷ From Global Fund website 6 April 2010, Core_DisbursementDetailsRaw_en.xls

^[1] In USD equivalent, from Core_GrantDetailsRaw_Report_En.xls available from the Global Fund website (October 2012). Figures exclude de-commitments and refunds.

^[2] As of June 2011 and in USD equivalent, from Core_DisbursementsDetailsRaw_Report_en.xls available from the Global Fund website (October 2012). Figures exclude refunds.

⁸See LFA memo on Special Financial Verification, 15 August 2010

⁹Ibid

Audit of Global Fund Grants to Djibouti

October 2008. This was true also for the audit reports covering the final grant year and the close-out period.

28. In October 2009 the Global Fund Secretariat concluded that, in respect of the final close-out audit for the Round 4 HIV grant, the PR had violated Global Fund rules relating to the selection of an external auditor since the engagement of the audit firm BCS had not been subject to competitive tendering. In respect of the audit report itself, the LFA noted striking similarities in form to a prior year audit report submitted by a different audit firm and noted that the final audit report rendered an unqualified opinion whereas all previous reports had been qualified.

29. Around that same time, the LFA had identified ineligible and inadequately supported expenditures. In particular, the LFA questioned the legitimacy of a USD 80,000 bank transfer for which no supporting justification had been provided. Upon investigation, the LFA discovered that the funds had in fact not been transferred to the SR but to a bank account unrelated to the Global Fund programs. The LFA noted that the supporting documentation ultimately provided by the PR appeared to have been falsified in attempt to make it appear relevant to the timing of the fraudulent bank transfer.¹⁰

30. As a result of these issues, the Secretariat commissioned the LFA to perform a special verification of all expenditures incurred during Phase 2 of the Round 4 HIV grant. That review led to the identification of USD 360,904 in ineligible expenditures which have since been refunded to the Global Fund by the Government of Djibouti. The Secretariat commissioned the LFA to perform the same special verification on expenditures for all three Round 6 grants. That review resulted in the identification of an additional USD 514,513 in ineligible expenditures.¹¹

31. Based on these findings by the LFA, the OIG undertook a comprehensive audit of the Djibouti grants.

¹⁰See LFA memo on Special Financial Verification, 15 August 2010

¹¹Ibid

METHODOLOGY

Scope of the Audit

32. The OIG audit covered all active and closed grants since the inception of Global Fund support in 2005 until 31 March 2010 and all aspects of the management and operations of the grant programs, covering the performance of PRs, Sub-Recipients, the Country Coordinating Mechanism and the Local Fund Agent.

33. The audit examined:

- Compliance: to assess whether structures, systems and processes complied with established Global Fund policies, procedures and guidelines, and national laws and requirements;
- Internal control: to verify whether systems of internal control were adequate to ensure that grant assets were adequately safeguarded against misuse and abuse;
- Financial review: to consider whether best value for money was being achieved for the funds provided by the Global Fund; and
- Grant management: to confirm whether the systems, processes and controls in place were efficient and effective in supporting the execution of grant objectives.

34. The OIG audit fieldwork approach covered data collection, interview with related stakeholders, review of documentation, direct observation; control and substantive test and field visits to project sites. The substantive procedures were followed for high risk areas, with a representative sample (between 20 to 40%)¹² of the audit population.

Exchange Rate

35. The amounts described in this report are in US Dollars. To the extent amounts were originally quoted in Djibouti Francs, they were translated at a rate of 1 USD to 177 DJF.

Prioritization of Audit Recommendations

36. The implementation of all audit recommendations is essential in mitigating risk and strengthening the internal control environment in which the programs operate. The recommendations have been prioritized as follows to assist management in deciding on the order in which recommendations should be implemented:

37. **Critical:** There is a material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization interests, erode internal controls, or jeopardize the achievement of aims and objectives. It requires immediate attention by senior management.

38. **Significant:** There is a control weakness or noncompliance within the system, which presents a significant risk. 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 controls, or undermine achievement of aims and objectives.

¹² For the Round 4 HIV Grant, the audit sampled to 80% of the total population.

GRANT OVERSIGHT

Background

39. The Global Fund's fiduciary arrangements place reliance on effective management oversight. Principal recipients and sub-recipients implement the program activities and are overseen by the CCM, which is a country-level multi-stakeholder partnership. The LFA provides assurance to the Global Fund Secretariat on the implementation of grant programs. The PR is also meant to implement its own internal control mechanisms in both programmatic and fiduciary aspects.

Country Coordination Mechanism

40. The CCM is a country-level public-private partnership which:¹³

- Coordinates the development of grant proposals to the Global Fund based on priority needs at the national level;
- Selects one or more appropriate organizations to act as PR for the Global Fund grant;
- Monitors the implementation of activities under approved programs, including approving major changes in implementation plans as necessary;
- Evaluates the performance of programs, and of PRs in implementing the programs, and submits a request for continued funding prior to the end of the two years of initially-approved financing from the Global Fund; and
- Ensures linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities.

41. In March 2003, an Inter-sectorial Technical Committee for the Fight Against AIDS, Malaria and Tuberculosis¹⁴ had been set up by presidential decree and managed projects for fighting the three diseases in Djibouti through its Executive Secretariat. A ministerial circular established a sub-committee to manage Global Fund projects and fulfill the role of CCM, and the Comité de Coordination Multisectoriel et Inter-Partenaire (CCM) undertook the CCM role in Djibouti.

42. The CCM is composed of 29 members, including:¹⁵

- Ten members from the government sector (five from government ministries, two from the Ministry of Health and three from sub-recipients);
- Twelve members from civil society organizations; and
- Seven members from multilateral/bilateral development partners.

43. Djibouti's CCM, chaired by the Minister of Health, met regularly and attendance was considered good with around 70 percent or about 20-24 of 29 members attending meetings regularly. The CCM's internal rules were prepared in 2005 and adopted in 2006, although not updated as at the time of the audit. In March 2011, the Minister of Health resigned as CCM Chair. The CCM developed new guidelines in January 2011 with the assistance of USAID (Grant Management Solutions, GMS).

44. The OIG noted that the rules and provisions did not include an adequate conflict of interest policy and some CCM members informed the OIG that the terms of reference had not been shared among the majority of the members.¹⁶ While in principle each CCM is responsible for developing its own approach to fulfilling its role, and undertake its activities effectively, the Global Fund highly recommends that CCMs establish clear operating

¹³ The Global Fund Operational Guide

¹⁴ An autonomous Government Committee responsible to fight against three diseases

¹⁵ CCMI Djibouti, Règlements Intérieurs, Octobre 2005 and Global Fund Web site, April 2010

¹⁶ Notes from meeting with Development Partners during audit fieldwork, April 2010

Audit of Global Fund Grants to Djibouti

procedures and guidelines. Such governance manuals help to ensure that the CCM can operate in a way that is well understood and agreed by all members and stakeholders.¹⁷

Recommendation 1 – Significant

The OIG notes that steps have recently been taken to strengthen the CCM, including the solicitation of advice from Grant Management Solutions; however, it recommends that the CCM in consultation with the Global Fund Secretariat should:

- a) Implement the recommendations offered by GMS on strengthening the CCM;*
- b) Review and update its current terms of reference and rules and establish further guidelines as appropriate;*
- c) Ensure that all CCM members understand their roles and responsibilities and establish a protocol to improve communications among the members; and*
- d) Increase civil society capacity building, particularly in areas of financial and project management, and strengthen or empower the role of civil society in the CCM.*

45. The CCM provides oversight to proposal development, grant negotiation, grant implementation and grant closure. With regard to coordinating proposal preparations for the Global Fund, the CCM advertised in newspapers when there were calls for proposals; and invited all stakeholders to send technical staff to participate in the development of proposals¹⁸. UNICEF, WHO and other development partners provided technical support during this process overseen by the CCM. The CCM in Djibouti has been successful in securing funding from the Global Fund under grant Rounds 4, 6, 9 and 10. The country has requested more than USD 40 million and has received commitments of USD 34 million.

46. The CCM has re-appointed the same PR continuously for each submission of proposals to the Global Fund. The OIG noted a lack of transparency and adequate documentary evidence surrounding the decision to re-appoint the PR, having only seen minutes documenting the decision itself and not the underlying review and discussions that resulted in the decision being made. Further, the CCM meeting minutes reflecting the decision did not evidence the concurrence (by way of signatures) of the CCM members.

47. Starting from Round 8, the Global Fund encouraged the CCM to pursue a “dual tracking financing” approach in nominating PRs at the time they submitted their proposals for financing to the Global Fund. The OIG observed that the CCM re-appointed the existing PR for Round 9 and there was no evidence available for audit verification that the CCM regularly evaluated the performance of the current PR.

48. The OIG held a number of meetings with development partners and CCM members during the course of the audit to invite views on the operation of the CCM arrangements in Djibouti. Some of the concerns raised by stakeholders during these interviews included:

- Representation on the CCM of civil society organizations/NGOs is viewed as adequate but some consider that the level of participation is weak.
- There is lack of clear understanding of the members’ status and their roles as Djibouti CCM members.
- Members do not share the same level of understanding, so participation during the CCM meeting by some members especially those representing civil society organizations has been very limited due to different background and knowledge.

¹⁷ The Global Fund Operational Guide

¹⁸ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

- The terms of reference, rules and regulations of the Global Fund were not shared among members and therefore some find it difficult to deliver what is expected from the group.
- Monitoring of the PR has not been optimal: programmatic and financial reports were not discussed at CCM meetings (because they were too technical); no field visits were undertaken to view activities and validate findings and there was limited time or capacity to monitor the financial management of the PR.
- The CCM was not informed of challenges which had arisen between the Global Fund and the PR in a timely manner.

Recommendation 2 – Critical

The OIG recommends that, in conjunction with the Djibouti CCM, the Global Fund Secretariat should review the Djibouti CCM's oversight of PR performance and the transparency of existing procedures to ensure the effectiveness of the Djibouti CCM's governance.

