



## 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 Madagascar**

Audit Report GF-OIG-10-020  
31 October 2011

### Executive Summary

1. In 2010, the OIG undertook an audit of Global Fund grants managed by PSI Madagascar. The purpose of the audit was to assess the adequacy of PSI's internal control systems in managing the Global Fund grants in Madagascar and where necessary make recommendations to strengthen the management of the grants. The audit covered transactions related to five grants from 2003 to March 2010 amounting US\$ 117,858,236 of which US\$ 38,651,025 had been disbursed.

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

### Program related aspects

3. PSI Madagascar recorded a number of achievements including (i) distributing 2.4 million bed nets; (ii) distributing 7.75 million pre-packaged malaria treatment kits (ACTs) for children under five were distributed; (iii) treating 606,309 cases of uncomplicated malaria cases in under five children; (iv) running behavior change communication messages through different forums; (v) training some 7,303 health workers malaria treatment and control; (vi) distributing 10.2 million condoms; (vii) providing sexually transmitted infection (STI) treatment to some 10,055 clients; and (viii) training 27 service deliverers in youth education.

4. The indicators are generally in line with national objectives as well as in line with the top ten indicators. While the indicators were appropriately set, PSI's interpretation was different from the interpretations of the Global Fund and other stakeholders e.g. RBM and PNLP indicator interpretations. PSI's definition of distribution of products was to intermediary points and not to final users yet the Global Fund and other stakeholders required results reported to final user. In consequence, the numbers that were reported to the Global Fund were not to the end user but to the distributor.

5. The indicators involved related to (i) number of LLINs/ ITNs/bet nets distributed; (ii) number of condoms distributed; (iii) number of pre-packaged pre-dosed malaria treatment kits for children under 5 distributed; and (iv) number of pre-packaged malaria treatment kits with Chloroquine for children under 5 provided. PSI could not confirm whether and when the products actually reached the intended beneficiaries. This resulted in differences noted by the OIG between the drugs reported as "distributed" and the reported number of cases of Malaria treated.

6. When reporting the numbers distributed to intermediaries the OIG noted that the numbers reported by PSI did not reflect the bed nets that remained in the intermediaries' stores e.g. bed nets and ACTs. In the case of anti-malaria drugs, PSI did not adjust the numbers reported to the Global Fund to reflect the products that remained unsold or those that expired and were to PSI's warehouses. In consequence, the results reported to the Global Fund were overstated and the basis on which decisions were made at the Global Fund was flawed.

7. The OIG found that the data collection process was sometimes not operational i.e. the flow of data from the community to the service delivery points (SDPs) to the SRs and then to PSI. The data available at SDP level was sometimes not available at SR level. The OIG also noted inconsistencies in the data collected e.g. failure to match the number of drugs distributed to the fever cases prescribed

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and treatment offered. Some of the data collected and reported to the Global Fund contained errors e.g. the net results reported to the Global Fund included UNITAID LLINs (and yet the indicator results were tied to funding) and the number of people trained were not only for Global Fund programs but included people trained in selling products not related to the program.

8. There was also no price control mechanism in place to ensure that PSI's distributors sold the products at the intended price. The OIG noted that there had been reports over the years of excessive prices charged to the end beneficiaries of Global Fund products e.g. of up to 5 times the recommended price on the package.

9. There were several instances of non-compliance to the grant agreement that were noted. The key areas of non-compliance included (i) use of grant funds for activities that were not related to program activities; (ii) use of program funds to pay taxes even though the program was exempt from taxes; and (iii) incorrect apportionments of interest to the grant which arose from PSI allocating interest to grants at rates lower than those earned and computational errors. All this should be corrected.

10. None of the audit reports submitted by PSI met the Global Fund audit requirements. The OIG also noted that despite the fact that two thirds of the grant expenditure was expended at the Head Office level, there were no arrangements in place to have specific audits covering funds expended at this level.

