OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

REPORT OF INVESTIGATION OF SOUTH AFRICA HIV/AIDS (ROUND 9) GRANT TO THE NATIONAL RELIGIOUS ASSOCIATION FOR SOCIAL DEVELOPMENT (NRASD)

REPORT NO: GF-OIG-11-026

DATE: 26 OCTOBER 2011

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The Global Fund
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MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the Investigation Report of Global Fund Grants to The National Religious Association for Social Development (NRASD) in South Africa.

The investigation of NRASD, which is one of three Principal Recipients of Round 9 Global Fund grants in South Africa, included an in-country mission by a multi-disciplinary team of investigators and a forensic accountant. Phase 1 of the US$ 13.7 million grant to NRASD began on October 1, 2010 and, at the time of the investigation, US$ 4.4 million had been disbursed.

The report said that a thorough investigation did not identify evidence of fraud, misappropriation or mismanagement of the grant or losses of any grant funds.

The investigation found that NRASD's accounting was well maintained and accurately reflected the state of the Global Fund grant project's finances. It also found that NRASD has taken steps to minimize the risk of actual and apparent conflicts of interest in its management of the grant.

Some deficiencies were identified in the management of the grants and the report makes eight recommendations designed to help NRASD to improve transparency and grant management. In particular, the Office of the Inspector General recommends that NRASD take steps to simplify its financial management structure and ensure the independence of the internal auditor.

NRASD, which has agreed to act on all of the recommendations, has informed the Office of the Inspector General that it has already appointed a new internal auditor and it has also confirmed that it will limit its financial management partners to one when the new Single Stream Funding Grant is renegotiated early in 2013.

Investigations 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

II. EXECUTIVE SUMMARY

1. This report presents the results of an investigation by the Investigations Unit of the Office of the Inspector General (OIG) for the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), of the National Religious Association for Social Development (NRASD), a Principal Recipient (PR) of Round 9 Global Fund grant funds (the Grant) in South Africa.

2. After its investigation, which included an in-country mission by a multi-disciplinary team of OIG investigators, a forensic accountant, the OIG Investigations Unit did not identify evidence of fraud, misappropriation or mismanagement of the grant, or losses of grant funds. The OIG did identify some deficiencies in the management of the grants, as set forth in detail herein, and makes recommendations designed to assist NRASD in improving their transparency and grant management. In particular, the OIG recommends that NRASD take steps to simplify its financial management structure and ensure the independence of the internal auditor. NRASD has agreed to act on all the recommendations offered in Part IV. The OIG has reflected feedback from NRASD and other stakeholders on the draft report, as appropriate in this final version.

III. BACKGROUND

a. OIG INVESTIGATIONS UNIT

3. The OIG Investigations Unit of the Global Fund is responsible for conducting investigations of allegations or red flags of fraud, abuse, misappropriation, corruption and mismanagement (collectively, "fraud and abuse") within the Global Fund and by PRs and Sub-Recipients (SRs) (collectively, grant implementers), Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs), as well as third party vendors.

4. OIG establishes findings of fact by applying a "credible and substantive evidence" standard, consistent with its Charter and Terms of Reference. This is an administrative standard commonly used by International Financial Institutions and other international administrative oversight bodies.

5. The goal of the OIG Investigations Unit in this case was to determine the merit of allegations of financial misappropriation that had been raised.

b. OVERVIEW OF THE GRANT PROVIDED TO THE NATIONAL RELIGIOUS ASSOCIATION FOR SOCIAL DEVELOPMENT (NRASD)

6. NRASD is one of three PRs under the Global Fund Round 9 grant (SAF-910-G09-H).[1] The Round 9 Grant was the first Global Fund Grant to NRASD.[2] Phase 1 of the Round 9 Grant (the Grant) to NRASD began on 1 October 2010.[3] The Grant was signed for US$13,701,694. At the time of the OIG investigation US$4,422.523 has been disbursed. The Grant was scheduled to end on 30 September 2012; however,

[1] The other Round 9 PRs are the National Department of Health (SAF-910-G07-H) and the Networking HIV/AIDS Community of South Africa (SAF-910-G08-H).
[2] New Principal Recipient Assessment Report, p. 5, Geoffrey Deakin, 5 May 2010.
[3] Implementation Letter 1, SAF-910-G09-H, 10 November 2010.

following the Resource Mobilization Committee's[4] (RMC) decision to endorse Single Stream funding, the Grant ended in March 2011. The subsequent grant was to begin on 1 April 2011. At the time of the issuance of this Report, the new grant had not yet been signed.

7. The Grant aims to capitalize on "community-based organizations (CBOs) comparative advantage in service delivery for prevention, treatment, care and support."[5] The Grant activities focus upon traditional and religious leaders, agricultural workers, out-of-school youth and people frequenting taverns with behaviour change communication, community outreach activities, voluntary counselling and testing, community home-based care, support to orphaned and vulnerable children, and strengthening capacity of CBOs and faith-based organizations.[6] Under the Grant NRASD implements programs in nine provinces and is responsible for Home-based Care for five provinces (Gauteng, Limpopo, Free State, North West and Mpumalanga).[7]

