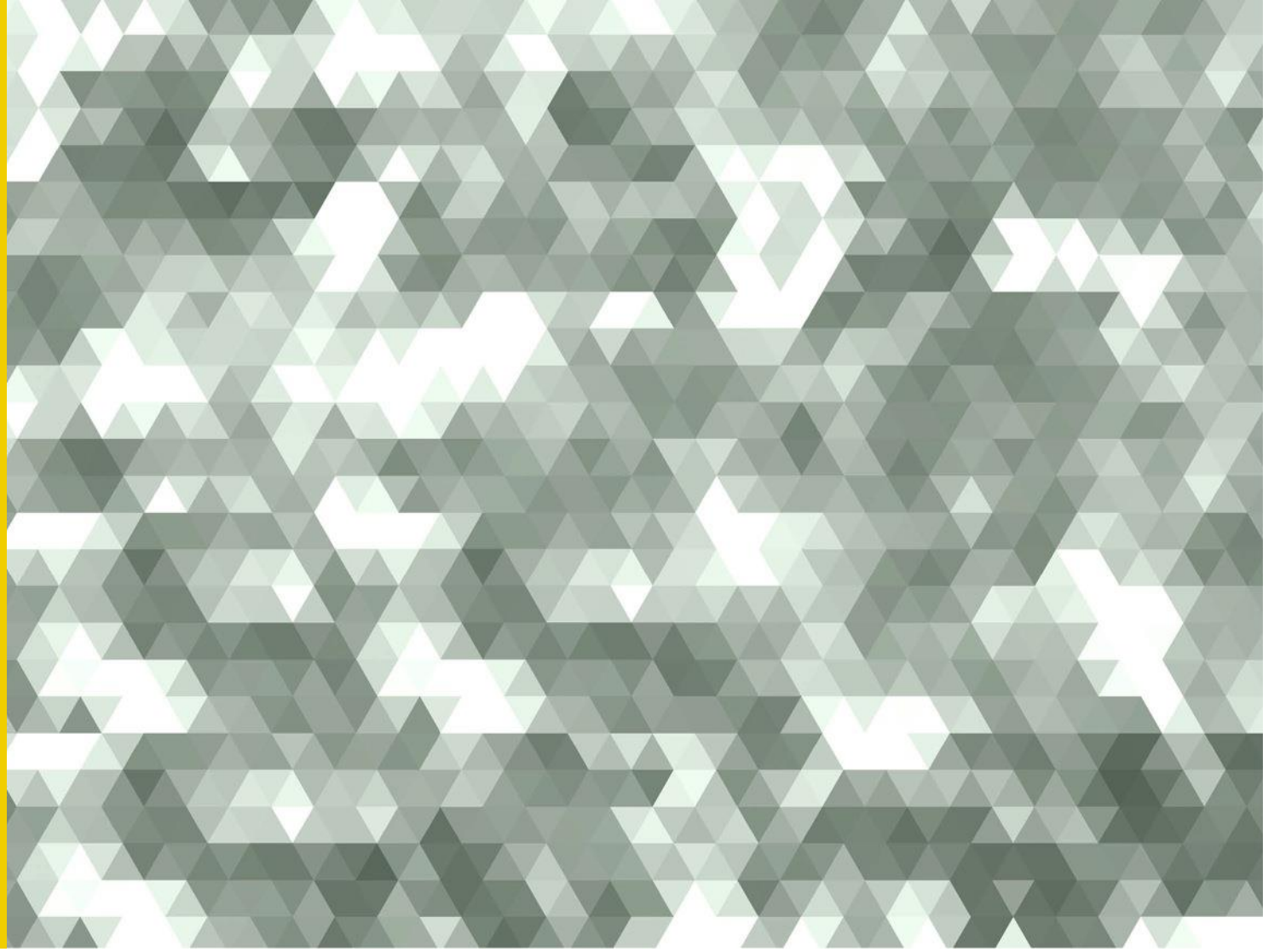

Audit Report

Global Fund Grants to Haiti

GF-OIG-17-012
6 June 2017
Geneva, Switzerland

The Global Fund
Office of the Inspector General

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The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.

Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.

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Audit Report

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1. Executive Summary

1.1. Opinion

Haiti has made significant progress in the fight against the three diseases despite limited infrastructure and an unstable political landscape. The Global Fund Secretariat and the Principal Recipient, Population Services International (PSI), have designed financial assurance and implementation arrangements to ensure efficient and effective use of grant funds. There are, however, inadequacies in the way programs are assessed and related capacity building to ensure optimal use of Global Fund resources and strong health impact. For example, PSI has not assessed whether its grant sub-recipients have the necessary resources, equipment, strategies and systems in place to reach programmatic grant objectives. This, together with other factors such as delayed signing of sub-recipient contracts and starting up of grant activities, may have contributed to low programmatic performance in the first year of grant implementation.

