



OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

Audit of Global Fund Grants Managed by Population Services International

Audit Report GF-OIG-10-022
31 October 2011

EXECUTIVE SUMMARY

1. In June 2010, the OIG undertook an audit of Global Fund grants managed by Population Services International. The purpose of this review was to assess the adequacy and efficiency of controls put in place by PSI in managing Global Fund grants. In this report, the OIG also synthesizes and identifies common challenges arising from the PSI related audits at a country level and identifies lessons learned that may further strengthen oversight and controls of grants managed by PSI.

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

Background

3. PSI has been involved in implementing Global Fund supported programs as a PR, SR and SSR covering all three diseases. PSI often also sits on the Country Coordinating Mechanism (CCM) and has helped to develop proposals in some countries. It also sits on country level technical committees in some countries. PSI and its affiliates have been nominated as PR in twelve countries namely Democratic Republic of Congo, Haiti, Madagascar, Nepal, Nigeria, Pakistan, Papua New Guinea, Southern Sudan, Tanzania, Thailand and Togo and manage grants amounting to some US\$ 500 million. It is also acts as SR and SSR in over 20 countries.

4. PSI is PR in countries with challenging socio political and health sector environments e.g. Haiti, DRC, Southern Sudan, Togo, Nepal and Madagascar. These countries are characterised by:

- i. poor infrastructure, insecurity and social conditions;
- ii. inadequate capacity in terms of structures, tools, personnel etc. at all levels in the health sector;
- iii. political instability;
- iv. high levels of illiteracy; and
- v. weak national systems to support the implementation of programs e.g. PSM systems, M&E systems etc.

Despite these challenges, PSI has implemented grants in these countries with commendable results achieved.

Institutional Arrangements

5. With the exception of Nigeria, all grant agreements were signed with PSI HQ. The Global Fund operations manual requires that when an international non-governmental organization is nominated as PR, the arrangements are temporary. The relevant PR is required to build the requisite capacity of national entities to take over the role of PR. Such plans were not in place for the grants audited by the OIG which were managed by PSI. The OIG appreciates that there are potential risks associated with transitioning to systems with inadequate capacity or quality since

shortcomings in such systems can jeopardise grant implementation. However, unless a process to build the requisite capacity and transition grants to national programs is instituted, this may never happen and its runs counter to the principle of 'national ownership'.

6. The LFAs involved did not have the necessary access to the expenditure and records managed by PSI HQ. In most countries where PSI is a PR, this represents a significant proportion of overall grant expenditure. The restrictions on LFAs access to information/ documentation from PSI HQ impacted their ability to effectively execute their mandate. As a matter of urgency, the Secretariat should require LFAs to access information maintained at the PSI HQ.

7. A review of the salaries paid to staff working in the Global Fund supported programs managed by PSI revealed some benefits (e.g. bonuses, commissions, fringe benefits etc.) which although they were part of PSI's remuneration package, appeared to be excessive when set against the context of what the funds were provided for i.e. to fight the diseases. The Global Fund in its budgeting guidelines states that program funds should only be used to pay for what is reasonable so that program funds are used to maximum effect. The Global Fund should consider the appropriateness of future salary and fringe costs as part of the grant negotiation process.

8. Audit is a key Global Fund fiduciary arrangement that confirms that funds are used for their intended purposes. The OIG noted that despite the fact that a high proportion of the expenditure (between 60-90% in cases where PSI is PR) is incurred at HQ level, at the time of the audit, there was no provision to have this expenditure audited. PSI has since the end of the OIG audit made a proposal to move to a consolidated audit that would cover both HQ and field based expenditure. The Global Fund should consider whether the proposed new audit arrangements in practice meet its external audit guidelines and would result in the assurance required for decision making.

Program Related Aspects

9. PSI has made commendable contributions to the countries in which it manages Global Fund supported programs. The good performance of the grants managed by PSI is evidenced by the ratings of the performance of grants with most of the grants rated A1 to B1 and some of the grants that it manages qualifying for the **Rolling Continuation Channel (RCC)**. PSI has made commendable contribution to the fight of the diseases in activities like social marketing and mass distribution of health products e.g. LLINs and ACTs, raising awareness among high risk target groups through interpersonal communication and mass communication activities and disseminating messages on HIV prevention.