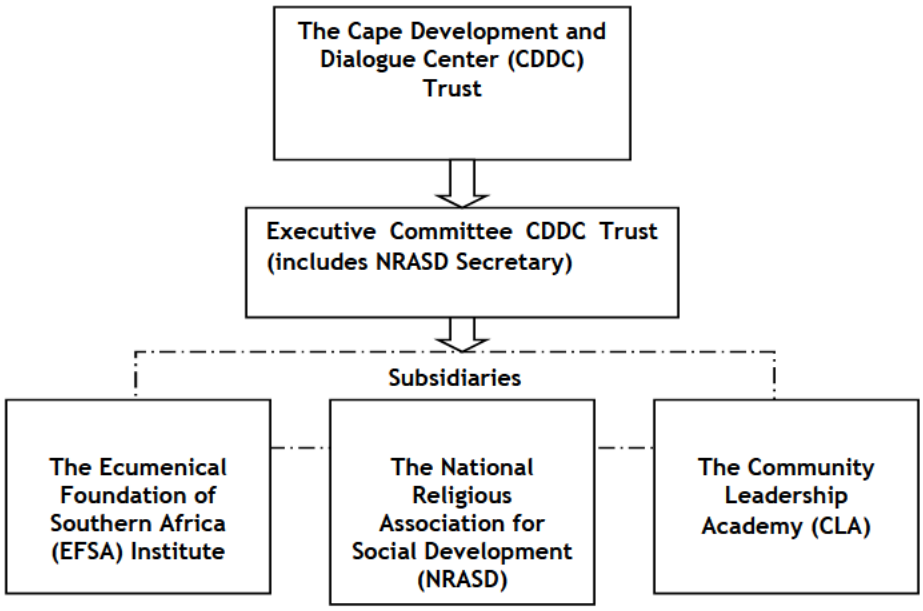
8. NRASD made use of ten SRs[8] to implement planned grant programs and as of November 3o, 2011, the SRs had incurred 74% of all expenditures under the grant.[9]

c. NATIONAL RELIGIOUS ASSOCIATION FOR SOCIAL DEVELOPMENT (NRASD)

9. NRASD was established in August 1997 by the various faith groups in South Africa.[10] NRASD is comprised of a network of religious groups which aim to foster the role of religious organizations in social development projects.[11] NRASD is a subsidiary of the Cape Development and Dialogue Centre (CDDC) Trust.[12]

[4] The South African National AIDS Council (SANAC) oversees multi-sectorial response to HIV/AIDS in South Africa. SANAC's Resource Mobilization Committee (RMC) is the CCM of the Global Fund grants. KPMG is the LFA.
[5] SAF-910-G09-H Grant Agreement for Round 9, Annex A page 1.
[6] SAF-910-G09-H Grant Agreement for Round 9, Annex A page 1.
[7] SAF-910-G09-H Grant Agreement for Round 9, Annex A page 1.
[8] NRASD's SRs: Friends for Life, Scripture Union, SAB/SABOCHA, Starfish, AfriSIDA, Africa Centre for HIV/AIDS, SACBC, Anglican Church, Methodist Church, Reformed Church
[9] EFR section of the November 3o, 2011 PU/DR.
[10] Global Fund OIG Presentation, National Religious Association for Social Development, p. 1, 27 February 2012.
[11] New Principal Recipient Assessment Report, p. 11, Geoffrey Deakin, 5 May 2010.
[12] SAF-910-G09-H Grant Agreement for Round 9, Annex A page 2.

Organizational Structure of the CDDC Trust and Subsidiaries.[13]



10. The CDDC Trust has a long-standing relationship with Stellenbosch University (SU) and, as such, the CDDC Trust enlisted SU as a key technical partner in the Grant.[14] Under its agreement with the CDDC Trust, SU was to provide administrative, accounting, procurement and financial management services to the CDDC Trust in relation to the Grant.[15] As part of this agreement, SU was to receive a 12% administrative fee on NRASD's funds managed within SU's accounting system[16] but this fee was waived for funds that were channelled directly by SU to the SRs, other than those SRs that reside within SU.[17]

11. In addition to the finance and accounting services provided by SU for the Grant, NRASD also contracted with an external financial management firm, Exceed, to offer other professional services—including financial management and internal audit services.

d. Relevant Global Fund Program Grant provisions

12. As a Global Fund Principle Recipient, NRASD is bound by its Program Grant Agreement with the Global Fund.[18] Specific articles of the Program Grant Agreement relevant to the OIG Investigation Unit's investigation described herein include:

- **Article 5 (a). Legal Capacity.** The Principal Recipient is a legal entity validly existing under the laws of the jurisdiction in which it was formed.

[13] New Principal Recipient Assessment Report, p. 11, Geoffrey Deakin, 5 May 2010.
[14] New Principal Recipient Assessment Report, p. 11, Geoffrey Deakin, 5 May 2010.
[15] New Principal Recipient Assessment Report, p. 11-12, Geoffrey Deakin, 5 May 2010.
[16] Annexure to the Memorandum of Understanding between Cape Development and Dialogue Centre (CDDC) Trust and Stellenbosch University (SU) in terms of the National Religious Association for Social Development (NRASD) Global Fund Programme, signed 10 November 2010.
[17] Annexure to the Memorandum of Understanding between Cape Development and Dialogue Centre (CDDC) Trust and Stellenbosch University (SU) in terms of the National Religious Association for Social Development (NRASD) Global Fund Programme, signed 10 November 2010.
[18] NRASD signed its Program Grant Agreement with the Global Fund on 28 July 2010.