PSI has also established adequate internal controls over financial risks and sub-recipient management to ensure the effectiveness of the Global Fund grants. The Principal Recipient has well-designed processes for financial and sub-recipient management, but their effectiveness still needs to be fully evaluated.

1.2. Key achievements and good practices

Progress in reducing disease burdens. Total Global Fund investment of over US$376 million in Haiti since 2003 has contributed to the country significantly increasing the number of HIV patients on anti-retroviral treatment. Currently, over 82,500 people receive anti-retroviral treatment, representing 64% of the total estimated number of people living with HIV. HIV prevalence among adults remains stable over time, indicating that prevention and treatment programs are successfully curbing new infections and providing treatment to those who are HIV positive.

The country is on the path towards malaria elimination. Malaria incidence decreased by approximately 50% between 2010 and 2015. Successful malaria interventions have made it possible for the country to adopt a national strategic plan with the aim of eliminating local malaria transmission by 2020.

PSI has sufficient implementation capacity. PSI manages interventions for all three diseases. It has previous experience in successfully managing malaria interventions in Haiti and, although it is a new Principal Recipient for HIV and tuberculosis, it is leveraging this experience in its implementation of the new disease portfolio.

Programs are implemented by both public and civil society sub-recipients. The Principal Recipient works closely with five governmental entities and nine civil society organizations who are sub-recipients to the grants. This is likely to foster country ownership and build capacity for national partners in the long term.

1.3. Key issues and risks

Challenging country context. In the first year of implementation for the HIV/TB/Health Systems Strengthening (HSS) grant, absorption was only 52.3% out of the yearly budget and 55.6% for the malaria grant according to the Local Fund Agent review. This was partly due to the challenging country context. Haiti is the poorest country in the Western hemisphere and it is also one of the countries that the Global Fund categorizes as a Challenging Operating Environment. It is also placed under its Additional Safeguard Policy (see Section 2.2). The country is continuously facing significant challenges due to weak infrastructure and limited human resources in general and in the health sector.

Inadequate control over programmatic areas. The Principal Recipient did not assess the programmatic capacity of the sub-recipients before signing contracts with them. In 2016, the assurance framework was not prioritized although the country is categorized as a Challenging Operating Environment. This should have been a priority in line with Global Fund Board expectations that progress for these countries is regularly evaluated. Moreover, there are weaknesses in the Principal Recipient's controls over programmatic and health product data quality at source level and limited mechanisms to ensure that the data it receives is accurate and complete throughout all reporting levels.

Limited sustainability of capacity building activities. The main donors in the country are engaged in capacity building initiatives, but there is no strong counterpart to assume a donor coordinating role to find synergies and a sustainable approach to building capacity. The Global Fund addresses capacity building through the grants, for example through the health systems strengthening component activities related to recruitment and training of health workers. There is a risk that these capacity building activities will not be sustainable if the government cannot assume the responsibility of the health workers beyond the lifetime of the grant.

Weaknesses in financial control arrangements. The local PSI affiliate (the local Principal Recipient in the country) does not have a functioning mechanism in place for fraud prevention, detection or reporting. There is a need to strengthen the link between financial controls and programmatic activities, as evidenced by the fact that some expenditures do not relate to the intended grant activities. The Principal Recipient staff conducting financial verification at sub-recipient level need further training on how to enhance this process. Sub-recipients, especially the governmental entities, have weaknesses in their financial capacity, including lack of basic financial controls. The accounting systems are not reliable, policies and procedures are not updated, and there is no internal audit function.

1.4. Rating

Objective 1. The adequacy of implementation and assurance arrangements

OIG rating: **partially effective**. There is a moderate risk to the achievement of the objective. The current implementation arrangement has resulted in a moderate level of programmatic achievements. However, challenges such as the country context, delays in the implementation of activities and limited sustainability of capacity building activities will reduce effectiveness of program achievements if risks are not mitigated. The Secretariat and the Principal Recipient are also yet to prioritise the assurance mechanism to ensure that the programmatic areas are adequately monitored.

Objective 2. The adequacy of internal controls in financial management and Sub-recipients management

OIG rating: **partially effective**. There is a moderate risk to the achievement of the objective. Whilst overall internal financial controls are designed adequately, have not always been effectively implemented which resulted in a few instances of non-compliance with the established rules or possible lack of value for money consideration. This is due to inadequate training of Principal Recipient staff who supervised the controls or inadequate financial capacity, specifically for the national programs sub-recipients to implement the established controls.