### **Financial management aspects**

11. The OIG's review of expenditure revealed:
- (a) Costs charged to the Global Fund that were not program related. The total funds that should be refunded relate to ineligible costs i.e. expenditure that was not in line with the budget and work plan approved by the Global Fund which amounted to US\$ 215,066.
  - (b) PSI did not follow the defined policy on the allocation of common costs across donors and this sometimes resulted in an overcharge to the Global Fund.
  - (c) PSI charged the total cost of activities for all common activities e.g. activities undertaken for the social marketing products. The Global Fund products were only 4 out of the 17 products covered by PSI and there was sometimes no apportionment of costs to reflect this.
  - (d) Instances where value for money was not obtained e.g. the purchase of 4 vehicles some two months before grant closure. The budget only provided for one vehicle and eight months later these vehicles were reallocated to the implementation of USAID programs. Within a year, PSI procured other new vehicles under the Round 4 grant.
  - (e) Program funds were used to pay commissions and bonuses, staff parties and staff fringes such as house rental, gardening, housekeeping, private vehicle costs, private gas, small household appliances, school fees etc. The OIG noted that that these details were also not disclosed to the Global Fund during grant negotiations and amounted almost \$ 1 million between 2003 and 2009. While these benefits may be part of PSI's remuneration package, the extent of the benefits seems excessive most especially when set against the purpose for which funds were provided i.e. to fight the diseases. The Global Fund cannot dictate what PSI staff should be paid. However, program funds should only be used to pay for what is reasonable so that program funds are used maximally to fighting the diseases.

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### Procurement and supply chain management

12. The review of PSI's PSM activities revealed:
- i. There were shortages noted in the deliveries effected on nets with bales containing 40 instead of 50 nets and in some instances bales containing different types of nets. There was no evidence seen of action taken to follow up these issues;
  - ii. There were differences between the bed net quantities invoiced and those delivered. While the largest variance of some 25,000 nets was rectified, they were allocated to USAID supported programs when received and not to those supported by the Global Fund;
  - iii. Thresholds set for procurement methods were not respected;
  - iv. There were bed net losses noted in the distribution chain; and
  - v. There were expired drugs still held in the stores at the time of the audit. These drugs had not been quarantined.
13. In conclusion, the OIG noted significant control weaknesses and unmitigated risks that were prevalent in PSI's management of Global Fund supported grants in Madagascar. Implementation of the OIG's recommendations should help to considerably strengthen PSI's effectiveness. The following costs should be refunded to the programs:

Description	Total US\$
LLINs shortages noted	143,738
Hire of aircrafts	32,925
TVA paid although TVA exemption granted	30,710
Products distributed for sale which no payment was received and credited to the Global Fund account	26,000
CCM's costs charged to the Program	15,000
CRESAN project costs charged to the Global Fund	17,550
Expenses related to the sale of PSI's own products or other donors' activities.	17,000
	<b>282,923</b>

### Oversight

14. The CCM was affected by political crisis that started in 2009 and was still on-going at the time of the audit. Although there had been various interactions between the Secretariat and the CCM, the CCM members that the OIG met expressed concern that the Global Fund had not offered assistance to resolve the problems. This crisis has affected the CCM's ability to effectively provide oversight over the Global Fund grants.
15. The Local Fund Agent, PricewaterhouseCoopers had undertaken verification of expenditure and had prepared a separate report entitled 'Key financial and programmatic information'. The LFA was expected to identify some key weaknesses inherent in program implementation. The areas where the LFA's work can be further strengthened are detailed in the report.
16. Alongside the PUDR, the LFA raised issues pertinent to the PSI grants in Madagascar in a report entitled "Key financial and programmatic information" but there was no evidence seen that these issues had been addressed by the Secretariat or taken into account during the decision making

process. The Global Fund oversight over the grants in Madagascar should be strengthened by taking timely actions to address identified grant related issues.

### **Events subsequent to the audit**

17. 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 Madagascar in June 2010, the Secretariat has already identified and commenced on the implementation of measures to address the findings and risks identified during the audit. These changes have not been reviewed by the OIG to assess whether they mitigate the risks identified in the audit, however, key changes in implementation arrangements are detailed below.

18. The Phase 2 evaluation of the Round 7 grant in November/ December 2010 and 2010 Data Quality Audit (DQA) both revealed that PSI's system was unable to provide results in line with the agreed upon indicators. PSI subsequently developed an action plan to address 2010 DQA findings. This action plan, together with the updated M&E systems strengthening action plan (submitted by all PRs implementing malaria programs in February 2011), addresses recommendations in the OIG report with regards to M&E. Implementation of these documents will be closely monitored through future PU/DRs. This will also be addressed as part of the Round 7 Phase 2 grant negotiations.