Local Fund Agent

49. The local fund agent (LFA) fulfills a crucial role in the Global Fund's system of oversight and risk management. The LFA's key functions are to¹⁹:

- Assess the key capacities and systems of PRs prior to grant signature and at other stages of grant implementation;
- Provide independent and continuous oversight through verification of implementation by grant recipients over the lifetime of a grant, and to make recommendations to the Global Fund on disbursements and adjustment to grant implementation arrangements;
- Carry out on-site data verification visits;
- Review the CCM's request for continued funding for Phase 2 of the grant, and make a recommendation on funding for year three onwards of the grant;
- Provide country updates on key issues and events that affect grant implementation or pose risks to grant resources, and
- Carry out other services as requested by the Global Fund, such as support for country visits by Global Fund staff and consultants, and for grant consolidation and closure.

50. The Swiss Centre for International Health of the Swiss Tropical Institute (Swiss TPH) acts as the LFA for the Global Fund in Djibouti. This institute assessed the capacity of the PR before appointment in 2004. The LFA participates in selected CCM meetings when invited by the CCM as an observer.

51. As of the date of the audit, the LFA had two local staff, one in charge of program and one in charge of finance. The staff in charge of program is a nutritionist by training and is required to evaluate all technical aspects of the programmatic activities.

52. The audit observed that over the course of Rounds 4 and 6, the LFA had reviewed more than 36 PU/DRs, 25 assessments on the PR, made four on-site data verifications; and also reviewed regularly the outcome of the program's external audit²⁰. However, the LFA had not established any mechanism to monitor the implementation of audit recommendations.

¹⁹ LFA Manual, May 2008

²⁰ Information provided by LFA to OIG Team, 15 April 2010

Audit of Global Fund Grants to Djibouti

53. The OIG also noted that based on discussions with Swiss TPH staff, Swiss TPH did not maintain adequate working papers documenting the transaction testing performed as part of the its PU/DR reviews. Swiss TPH's failure to maintain adequate working papers led to the OIG's inability to evaluate the quality and accuracy of Swiss TPH PU/DR reviews and also to determine whether or not Swiss TPH had selected for testing any of the ineligible transactions prior to 2009.

54. Moreover, the OIG noted in its audit and subsequent investigation material amounts of unsupported or inadequately supported expenditures²¹. Because the LFA did not maintain adequate documentation of work performed, the OIG could not determine whether such documentation was available at one point in time (and perhaps vetted by the LFA as part of its normal PU/DR reviews) and misplaced or lost subsequently or whether the documentation did not exist in the first place. The OIG made a similar finding regarding LFA work as part of its investigation of grants to Mali²² and notes that the Swiss TPH has since strengthened its internal controls and procedures to ensure that all PU/DR testing is properly documented in its internal working papers.

55. It must be noted that Swiss TPH has undertaken a significant amount of work in relation to the Djibouti grants, in particular with the special verification reviews. These in-depth reviews have resulted in the identification of large amounts of ineligible and undocumented expenditures and have assisted the OIG's audit. In addition, the LFA has made itself readily available to assist the OIG by quickly responding to questions and providing information. The LFA should be commended for its continued assistance through the OIG's audit.

Recommendation 3 – Critical

The Global Fund Secretariat should consider whether the capacity of the LFA needs to be strengthened by increasing the number of staff working in finance and the inclusion of a suitably-qualified public health expert to cover programmatic aspects.

The LFA should ensure that it prepares and maintains adequate working papers documenting transactions tested, and the results of those tests, during its normal PU/DR reviews.

Role of development partners

56. Most of the development partners in Djibouti were represented in the Djibouti CCM and the OIG observed that some of the development partners had played significant roles in supporting the Global Fund program implementation, including strengthening the CCM's role and responsibilities²³.

57. The OIG is pleased to acknowledge the strong commitment of development partners in supporting oversight of the Global Fund's programs in addition to their own responsibilities. The OIG noted that various development partners had demonstrated goodwill towards Global Fund-supported programs and were committed to working with stakeholders to ensure that the Global Fund achieved its goals. The Global Fund Secretariat should continue to nurture these good relationships. The main concern voiced by development partners, however, was what they saw as the limited function of the LFA to support them, due to limitations in LFA information sharing under the Global Fund model.

²¹ See Final Report of Investigation of Djibouti grants; June 2012;

²² See Final Report of Investigation of Mali Malaria (1&6) and Tuberculosis (4&7) grants; 1 June 2011; p. 117.

²³ Notes from meeting with Development Partners, April 2010

The Global Fund Secretariat

58. The Secretariat was quick to respond to findings brought forward by the LFA in early 2009. For example, the Secretariat quickly mandated the LFA to perform special financial verification reviews of Round 4 and all Round 6 grants to identify anomalies. The Secretariat also rejected the improper Round 4 close-out audit and required a new audit from a different firm. Based on those findings, the Secretariat *inter alia* made the decision in July 2010 to postpone Phase 2 Round 6 signing in favor of continuity of essential services. In this regard, the Secretariat required the PR to establish additional safeguards such as hiring additional staff including an accountant, a technical advisor, and an external fiduciary agent.

59. Despite these positive steps at critical decision points, effective program implementation was affected by frequent changes within the Global Fund's Secretariat. Since 2008, the fund portfolio manager (FPM) has changed four times and these changes coincided with when the LFA began to uncover anomalies through its PU/DR review. The decision to postpone the signing of Phase 2 Round 6 grants was made by the Secretariat, but due to staff changes, it did not have an adequate action plan to hand-over to enable the country to obtain the Phase 2 Round 6 grant signature on time. While the Secretariat needed some time for its new staff to fully understand the country context before further decisions were taken, a clear exit or hand-over strategy would have helped to minimize orientation time for the new staff.

Overall conclusion on oversight

60. Based on its audit, the OIG concluded that oversight by the Global Fund Secretariat was generally adequate, but there was scope for improvement in the CCM and LFA oversight roles.

PROGRAM MANAGEMENT

Service Delivery

HIV/AIDS

61. The Government of Djibouti has in place a national strategy for the fight against HIV/AIDS, within the overall national health sector strategy, which covers the period from 2008 to 2012.²⁴ The goal of the Global Fund's funding contribution in the HIV/AIDS sector has been to strengthen the domestic program for people living with the disease and their families, and to protect vulnerable persons in Djibouti. The program works in prevention, treatment and care and support aspects, in homes and care facilities²⁵.

62. In 2007, an attempt was made to strengthen the program by recruiting three national staff members: an accountant, an archivist and a monitoring and evaluation staff. The program also hired 40 counseling agents to carry out counseling at the time of testing; and the program improved access to free anti-retroviral treatment for all the population, which increased the number of people who attend for testing. The program was also strengthened²⁶:

- In prevention, by testing TB patients for HIV voluntarily; using community interventions to raise awareness of the community and increase the use of preventive measures; and involve community leaders in the fight against the disease.
- In treatment, through wider coverage to reach all health facilities in country; facilitate government commitment to free anti-retroviral treatment; and encourage testing.
- In care and support, to finance community-based organizations in the provision of meat, milk, beans, vegetables and the labor cost of providing cooked food. The program also helped with psycho-social support, and financial support for schooling and vocational training.

63. The social marketing unit was also very successful in raising the awareness of people regarding the utilization of condoms. The demand grew significantly and it opened 222 condom distribution centers. The number of condoms distributed increased from 300,000 to 1,000,000 per quarter.²⁷

64. During its fieldwork in April 2010, the OIG visited three service delivery points in Djibouti town and observed that:

- There was a central referral system in place, which followed the progress of patients referred;
- ARV treatment was started only after consultation with the physicians involved and after the appropriate investigations;
- Counseling and testing was carried out by separate staff hired for the specific task; and
- A full range of the planned services was being provided in all facilities visited.

65. When the World Bank ended its grant support in mid-2008, the salaries of many staff ended with it. Although salaries were not part of the Global Fund grant budgets for either Rounds 4 or 6, the PR nonetheless reallocated funds from other activities to pay for these salaries²⁸. This expenditure re-allocation, done without the knowledge or approval of the Global Fund, had a detrimental effect on the planned program. The quality of service

²⁴ A new strategy for 2012-2016 was published in January 2012.

²⁵ Summarized from Annex A, Program implementation abstract of Round 4 Grant Agreements

²⁶ Summarized from Annex A, Program implementation abstract of Round 6 Grant Agreements

²⁷ Quarterly progress report

²⁸ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

delivery was further compromised when the Round 6 disbursements were released one year later than expected, due largely to the very late submission of the Progress Updates and Disbursement Requests (PUDRs) by the PR. Implementers were instructed by the Executive Secretariat (the PR) to rush activities and report within the initial reporting datelines. This compromised the quality of the program.

66. In June 2009, approval of the Global Fund's Round 6, Phase 2 agreement was withheld because of the unauthorized reallocation of funds. In line with the Board Policy on OIG Investigations and Audit Reports (GB/B19/DP25), the Secretariat decided to postpone signing of all pending grants. The sub-recipients were instructed by the Executive Secretariat (the PR) to use funds intended for the activity to pay for salaries. The impact of this restriction has been: drug stock-outs for ARVs; a temporary absence of treatment and prophylaxis for opportunistic infections; a reduced number of patients coming for treatment; loss of trained and experienced staff; and reduced impact overall.

Tuberculosis

67. The Global Fund supported program on TB was launched in 2007 to strengthen case detection capacity in communities; decentralize case detection centers and short term treatment in regions; and improve the quality of diagnosis and treatment by setting up a mechanism of uninterrupted supervision of the participants.

68. The Global Fund pays program's staff salary for five supervisors, a finance officer, one monitoring and evaluation officer and one driver.

69. As part of its fieldwork in April 2010, the OIG visited four TB centers in the regions of Ali Sabieh, Balbala and Hayableh; and also visited the central referral hospital for TB in Djibouti City, its pharmacy and its laboratory. A number of positive achievements were noted, including treatment success rate of 81 percent; the establishment of a standard TB guideline in all centers visited in line with WHO's international Stop TB strategy; HIV counseling and testing for all TB patients; and free anti-TB drugs.