1.5. Summary of Agreed Management Actions

The Global Fund Secretariat has plans to address the weaknesses identified by the OIG through the following Agreed Management Actions:

- The Global Fund Secretariat will address the gaps in the programmatic assurance by updating the assurance framework. The Global Fund Secretariat will also ensure that the Principal Recipient develops a process and a tool to assess the programmatic capacity of sub-recipients. Regarding the low achievement of grant indicators, the Secretariat will ensure that for the next implementation period, grants are disbursement-ready with budgets and activities approved.
- The finding on limited sustainability of capacity building activities will be addressed through two actions: (a) ensuring that future grants include a component of capacity development and (b) implementing the approved sub-recipient capacity development plan.
- Gaps in the financial control arrangements will be addressed by performing a comprehensive review of school fees activities for all sub-recipients and by putting in place an action plan to address the current control gaps.
- Weak controls over programmatic and health product data management, and reporting at source level will be addressed through the use of the Local Fund Agent to verify the implementation of the quality assurance mechanism as part of the recently approved monitoring and evaluation plan, including its implementation by the Principal Recipient.

2. Background and Context

2.1. Overall Context

Haiti shares the island of Hispaniola in the Caribbean with the Dominican Republic. It is a low income country with a GDP per capita of US$818, which makes it the poorest country in the Western hemisphere.[1] More than half (58.5%) of its population of 10.7 million live in poverty.[2] The UNDP Human Development Index ranks it as the 163rd least developed country out of 188 countries[3] and Transparency International ranks it as 159th out of 176 countries in its Corruption Perception Index.[4] The country was also rated as "high alert" in a Fragile States Index in 2016.[5] The INFORM risk index ranks Haiti as very high risk due to a lack of governance, lack of access to health care and high inequality.[6] Haiti has a history of natural disasters. In January 2010, a 7.0 magnitude earthquake had devastating consequences. More than 220,000 people lost their lives, over 100,000 homes were destroyed and around 1.2 million people were displaced. The country has a shortage of health care professionals, low retention rates and gaps in services at all levels of the health care system. The lack of staff was further exacerbated by the earthquake in 2010 when the country lost countless health care workers and students. Haiti is also politically unstable. After a period of political turmoil surrounding the presidential elections in 2016, the current president was inaugurated in February 2017. At the time of the audit, 19 of the largest public hospitals had been on strike since December 2016 resulting in service disruption for patients, especially the most vulnerable who cannot afford private care. Prior to the current strike, the hospitals had only recently ended another six-month strike.

2.2. Country Differentiation Category: Haiti

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by size of allocation amount, disease burden and impact on the Global Fund's mission to end the three epidemics. Countries can also be classed into cross-cutting categories: Challenging Operating Environments and countries that fall under the Additional Safeguard Policy. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, manmade or natural crises. The Additional Safeguard Policy is a set of extra measures that the Global Fund can put in place to strengthen fiscal and oversight controls in a particularly risky environment.

Haiti is classified as core country based on the 2014/2016 allocation in which the Global Fund Board allocated a total of US$120 million for Haiti. The country accounts for 0.46% of the global HIV burden, 0.24% of the global tuberculosis burden and 0.078% of the global malaria burden. Following the earthquake in January 2010, the Global Fund invoked the Additional Safeguard Policy in April due to exacerbated risks related to weaknesses in the Country Coordinating Mechanism governance, low accountability, poor government capacity and performance from the Principal Recipient at the time, Fondation Sogebank. The policy will remain in place for the 2017-2019 allocation.

	Focused: (Smaller portfolios, lower disease burden, lower mission risk)
X	**Core: (Larger portfolios, higher disease burden, higher risk)**
	High Impact: (Very large portfolio, mission critical disease burden)

X	**Challenging Operating Environment**
X	**Additional Safeguard Policy**

[1] World Bank data, 2015 http://data.worldbank.org/country/haiti
[2] World Bank data 2012 and 2015 http://data.worldbank.org/country/haiti
[3] UNDP Human Development Report 2015
[4] Transparency International Corruption Perception Index, 2016
[5] Fund for Peace Fragile States Index 2016, http://fsi.fundforpeace.org/rankings-2016
[6] INFORM index http://www.inform-index.org/

2.3. Global Fund Grants in the Country

The Global Fund has invested over US$376 million in the fight against HIV/AIDS, tuberculosis and malaria in Haiti since 2003 and has currently two active grants in the country.

Table 1: Active Global Fund grants to Haiti

Active grants	Principal Recipient	Grant components	Grant period	Signed amount US$
HTI-C-PSI	Population Services International	HIV/AIDS	November 2015 – December 2017	63,652,083
		Tuberculosis	April 2016 – December 2017	
		Health Systems Strengthening	July 2016 – December 2017	
HTI-M-PSI	Population Services International	Malaria	January 2016 – December 2017	16,583,909
Total				**80,235,992**

PSI, the Principal Recipient for the two grants, is an international nonprofit organization based in Washington DC. PSI implements the grants through its local affiliate Organisation Haïtienne de Marketing Social pour la Santé (OHMaSS) and OHMaSS act as the local Principal Recipient in the country.