10. The programs that were run by PSI were part of a national program with PSI running its programs alongside a public sector institution. PSI, like many other PRs, has set up parallel structures from the national ones because the national ones

were viewed as being cumbersome and/or inadequate to support program implementation. This is contrary to the Global Fund principles that advocate for the use of national systems to the maximum extent possible.

11. Coordination and collaboration between the programs is a challenge not only for PSI but across PRs in other countries. The shortcomings in collaboration and coordination between PSI and other PRs partly arises from the nature of the programs supported by the Global Fund which by design and implementation concentrate on achieving predefined targets within a defined duration. While there is evidence of mechanisms to enhance collaboration in some of the countries visited, greater collaboration among PRs would go a long way in improving the effectiveness of the overall national program.

12. The OIG noted a shortcoming relating to the indicators and results reported across most of the grants arising from the different definitions/ interpretations of indicators relating to the distribution of products. PSI's interpretation of distribution of products was to intermediary points and not to final users yet the 'top ten indicator' indicators mandated by the Secretariat call for evidence of distribution to the final user level. This needs to be corrected if results reported are to be consistent with the 'top ten indicators'.

13. The products that were sold under PSI's social marketing program helped address public health problems while at the same time mobilizing additional resources to help sustain the program. However, the OIG also noted the following areas that need to be addressed in order to make the program more effective:

- i. There should be product differentiation between the products that are to be given away for free and those that were to be sold. The product differentiation enables implementers identify to diversion of products;
- ii. PSI left the market to regulate itself and there is a need to put in place price control mechanisms to ensure that the products reach the intended beneficiaries at their intended price;
- iii. PSI should to the extent possible promote generic products as opposed to its own brands. This ensures that the targeted population appreciates the importance of the commodity irrespective of brand; ensures that all brands are can derive benefits from promotion; addresses the risk of sustainability i.e. in cases where particular brands are not available etc.;
- iv. PSI should institute measures to ensure that products reach their intended beneficiaries and results reported reflect this; and
- v. Strengthen the accounting for program income from social marketing activities.

Financial Management

14. PSI maintained the grant funds in a pool account. In cases where pool bank accounts are maintained for different donors, the accounting system should be able to split bank balances by donor/grant. However, PSI's accounting system was unable isolate bank balances by country, donor and grant. In consequence, the LFA was unable to validate the bank balances reported in the PUDR and could not provide the required assurance about the accuracy of program transactions and

resultant bank balances. PSI should either open a separate bank account for Global Fund grants or have an accounting system that can reconcile balances in the fund accountability statements with bank balances held.

15. The grant agreement encourages PRs to maintain grant funds in an interest bearing bank account. The interest reported to the Global Fund was therefore not the actual interest earned but a manual calculation and allocation of interest by PSI. A review of the interest computation revealed that the interest reported to the Global Fund differed from the actual interest earned by PSI on grant funds because:

- i. the actual interest rates PSI received bank rates differed from the rates applied to the computation i.e. the US federal treasury interest rates; and
- ii. there were computational errors in the interest calculations. This should be corrected and recoveries made.

16. PSI's financial guidelines provided a basis against which common costs should be allocated across donors. However, the OIG noted that both the field offices (platforms) and HQ did not consistently apply the policy and in some cases this resulted in an overcharge to the Global Fund. The OIG was not therefore unable to provide assurance that the allocation of common costs across donors was reasonable.

17. The OIG reviewed the reasonableness of the PSI overhead costs and noted that:

- i. there were disparities of rates across grants and countries;
- ii. there were disparities in the way in which the fees were applied to specific expenditure categories;
- iii. there were some isolated cases where the wrong rate was applied in the computation;
- iv. there were additional direct costs related to the HQ were charged in addition to the overhead costs;
- v. rates were not adjusted to take into account the differences in responsibilities when PSI was PR or when it was SR; and
- vi. there were no independent processes to validate the overheads charged to the Global Fund.