70. The main challenges to service delivery observed by OIG during the field visits were that not all staff had been trained on the national treatment protocol, and a majority of the staff were not qualified; DOTS centers (Traitement de courte durée sous surveillance directe), such as the TB centers in Ali Sabieh, were not functioning in accordance with international guidelines, e.g., they provided drugs for three to four days when there was a weekend or a holiday; in all the sites visited, the OIG noted the lack of health education (training) on TB and its treatment; no defaulter tracing mechanism; and whilst the central TB medical store had a good quantity of anti-TB drugs, there were no other drugs to manage side effects or other opportunistic infections. This is because the medication for opportunistic infections was managed under the HIV/AIDS grants and not available for TB patients.

Malaria

71. The program started in 2007 as part of the Ministry of Health's decision to give better attention to the fight against malaria under a national malaria control and treatment strategy. According to progress reports, some 5,000 cases of malaria have been diagnosed and treated with ACT since the start of the program, although the evolution of malaria cases has not been reported on consistently over time. A total of 193,000 insecticide-treated mosquito nets have been distributed for free, of which 147,000 were from the Global Fund. The OIG could not obtain information on how these were being used as supervisory visits were not taking place. Without proper utilization, the availability of mosquito nets by itself will not have an effect on malaria transmission. According to the Global Fund Secretariat, the Roll Back Malaria prevalence survey conducted in 2008 provides data on availability and

Audit of Global Fund Grants to Djibouti

use of ITNs. This survey also indicated that the low prevalence rate in localized areas necessitates a targeted approach to service provision, rather than nationwide²⁹.

72. During the field visits, OIG observed that the services of the malaria program were offered in all centers but in most centers no malaria had ever been reported³⁰. For example, in Ali Sabieh Hospital, there was only one confirmed malaria case in five years; and Balbala health centre had had no confirmed malaria cases for many years. In these circumstances it was difficult to confirm the cost-effectiveness of the program.

Program Management

73. The Executive Secretariat for the Fight against HIV/AIDS, TB and Malaria has been the PR since the Global Fund started its support. However, qualified and well trained staff was lost when the continuation of Global Fund support came under review in July 2009 by the LFA; and at the time the audit was undertaken in April 2010, the PR did not have adequate technical staff for key positions such as in public health and monitoring and evaluation.

74. The audit included the review of the following program sub-recipients: the three national programs against the three diseases, two community-based organizations and two agencies. Based on the OIG's review, the technical management capacity of these organizations appeared to be adequate for the activities undertaken.

75. When the Global Fund's Phase 2 disbursement was delayed (period 2009), a majority of the program activities were curtailed or ceased altogether, many staff left and community interventions stopped. The OIG noted considerable pessimism about the sustainability of the three programs in the absence of Global Fund support. Development partners active in Djibouti's health sector are USAID, AFD (Agence Française de Développement), UNICEF and the World Bank.

76. The partners and other members of the Country Coordinating Mechanism³¹ asked the Government to indicate the resource gap following the delayed Global Fund disbursements, in order to help them to mobilize more resources. However, although the Executive Secretariat was a governmental entity, there appear to be no funds from the Government to run its responsibilities and this poses a serious question about the government's ownership of the programs in the context of the Paris declaration³². The Government contribution is limited to the salaries for government employees working under Global Fund supported programs and provision of office space.

Monitoring and Evaluation

77. The fight against the three diseases is coordinated at the level of the Executive Secretariat. There was a national Health Information System (HIS) and a national plan for monitoring and evaluation (2006), which defined appropriate indicators for monitoring and evaluation in the three programs. National targets were set and aligned to the Millennium Development Goals. The system used internationally accepted indicators to measure the progress of the fight against the three diseases³³.

²⁹ Global Fund Secretariat Comments to the Djibouti Country Draft report, 3 July 2011

³⁰ Result from the OIG audit fieldwork approach, see paragraph 30

³¹ Note from meeting with Development Partners, April 2010

³² The five principles of the Paris Declaration, namely (i) national ownership, (ii) alignment (iii) harmonization, (iv) managing for results; and (v) mutual accountability.

³³ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

78. Data collection has been carried out by service providers, either in health facilities or in communities. The M&E systems at program level collected routine data on a monthly basis and reported quarterly to the Executive Secretariat. The Global Fund also requires quarterly reports.

79. The OIG noted, however, that the integration between the HIS and the Executive Secretariat's monitoring and evaluation processes was weak and only the malaria program had direct access to the 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.

80. In the past, the national HIS captured few of the indicators which are monitored by the Global Fund. Although the data collection format was revised in January 2010 in an attempt to capture as much data as possible on TB and HIV, the HIS still only collected data from health facilities, omitting areas such as the social aspects of the programs and community-based activities.

Recommendation 4 – Critical

- a) The Global Fund Secretariat needs to review and ensure confirmed government ownership of the programs through the commitment of appropriate national funding so as the Global Fund supported programs to complement activities financed by the Government and make programs viable and sustainable.*
- b) Existing monitoring and evaluation arrangements in the Executive Secretariat need to be strengthened, more fully integrated with the national HIS system, and made more comprehensive in terms of the data collected to meet the Global Fund's needs e.g. capture community level data and to support data needs as specified in the National M&E.*

Conclusion on program implementation

81. As a result of the audit, the OIG concluded that generally there were positive achievements of program objectives with successes in the areas of HIV awareness, condom distribution and TB testing rates. However, there was scope for improvement in service delivery for the three diseases.

EXECUTIVE SECRETARIAT FOR THE FIGHT AGAINST AIDS, MALARIA AND TUBERCULOSIS

Background

82. The Executive Secretariat for the Fight Against AIDS, Malaria and Tuberculosis (ES) is a technical and autonomous government body which has been the sole PR for Global Fund grants to the Republic of Djibouti. The Global Fund-supported program started in 2005 with a Round 4 grant for HIV/AIDS. The PR has implemented all program activities through 123 SRs with total sub-grants of USD 5,184,560 (DJF 917,667,120) for Rounds 4 and 6. The SRs included 15 ministries/government agencies, six “agences d’encadrement”, (monitoring agencies), 95 non-governmental organizations and the three national programs in the fight against the three diseases as part of the MOH structure.

83. The Executive Secretary has an administrative and financial unit, procurement unit, monitoring & evaluation unit, community support unit and communication unit to implement the program activities. However the OIG noted that a lack of technical capacity and adequate numbers of staff in most of the units, especially monitoring and evaluation, had resulted in poor follow-up and supportive supervision of activities carried out by sub-recipients. This is due to the large number of sub-recipients which makes it more difficult for the PR to manage and provide follow up support to SRs, a situation exacerbated by the lack of technical capacity in some SRs.

84. Two-thirds (18 of 27) of the Executive Secretariat’s total staff and 100 percent of the technical staff were being paid by the Global Fund’s programs, which brings into question the degree of ownership of the programs by the government. Over-dependence on the Global Fund to cover the majority of program expenses also makes sustainability questionable.

Recommendation 5 – Significant

The Global Fund Secretariat and the CCM should ensure that going forward, the newly established PR(s) must have the capacity to properly manage and monitor SRs. Consideration should be given to the establishment of umbrella SRs that would be responsible for managing the community based organizations as SSRs if applicable.

Compliance with Grant Agreement

85. The Global Fund’s grant agreements require the PR to comply with certain conditions³⁴. On a sample basis, the OIG found that some of the conditions had not been met and that there had been instances of incorrect reporting or delays in submission of reports to the Global Fund.

86. OIG noted a number of instances of non-compliance with the grant agreement as follows³⁵:

- Quarterly progress update and disbursement requests contained incorrect reporting of cumulative expenses under various budget lines and in 30 instances had not been submitted to the Global Fund within 45 days of the end of the reporting quarter. Delays ranged up to 215 days;
- Requirements relating to bank accounts, interest and other program revenues, conflict of interest, anti-corruption and record retention were not adequately fulfilled;

³⁴ Each agreement lists the conditions that the PR needs to fulfill.

³⁵ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

- The PR had not appointed an independent auditor within three months from the start of grants under Rounds 4 and 6;
- A sub-recipient audit plan had not been submitted to the Global Fund and no independent financial audit of the SRs was conducted as required by the grant agreement; and
- Sub-grant agreements had not been structured to preclude the support or promotion of violence, the aiding of terrorists or terrorist-related activity or money laundering activities;

87. The Global Fund's grant agreements specify conditions precedent to be complied with by the PR prior to disbursement of funds. The OIG identified the following instances of non-compliance with the conditions precedent:

- The PR had not informed the Global Fund about its tax exemption status within 90 days from the start of Round 6 grants;
- There was no evidence that the PR had provided the name, title and authenticated specimen signature of each person authorized to sign disbursement requests for grants under Rounds 4 and 6;
- The PR had not obtained approval from the Global Fund on the monitoring and evaluation plan for the Round 6 malaria grant; and
- Details had not been provided to the Global Fund as required under the grant agreement for Round 4 HIV on the appointment of an expatriate public health specialist (HIV), and accountant and national M&E expert.

Recommendation 6 – Critical

- a) The PR should ensure that all terms and conditions specified in the grant agreement are complied with and should seek specific approval from the Global Fund for any deviations. The Global Fund Secretariat should ensure that all conditions are satisfied prior to the disbursement of funds.*
- b) The PR and LFA should reconcile PU/DRs with the program financial records prior to submission to the Global Fund, and should ensure that PU/DRs are submitted to the Global Fund on a timely basis.*

Financial Management

88. The Global Fund PR is required to manage grant funds prudently and take all necessary action to ensure that funds are used solely for program purposes. The audit demonstrated that the Executive Secretariat did not maintain adequate accounting books, records and other supporting documents relating to expenditures incurred. Supporting documents for a total of USD 1,839,237 of expenses were not available for audit³⁶ and supporting documentation for USD 3,279,078 was inadequate³⁷.