- **Article 5(g). No Double-funding:** The Targets set for the Program are made possible by the additional funding provided by the Global Fund under this agreement. The Principal Recipient is not receiving funding from any other source that duplicates the funding provided under this agreement.
- **Article 9. Management of Grant Funds:** The Principal Recipient shall ensure that all grant funds are prudently managed and shall take all necessary action to ensure that Grant funds are used solely for Program purposes and consistent with the terms of this agreement. Accordingly, the Principal Recipient shall use its reasonable efforts to ensure that Grant funds are not used by it or by any Sub-recipient to support or promote violence, to aid terrorists or terrorist related activity, to conduct money-laundering activities or to fund organizations known to support terrorism or that are involved in money-laundering activities.
- **Article 13 (c). Independent Auditor:** No later than three months after the Phase 1 Starting Date, the Principal Recipient shall notify the Global Fund of the Independent auditor that it has selected to perform the annual audits referred to in paragraph (b) of this Article. The final selection of the independent auditor and its terms of reference shall be subject to the approval of the Global Fund and shall occur not later than six months after the Phase 1 Starting Date.
- **Article 18(a)(i). Procurement Practices.** Contracts shall be awarded on a transparent and, subject only to established exemptions included in written procurement policies and practices provided to the Global Fund, on a competitive basis.

IV. ORIGINS OF THE INVESTIGATION

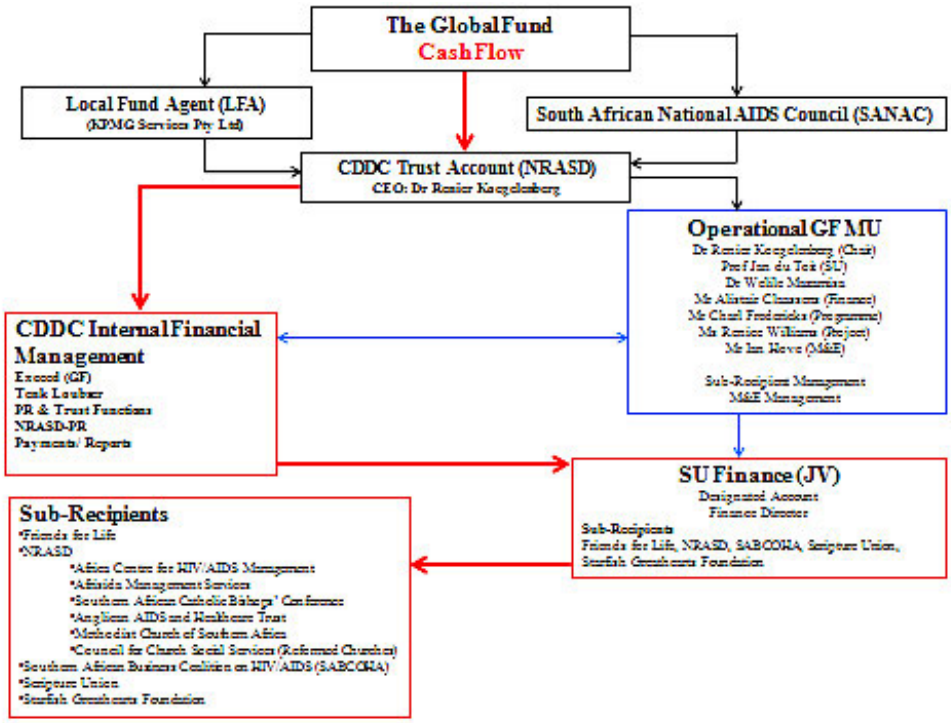
13. As a result of allegations of procurement irregularities, the OIG Investigation Unit began an investigation to determine if there was any fraud or misappropriation of Grant funds, with the following objectives: (i) determine if conflicts of interest resulted in double dipping of salaries or other overhead costs and determine whether conflicts caused unmitigated risk to the Global Fund Grant funds; (ii) examine NRASD's financial management set-up to evaluate risk of fraud or misappropriation of the Global Fund monies; (iii) conduct a review of expenditures incurred by a sample of SRs; and (iv) review tenders conducted by NRASD for evidence of irregularities and to determine if value for money was being achieved. A number of issues also emerged from a Diagnostic Review undertaken by the OIG's Audit Unit.

a. FINANCIAL MANAGEMENT

i. OIG-DR RED FLAGS

14. The OIG Investigations Unit had been advised by several entities prior to the investigation that financial management is administered by three entities: NRASD's Program Management Unit (PMU), SU, and Exceed. The flow of Global Fund funds had been described as follows: (i) Global Fund Grant funds are received in NRASD's bank account, (ii) then transferred to Exceed's bank account where some expenses are paid, (iii) funds are then transferred to SU's bank account where transfers to SRs, other expenses and procurements are made.

NRASD Global Fund Grant Cash Flow[19]



15. A review of NRASD's Grant proposal indicated that SU would handle the financial management of the Grant.[20] The investigation identified that while NRASD did indeed use SU for some of the Grant's financial management, it also employed Exceed. Exceed's role in the Grant was not mentioned in the Grant proposal.[21] Therefore, the LFA's financial management assessment of NRASD as a new PR only covered the financial relationship between NRASD and SU and did not cover Exceed.[22] Consequently, the involvement and contractual relationship of Exceed in the financial matters of the Grant had not been assessed.