PSI also acts as a Principal Recipient for Global Fund grants in eight other countries through a global framework agreement signed in January 2015.

PSI has been the Principal Recipient for the malaria grant since 2011 and took over the responsibility for the joint HIV/AIDS and tuberculosis grant from the previous Principal Recipient UNDP in November 2015. PSI, through OHMaSS, implements Global Fund activities through five governmental entities and nine local non-governmental organizations. The Principal Recipient allocates 56% of its 2016-2017 budget across 14 sub-recipients.[7]

[7] The Principal Recipient allocates 18% of the budget for the two active grants for human resources, grants and contracting, institutional assessments, monitoring and evaluation, training activities and administrative costs. This budget is allocated between PSI HQ and OHMaSS, the PSI local affiliate in Haiti. Procurement represents 26% of the budget, 90% of which is done via the Global Fund Pooled Procurement Mechanism. The remaining 56% of the budget is implemented by 14 sub-recipients.

2.4. The Three Diseases in Haiti

HIV/AIDS: Haiti has a generalized HIV epidemic where the primary mode of transmission is through heterosexual intercourse, but with higher concentration among key populations (men who have sex with men, female sex workers and youth aged 15-24).[8] In July 2016, Haiti adopted the "test and treat" policy, with the intention of starting treatment for all cases that are tested positive for HIV.

The Global Fund and the US President's Emergency Plan for AIDS Relief (PEPFAR) are the largest donors for HIV/AIDS in Haiti.

78,676 People currently on antiretroviral therapy, or 64% of estimated People Living with HIV, an increase from 6,000 people in the year 2006[9]

HIV prevalence (adult population): 1.7%[10]

Number of People Living with HIV: 123,030[11]

Malaria: The island of Hispaniola is the only area in the Caribbean where malaria is still endemic. Haiti, together with nine other countries in Mesoamerica and Hispaniola, is part of the Global Fund initiated EMMIE12 initiative to eliminate malaria by reducing local transmission of the disease to zero by 2020, and to declare the region "malaria free" by 2025.13 The Government of Haiti has developed a Malaria Elimination Plan to support the initiative.

All cases are caused by the Plasmodium falciparum parasite.

The Global Fund is the most important donor for malaria in Haiti together with the Malaria Zero consortium

3,370,000 Insecticide-treated nets distributed

Reported number of malaria cases in 2015 : 17,583[14]

Population living in high transmission areas: 53%

Population living in low transmission areas: 47%

Tuberculosis (TB): Haiti has the highest TB burden in the Western Hemisphere. The urban area around Port au Prince accounts for almost half of detected cases.

During the 2010 earthquake, four major TB centres were destroyed and patients interrupted their treatment and were displaced in camps, which doubled the number of cases and caused an outbreak of MDR-TB.

The Global Fund is the largest donor for TB in Haiti.

67,700 New smear-positive TB cases detected and treated.

New and relapse cases detected in 2015: 16,431[15]

HIV-TB co-infection: 16% (2426 patients)[16]

Treatment rate: 79%[17]

Cure rate: 78%[18]

[8] Although the disease burden for men who have sex with men is difficult to establish, it is estimated at 12.9%, with large regional variations[8]. Among female sex workers, there is an estimated national prevalence of 8.7% (UNAIDS, Aidsinfo 2015).
[9] Local Fund Agent validated data in disbursement request; Global Fund website, Haiti country overview
[10] UNAIDS: Aidsinfo 2015 http://aidsinfo.unaids.org/
[11] Local Fund Agent validated data in disbursement request
[12] Elimination of Malaria in Mesoamerica and Espanola Initiative
[13] Haiti National Malaria Elimination Plan
[14] World Malaria Report 2016. Estimated number of cases ranging from 42,000 to 100,000
[15] World TB Report 2016
[16] World TB Report 2016
[17] World TB Report 2016
[18] World TB Report 2016. New and relapse cases registered in 2014

3. The Audit at a Glance

3.1. Objectives

The audit sought to give the Global Fund Board reasonable assurance as to whether the implementation and assurance arrangements of the Global Fund grants to Haiti are adequate, efficient and effective in achieving the grant objectives. The objectives were to assess:

1) the adequacy of implementation and assurance arrangements; and
2) the adequacy of internal controls in financial management and sub-recipients management.

3.2. Scope

The audit was performed in accordance with the methodology described in Annex B and covered the period from November 2015 to January 2017 covering the two active grants. The audit scope included reviews of the Principal Recipient, Population Services International, and of seven sub-recipients. The sub-recipients reviewed were:

Table 2: Sub-recipients included in audit review scope

Governmental entity sub-recipients	National Tuberculosis Program, 'Program National de Lutte Contre le Tuberculose' (PNLT);
	National HIV/AIDS Program, 'Program National de Lutte Contre le SIDA' (PNLS)
	National Malaria Program, 'Program National de Lutte Contre le Malaria' (PNCM)
	National Blood Safety Program, 'Program National de Sécurité Transfusionnelle' (PNST)
Non-governmental sub-recipients	'Groupe Haïtien d'Etude de Sarcome de Kaposi et des Infections Opportunistes' (GHESKIO)
	'Partners in Health' (PIH)
	'Fondation pour la Santé Reproductrice et l'Education Familiale' (FOSREF)

The auditors engaged with in-county partners during the audit and visited the PSI Headquarters in Washington DC, US, to assess the assurance mechanisms and the support provided by PSI HQ to the PSI local affiliate organization in Haiti.

