



OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

Audit of Global Fund Grants to Population Services International South Sudan

Audit Report GF-OIG-10-019
31 October 2011

Executive Summary

1. In 2010, the OIG undertook an audit of Global Fund grants managed by PSI Sudan. The purpose of the audit was to assess whether the Global Fund grants provided to PSI had been spent wisely to save lives in Southern Sudan and where necessary make recommendations to strengthen the management of the grants. The audit largely focused upon the transactions related to one grant for the period November 2008 to March 2010 amounting US\$ 33,512,896 of which US\$ 26,115,395 had been disbursed at the time of the audit.
2. This section briefly highlights the findings and conclusions arising from the audit; the detailed findings are contained below.

PSI

3. PSI Sudan had a number of commendable achievements given the complex environment within which it was operating. These included the purchase of pharmaceutical and health products from WHO certified suppliers; successful distribution of 1.6 million LLINs; and development of comprehensive policies and procedures. A number of constraints however had an adverse impact on PSI Sudan's achievement of its objectives including difficulties in finding competent staff in a post-war environment; insecurity in areas targeted by the program; poor infrastructure; high illiteracy levels; and lack of baseline data for some indicators.
4. The structure and staffing levels proposed by PSI were assessed by the LFA as adequate for the implementation of the Global Fund supported program. However a number of key positions remained unfilled one year into the grant. The OIG notes that the country context affected PSI's ability to attract suitably qualified staff and this resulted in a significant delay in filling other posts. However, the OIG also noted that the profiles of some staff recruited did not meet the qualifications specified in job descriptions. This all impacted program implementation.
5. The demarcation of the different roles played by PSI i.e. (i) its role and responsibility as PR; (ii) the role of PSI headquarters who were in receipt of an overhead; and (iii) PSI Headquarters' provision of technical assistance (at a cost) to PSI Sudan was not clearly defined. This resulted in additional charges being made to the program that one would have been expected to have come out of overheads.
6. There were several instances of non-compliance to the grant agreement that were noted. Key aspects related to testing health products as required under the Global Fund quality assurance policy and incorrect apportionments of interest to the grant which arose from (i) PSI allocating interest to grants at rates lower than those earned; and (ii) computational errors. This should be corrected.

7. At the time of the audit, some 90% of the expenditure had been incurred by PSI Headquarters. The accounting records maintained at the country office did not capture the expenditure incurred at headquarters and so were not included within the scope of this. A mechanism should be put in place to audit the grant funds expended in Washington DC.

8. PSI had an elaborate manual but was not complied with to a large extent. The control environment within which grants are implemented can only be as strong as the implementation of the laid down policies. The key weaknesses noted in the financial management systems included (i) ineffective monthly budget monitoring; (ii) payment for transactions not included in the budget; (iii) over-riding authorization limits; (iv) non-compliance with policy for allocation of common costs; (v) failure to account for operational advances on a timely basis; and (vi) recording of expenses on incorrect budget lines.

9. The weaknesses noted in the sub grant management function included (i) significant delays in contracting of SRs; (ii) deficiencies in the SR selection process; (ii) (iii) lack of clear work plans and budgets for PSI Sudan as an implementing SR under the Round 7 grant against which its performance could be assessed; (iv) review of SR accountabilities was not comprehensive; and (v) inadequate SR monitoring.

10. The country level procurements were weak as evidenced by (i) instances of non-compliance with the approved PSM Plan; (ii) inadequate and inconsistent information given to bidders; (iii) incidences of single sourcing without proper justification; (iv) contracting of suppliers that had not initially submitted bids; (v) bid evaluations not carried out in a transparent manner; (vi) significant advance payments to suppliers without performance bonds; contracts without sufficient details to guide parties etc.

11. A review of PSI's implementation of the program against the approved work plan revealed that PSI responded to a MOH request to accelerate net distribution and distributed more nets than was anticipated in the first year which was commendable. However this came at the detriment of some other activities particularly the HSS component. Significant delays were also noted with the Home-based Management of Malaria (HMM) program due to a delay in finalizing the drug policy which was outside the control of PSI. Other factors that delayed the implementation of the HMM component was the delay in the identification of SRs.

12. PSI gave priority to implementation of the activities that were tied to indicators, thus leaving the rest of the activities not implemented on a timely basis. At the time of the audit, PSI sought to reallocate funds for some of these delayed activities to an activity that was not in the work plan. All activities as approved in the work plan are key to the success of the overall program and approval should be sought from the Secretariat before funds are reallocated to other activities.