16. In addition to the red flag raised by the undisclosed transfers of grant funds to Exceed, questions had been raised regarding NRASD's financial management structure. The chart of accounts in the SU accounting system was not mapped to the approved Grant budget, therefore the Finance Manager was required to manually extract reports from SU's accounting system to prepare the Progress Updates and Disbursement Requests (PU/DRs) for the Global Fund. There was a concern that this manual process is prone to error and lacks checks and balances to identify errors. In addition, the failure to upload the approved budget into the accounting system also means that budgets are rendered ineffective as cost control mechanisms at the time of effecting payments. Furthermore, the roles and responsibilities of each entity involved in NRASD's financial management were not clearly defined; giving rise to the risk of overlap of responsibilities or key activities falling through the cracks. There was a concern that using multiple entities for the financial management of the Grant could likely increase the program's overall financial management costs.

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[19] Provided to OIG-DR by NRASD, 16 August 2011 Email from Alfred Agaba to Anne Rwego.
[20] Proposal Form –Round 9, p. 94, R9_CCM_SAF_H_S3-5_6Jul09_en.
[21] Proposal Form –Round 9, p. 94, R9_CCM_SAF_H_S3-5_6Jul09_en.
[22] New Principal Recipient Assessment Report, p. 55, Geoffrey Deakin, 5 May 2010.

17. In response to the concerns raised, NRASD explained that the "financial management support of Exceed are confirmed for the Global Fund grant – with regard to PR and SR related functions. Exceed will provide additional financial oversight and services (within the existing budget agreed upon for the NRASD PR management function)."[23] NRASD also informed that it utilized Exceed in order to lower the management fees charged by SU.[24] NRASD noted that one of the reasons that Exceed was contracted to work on the Global Fund Grant was because of Exceed's knowledge of SU to "ensure the integrity of the Trust in its partnership with the University."[25] In addition, NRASD provided the following chart to the Global Fund to explain the cash flow of Grant funds.[26]

18. In addition, NRASD stated that Exceed's financial and advisory role in the Grant was disclosed in its management structure which was submitted to the Global Fund in March 2010.[27] NRASD also claimed that the use of Exceed was discussed with the Global Fund during final grant negotiations in Windhoek Namibia.[28]

19. Notwithstanding the question of whether or not Exceed's role within the Grant was adequately disclosed to and approved by the Global Fund, a greater concern was whether NRASD disclosed to the Global Fund that it would be physically transferring grant funds to Exceed. The chart provided by NRASD did not sufficiently clarify the financial management structure, nor did it sufficiently clarify the reason for the flow of grant funds. The flow of funds, to an outsider observer, might have appeared opaque and unclear. Likewise, a pre-mission review of bank statements for the NRASD Exceed bank account indicate that this account held in excess of USD 500,000 of Grant funds as of September 2011.[29] This account held at Nedbank, appeared to have been opened in the name of "Exceed Asset Management (PTY) LTD – PR0507" with no mention of the Global Fund or the Grant in the account name.[30] In addition, bank statements reviewed by OIG Investigations Unit prior to the in-country investigative mission indicated that Exceed paid itself out of the bank account held in its own name.[31]

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[23] 29 August 2011 Letter from Dr. Koegelenberg to Anne Rwego and Amy Clancy, attachment, sent via email 29 August 2011.

[24] See 19 August 2011 Email from Dr. Renier Koegelenberg to Anne Rwego p. 2, "Since the start of the implantation of the GF grant – where a formal agreement between CDDC and SU regulates our cooperation, there have been additional changes in University policy (lump sum billing for non-university entities with which the SU has formal ties) that put us in a difficult position. This is one of the reasons why both Exceed (Tenk Loubser) and our CDDC Chair, Prof. Mazamisa, was pulled in too much – into management functions to counter the influence of SU policy on us." See also, 8 September 2011 Email from Dr. Renier Koegelenberg to Amy Clancy, p.2., "One of the reasons for fast-tracking this process, was a decision by the Counsel of SU to charge all non-university entities an additional basic fee for services rendered [apart from what we have formally agreed upon within our formal MOU with SU, and the special Addendum on the services rendered-which was a condition precedent in your contract with us]."

[25] 19 August 2011 Email from Dr. Renier. Koegelenberg to Anne Rwego, p. 1.

[26] 29 August 2011 Letter from Dr. Renier Koegelenberg to Anne Rwego and Amy Clancy, p. 2 sent via email 29 August 2011.

[27] 8 September 2011 Email from Dr. Renier Koegelenberg to Amy Clancy, p.2.

[28] 8 September 2011 Email from Dr. Renier Koegelenberg to Amy Clancy, p.2.

[29] Nedbank Corporate Saver bank statement, Account #9016382709, for the period 4 September 2011 to 2 October 2011 showing a balance of RZA 3,620,323 as of September 7, 2011.

[30] Nedbank Corporate Saver bank statement, Account #9016382709, for the period 4 September 2011 to 2 October 2011

[31] For example, on 1 February 2011, the Nedbank bank statement indicates that ZAR 12,540 (USD $1,595).was transferred to the benefit of "Exceed Trust", the description of the transaction indicating "Exceed Fees". That same day, a different transaction described on the bank statement as "salary

20. These circumstances raised a concern that Grant funds were vulnerable to mismanagement and/or misappropriation.

ii. INVESTIGATION AND FINDINGS

1. NRASD'S GLOBAL FUND FINANCIAL MANAGEMENT

21. NRASD recognized that it had limited internal financial management capabilities and therefore sought to engage and use external partners, usually universities, to handle its financial management.[32] NRASD had a long history of partnering with SU[33] and as such, it partnered with SU for the provision of financial management, procurement and accounting services under the Grant.[34] SU engaged a full-time financial manager dedicated to providing financial accounting and reporting services related to the Grant[35].