The audit did not cover procurement activities undertaken by the Global Fund's Pooled Procurement Mechanism or PSI HQ. The OIG relies on the work performed by the external auditor on specific transactions at the PSI HQ following an agreement with the Global Fund Secretariat.

The OIG also relied on the work done by the Local Fund Agents who had reviewed significant expenditure transactions covering about 80% of the reported transactions in 2016. The auditors reviewed 22% of the 2016 fourth quarter transactions to assess the effectiveness of the established financial controls.

3.3. Progress on Previously Identified Issues

This is the second OIG audit of the Global Fund grants to Haiti. The first audit was conducted in 2009. The OIG did not follow-up on the recommendations of the previous audit because the implementation arrangements have significantly changed since then. Fondation Sogebank was the sole Principal Recipient at the time. Following the resignation of Fondation Sogebank, the Country Coordinating Mechanism selected UNDP and PSI as Principal Recipients in 2011. In 2014, the Country Coordinating Mechanism appointed PSI as the Principal Recipient for all grants in Haiti.

Previous relevant OIG audit work:

GF-OIG-09-13, Country Audit of Global Fund Grants to the Republic of Haiti

4. Findings

4.1. Low achievement of grant indicators due to delays in signing contracts with sub-recipients and starting grant activities

Implementation of the grants was delayed due to late signing of some sub-recipient contracts. This contributed to low performing grant indicators for the first year of the grants. Furthermore, sub-recipient programmatic capacity was not assessed.

PSI has been implementing Global Fund malaria grants to Haiti since 2011 and took over the responsibility for the HIV/TB/HSS grant in November 2015. This implied a substantial increase in activities and staffing for OHMaSS, the Principal Recipient's local affiliate in Haiti.

Low achievement of some grant indicators caused by delays in implementing activities, mainly due to late signing of sub-recipient contracts

Under the Global Fund's new funding model, grants must be disbursement-ready upon signature in order to avoid implementation delays related to setting up the grants; this means that grant activities and indicators should be defined and implementation should be finalized, including the identification of sub-recipients whenever possible.

Signing grants that are not disbursement-ready and where sub-recipients have not been selected leads to delays in starting up and implementing grant activities. This has resulted in low performance of grant indicators and potential adverse effects to patients. Given the relatively short grant period of two years, it is essential that activities start as soon as possible to ensure that they can be fully implemented in time.

However, 2016, the first year of the implementation of the current grants, was marked by delays in recruiting and signing contracts with some sub-recipients as well as delays in the start-up of grant activities, which resulted in some grant indicators not being achieved.

- A Results Based Financing module of the Health Systems Strengthening (HSS) component had a 0% absorption rate for 2016 and thus did not spend any funds that had been disbursed to it. The Ministry of Finance of Haiti had been originally proposed as the Principal Recipient for this component. However, conditions at country level were not conducive to effective engagement with the Ministry of Finance. For example, no Framework Agreement was signed with the Global Fund and the government did not engage in a capacity assessment process. This had already resulted in delays in implementing activities prompting the Global Fund to suggest a change in implementation arrangements. The HSS component was finally incorporated in the HTI-C-PSI grant with PSI as Principal Recipient, but the delays resulted in low absorption generally of grant funds for 2016.

- The indicator relating to TB case notification among high risk groups (including prisoners)[19] reached only 28% of its annual target in December 2016. This was due to delays in implementing TB activities in prisons. A contract with the sub-recipient Health through Walls mandated to implement tuberculosis treatment in prisons had still not been signed at the time of the audit in February 2017 and activities had not yet started.

- The country has adopted a plan to eliminate local transmission of malaria. Community-based activities of prevention, case detection and investigation are critical steps towards achieving malaria elimination. The reported achievement of the programmatic indicator related to case investigation was only 3% by December 2016.[20] The Principal Recipient selected two sub-recipients for implementation of community-based malaria prevention and case detection activities. The call for tenders was launched in February 2016 but due to protracted selection

[19] Indicator DOTS-6: "Number of TB cases (all forms) notified among key affected populations/high risk groups"
[20] Indicator 1.9 "CM-5: Percentage of confirmed cases fully investigated (malaria elimination phase)" 3% achievement.

processes, the contract with the organization 'Fondation pour la Santé Reproductrice et l'Education Familiale' (FOSREF) was only signed at the end of August 2016 and the contract with 'Volontariat pour le Développement d'Haïti' (VDH) was signed in November 2016.