89. There were various instances of unbudgeted expenses being charged to the grant, overspending, expenses of the Country Coordinating Mechanism and the Ministry of Health being paid from grant funds, inadequate monitoring of advances, the use of grant funds for non-Global Fund purposes, and weak internal financial controls resulting in discrepancies between expenses reported to the Global Fund and program financial records for

³⁶ The Field audit was extended another week to provide the PR the opportunity to provide these supporting documents, however, even during the visit of the OIG Investigation team in April 2011, the supporting documents were not available.

³⁷ See Report of Investigation of Djibouti grants, June 2012 Par 111

Audit of Global Fund Grants to Djibouti

USD 54,973 (which consist of over reporting amounting to USD 78,771 and under reporting amounting to USD 23,834)³⁸.

90. In relation to treasury and cash management, OIG noted that the PR kept grant funds in a current account rather than an interest bearing account; that bank reconciliations were not properly performed on a regular monthly basis in accordance with good practice and only bearer checks were issued, with no supporting records for monitoring purposes³⁹.

91. The PR had no documented policies, procedures or guidelines to cover: employee travel; employee advances; the allocation of shared or indirect costs; month-end closure procedures; the supporting documentation to be maintained for different types of transactions; or requirements in relation to employee conduct, conflicts of interest and use of office property. The PR also lacked an adequate archiving system for financial records and supporting documents.

92. The PR lacked budgetary control mechanisms to ensure the availability of budget amounts prior to initiating expenses. The PR also lacked a review process for transactions recorded in the books of accounts to ensure that expenses were mapped against correct budget line item. The LFA identified a total of USD 592,855 in budget overruns in Round 4 and a further USD 486,450 in the Round 6 grants. In addition, due to lack of strict budgetary controls, the PR had incurred over USD 679,408 in purchases dating as far as 2006, for which it has not paid the vendors.⁴⁰

93. The PR's expense verification and payment processing procedures demonstrate that vendor invoices and other supporting documents were not cancelled and stamped as 'paid' after processing, so as to guard against double processing of invoices. In addition, copies of purchase orders were not forwarded to the finance department and the staff responsible for receiving the goods to ascertain receipt of goods ordered before payment.

94. While cheques were forwarded to the Director of Administration and Finance in the Ministry of Finance for signature, the OIG noted that the Director of Administration and Finance did not have a copy of the approved grant budget to ascertain if the expense was allowable and reasonable prior to signing the check. The LFA, the external auditor (CECA) and the OIG identified a total of USD 2,453,013 in ineligible expenditures at the PR and SR levels, of which USD 475,904 has already been reimbursed by the PR. Ineligible expenditures included:^{41,42,43}

- Payment of unapproved salaries;
- Payment of unapproved travel;
- Payment of unapproved CCM and MoH expenditures;
- Payment of banking overdraft charges;
- Payment for unauthorized equipment purchases;
- Payment of taxes and duties; and
- Payment of repair and maintenance of non-Global Fund vehicles.

95. The audit of grant transactions also identified a series of irregular accounting and banking transactions, including: three instances of unapproved inter-grant transfers of USD 227,913 (DJF 40,340,601); three instances of transfer of funds amounting to

³⁸ Comparison between EFR and Financial records Rounds 4 and 6 HIV/AIDS and Round 6 Malaria.

³⁹ Result from the OIG audit fieldwork approach, see paragraph 30

⁴⁰ See Report of Investigation of Djibouti grants, June 2012; Par 48, 94 & 100

⁴¹ Ineligible expenditures were identified as follows: LFA (USD 919,836); OIG (USD 1,368,548) and External Auditor CECA (USD 164,629). The detail related to these amounts is included in the Djibouti Investigations Report and has been reconciled to ensure that individual transactions were not double-counted.

⁴² Result from the OIG audit fieldwork approach, see above

⁴³ See Report of Investigation of Djibouti grants, June 2012

Audit of Global Fund Grants to Djibouti

USD 115,000⁴⁴ (DJF 20,355,000) to a non-Global Fund program; five examples of expenses relating to one program having been charged to another program.

Recommendation 7 – Critical

The OIG notes that the AGF, in place since early 2011, has documented financial policies and procedures on behalf of the PR. The PR should ensure that those policies and procedures are strictly adhered to and communicated to all staff involved in grant management. Further, to the extent new PRs are put into place for pending grants, the Secretariat and the LFA should ensure that the new PR has such documented policies and procedures in place.

Recommendation 8 – Critical

The Global Fund Secretariat should continue to require the PR to make use of an external fiduciary agent for a priori review of all expenditures under the Round 6 grants until grant closure.

Recommendation 9 – Critical

Further, the Executive Secretariat should:

- a) Maintain grant funds in an interest-bearing bank account and account for interest income for the benefit of the grant program if applicable;*
- b) Maintain appropriate books of account with adequate supporting documentation covering all bank and internal accounting processes and transactions;*
- c) Define and apply effective procedures for monitoring expenses against the budgets approved by the Global Fund;*
- d) Ensure the establishment of effective controls to ensure that grant funds are used solely for program purposes, are consistent with the requirements of grant agreements, and that all expenditure and income is properly accounted for;*
- e) Establish formal vendor verification procedures and only process vendor payments on the basis of adequate supporting documents and requisite approvals.*

Program asset management

96. The OIG's audit included an examination of the PR's stewardship of assets. A sample review⁴⁵ of the fixed assets register and purchases highlighted that the PR did not reconcile the fixed assets register with the books of accounts on a periodic basis and the OIG identified assets including bicycles, vehicles, medical equipment and a building rehabilitation which had not been recorded in the register at all. The OIG also noted that for instances in which assets had been included in the register, the relevant details were incomplete. In 265 instances, there was no invoice number; in 357 instances, details of the recipients of assets were not recorded; and in five instances, a single asset code had been assigned to multiple assets.

97. The OIG's review of the controls in place for the safeguarding of assets indicated that:

- (a) The PR did not carry out physical verification of assets on a periodic basis. The last physical verification prior to the OIG audit had been conducted by the PR in June 2008. A review of the physical verification report showed that:

⁴⁴ See Report of Investigation of Djibouti grants, June 2012; Par 3 & 111

⁴⁵ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

- Physical verification of fixed assets belonging to the Global Fund was carried out on a sample basis. No comprehensive physical verification was done and not all Global Fund assets were covered;
 - The physical verification report was not signed by the person responsible for verification nor approved by the authorized person. Differences identified during physical verification were not reported to senior management; and
 - No action plan had been prepared, nor was any follow-up completed, for missing assets valued at USD 17,000 (DJF 3,009,000).
- (b) The PR had not obtained insurance cover for fixed assets procured from grant funds.
- (c) There was an instance in which grant funds were not used for program purposes. The PR had purchased a motor car for USD 38,418 (DJF 6,800,000) from the Round 4 HIV/AIDS grant. This car was issued to the Minister of Health officials outside of the Global Fund program (additional details of this case are provided in the OIG investigations report on Djibouti grants).
- (d) Three motorcycles purchased by the PR for USD 8,898 (DJF 1,574,946) from the Round 6 Tuberculosis grant remain unused since the date of purchase.
- (e) The PR maintained no record for the issue and use of vehicles for program purposes, such as a vehicle logbook. In the absence of such records, the OIG could not confirm that grant vehicles have been used for program purposes and the monitoring of running and maintenance expenses of vehicles could not be performed.

98. As noted in the separate investigations report on Djibouti grants, the Global Fund Secretariat commissioned an external audit of the fixed assets purchased with grant funds which found that over USD 275,000⁴⁶ in vehicles, materials and equipment, including those highlighted above, could not be located or accounted for.

Recommendation 10 – Critical

(a) The PR should maintain appropriate records of all fixed assets purchased using grant funds. The fixed assets register should be reconciled with the books of account on a periodic basis.

(b) Physical verification of assets should be carried out on a periodic basis. The physical verification report should be reviewed and approved by an appropriate authority/person. Any missing assets should be investigated.

(c) The PR should establish log book records to document the issue and use of vehicles for program purposes. Vehicle expenses should be monitored by the PR on a periodic basis.

(d) The PR should obtain insurance cover for all fixed assets procured with Global Fund grant funds.

Human Resources

99. A review of the human resources and payroll processes noted that the PR did not:

- (a) Perform any reconciliation between the current and previous month's payrolls;

⁴⁶ See Report of Investigation of Djibouti grants, June 2012; Par 73 & 74

Audit of Global Fund Grants to Djibouti

- (b) Maintain an employee master file to record employee details such as contact numbers, qualifications, designation, department of work, or date of joining;
- (c) Provide job descriptions for employees, specifying their roles and responsibilities. The absence of clearly defined roles and responsibilities resulting in reduced accountability; and
- (d) Apply any structured and documented handover procedures for employees leaving the organization. The OIG noted an instance where proper handover was not provided by the program accountant for HIV/AIDS on his transition in 2007. Details of transactions and supporting documents were not available to the program accountant subsequently appointed by the PR.

100. The OIG notes that the external fiduciary agent put in place by the new PR in early 2011 has since established written policies and procedures surrounding the various HR processes, including the establishment of personnel files for each program employee.

101. The OIG noted that program grant funds were not available because of inter-grant transfers of funds. This had resulted in delay in the disbursement of salaries to employees, which had led to dissatisfaction among staff. Details of those transfers are noted below:

- (a) The PR had made an inter-grant transfer of USD 135,000 (DJF 23,895,000) from the Round 6 Tuberculosis grant to the Round 6 HIV/AIDS grant in April 2009, which had been used to pay the salaries of staff working under the Round 6 HIV/AIDS program.
- (b) Inter-grant transfers had resulted in delay in disbursement of funds to the sub-recipient PNLT. Due to non-availability of funds, no salary payments had been made to PNLT staff since July 2009. Total unpaid salaries for the period July 2009 till March 2010 were USD 82,068 (DJF 14,526,036).
- (c) Since sufficient funds were not available, in July 2009 PNLT had paid salaries of USD 24,620 (DJF 4,357,740) for the period April to June 2009 using an overdraft facility.
- (d) The PR had received additional funds from the Global Fund in March 2010 although these funds were not transferred to PNLT due to the overdraft used by the sub-recipient.