22. In addition, NRASD also contracted a third party professional services firm, Exceed, to perform certain accounting and fiduciary functions.[36] From the beginning of the Grant, NRASD viewed Exceed's role as that of a "watchdog" over the Grant funds because of Exceed's knowledge and experience with SU.[37] Further, NRASD thought it judicious to use Exceed to help mitigate the newly imposed 12% administrative fee levied by SU on Grant.[38]

23. NRASD has explained that the Global Fund should have been aware that Exceed would play a role in grant management, however they admit that they never explicitly told the Global Fund that Grant funds would be held in an Exceed trust account.[39]

2. PREPARATION OF BOOKS AND RECORDS FOR GLOBAL FUND REPORTING

24. The investigation finds that NRASD has a dedicated finance manager responsible for all accounting functions related to the Global Fund Grant. The Finance Manager is employed by SU, but paid by the Grant, and is permanently seconded to NRASD. The Finance Manager, as confirmed by his employment contract, is fully engaged on the NRASD Global Fund Grant and does not undertake any other work for SU and his

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slips" indicates that an additional payment of ZAR 1,282 (USD $163) to "Tenk Loubser and Associates" which is a wholly owned subsidiary of the Exceed Group. Nedbank statement for 1 February 2011 through 16 March 2011, emailed from Alistair Claassens to Amy Clancy on 25 March 2011.

[32] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012

[33] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012

[34] Jean-Michel Ferat, NRASD Forensic Accounting Report, p.1.

[35] Alistair Claassens employment agreement, dated 01 August 2010.

[36] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012

[37] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012.

[38] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012. SU determined that because of the structure of the Global Fund Grant Agreement, the funds received by NRASD were not a donation and thus subject to a 12% levy. The levy collected by SU was to cover all overhead and back office costs associated with the services SU provides for NRASD. NRASD, through Professor Jan Du Toit, was able to renegotiate the administrative fee charged by SU to 6%.

[39] Dr. Renier Koegelenberg, Record of Conversation, 28 February 2012.

employment is contingent on the NRASD Global Fund grant, terminating once the grant terminates.[40]

25. The investigation finds that the NRASD accounting is kept within the rules and regulations of SU's accounting policies. Revenues in and payments out are processed by SU's accounting staff and are reviewed and monitored by the Financial Manager.[41] In addition to the transactions booked to the SU system, a certain number of transactions are also incurred and accounted for by Exceed. Since the inception of the project, Exceed's role as a fiduciary agent has been limited to making payments to consultants, certain administrative costs as well as payments related to its own fees.[42]

26. On a periodic basis, in conjunction with required PU/DR and EFR reporting, the Finance Manager prepares a consolidated spreadsheet of SU and Exceed accounting transactions. This consolidated spreadsheet is used as the basis for reporting figures in the PU/DR and EFR. This reporting package also includes bank reconciliation and copies of bank statements.[43]

27. The SU accounting system does not track detailed transactions related to SRs. The accounting at the SR level is performed by each SR individually and is forwarded to the Finance Manager on a monthly basis. The Finance Manager then reconciles payments to SRs with expenditures reported. The Finance Manager visits SRs on a periodic basis to confirm SR reporting.[44]

28. In addition, the Finance Manager performs a detailed reconciliation of actual to budget for both NRASD as PR as well as all of NRASD's SRs.[45]

3. Review of NRASD and Certain SRs Expenditures

29. The OIG Investigation Unit matched a sample of expenditures incurred by NRASD and three SRs (Africa Centre, AfriSIDA and Scripture Union) back to source documentation without exception. Overall, OIG Investigation Unit found that NRASD's accounting was well maintained and accurately reflected the state of the Global Fund Grant project's finances. During the testing, OIG Investigations Unit did identify several isolated discrepancies including: (i) the bank reconciliation worksheet prepared by the Grant Financial Manager failed to accurately account for VAT incurred on transactions from the Exceed Trust account; (ii) one consultant payment from the Exceed Trust account was inadvertently double-counted, resulting in an overstatement on the reconciliation sheet and on the PUDR; (iii) evidence suggested[46] that consulting payments made to the wife of a NRASD employee, were

[40] Alistair Claassens, Record of Conversation, 28 February 2012.
[41] Alistair Claassens, Record of Conversation, 28 February 2012.
[42] Alistair Claassens, Record of Conversation, 28 February 2012.
[43] Alistair Claassens, Record of Conversation, 28 February 2012.
[44] Alistair Claassens, Record of Conversation, 28 February 2012.
[45] Alistair Claassens, Record of Conversation, 28 February 2012.
[46] Jaco Odendaal, Record of Conversation, 29 March 2012; Sonja Frank, Record of Conversation, 5 March 2012; Tenk Loubser, Record of Conversation, 5 March 2012; Dr. Koegelenberg Record of Conversation 7 March 2012; 14 December 2010 Memo from Dr. Mwelase Mazamisa to Dr. Renier

not solely for services rendered, but were also meant to be additional compensation for that NRASD employee.