The Global Fund established guidance on overheads in 2011 which to a large extent address the issues noted above.

Procurement and Supply Chain Management

18. A significant portion of grant funds was spent on PSM related activities. The procurement of health products and high value items was normally undertaken by PSI HQ with platforms (country offices and affiliates) taking on the low value procurements. PSI's platforms procurement policies were generally adequate to provide for procurement to be undertaken in a transparent manner in compliance with the grant agreements. However, the OIG noted that the procurement at platform level did not always follow the laid down policies resulting in a weakened control environment within which procurement was undertaken.

19. The OIG review of the procurement processes at the HQ revealed shortcomings which need to be addressed urgently in order to strengthen the control environment within which procurements are undertaken. These include:

- i. enhancing the human resource capacity of the HQ procurement team;
- ii. strengthening the bidding process by providing comprehensive bidding documents and strengthening the bid receipt and opening process;
- iii. strengthening criteria by ensuring that they are clear and provide bidders with a clear basis as to how the bids would be evaluated;
- iv. using defined criteria in evaluations;
- v. putting controls in place for procurements where a competitive process is not followed to ensure that value for money is obtained; and
- vi. strengthening contract management by ensuring that payments are effected in accordance with contract terms, ensuring that performance securities are obtained, confirming that deliveries are effected before final payments are made etc.

20. The issues noted above evidenced significant weaknesses in PSI's staff capacity to effectively procure program products. The OIG noted that all the PSM assessments undertaken by the LFA were at the country level. At the time of the audit, no assessment had been undertaken of the HQ's capacity to handle procurements despite the fact that most procurement was undertaken at this level. This is contrary to the grant agreement that stipulates that PR's capability to procure health products be assessed due to the complexity and significant risks associated with the procurement of health products.

21. PSI should:

- i. comply with the relevant procurement related conditions in the grant agreement. Specifically, if PSI HQ is to continue to be involved in PSM activities, it should be assessed periodically through an established process by the Global Fund for assessing PR PSM systems and capacity in line with the grant conditions. Measures instituted to address capacity gaps identified and/or appointing a third party procurement agent to manage procurement on behalf of PSI (article 19b);
- ii. update its policies in line with good procurement practice and ensure that they are consistently applied (article 18a) ; and
- iii. strengthen the skills set of staff in the procurement unit (article 19b).

Sub-Recipient (SR) Management

22. PSI's manuals at platform level clearly elaborate the policies and processes that are followed in the selection and management of SRs. However these policies were not always applied resulting in some shortcomings identified across the platforms:

- i. significant delays in contracting of SRs;
- ii. shortcomings in the SR selection process;
- iii. shortcomings in the review of SR accountabilities; and
- iv. inadequate SR monitoring. PSI should enforce the guidelines contained in its manuals in order to strengthen the control environment in its SRs.

Conclusion

23. PSI is a key stakeholder in the management and implementation of Global Fund activities across the globe. PSI has generally instituted good policies in the management of program funds but there is still scope to further improve their implementation at field office and HQ level. Specifically, urgent measures need to be put in place to strengthen the control environment within which the grants are being managed/ implemented in the following areas:

- i. Procurement of program products and services;
- ii. Alignment of program results reported to the ‘top ten indicator’ definitions;
- iii. Strengthening of financial management to ensure that charges to programs are bona-fide and reasonable; and
- iv. SR management.

24. The Global Fund arrangements for grant oversight are not fully operational in PSI’s case and this limits the level of assurance the Global Fund has with regard to the management of program funds by PSI. All oversight arrangements should be fully operationalized for PSI managed programs. Specifically, the CCMs and LFAs should be provided with all requisite information to enable them to undertake their respective mandates. Specifically, LFAs should have access to the necessary information and people in order to undertake the required capacity assessments and verification of program implementation. Audits should be undertaken in compliance with the grant agreement and the Global Fund audit guidelines.