Recommendation 11 - Significant

(a) The PR should carry out a reconciliation of payroll on a month-to-month basis. Also, an employee master file should be maintained to record all employee-related information.

(b) Job description specifying the roles and responsibilities of staff should be provided to each employee at the time of joining, and in the case of changes in roles/responsibilities.

(c) The PR should define procedures for formal hand-over by employees leaving the organization.

(d) The PR should obtain approval from the Global Fund for all inter-grant transfers. The PR should provide disbursement of funds to sub-recipients on a timely basis; and should instruct sub-recipients to avoid using an overdraft facility for payment of expenses.

Monitoring of Sub-Recipients

102. The Executive Secretariat as PR has implemented all Global Fund program activities through sub-recipients. The OIG reviewed three national programs (SRs) and six other sub-recipients accounting for 45 percent of the total sub-grants. The review demonstrated disbursements of USD 230,065 to sub-recipients after the expiry of contracts; weak review and monitoring of SR advances and expenses; ineligible expenses paid from sub-grant funds; and weak financial controls. The OIG also found that the PR had no

Audit of Global Fund Grants to Djibouti

structured and documented policies and procedures/guidelines for the selection and monitoring of sub-recipients or of the close-out of sub-recipient grants.

103. The audit of the sub-recipient monitoring processes in place at the Executive Secretariat showed that:

- (a) The PR did not follow the procedures defined in the proposal for selection of sub-recipients. Five SRs selected during the Round 4 HIV/AIDS grant had been awarded further sub-grants for the Round 6 Malaria and Tuberculosis grant without evaluation of their programmatic and financial performance during Round 4;
- (b) There was no process in place to ensure regular reporting from SRs in accordance with the SR agreement;
- (c) The PR did not have a process in place to monitor outstanding advances to SRs and at the date of audit, program advances amounting to USD 383,857 (DJF 67,942,757) relating to open grants were outstanding. The OIG also noted a few instances of fresh advances having been given to sub-recipients prior to settlement of previous advances.

104. In respect of the close-out audit of the Round 4 HIV/AIDS grant performed by the audit firm CECA, advances to SRs totaling USD 300,702⁴⁷ were still outstanding as of April 2011, more than two and a half years after grant closure and more than 6 years after the advances were first made. The OIG considers this amount unsubstantiated and has included it in the overall loss calculation as indicated in the Djibouti investigations report.

Recommendation 12 –Significant

To improve the management and monitoring of sub-recipients, the PR should:

- (a) Ensure that sub-grant agreements are renewed on a timely basis and disbursements made only after renewal of SR agreements;*
- (b) Maintain records evidencing the results of assessments of capacity of potential SRs;*
- (c) Define a standard sub-grant closeout checklist to ensure completeness of the closeout procedures;*
- (d) Strengthen monitoring of program advances and ensure that advances are settled before disbursement of subsequent advances;*
- (e) Ensure that SRs maintain funds received from the Global Fund in a separate bank account. Also, bank reconciliation should be performed and reviewed by authorized personnel on a monthly basis; and*
- (f) Require SRs to retain adequate supporting documents for all transactions such as vendor quotations, vendor selection documents, evidence of receipt of goods, PO/contracts, and rent agreements.*

Conclusion on Financial Management

105. As a result of the audit, the OIG concluded that it could not provide assurance that: the PR had adequate internal controls in place; value for money from the grant funds spent was achieved; compliance with Global Fund grant agreements; grant assets had been

⁴⁷ CECA Round 4 HIV/AIDS close out audit report, 2 April 2001, p.25.

Audit of Global Fund Grants to Djibouti

safeguarded against loss, misuse or abuse; and that risks were effectively managed. Following this audit an investigation was carried out by the OIG's investigations unit and its findings which include losses identified are presented separately.

SUB-RECIPIENTS AND THE THREE NATIONAL PROGRAMS

Introduction

106. The OIG reviewed nine sub-recipients, which included the three national programs because of their prominence and key role in the fight against the three diseases. For each national program, the OIG examined financial management, procurement and inventory management arrangements, and human resources. Significant findings include⁴⁸:

- (a) Disbursements amounting to USD 25,000 (DJF 4,425,000) were received from the PR without a sub-grant agreement (CCFIS);
- (b) PR and SR not signing an agreement for national support (Association Oui a la Vie);
- (c) CCFIS not systematically maintaining supporting documents for expenditures; and
- (d) No SR visited consistently maintaining bank statements.

107. The OIG's review of sub-recipients' cash and bank management processes highlighted the following:

- (a) Two sub-recipients (UNFD and the Association Massaba) had maintained a single bank account to receive funds from different donors. There were no controls or mitigate mechanisms⁴⁹ in place to enable audit confirmation that funds received from the Global Fund had not been used to implement program activities of other donors; and
- (b) SRs did not carry out appropriate bank reconciliations (all SRs visited).

108. The OIG's review of a sample of sub-grant expenses demonstrated instances of ineligible expenditures, signatures of recipients of per diem payments varying on training attendance records, inadequate supporting documents related to the purchase of goods or services, and recording of salary payments to employees as 'per diem' expenses and no attendance records or employment contracts were available for these employees.

109. Insofar as ineligible expenditures, the audit demonstrated issues similar to that of the PR including unbudgeted expenditures, over-budget expenditures and un-allowed expenditures for MoH and CCM travel. In total, based on sample audit work performed, the audit identified USD 240,113 in ineligible expenditures incurred at the SR level which have been included in the overall loss figure as reported in the Djibouti investigations report.

The National Programs Sub-Recipients (Programme de Lutte Contre le VIH/Sida, Programme National de Lutte Contre la Tuberculose and Programme National de Lutte Contre le Paludisme)

110. In the audit of the three National Programs who were sub-recipients of the Global Fund grant funds, the OIG noted similar findings:

Financial management

111. Overall, financial controls at three National Programs (SRs) were weak⁵⁰. The SRs lacked documented policies and procedures or guidelines for employee travel, advances to staff, the allocation of shared or indirect costs, month-end accounting closure, and the supporting documentation required to support transactions.

112. The OIG noted inadequate segregation of duties two (HIV/AIDS and Malaria) of the National Programs. The program accountants were responsible for booking expenses and

⁴⁸ Result from the OIG audit fieldwork approach, see paragraph 30

⁴⁹ As example, absence of process to stamp 'paid' for payment voucher has been paid and the voucher without clear description on funding sources.

⁵⁰ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

processing vendor payments, the custody and preparation of checks, joint check signature and bank reconciliation. The program directors approved their own expenses. Such circumstances present risks and should be avoided or compensatory controls introduced.

113. The OIG noted differences between expenses reported to the Global Fund and the financial records of two of the National programs (HIV/AIDs and Malaria) as detailed in the table below.

Grant	Expenses reported in EFR (US)	Expenses in SR's financial records (US)	Difference (US)
Round 4 HIV/AIDS *	935,161	877,744	57,417
Round 6 HIV/AIDS **	377,074	299,951	77,123
Round 6 Malaria **	564,892	590,075	25,183

*Reconciliation was performed for period 1 March 2005 to 31 October 2008

** Reconciliation was performed for period 1 May 2007 to 31 May 2009

114. The OIG's review of banking and cash management processes also demonstrated instances of unsound financial practices in the three National Programs as follows:

- The sub-recipients maintained grant funds in a current (non-interest-bearing) bank account, although the grant agreement requires the SR to keep grant funds in a bank account which earns interest to the extent practicable;
- Bank reconciliations were not performed on a monthly basis but only at the time of preparing progress reports, quarterly or half yearly;
- There were no documented evidence of review of bank reconciliations by the program directors;
- The checks issued to vendors were not crossed and only bearer checks were issued, which exposes the SRs to the risk of fraud;
- The SRs did not use serially controlled authorization letters for wire transfer of funds by the bank to authenticate the transactions and the authority of the originators;
- Vendor invoices and other supporting documents were not cancelled and stamped as 'Paid' after processing so as to reduce the risk of double processing of invoices; and
- Due to shortage of funds, the National Program for the Fight Against TB had used a bank overdraft facility, incurring overdraft charges of USD 1,404 (DJF 248,508) which had been charged to the grant.

115. The OIG's review of the budgetary controls demonstrated that, similar to the PR, the three National Programs did not have in place processes to check availability of budget prior to initiating expenditure and expense vouchers were not related to budget activity references. There was also no review of transactions recorded in the books of account to ensure that expenses were matched against the correct budget line item.

116. The OIG's review of a sample of expense transactions noted deficiencies as indicated in the table below⁵¹:

⁵¹ Unbudgeted or ineligible expenses were included in the Investigation report of Djibouti grants, June 2012; Par 67 & 111

Audit of Global Fund Grants to Djibouti

Description	No of cases	Amount USD	Amount DJF	
Programme National de Lutte Contre VIH/Sida				
1	Expenses not approved by the program director	8	66,791	11,822,007
2	Unbudgeted expenditure	4	33,966	6,011,982
3	Unbudgeted salary payments to employees of the WB prior to August 2008	8	27,226	4,818,825
4	Training expenses exceeding budget	6	19,843	3,512,211
4	Grant funds used to pay for MOH and CCM expenses	-	4,562	807,474
5	Repair and maintenance of vehicles not belonging to the Global Fund	1	3,559	629,943
Programme National de Lutte Contre la Tuberculose				
6	Unbudgeted expenses	7	32,487	5,750,255
7	Expenses not approved by the program director	7	25,653	4,540,581
8	Lack of supporting documents	-	17,030	3,014,310
9	Payment of taxes with grant funds	1	6,286	1,112,622
10	Overspending on Administration costs	-	4,137	732,249
Programme National de Lutte Contre le Paludisme				
11	Expenses not approved by the program director	14	111,882	19,803,114
12	Payment of taxes with grant funds	6	94,694	7,910,038
13	Unbudgeted expenses	4	19,114	3,383,203

Recommendation 13 – Critical

In order to rectify existing deficiencies demonstrated by the audit, and to improve financial management to an acceptable standard for the future, the National Program sub-recipients should:

- a) Document financial policies and procedures in relation to areas of activity relevant to Global Fund activity and communicate them to the employees involved in reviewing and approving expenses and implementing program activities.*
- b) Resolve the discrepancies in expenses noted by the OIG between accounting records and figures reported to the Global Fund; and establish reconciliation procedures to avoid a recurrence of such differences in the future.*
- c) Review and reassign current roles and responsibilities to segregate incompatible duties.*
- d) Maintain grant funds in an interest-bearing account.*
- e) Carry out bank reconciliations on a monthly basis and ensure evidenced review by an appropriate authority.*
- f) Cross all checks prior to issue and use pre-numbered authorization letters for wire transfer of funds.*
- g) Stamp all supporting documents as 'Paid' after processing vendor payments.*
- h) Maintain appropriate records and define procedures sufficient to reliably confirm budget availability before expenditures are made, and authorize payment action on the record.*
- i) Confirm with the PR and the Global Fund whether reimbursement to the Global Fund is required for unbudgeted expenditure identified by audit.*
- j) Establish procedures for obtaining prior approval from the PR for any expenses in excess of budget.*
- k) Establish and comply with effective controls to ensure that grant funds are used solely for program purposes. The SR should reimburse all ineligible expenses to the PR.*

Audit of Global Fund Grants to Djibouti

Procurement and inventory management

117. In its audit of procurement and inventory arrangements, the OIG identified instances where there was insufficient evidence to confirm that procurement contracts had been awarded with due consideration for transparency and open competition; and controls over inventory and distribution management were inadequate.

118. The OIG reviewed a sample of procurement transactions made by the sub-recipients and noted a total of 40 cases (HIV/AIDs – 16; TB – 4; and Malaria – 20) without proper purchase records for goods and services. Documents that were missing included purchase requisitions, vendor quotations, comparative analysis of bids, and payment orders and contracts.

119. The OIG reviewed the National Program for the Fight Against Malaria records on the monitoring and distribution of bed nets and noted the following:

- There was no documented plan showing the schedule of distribution of bed nets at targeted locations.
- There were no inventory records available for audit confirmation of the receipt, issue and closing balances of bed nets.
- For the sampled location 'PK12' the SR had no records to show the list of beneficiaries selected on the basis of the survey conducted before each distribution.
- Although the sub-recipient informed the OIG that 5,850 bed nets had been distributed at PK12, no acknowledgement of distribution was available for some 3,500 nets.

Recommendation 14 – Significant

In order to substantiate proper use of Global Fund grants for management or audit purposes, the National Programme For the Fight Against HIV/AIDS should retain detailed records on the receipt and use of goods and services; the nature and extent of procurement procedures with prospective suppliers of goods and services; and a record of the evidential basis for awarding contracts and orders whenever applicable.

Human Resources

120. A review of the human resources and payroll processes by the sub-recipients demonstrated a number of weaknesses:

- There were no processes in place for reconciling the current with the previous month's payroll;
- The sub-recipients did not maintain an employee master file with basic employee information such as contact number, qualification, designation, department and date of joining;
- The sub-recipients did not maintain attendance and leave records on employees; and
- There were no documented job descriptions for employees to specify their roles and responsibilities. The absence of clearly-defined and understood roles and responsibilities may present management and legal risks and could impair accountability.

121. The OIG noted that there were delays in the payment of salaries to staff of National Program for the Fight Against Tuberculosis. Due to non-availability of funds, no salary payments were made to PNLT staff until July 2009. Salary payments of USD 24,620 (DJF 4,357,740) were made in July 2009 for the period April to June 2009 using a bank overdraft facility; but at the time of audit in early 2010, no salary payments had been made

Audit of Global Fund Grants to Djibouti

to staff since July 2009. The total unpaid salaries at March 2010 amounted to USD 82,068 (DJF 14,526,036).

Recommendation 15 – Significant

The National Program SRs should review their current HR procedures in the light of the OIG's audit findings; and take steps with advice where needed from the PR and the Global Fund Secretariat to enhance the internal controls.

Conclusion on Sub-Recipient Management

122. As a result of the audit, the OIG concluded that it could not provide reasonable assurance that sub-recipient management and monitoring by the PR were adequate and that risks at the SR level were effectively managed. Similar internal control weaknesses were also noted at the SRs.

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

Introduction

123. Procurement and supply of health products is a key element of the Global Fund's support to the fight against the three diseases. The effectiveness of procurement and the supply chain are significant determining factors in achieving program objectives and ensuring value for money. Responsibility for procurement and supply chain management (PSM) of the three component programs in the Djibouti represents one of the most important strategic roles carried out by the PR.

124. Partly as a result of the findings identified by the OIG audit, the Secretariat required the PR to enroll in VPP in October 2009 (effective early 2010) for all health and pharmaceutical purchases for the three grants.⁵² Consequently, the findings in this section are retrospective and may not be relevant to future Djibouti grants, which are likely to be administered by a new PR.

125. The OIG examined procurement and supply chain management, with a focus on HIV/AIDS, given its materiality⁵³ in order to determine and assess:

- The adequacy of the PR's management capacity for handling procurement;
- The quality and effectiveness of procurement planning;
- The purchasing process and inventory management;
- Distribution and use of stocks; and
- Quality assurance arrangements.

Management Capacity

126. The PR established a procurement unit responsible for coordinating all PSM activity. The procurement unit conducted procurement of medicines and other medical inputs in relation to HIV/AIDS and malaria but has subcontracted the purchase of TB health products to the TB Global Drug Facility, which is an organization independent from the Global Fund.

127. The PR maintains a manual of administrative, financial and accounting procedures based on World Bank guidelines. This manual governed the tender and procurement of goods and services through the National Commission for Public Works Contracts in respect of all purchases valued at or above DJF 5,000,000 (equivalent to some USD 28,000 or EUR 22,000).

128. In the OIG's view, the procedures manual was unclear or incomplete in particular with regard to the following⁵⁴:

- purchasing procedures specific to drugs and health products;
- the composition of boards for technical analysis of bids;
- procedures on how to detect and avoid conflicts of interest in procurement; and
- the purchasing procedures to be used when procurement values are lower than the tendering threshold of DJF 5,000,000.

129. The PR had effectively assigned other aspects of procurement and supply chain management, including storage and distribution, to various institutions around the three sub-recipients, the National Program Against HIV/AIDS, the National Malaria Control Program and the National Tuberculosis Control Program. However, neither the PR nor the

⁵² TB Pharmaceutical products are purchased through GDF.

⁵³ Materiality based on total grant amounts.

⁵⁴ Result from the OIG audit fieldwork approach, see paragraph 30

Audit of Global Fund Grants to Djibouti

sub-recipients had put in place legal frameworks to govern subcontracting in connection with PSM activities.

130. The OIG noted the lack of a PSM monitoring system to ensure the reliability of information collected. There was a lack of formalized procedures and processes at all levels of the procurement and supply chain (involving the PR, sub-recipients, sub-contractors and health care facilities) concerning stock receipt, storage, distribution, inventory of products purchased, quality assurance, monitoring of consumption and the management of expiring or expired products.⁵⁵ Hence, there were challenges with the coordination and planning of these different steps to ensure the permanent availability of medical inputs at different levels of the supply chain.

Recommendation 16 - Significant

The Global Fund Secretariat should assess whether the new PR, for the pending Round 9 and 10 grants, should be required to use VPP as the main procurement channel. Further, the PR should:

- a) Ensure the existence of legal agreements for all PSM activities carried out by other third parties; and*
- b) Implement an effective and efficient monitoring system covering all levels of the supply chain, to include but not be limited to the availability of medicines, stock monitoring to avoid over or under stock, and proper distribution of health products. A proper record and archiving system should be maintained.*

Procurement planning – the procurement and inventory management cycle

131. Most pharmaceuticals purchased for the programs are indicated in national treatment guidelines developed on the basis of WHO guidelines. Sub-recipients such as the three National programs are responsible for conducting data quantification to inform procurement planning, forecasting and purchasing. The OIG noted that quantification methods and tools varied from program to program and the OIG was unable to confirm the reliability and accuracy of data and the accuracy of results generated. The OIG notes that in May 2011, the Global Fund Secretariat informed OIG that an international procurement and supply management expert began working with the PR and SRs to build system capacity through an improved PSM plan, to be followed by regular monitoring visits.

132. For HIV/AIDS, the OIG found that the quantification procedure for drugs and medical inputs was neither standardized nor clearly documented. Based on information obtained through audit interviews, it appeared that an informal committee of quantification for anti-retroviral (ARV) products (comprising a consultant pharmacist, the National program as sub-recipient, prescribers and the central warehouse, the CAMME had operated effectively in 2005 and 2006. However, since 2007 only one person (the HIV technical assistant doctor) had been used to update requirements, without any validation at national level.

133. The OIG noted that there was an excellent sharing and consultation framework referred to as the 'ARVs College' made up of ARV-prescribing physicians (also called referral physicians) with the national program. This committee took decisions on the administration of ARV treatment to patients according to their medical records and the availability of ARV supply as well as changes in protocols. The committee also has the ability to oversee all cases of HIV/TB co-infection.

⁵⁵ Information required by the OIG team relating to the detail of the needs assessment and its updates, to the process of purchasing and receipt of the medical supplies, to the follow-up of stocks at various levels of the distribution system and to the expired products was difficult to access, since the majority of the archives presented were incomplete.

Audit of Global Fund Grants to Djibouti

134. The quantification of anti-retrovirals generally depended on updated consumption data (covering the number of patients on treatment, protocols used, changes of protocol, information on patients out of touch or deceased); and predicting the entry of new patients in the year, analyzed with data on existing stocks, forecasts of expiry, current orders and allowing for a safety stock of three to four months. Since the use of VPP in late 2009, the Local Fund Agent has carried out the validation of the quantification of ARVs and other medical inputs prior to purchase.