30. In addition, the OIG investigation noted a lack of clarity in the line of reporting related to the Grant finance function in that the Finance Manager does not report directly to his superiors within NRASD but instead reports to an SU official. Because grant funds are held by SU and accounting is performed on SU accounting system, SU policy dictates that an SU employee must supervise accounting activity. This has created the awkward situation where the Finance Manager answers to an individual who is not actually employed by NRASD.

b. CONFLICT OF INTERESTS

i. ISSUES ARISING

31. A previous review of NRASD found that key staff in NRASD fulfils conflicting functions within other parts of the program.[47] An allegation had been raised that NRASD works with related entities, raising the risk of conflict of interest. [48] The investigation examined whether these relationships were disclosed, and whether an assessment was undertaken to determine if these relationships created risk and whether resultant transaction were entered into at arm's length. [49]

ii. INVESTIGATION FINDINGS

32. After its review, the OIG Investigation Team found that no actual conflict of interests existed between NRASD and selected SRs. Furthermore, the OIG Investigations Unit found that NRASD has taken steps to minimize risk of actual and apparent conflicts of interest in its management of the Grant.[50] The OIG also finds that salary payments

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Koegelenberg; and Management Consultant Agreement between Exceed Trust and Sophia Dorethea Koegelenberg.

[47] Diagnostic Review of Global Fund grants to South Africa p. 59, Report No: GF-OIG-11-113, Draft November 2011, for example: Professor Jan Du Toit, (hereinafter Professor Du Toit) is the Director of the Africa Centre for HIV/AIDS (hereinafter Africa Centre) an SR of NRASD, and he was also a member of the NRASD Global Fund Program Management Unit (PMU). Renice Williams (hereinafter Ms. Williams) is Programme Manager at the Africa Centre, an NRASD SR and was also a member of the NRASD Global Fund PMU. In their roles as members of the NRASD PMU, Ms. Williams and Professor Du Toit were providing oversight to the very program that they implement, the Africa Centre.

[48] Diagnostic Review of Global Fund grants to South Africa p. 59, Report No: GF-OIG-11-113, Draft November 2011, for example: Professor Russell Botman is a Trustee of NRASD's parent organization, CDDC Trust, and he is also the Rector and Vice Chancellor of SU. SU provides financial management to NRASD; Reverend Canon Desmond Lambrechts is Deputy Chair of the RMC, and plays a leadership role at NRASD. The RMC plays the role of the Country Coordinator Mechanism in the Global Fund Grants to South Africa. The RMC is a sub-committee of the South African AIDS Council. The RMC oversees the Global Fund grants in South Africa, including coordinating the submission of a national proposal for grant funding; selecting PRs; and monitoring the implementation of activities.

[49] Diagnostic Review of Global Fund grants to South Africa p. 59-60, Report No: GF-OIG-013, Draft November 2011.

[50] Dr. Welile Mazamisa, Chairperson of the CDDC Trust, no longer serves on the PMU. Professor Du Toit and Ms. Williams do not serve on the PMU in order to avoid the appearance of conflict between NRASD and Africa Centre. Professor Du Toit and Ms. Williams both work at Africa Centre, but neither of them work on Global Fund funded projects at Africa Centre. Reverend Canon Desmond Lambrechts

from the Grant that are in excess of regular salary payments are appropriate and follow SU policy.[51] Evidence of double dipping was not identified. That is, the OIG did not identify that staff working on the Grant were paid twice.

c. INDEPENDENCE OF THE INTERNAL AUDITOR

33. The Grant Agreement requires NRASD to institute an internal audit function by 30 November 2010.[52] On 10 November 2010 NRASD informed the Global Fund that Exceed would be filling the role of internal auditor.[53] NRASD informed the Global fund that "Mr. Louw van der Merwe (part of Exceed, see statement by Mr. Loubser) has been appointed as internal auditor."[54] Exceed confirmed their role as internal auditor, noting that they "had been appointed by the Trustees of the CDDC to take responsibility for all internal audit and control functions."[55]

34. The following concerns regarding Exceed's role as NRASD's internal auditor had been raised: (i); that there was no documentation on file detailing how Exceed was selected; (ii) that Exceed was developing NRASD's policies and procedures which presented a conflict of interest if they were to become the internal auditors; (iii) that there were no terms of reference for the internal audit function against which Exceed's performance would be evaluated; (iv) that the internal auditor reports to NRASD's CEO as opposed to the NRASD's board, which could affect his/her independence; and (v) that an annual risk based internal audit plan had not been developed to ensure that audit effort is concentrated on areas of higher risk.

35. In a 29 August 2011 letter, responding to previous recommendations of the OIG, NRASD informed the OIG that "Exceed will no longer fulfill the function of internal auditor."[56] The letter also states that "Mr. Louw van der Merwe (Governance, Risk and Audit Services [GRA]) is appointed as internal auditor of the Global Fund grant agreement."[57]

36. Based on these statements, a reasonable interpretation is that NRASD had replaced Exceed with an independent third party, in accordance with the OIG's recommendation. However, in November 2010 NRASD indicated that Mr. van der Merwe was part of Exceed.[58]

37. The conflicting statements of NRASD raised concern over the actual independence of the internal auditor. In addition, the conflicting statements raised concern over

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is an employee at NRASD and he represents NRASD on the RMC, however, Reverend Lambrechts does not work on any Global Fund funded projects for NRASD.

[51] Cite to contracts

[52] SAF-910-G09-H Program Grant Agreement for Round 9, Annex A page 1.

[53] 10 November 2010 Email from Dr. Renier Koegelenberg to Amy Clancy.

[54] 10 November 2010 Email from Dr. Renier Koegelenberg to Amy Clancy.

[55] 10 November 2010 Letter from Tenk Loubser, sent 10 November 2010 via email by Dr. Koegelenberg to Amy Clancy.