PSI took over the responsibility for the HIV/AIDS disease component from November 2015 and needed a start-up phase. The responsibility for the tuberculosis and HSS components followed in 2016. Several sub-recipient selection and contracting processes took time (up to eight months), in some cases beyond the direct control of the Principal Recipient, including an ongoing investigation of one of the candidates.[21]

There is an ongoing re-programming exercise of the two grants. The success of this re-programming is critical to ensure catch-up of activities and improved implementation and absorption rates.

Contracts signed without assessing sub-recipient programmatic capacity

To fulfil its obligations under the Global Fund Grant Regulations (2014), prior to signing contracts with sub-recipients, the Principal Recipient conducts a capacity assessment to evaluate whether the organization has the capacity to implement grant activities. The assessment takes the form of a self-assessment by the sub-recipient which is then reviewed by the Principal Recipient. It focuses on financial and administrative areas but does not include specific programmatic, monitoring or evaluation areas. The Principal Recipient does not conduct any other dedicated programmatic capacity assessment prior to signing contracts with sub-recipients.

After contracts had been signed with sub-recipients engaged in HIV prevention activities for key populations, PSI observed capacity gaps and implementation challenges related to these organizations. These had not been noted prior to signing the contracts so there was no costed plan to address them. This contributed to the fact that prevention activities did not reach their targets in 2016.

The indicator "percentage of men who have sex with men who received an HIV test during the reporting period and know their results" reached just over half (54%) of its target in 2016. Contributing factors included capacity and implementation challenges for the two sub-recipients working with prevention activities for men who have sex with men; 'Promoteurs Objectif Zérosida' (POZ) and 'Volontariat pour le Développement d'Haïti' (VDH). Due to stigmatization in Haiti, many men who have sex with men prefer not to disclose their status. This makes it difficult to identify beneficiaries and deliver services to them. It is crucial, therefore, that the selected sub-recipients have solid strategies and capacities in place to identify and deliver services to beneficiaries. After implementation had started, gaps were noted in the capacity of the sub-recipients to identify beneficiaries, which resulted in the low grant indicator performance. The Principal Recipient and the Global Fund Secretariat are now arranging technical assistance to the sub-recipients to fill capacity gaps, in close collaboration with key partners.

The Global Fund Operational Policy Note on Grant Making stipulates that sub-recipient assessments are the responsibility of the Principal Recipient. However, there may be cases when the Global Fund Country Team decides to undertake this assessment, for example when countries are under Additional Safeguards Policy, which is the case for Haiti. However, the Global Fund Country Team was not involved in any assessment of the sub-recipients programmatic capacity.

The Principal Recipient's local affiliate, OHMaSS, did not have a process in place to assess programmatic capacity in a systematic manner and PSI HQ did not provide assistance to develop this process. Since several sub-recipients had already implemented Global Fund grants under previous Principal Recipients, their capacity was considered as known.

Without having a clear view of sub-recipient programmatic capacity to implement grant activities, there is a risk that grant results are compromised. If gaps are not identified prior to signing contracts

[21] The PSI Investigations Unit conducted the investigation. The OIG Investigations Unit reviewed the case and did not launch a full investigation but closed the case with a case closure memo.

and developing budgets, there are also limited opportunities for planning and budgeting tailored capacity building activities at a later stage.

Agreed Management Action

See Agreed Management Action 1

4.2. Unbalanced assurance framework with gaps in the programmatic area

There is a functioning assurance framework in place to safeguard the Global Fund grants, but it is not adequately balanced between financial and programmatic assurance. While the financial assurance is properly designed, there is limited assurance over programmatic data and quality of services.

The Global Fund and the Principal Recipient have put in place financial assurance mechanisms at several levels to safeguard the Global Fund's investments in Haiti:

(i) Local Fund Agent. The Local Fund Agent, Analytics.ht, conducts regular financial assessments and reviews of procurement and supply chain management. There is robust coverage for the financial reviews which, on average, cover 80% of in-country Principal Recipient expenditures. However, the Local Fund Agent mandate in terms of programmatic and data quality review during the period under review has been limited. For example, in 2016, the Global Fund did not request the Local Fund Agent to conduct any reviews in these areas, such as On Site Data Verifications, Health Facilities Assessment or Data Quality Audits.

(ii) External auditor. PSI, with Global Fund approval, has contracted BDO USA LLP to audit the financial transactions of all PSI Global Fund programs including in Haiti. The Global Fund requires BDO to provide additional assurance on four specific areas (procurement, management fees, technical assistance/consultant cost and human resources expenditures). The BDO 2015 audit of the malaria grant was completed with an unqualified opinion and the BDO 2016 audit of the two Global Fund grants in Haiti is expected to be finalized in May 2017.