135. The OIG reviewed the quantification of product needs that had been carried out between October 2005 and May 2010, noting that:

- The planning of the quarterly updates of quantifications was not adequate, leading to delays in orders and resulting in emergency procurement and stock-outs;
- The codification of protocols was inconsistent and seemed to change according to individual preferences;
- An increase in the number of protocols, which had been very pronounced in 2008, resulted from recurring stock-outs which obliged prescribers to introduce new combinations using existing components in stock; and
- The only existing stocks taken into account in quantification were those of the CAMME (central purchasing), rather than a periodic compilation based on national stocks across the entire distribution chain of the CAMME and dispensing sites due to the absence of system of inventory management developed to monitor stock at each level of the distribution chain or provide a national compilation.

136. A basis of quantification of drugs for opportunistic infections (OI), had been available since October 2006⁵⁶but the OIG was unable to obtain evidence or calculation showing a logical link between OI drugs ordered by the PR from CAMME and the basis of quantification. There was no reconciliation statement between actual consumption in the field and the forecast to develop quantification hypotheses.

137. With tuberculosis, the Global Drug Facility of the Stop TB Partnership provides technical assistance to the national TB Program for quantifying annual needs of TB drugs, with semi-annual updates. The needs assessment is carried out using a Microsoft Excel spreadsheet facility based on the number of patients for each protocol.

138. Procurement of drugs had not been envisaged in Phase 1, given the availability of products carried on various sources of funding, such as the Global Drug Facility, the Agence Française de Développement (AFD) and the Republic of Djibouti. However, according to a report by the National TB Program's Coordinator, a needs assessment conducted by a consultant of the GDF led to an emergency procurement authorized by the Global Fund in early 2009. This suggests, as in the case of HIV, that work carried out by one individual, without a collective validation process, was sufficient to trigger a large emergency procurement.

139. In the case of malaria, the needs assessment for anti-malarial products was exclusively based on projected targets and is defined within the performance framework.

140. A donation of Artemisinin-based combination therapy (ACT) drugs from cooperation with China received in November 2007 led to the cancellation of ACT drugs procurement planned at Phase 1 of the project. Meanwhile, the country has benefited from a prevalence survey conducted between November 2008 and March 2009, which led to the complete downward revision of the targets (a reduction of projected cases to be treated from 30,000 cases to 4,300 cases, or less than 85 percent of the initial estimate).

⁵⁶ Plan GAS VIH Round 4, Phase 1 annex 10

141. The OIG's analysis of two drug procurements⁵⁷ showed that there was no correlation between the quantity forecast and the quantities of various anti-malarial drugs that had been purchased during the implementation of the project.

Recommendation 17 - Significant

The Ministry of Health and the PR need to ensure the establishment of an improved monitoring and validation system incorporating effective updating of quantification exercises through the programs; and the use of a quantification committee or panel, coordinated by each National program and involving other key stakeholders and health development partners, with training for quantification committee members on forecasting control methods and tools.

The Purchasing Process and Inventory Management

142. Prior to the use of VPP, the PR was responsible for the procurement of drugs, other medical and non-medical inputs for all programs. This includes the choice of procurement method (tender, limited procurement or direct procurement), the competitive bidding process, the award of contracts, the signing of purchase contracts, ordering and implementation of orders.

143. The purchasing process is triggered by the National programs, the sub-recipients, which provide the PR with a needs assessment of products to be purchased. However, the OIG noted that requirements were not forwarded to the PR in a timely fashion, which (in the absence of procurement and supply monitoring) had resulted in emergency procurements and stock-outs at the CAMME central warehouse⁵⁸.

144. The OIG noted several cases⁵⁹ of non-competitive or direct procurement with non-competitive prices, especially in the procurement of antiretrovirals and reagents.

145. The OIG examined various transactions carried out by the PR and noted the following weaknesses⁶⁰:

- The choice of procurement method did not respect the procedures laid down in relation to competitive bidding thresholds.
- The PR provided products that were neither WHO-prequalified nor Stringent Regulatory Authority (SRA) approved.⁶¹
- In addition to tender invitations sent directly to suppliers selected by the PR, the dissemination of international bidding was carried out only in the national newspaper "La Nation", notwithstanding the existence of specialized websites

⁵⁷ Contract No. 01/PALU/CAMME/FM/R6/07 in August 2007; Contrat ou marché de fournitures N°004/FM/R6 PALUDISME : achat d'Artésunate-SP (5000 traitements adulte contre une quantification prévisionnelle de 3097 cas) ; Contract No. 004/FM/R6 MALARIA purchase Artesunate-SP

⁵⁸ Example: the letter N°101/PLSS/2008 dated 28 January 2008 forwards the needs for the following months: February, March and April 2008 (three days prior to the beginning of the three months), hence an emergency order by direct agreement for the supply of ARVs with IDA (contract N°015/FM/ARV/2008 signed on 10/03/2008) for a total amount of USD 65,131.71 on Round 4 HIV).

⁵⁹ CGMR delivered and charged Nevirapine 200mg tablets on 10 August 2008 at EUR 28.5 (order N°000588) and on 14 October 2008 at EUR 4.35 (order N°000678). Instead of a limited call for tender, single tender in the case of the two examples quoted here.

⁶⁰Result from the OIG audit fieldwork approach, see paragraph 30

⁶¹ Example: the CGMR, whose products were not approved by the WHO, is regularly invited and awarded the contract in a single tender by the PR for the supply of ARVs and laboratory reagents; in the case of CFI N°01/2009/PALU/PLSPT dated 01/04/2009: request of prices quotation on anti-malarial drugs forwarded to BIOMERIEUX, VWR and ABX HORIBA, three manufacturers specialized in reagents and laboratory equipment, the CGMR Djibouti – local importer specialized in supplying gauze, IDA, CHMP and CAMME specialized in the distribution of drugs and medical inputs.

which are consulted frequently at the international level by suppliers and are widely used by many African central pharmaceutical stores for the free distribution of the international invitations to tender.

- The criteria of technical assessment of bids were often insufficient, with awards being based principally on financial factors rather than taking account of quality criteria.⁶²
- Tender documents and contracts were not adequate technical specifications of products were poorly developed and/or modified to the benefit of the supplier, penalties for delay in delivery were not taken into account in specifications (in particular with procurement of ARVs and anti-malarial drugs), and suppliers were paid in full before delivery, without any bank guarantee from the supplier.
- In the case of direct purchases by the PR from the CAMME warehouse, the OIG was unable to obtain a list of CAMME's suppliers or procurement files for drugs for opportunistic and sexually transmitted infections. Therefore, the OIG could not obtain assurance that the procurements from the CAMME had been managed in a transparent and competitive manner, and that products had been procured from manufacturers approved by the WHO or vendors approved by the Global Fund for ARV, ACT and TB drugs.
- In one instance, expenses amounting to USD 14,328 (DJB 2,536,130) were not supported with evidence of receipt of goods and vendor invoice.

Recommendation 18 – Critical

- a) Regardless of the use of VPP or not, the PR should ensure that its procurement procedures manual comply fully with the public contracts code of Djibouti and Global Fund applicable guidelines.*
- b) The Global Fund Secretariat should consider whether it would be appropriate to commission international technical assistance, specialized in medical products procurement within the framework of the Global Fund, to support the PR in procurement and supply chain management, particularly in relation to:*
 - *preparation of a procurement plan based on annual quantification of drugs;*
 - *development of a database of health products suppliers;*
 - *preparation of tender documents and contracts in compliance with procedures;*
 - *development of internal control procedures to ensure compliance with procurement procedures; and*
 - *establishment of proper archiving of procurement records with all supporting documents, to ensure auditability and transparency of the procurement process both at the level of the PR and the CAMME.*

146. Under the pre-VPP process, the PR was responsible for the ordering process until delivery of products by the supplier to the designated location. In principle, HIV and malaria drugs are received by the CAMME central warehouse and TB drugs are directed to the Paul Faure Hospital. However, depending on the program component implemented and the products received, diverse storage sites had been mobilized, including the CAMME, the Paul Faure hospital, the National HIV/AIDS Referral Laboratory, the laboratory of the Peltier General Hospital, rented warehouses and the Occupational Health Service⁶³.

⁶² There is no comparative statement on technical specifications of bids provided by suppliers. In the case of the bed nets bids evaluation report, which resulted on the contract awarded to VESTERGAARD for a total amount of USD 539,100 in July 2007.

⁶³ Result from the OIG audit fieldwork approach, see paragraph 30

147. There was a weak system of inventory management developed to monitor stock at each level of the distribution chain or to aggregate it at a national level.

Recommendation 19 – Critical

In the interest of consolidating and integrating resources, the OIG recommends that:

a) The PR and the Ministry of Health should collaborate to redefine the roles of stakeholders involved in the procurement management system with a view to designating the CAMME as the central point for storage and distribution of pharmaceuticals and health products; and

b) The PR and CAMME should ensure the establishment of a comprehensive inventory management system to provide information on a full and regular basis on the stock positions of the three component programs (HIV/AIDS, TB and malaria) at a national level in the country.

148. The OIG reviewed inventory management arrangements at the CAMME central warehouse, the Paul Faure Referral Hospital and at care and support centers.

149. The CAMME (central pharmaceutical store and warehouse) is a unit managed by the Ministry of Health providing storage and distribution of antiretrovirals and drugs for opportunistic and sexually transmitted infections on behalf of the PR since Round 4. However, the OIG's audit review showed that there was no formal signed contractual agreement between the two institutions setting out rights and obligations of the parties. Further, during the OIG visit to CAMME, the inventory or purchase records were not available for review.