[56] 29 August 2011 Letter from Dr. Renier Koegelenberg to Anne Rwego and Amy Clancy, p. 2, sent via email 29 August 2011.

[57] 29 August 2011 Letter from Dr. Renier Koegelenberg to Anne Rwego and Amy Clancy, p. 2 sent via email 29 August 2011.

[58] 10 November 2010 Email from Dr. Renier Koegelenberg to Amy Clancy.

whether NRASD intentionally sought to deceive the Global Fund regarding the internal auditor's independence from Exceed.

i. INVESTIGATION FINDINGS

38. The OIG investigation identified several facts that suggest that Mr. van der Merwe was not independent from Exceed including: (i) the existence of Mr. van der Merwe's professional bio on the Exceed website[59] (ii) Mr. van der Merwe was originally retained by Exceed to fill the role of the Exceed internal auditor to NRASD and (iii) Mr. van der Merwe reported his initial findings to Exceed management, not directly to NRASD[60]. Despite statements from both Exceed representatives and Mr. van der Merwe about the latter's independence[61], the OIG concludes that Mr. van der Merwe was not independent in appearance and was also likely not independent in fact from Exceed.

39. Notwithstanding the above finding, the OIG did not find any evidence that NRASD purposely attempted to mislead the Global Fund regarding Mr. van der Merwe's independence.

d. PROCUREMENT

i. ISSUES ARISING

40. Prior to the mission, the OIG Investigations Unit received an e-mail from a losing bidder in a Grant funded Tender for HCBC Starter Packs and Refills (HCBC Tender), alleging violation of procurement procedures by NRASD's procurement agent SU.[62]

41. As a result of the allegation of procurement irregularities, the OIG Investigations Unit requested documents and information from NRASD regarding the HCBC Tender.[63] Despite this, the OIG Investigations Unit's review of the documents and information provided by NRASD regarding the HCBC Tender, questions remained regarding the HCBC Tender.[64]

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[59] http://www.exceed.co.za/index.php?id=17 (as of March 7, 2012)
[60] Louw van der Merwe, Internal Audit Report, 21 April 2011.
[61] Louw van der Merwe, Record of Conversation, 7 March 2012, and Tenk Loubser, Record of Conversation, 05 March 2012.
[62] 03 March 2012 Email from Nadine Olivier to Inspector General.
[63] 08 August 2011 Email from Wendi Aronson to Professor Jan du Toit, requesting "copies of the tender related documents, including but not limited to documents related to the supplier selection process"; 15 August 2011 Email from Wendi Aronson to Professor Jan Du Toit; 15 September 2011 Email from Wendi Aronson to Dr. Koegelenberg.
[64]The OIG investigations team had the following questions regarding the HCBC Tender: (i) what if any previous relationship did NRASD and/or SU have with the three invited suppliers ; (ii) whether all suppliers were notified at the same time of the invitation to tender; (ii) the date and time of receipt of the tender submitted RW Gibbs (Pty) Ltd/Mopani Industries; (iv) why the tender quotation of the winning bidder, NMH, was dated 23 February 2011, one day before the tender was issued; (v) why NMH, the winning bidder, was given full score for Broad-Based Economic Empowerment Certification, when they did not submit proof of certification with their tender; (vi) what rational was used for awarding scores to the bidders; and (vii) why was the most expensive bidder awarded the tender.

42. Because non-health sector procurement constituted a significant value of the overall Grant[65] and deficiencies were observed in the HCBC Tender process and questions remained regarding the HCBC Tender, there was a risk that value for money was not achieved in the NRASD tenders. Therefore, it was necessary to more closely review the HCBC Tender and conduct a review of procurement undertaken by NRASD.

ii. INVESTIGATION FINDINGS

43. The OIG Investigation Unit notes that there were some deviations from SU procurement policy and procedures in respect to the HCBC Tender.[66] However, no evidence of collusion or conflict of interest in relation to this tender was identified.

44. The investigation also found that the general SU purchasing system as applied on quotation-based orders has sufficient internal controls. The functions of requisition, approval, ordering, and invoice settlement are adequately separated to guarantee the integrity of the procurement system.

45. Overall, the OIG Investigation Unit found that the procurement shortcomings identified in regard to the HCBC Tender appear to be an exception to the norm, and do not represent a systemic failure of the SU Procurement System as applied to the Global Fund Grant.

e. LOSS

46. The OIG Investigations Unit's review of the NRASD and selected SRs[67] did not identify any loss of Global Fund Grant funds.

f. DUE PROCESS

47. The OIG Investigations Unit provided the Global Fund Secretariat, the RMC, the LFA, and NRASD an opportunity to review and comment on the investigation's findings prior to the publication of the report. These comments have been considered prior to the finalization of the report, and incorporated where deemed appropriate.

[65] PU/DR (and related EFR) for the period ending November 30, 2011 submitted by PR, not verified by the LFA as of the date of the OIG Investigation.
[66] OIG investigations team notes the following deviations: (i) bids were opened, evaluated and the winner awarded prior to the bid closure date as per tender announcement, (ii) Tender Committee made material disclosures to some bidders prior to issue of tender, (iii) evaluation weightages were not finalized prior to commencement of tender process ,(iv) evaluation criteria with weightages was not disclosed to bidders , and (v) bids evaluated incorrectly whereby points were improperly allocated by the Tender Committee.
[67] The Africa Centre for HIV/AIDS, AfriSIDA and Scripture Union.