(iii) Internal audit function at central level. PSI Global Internal Audit (GIA) includes the Global Fund programs in Haiti in its 2016 and 2017 risk-based internal audit plan. GIA does not routinely share its internal audit reports with the Global Fund, per its internal policies, and therefore the effectiveness of the risk-based approach could not be assessed. According to the terms of reference, the 2016 GIA audit of the Global Fund programs in Haiti is primarily focused on financial and compliance aspects and does not include program and data quality in its scope.

(iv) Internal audit function at OHMaSS. The OHMaSS internal audit function was established in mid-2016. As a new unit, it does not yet fully adopt a risk-based audit approach but focuses on providing support to the management.

None of the above assurance providers has regularly included verification of programmatic results in their scope.

According to the Operational Policy Note dated 13 July 2016, the Global Fund categorized Haiti as a 'core" country, requiring the Local Fund Agent to review programmatic reporting annually with mid-year reviews on an optional basis and program quality reviews every other year. However, as Haiti is also classified as a Challenging Operating Environment, the Secretariat could be more flexible, as per the Challenging Operating Environments policy, by evaluating programmatic results on a more regular basis.

The limited programmatic assurance for 2016 has resulted in poor oversight of the programmatic and data quality areas. Furthermore, there are lost opportunities to ensure that financial assurance is linked to programmatic performance assurance. The Secretariat, however, has planned to implement programmatic assurance mechanisms in 2017, including a Health Facility Assessment and data quality audit.

Agreed Management Action 1

The Global Fund Secretariat will work with the Principal Recipient to:

a) ensure that for the next implementation period, grants are disbursement ready with budgets and activities approved. Provisions should be taken to sign/extend (as applicable) sub-recipient agreements in a timely manner to ensure no delays related to the signature of sub-recipient agreements;

b) develop a tool and process for programmatic capacity assessment of sub-recipients and ensure that this is conducted before any agreements with new sub-recipient are signed;

c) update the Global Fund Secretariat programmatic assurance framework to addresses programmatic gaps identified in 2016.

Owner: Head of Grant Management

Due date: 31 March 2018

4.3. Limited sustainability of capacity building activities

The need for strengthened coordination between donors, a challenging country context and grant design limit the Global Fund's ability to build local capacity and to support the long-term sustainability of programs.

In order to achieve sustainable and long-term programmatic impact, Global Fund grants must also contribute to building the capacity of local health systems and partners. The Global Fund can address capacity building on a strategic national level, on a tactical level through the design of grant activities and on an operational level through building the resources and skills of sub-recipients.

- ***Strategic capacity building at the national level***

  Several key donors in Haiti are engaged in initiatives related to capacity building at the national level. These donors include Canada, who contribute to the renovation of hospitals and strengthening of health-related university education; USA who provide technical assistance to most central directorates; France who build the capacity of the Country Coordinating Mechanism; and several other donors who contribute to infrastructure rehabilitation and health workers financing. However, coordination among donors to address gaps in strengthening national health systems and capacity building of national stakeholders is limited.

  The grants, as initially signed, did not include a long-term capacity development plan of local partners. According to the Global Fund Operational Policy Note on the Additional Safeguards Policy, the Principal Recipient is expected to build local capacity and to ensure that local entities are capable of taking over the implementation of the portfolio once the policy is revoked.

- ***Tactical capacity building through grant activities***

  Global Fund grants in Haiti address the need to strengthen health systems and build local capacity building capacity through several activities, including through the health systems strengthening component. For example, this component supports the renovation of health facilities and recruitment, training and salaries for 415 health workers. The grant will finance salaries for health workers until 31 December 2017. Future payments will depend on the Ministry of Health's future financial capacity to pay. Thus, there is a risk that health workers will no longer be paid which will impact the sustainability of the health systems strengthening grant component.

- ***Operational capacity building at the sub-recipient level***

  The Principal Recipient submitted a draft capacity building plan for each sub-recipient to the Global Fund on 29 November 2016. The plan had not yet been approved at the start of the audit in February 2017. The Principal Recipient had, however, already taken steps to build operational capacity at sub-recipient level prior to the plan being approved, including conducting training and information sessions, developing tools and templates and placing focal points in the governmental entity sub recipients. However, since the plan was only recently approved and limited reporting was available, the effectiveness of the capacity building activities could not be assessed.

A challenging country context and a lack of a strong governmental counterpart to assume a donor coordinating role have contributed to a limited focus on building long-term capacity. The country has not signed a Framework Agreement with the Global Fund. The Global Fund has had limited opportunities to liaise with national stakeholders to build long-term capacity through the grants. There is no national health system capacity building plan that the Global Fund can support through its grants. The priority in the first year of the grants was to ensure that there was no interruption of services, rather than building capacity at sub-recipient level.

