



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the People's Republic of Bangladesh

Executive Summary

**GF-OIG-11-005
29 October 2012**

EXECUTIVE SUMMARY

Introduction

1. The mission of the Office of the Inspector General (OIG) is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations.

2. As part of its 2011 work plan, in May and June 2011 the OIG carried out an audit of Global Fund grants to Bangladesh which totaled USD 214 million of which USD 157 million had been disbursed to five Principal Recipients.

3. The audit examined the operations of the Principal Recipients, their interactions with their Sub-recipients and implementing partners, the supply chain for the goods and services purchased with the Global Fund grant funds and the oversight functions of the Country Coordination Mechanism, the Local Fund Agent and the Global Fund Secretariat.

Overall conclusion

4. The OIG noted a number of good practices and achievements in the management of grants. However, the audit also identified a number of significant areas for improvement in the internal control framework, particularly related to financial management and procurement. Therefore the OIG is not able to provide the Global Fund Board with reasonable assurance that effective controls were in place at the time of the audit to ensure that grant funds disbursed had been used for the purposes intended and that value for money had been secured.

Oversight

5. The OIG observed good governance practices in the CCM including regular review of the membership of the CCM and the establishment of an Oversight Committee in April 2009. However, the audit noted a number of areas offering scope for improvement, in particular:

- *Organization*: CCM meetings can be planned more effectively, particularly with respect to defining a minimum annual number of meetings, the definition of a quorum and of formally appointed substitute members;
- *Conflicts of Interest*: CCM elections can be better documented and members should declare any conflict of interest. Representation of people at risk was limited at the time of the audit; and
- *Transparency*: The process for selecting PRs, SRs and Managing Agencies can be formalized and improved in regard to transparency.

Grant Management

6. Although a number of good practices were noted during our audit such as segregation of duties, documented procedures and archival of documents, we noted a number of areas for improvement among all Recipients, including:

- *Expense reporting*: A need to report actual expenses rather than committed expenses, and recording of expenses in the correct period, in order to avoid misstatement of expenses and/or cash balances;
- *Treasury arrangements*: Comingling of grant funds, crediting of bank interest earned by Global Fund deposits, controls around bank reconciliations and returning remaining funds after grant closure;
- *Asset and Inventory Management*: A need to ensure use of program vehicles for programmatic purposes, regular physical verification of fixed assets and reconciliation to the ledger;

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- *Human Resources and Payroll*: A need for monthly reconciliation of the payroll with the previous month to verify accuracy and identify unusual variances; and
- *Non-health procurement*: A need to adhere to national and entity-wide procurement policies, ensure documentation around tendering and related decisions and minimize the frequent emergency procurements.

7. The OIG identified USD 1.6 million in potentially recoverable expenditures including USD 0.4 million in unbudgeted expenses and USD 0.4 million paid in taxes and duties using grant funds. Please see Annex 4 for details. The Global Fund Secretariat should determine recoverability of the specific amounts identified.

Health Procurement and Supply Chain management

8. The OIG audited the systems and operations used by the PRs to manage the procurement and supply of health commodities with Global Fund grants, and found that:

- Save the Children (USA), which was responsible for the procurement and supply chain activities for health products and for the management of national efforts under the National AIDS/STD Program, had not demonstrated to the satisfaction of the Global Fund Secretariat that it had sufficient capacity to act as an international procurement agent at the time of the audit, and there was a need for action to ensure that its procurement framework was fully transparent and included national regulations;
- PSM responsibilities were not clearly defined between the two PRs for Malaria (the Ministry of Finance and the Bangladesh Rural Action Committee) which could lead to weak oversight of the total supply chain; and
- The PRs for the TB program had scope for strengthening their quantification and forecasting processes by increasing capacity and skills, and improving stock information flows; improvements were also required to the storage facilities, including the computerization of logistics data.

Actions subsequent to the audit

9. The OIG has noted that a number of significant actions have been taken to address the risks that emerged from the audit findings. These include improvements to the Terms of Reference and structure of the LFA to allow for greater focus at the sub-recipient level, efforts to obtain exemptions from taxes and duties for Global Fund expenditures and improvements in procurement policies and procedures.

10. The terms of reference and the structure of the LFA team have been substantially revised to allow for greater focus at the Sub-recipient level. In addition, refunds for certain ineligible expenditures have been made totaling USD 106,500.

11. Following the audit, a number of issues were referred to the OIG Investigations Unit. An investigation report on a Sub-Recipient, PMUK, was published on 10 July 2012. Other investigations are in progress.

12. Subsequent to the audit, the OIG reviewed further documentation provided by the PRs and SRs relating to potentially recoverable expenditures. This is reflected in Annex 4. The OIG recommends that the PRs provide any further supporting evidence to the Global Fund Secretariat for appropriate resolution.