13. With regard to monitoring and evaluation, the OIG identified some inconsistencies between the indicators in the M&E operational guidelines and the

performance reporting framework; issues with the appropriateness of the indicators established; targets set without baseline data; weak data collection and processing systems at PR and SR level; lack of standardized quarterly reports from SRs; and lack of formal feedback reports to SRs once M&E activities are carried out.

Oversight

Country Coordinating Mechanism

14. The CCM's governance manual has relevant guidelines but some of them have not been implemented especially the provisions relating to oversight. The membership of the CCM included the PRs who had full voting rights. This represents a conflict of interest as they carry out both the implementation and oversight roles of the Global Fund program. The OIG also noted instances where CCM members were involved in the PR's operational aspects e.g. the selection of SRs. This impairs the independence of the CCM and may affect its ability to effectively undertake its oversight role.

Local Fund Agent and Secretariat

15. KPMG San Francisco is the LFA but with the execution of the work subcontracted to KPMG Kenya. The LFA is based in Kenya and flies in to the country to undertake their work. The "fly in" LFA model has its disadvantages which unless managed effectively, may affect the quality of the work undertaken by the LFA.

16. The LFA has appropriately qualified financial management experts. However the LFA team was not as strong with regard to public health and PSM. This resulted in some deficiencies in the quality of work e.g. the shortcomings in the indicators and the quality assurance weaknesses in the PSM function that went undetected.

17. The LFA work also went through three layers of review. The OIG could not see the value added of the various layers of review but can report that this has contributed to delays in the submission of reports to the Global Fund.

18. The LFA identified several capacity gaps that PSI needed to address in order to effectively implement the Global Fund supported program. However, the OIG did not see evidence of follow up of the key capacity gaps identified during the assessment. The OIG also noted that for many of the capacity gaps identified, the LFA rationalized them saying that PSI headquarters capacity would mitigate the risks identified. However this was not validated or followed up by the LFA or the Secretariat. The Secretariat had not recognized the need to verify the considerable work done by PSI headquarters.

Events Subsequent to the Audit

19. After the audit field work and on the basis of preliminary findings, the Global Fund Secretariat developed action plans to address key reported

weaknesses. Since the OIG oral de-brief in South Sudan in May 2010, the Country Coordinating Mechanism (CCM), the Principal Recipients (PR) and the Local Fund

Agent (LFA) in collaboration with national stakeholders, international partners and the Secretariat have already identified and commenced to implement measures to address the findings and risks identified during the audit.

20. The key changes in implementation arrangements include:
 - i. The Phase II Grant Agreement was signed in March 2011 with the Performance Framework for Phase II being better aligned to overall program goals with a special term and condition has been included to update the Performance Framework within three months of the release of the Sudan Household Survey data and Sudan Malaria Indicator Survey data;
 - ii. The grant progress is now being monitored against the work plan and budget, rather than against the Performance Framework alone;
 - iii. The CCM Secretariat has received refresher technical assistance from Grant Management Solutions (GMS) and there is a mission planned to introduce the new dashboard to the CCM to improve their oversight capacity; and
 - iv. PSI has committed in the Special Terms and Conditions of Phase II, to establish and implement an action plan to address internal controls at the Sub-recipient level and to provide for increased monitoring of Sub-recipients.
 - v. The Global Fund Country Team has communicated to PSI and CCM identified M&E weaknesses and developed a comprehensive action plan to strengthen the system. The 2010 OSDV results indicate that there are improvements on the system and data quality as compared to 2009. Also, the Country Team has put in place a close follow-up mechanism in the Phase II grant agreement by which PSI is required to provide annual progress updates on M&E strengthening measures.
 - vi. Significant changes have been effected to the LFA team and the LFA is spending more time in country.

The OIG welcomes these initiatives but has not yet reviewed whether they mitigate the risks identified in the audit.

Conclusion

21. In conclusion, the implementation of the OIG's recommendations should help to strengthen PSI's effectiveness in the implementation the Global Fund grants and strengthen oversight of program activities. The following costs should be refunded to the grant program:

	Ineligible US\$	Unsupported US\$
Payment of sales commissions	173,753	
Bonuses	16,800	
Malaria Consortium indirect costs		45,593
Malaria Consortium salaries		163,350
Malaria Consortium TA		25,400
Malaria Consortium guesthouse rental	30,000	
International Rescue Council overhead		16,587
International Rescue Council rent	13,350	
International Rescue Council salaries	16,642	
International Rescue Council flight	10,000	
International Rescue Council (expenses for other programs)	1,555	
Catholic Diocese of Torit indirect costs		11,365
Catholic Diocese of Torit TA	3,000	
	265,100	262,295