V. RECOMMENDATIONS[68]

a. SHORT TERM RECOMMENDATIONS

i. ENGAGE A NEW INTERNAL AUDIT FIRM

48. The OIG Investigations Unit found that the internal auditor appointed by NRASD was not independent (at least in appearance) from Exceed, the external financial management firm hired to manage a portion of the grant funds. The OIG Investigations Unit recommends NRASD undertake a tender process to engage a new and independent internal audit firm. The OIG Investigations Unit further recommends that the terms of reference for the internal audit firm be shared with the Global Fund Secretariat prior to the initiation of the tender process and that the final selection of the winning firm be communicated to the Global Fund Secretariat. NRASD have informed the OIG that they have already appointed a new internal auditor.

ii. FURTHER STRENGTHEN CONTROLS OVER FINANCIAL ACCOUNTING AND REPORTING

49. During its testing of Grant financial transactions, the OIG Investigations Unit identified errors in the expenditure reconciliation and reporting process. First, the bank reconciliation worksheet prepared by the Grant Financial Manager failed to accurately account for VAT incurred on transactions from the Exceed Trust account. Further, one consultant payment from the Exceed Trust account was double counted, resulting in an overstatement on the reconciliation sheet and on the PUDR. To mitigate the recurrence of such errors, the OIG Investigations Unit recommends that the Financial Manager review and reconcile both the Exceed General Ledger ***and*** the Exceed bank statement during the process of merging SU and Exceed transactions for purposes of Global Fund reporting. Further, the OIG Investigations Unit recommends that the Financial Manager, Exceed and the LFA review the bank reconciliation process employed by the Financial Manager to ensure that recurring reconciling items (such as exchange rate differences) are properly identified, quantified and categorized.

iii. CLARIFY THE ROLE OF EXCEED IN THE GRANT'S TREASURY PROCESS

50. The role of Exceed in the Grant treasury process is not clearly defined or documented. An internal audit report[69] documenting grant procedures stipulates that all Global Fund funds would flow to Exceed; however this has not been the case. Further, a significant amount of funds sat idle at Exceed for most of 2011 and were ultimately transferred to SU for on-payment to the SRs. It appears that Exceed's main role in the treasury function to date has been to pay NRASD consulting payments as well as Exceed own fees. The OIG Investigations Unit recommends that NRASD clearly define and document Exceed's role in the treasury function for the

[68] Similar and in some cases more detailed recommendations are offered in the OIG's Diagnostic Review.
[69] Louw van der Merwe, Internal Audit Report, 21 April 2011.

remainder of Grant and make transfers to the Exceed Trust account commensurate with that role.

iv. Ensure that Contractual Arrangements with SRs and other Partners are Done at Arm's Length

51. The OIG Investigations Unit noted that NRASD was providing free office space, within its office, to one of its SR's, AfriSIDA. The OIG Investigations Unit recommends that NRASD refrain from making such concessions, which may be questioned by outside parties. It is further recommended that NRASD ensure that any other similar arrangements with SRs or related parties be done at arm's length to avoid any appearance of favoritism or impropriety. In this instance, the OIG Investigations Unit recommend that NRASD and AfriSIDA enter into a simple but formal arrangement for the provision of office space. NRASD have committed to doing so.

v. Ensure Transparency in Payments of Salaries to Staff and Consultants

52. The OIG Investigations Unit found that certain consultancy payments were being made in a manner that lacked transparency. It is recommended that all staff and consultants have contracts with NRASD and that the contracts contain clear terms of reference.

vi. Ensure compliance with all SU Procurement Policies.

53. In the HCBC Tender, the OIG Investigations Unit found deviations from SU procurement policy and procedure. It is recommends that all Global Fund related procurements follow the policies and procedures as spelled out in University of Stellenbosch, Purchasing and Tender Policy and Procedure. In addition, it is recommends that the Tender Evaluation Committee maintain complete records of all notes and explanations of their award of points and selection of a winner bidder. Any factors taken into account by the Tender Committee in awarding a bid should be recorded and retained.

b. Medium –Term Recommendations

i. Simplify Financial Management Structure

54. The NRASD currently makes use of two different external entities, SU and Exceed, to manage grant funds and account for program expenditures. The use of two distinct entities has resulted in complicated fund flows and confusing and sometimes competing roles and the added complexities of merging and reconciling activities from two different financial management sources for purposes of reporting to the Global Fund. It is recommended that NRASD begin to strategize on how to simplify its financial management architecture. Should NRASD choose not to build its own in-house financial management capacity; it should consider limiting its external financial management partners to one, in particular from a cash management and

treasury perspective. NRASD have confirmed that they will limit its financial management partners to one when the new Single Stream Funding Grant is being renegotiated early in 2013.

ii. Sharpen Lines of Reporting for Financial Manager and Grant Management Staff

55. SU's role as a critical technical partner to NRASD has resulted in a blurring of certain lines of reporting for certain key staff. The Grant's Financial Manager and Program Manager, for example, while being fully paid for by the Grant, are actually employed by SU specifically to work on the NRASD Global Fund Grant. These team members appear to take much of their direction from SU personnel and not NRASD. It is recommended that NRASD rethink the employment mechanisms currently in place to ensure that full time Grant staff take direction and report directly to the NRASD.

VI. Conclusions

56. After a thorough investigation, the OIG Investigations Unit found no evidence of fraud or serious mismanagement of the Grant by NRASD, and did not identify losses of grant funds. However, some deficiencies in financial management were noted and recommendations are made to improve aspects of the financial management of the Grant and ensure transparency.