150. Although the CAMME had been submitting monthly stock summary sheets to the National HIV/AIDS program from January 2006 onwards, no records for the period January 2006 to December 2006 were available for audit. A limited review by the OIG of summary sheets for the period January 2007 to April 2010 demonstrated the following⁶⁴:

- Variances amounting to USD 113,873 (DJF 20,155,521) were identified between the physical stocks of drugs available at CAMME on 27 April 2010 and the closing stock of drugs computed on the basis of issues and receipts reported by CAMME for the period 2 January 2008 to 27 April 2010. Physical verification of drugs was carried out neither by CAMME nor by the sub-recipient;
- 88 instances where closing stock had been incorrectly carried forward to the subsequent month's stock summary sheet;
- 19 instances where opening and closing balances of drugs had been reported after setting off issues and receipts. Quantities of issues and receipts of drugs were not shown separately in the stock summary sheet;
- Three instances where no stock summary sheets were available (for July, August and September 2007);
- Batch numbers not indicated on inventory sheets;
- Stock sheets submitted by CAMME had not been approved by its authorized representatives; and
- Inadequate controls over expired drugs, resulting in:
 - Seven cases of expired drugs being issued to health centers;
 - Six instances of drugs that were going to expire in the following month being issued to health centers;

⁶⁴ Result from the OIG audit fieldwork approach, see paragraph 30.

Audit of Global Fund Grants to Djibouti

- 68 examples of expired drugs being indicated as unexpired in the stock summary sheets; and
- Closing balances of expired drugs amounting to USD 89,659 (DJF 15,869,712) not being carried forward in the subsequent month as opening balances. (However, of the above amount of expired drugs, CAMME had not reported drugs amounting to USD 10,803 (DJF 1,912,145) as 'Expired' in the stock summary sheet).

151. The CAMME provides storage and distribution of ARVs, OI and STI drugs on behalf of the PR since Round 4, but there was no formal signed agreement (contract) between the two institutions setting out rights and obligations of the two parties. It is also worth noting the general difficulty in obtaining information from the CAMME. The OIG made the following further observations related to the CAMME:

- The central facility lacked a storage procedures manual. An administrative, financial and accounting manual had been developed in 2005 for the CAMME via the Global Fund grant but had not been implemented. (The manual takes only partial account of specifications in connection with the management of health products and requires completion.)
- CAMME had no computerized inventory management system for anti-retroviral drugs, although software funded by the Global Fund had been acquired for this purpose in 2005.
- There was no follow-up of stock by batch number, hence the lack of a management system for use in the event of recall of batches.
- The tracking inventory was generally limited to monthly inventory status and was sometimes incomplete and/or inaccurate.
- Refrigeration equipment purchased with funding from the Global Fund was inadequate and dysfunctional: of 38 air conditioners installed in stores, only four were functioning at the time of the audit.
- Storage space was used improperly: an additional warehouse had been built in the CAMME with funding from the Global Fund, but was used to store products of different health programs with no monitoring and no storekeeper.

Recommendation 20 – Critical Priority

The CAMME should strengthen storage conditions, capacity, organization and inventory management as follows:

(a) The monitoring arrangements applied to CAMME activities and the custody and issue of drugs procured from grant funds should be strengthened. Authorized representatives of the PR and National program should visit CAMME on a periodic basis and ensure that:

- *Inventory records and stock summary sheets maintained by CAMME are complete and accurate in accordance with the supporting documents; and*
- *Physical stocks of drugs are consistent with the balances recorded in the inventory ledger.*

(b) CAMME should use inventory software to record the issues and receipt of the drugs procured from the grant funds.

(c) CAMME and the National program sub-recipient should strengthen controls over expired drugs, and ensure that no expired drugs are issued to health centers.

152. At the pharmacy of the Paul Faure Referral Hospital which handles TB drugs, the OIG noted well-kept stock cards which had been created for each product and batch number.

Audit of Global Fund Grants to Djibouti

However, in the absence of computerized inventory management; the quantities available by product were not easily identifiable.

153. The single warehouse facility was air conditioned, dry and clean. Racking and shelving of products was not systematic: the principle of arranging health products by galenic form and alphabetical order adopted by the head of the pharmacy was not followed and the pallets available were not used for the storage of products. The OIG observed many boxes of products laid out on the floor. (NB. The hospital was in the process of full rehabilitation and a room adjacent to the pharmacy had been identified as an additional storehouse at the end of the renovation). The store was not equipped for monitoring temperature and humidity; and while the electrical power of the room is secured by the hospital generator, there were no fire extinguishers pending the ongoing rehabilitation.

154. The pharmacy of the Paul Faure Hospital acted as a central depot for TB drugs. Existing stocks were funded by the Global Drug facility and the Global Fund. However, there were no adequate records to ensure proper tracing of the drugs funded by the Global Fund in the supply chain as the existing records (stock cards and stock registers) did not indicate the source of funding for the stock items. ARVs were not managed by the pharmacy of the hospital but directly by the prescribing physicians of the hospital.

155. The OIG's visit to seven health centers and care and support centers indicated a variable standard of inventory management and related arrangements. Some findings included: drugs not properly stacked; lack of inventory registers or records; seven instances where a physical stock count did not match with the stock card records; 12 instances where stock cards were not being maintained; the presence of expired drugs; receipts for issue not being obtained; inconsistent storage of ARVs – in some locations in a lockable cupboard in an air-conditioned room, and in others in cartons at ambient temperature.

Recommendation 21 – Significant

- a) Storage locations should maintain an inventory register showing the receipt, issues and balances of all the drugs and other health products. Acknowledgement of medicines and reagents distributed should be obtained and retained.*
- b) Controls over expired drugs should be strengthened to ensure that no expired drugs are distributed to patients. Stock movement of reagents should be tracked separately.*
- c) A comprehensive and effective system is needed for the management of expiring and expired drugs generally.*
- d) Consideration should be given to training care providers in basic inventory management of pharmaceuticals and the integration of formative supervision on the chain of inventory management into the monitoring and evaluation of programs at health facilities.*

Distribution and Use of Stocks

156. There was no evidence that the PR had put in place procurement and supply chain management planning. There were also no tools or methods used for addressing the rational use of products. The OIG noted also that there was no national reporting on pharmacovigilance (the monitoring of adverse events and drug resistance), irrespective of the program component.

157. In general, the system of distribution of health products is rather complex and not integrated between the three diseases. Each main storage site or institution handles the distribution of its own stocked products. For the three component disease programs, the OIG noted that there were no comprehensive periodic reports (monthly, quarterly or yearly) on

Audit of Global Fund Grants to Djibouti

drug distribution and other medical inputs to provide detailed information on beneficiary centers, quantities delivered or the stock levels in each center.

158. The OIG learned that there was no formalized system for transfer of stock between care and support centers, for example to correct a stock-out or manage overstocking.

Recommendation 22 – Significant

To establish a more coordinated, integrated and resource efficient arrangement for stock custody and distribution, the OIG recommends that the PR should ensure the establishment of a more reliable and effective distribution system by establishing a distribution procedures manual including a set of tools for the field (such as order sheets, signed delivery vouchers and acknowledgements of receipt signed by the final recipients); and also institute detailed and reliable distribution reports to monitor sub-recipients' distribution.

Quality Assurance Arrangements

159. Under the grant agreement, the PR is required to monitor the quality of pharmaceutical products. The PR, however, had no such quality assurance process in place since the Republic of Djibouti had no laboratories or quality control system, in contravention of the procurement and supply chain management plan.

160. The OIG's review of practice against the quality standards for External Review Panel products required by the grant agreement indicated a lack of compliance in that: supplier contracts did not include the standard clause establishing the right of the Global Fund and the PR to carry out quality control procedures at the site of the manufacturer; and the PR had not obtained details of manufacturing sites to verify that the products were supplied from WHO-approved sites or vendors approved by the Global Fund (for ARV, ACT and TB drugs) and in line with Global Fund Quality Assurance policy.

161. The OIG noted a number of other systemic weaknesses in the arrangements in Djibouti. There was no registration of medicines imported into the country, and this function was nonexistent in the Republic's Direction des Médicaments, de la Pharmacie et des Laboratoires, which carries out the issuance of authorization permits to import any pharmaceutical products into the country. With the exception of TB drugs, there was no batch system monitoring, rendering it impossible to implement a batch recall procedure if needed.

162. The OIG was unable to obtain pre-shipment quality control certificates. In some cases, only batch analysis certificates of manufacturing laboratories were available. Given that Djibouti has no national laboratory for quality control the National programs of the three disease components and the PR have all recognized that they did not carry out sampling on receipt of products or during storage, in order to forward them to quality control in a laboratory pre-qualified by WHO, even though there was budget provision for this in different PSM plans of Round 6.

163. According to the different PSM plans, the purchase of ARVs, ACTs and other drugs is supposed to be based on the first criteria of the WHO pre-qualification or classification A, B or C of the Global Fund Quality Policy for Pharmaceutical Products with specific conditions. But the OIG noted that the PR had sometimes made purchases from local suppliers without obtaining evidence of a WHO pre-qualification of the products they delivered.

Recommendation 23 – Significant

The Global Fund Secretariat, in consultation with development partners, should review the capacity of the country institutions to comply with quality assurance requirements, with a view to establishing improved arrangements, increasing capacity or identifying acceptable alternatives. It should ensure that the PR complies with the Quality Assurance requirements of the Global Fund.

Information System

164. Djibouti has a National Health Information System (NHIS) through which many indicators of care and support to patients were recorded. However, this system did not include data related to PSM monitoring of medical inputs, and the NHIS did not provide comprehensive reports on a timely basis.

165. The HIV and malaria program components in particular lacked reliable data on management of the procurement and supply chain, with non-availability of documents and information from needs assessment to delivery to end users.

166. The audit also demonstrated instances of good practice being discontinued, generally due to the departure of staff members because of non-availability of funds to pay their salaries. This also resulted in the reduced quality of information provided to the OIG.

167. Accordingly, the OIG is unable to provide assurance that all medical inputs purchased through the Global Fund grants were managed efficiently and effectively, or that they were properly used by people who were the intended final recipients.

Conclusion on PSM activities

168. As a result of the audit, the OIG concluded that it could not provide reasonable assurance that the PR has the capacity to ensure appropriate use of Global Fund resources in the area of procurement and supply chain management. Since the OIG's audit fieldwork in April 2010, the Global Fund has since required the PR to use the VPP program and the Global Fund, along with the CCM, has sought to replace the current PR in the management of pending Round 9 and 10 grants.