Long-term and sustainable capacity building on several levels (including coordinated efforts with other donors to address the strengthening of national health systems, through grant activities and

through operational level capacity strengthening of sub-recipients), constitutes one of the several key issues that needs to be addressed in order to achieve a long-term lifting of the Additional Safeguards Policy for Haiti. If capacity building is not adequately addressed, there may be missed opportunities to build stronger local capacity that can improve grant implementation and impact.

Agreed Management Action 2

The Global Fund Secretariat will work with the Principal Recipient and relevant in-country stakeholders to ensure that:

a) the next implementation period grants include a component of capacity development activities focusing on national Global Fund implementers with the most significant capacity gaps, in coordination with other donors;

b) implementation of the approved sub-recipient capacity development plan and update the capacity to development plan to address current OIG findings on weaknesses noted in financial management. This includes support from PSI Global Internal Audit (GIA) to provide each sub-recipient with clear guidelines, including internal control checklists for key transactions and for fraud detection and follow-up.

Owner: Head of Grant Management

Due date: 31 December 2018

4.4. Gaps in the financial control arrangements

The Principal Recipient has designed adequate financial controls, including reliable accounting systems, budgetary monitoring system, segregation of duties and an internal audit function. However, improvements are required for fraud prevention, reporting mechanisms and internal controls of expenses, especially for the governmental sub-recipients'.

The Principal Recipient allocates 18% of the budget from the two active grants for human resources, grants and contracting, institutional assessments, monitoring and evaluation, training activities and administrative costs. This budget is allocated between PSI HQ and OHMaSS, the PSI local affiliate in Haiti. Procurement represents 26% of the budget, 90% of which goes through the Global Fund Pooled Procurement Mechanism. The remaining 56% of the budget is implemented by 14 sub-recipients for other grant activities. The Principal Recipient's financial analysts review sub-recipient expenditures on a monthly basis and issue verification reports.

Inadequate fraud prevention, detection and reporting mechanisms

The Principal Recipient's mechanisms for preventing, detecting, following-up and reporting on cases of potential fraud are inadequate. Although PSI has provided fraud-related information and training to OHMaSS, this has not been sufficient to ensure a systematic approach to identifying fraud red flags and following up on identified cases.

PSI HQ provides support to OHMaSS through the PSI investigation unit. The referral process to the PSI investigation unit is weak due to the lack of systematic procedures guiding how, when and which types of cases should be referred and which cases should be managed at a local level.

The OIG noted two cases where red flags identified at sub-recipient level were not followed up properly:

- In one case, OHMaSS detected ineligible and falsified documentation for 109 children in the school fees payment program relating to one sub-recipient. OHMaSS requested the sub-recipient to provide explanations on the case, but did not investigate or refer the case to the PSI investigations unit. The 109 children were excluded from the list of eligible beneficiaries and no payments were made for these children. However, there was no follow-up on the root cause, potential weaknesses in internal controls or whether this was a systemic issue.

  The audit did not identify any fraud but the auditors found controls in place to prevent fraud are generally weak. The required documentation for determining beneficiary eligibility consists only of internally generated documentation and does not require third party supporting documents.

- In another case relating to fraudulent fuel expenses, OHMaSS requested a refund of misused fuel expenses but did not investigate further. This was a missed opportunity to determine whether the problem extended beyond the known instance of fraud, to identify potential fraud risk exposures and to discourage any misuse of funds.

PSI encourages stakeholders to speak out against fraud and misuse of funds through the whistle-blowing and reporting channel called Ethics Point.[22] Ethics Point has been rolled out to all PSI local offices that implement Global Fund programs, including to OHMaSS in Haiti. However, the whistle-blowing and reporting mechanism has not been extended to the sub-recipient level, who may also be exposed to risk of fraud.

Limited linkage between financial controls and programmatic activities

Current Global Fund grant budgets have been designed to correlate financial data, health product data and programmatic activities to ensure that grant funds are directly related to the achievement of program objectives. However, the verification reviews performed by the Principal Recipient over sub-recipient expenditures do not include a mechanism to ensure that each financial expenditure is linked to an approved program activity.

[22] Ethics Point https://secure.ethicspoint.com/domain/media/en/gui/17670/index.html

The Principal Recipient verifies sub-recipient expenditures with a focus on the availability of supporting documents to support expenditures but with less attention to the correlation between the expenditure and the relevant program activity causing inefficient use of program funds. For example, one sub-recipient used program funds to purchase overseas airlines tickets to attend a training course, but the participants did not travel and did not attend the training.

While grant performance ratings for the grants as of 30 June 2016 were B1 (adequate) and B2 (inadequate but potential demonstrated) as validated by the Local Fund Agent, the Principal Recipient's financial verification of sub-recipients, with one exception, has not always reviewed the root causes for low performance during this period to establish catch-up plans.

During the Local Fund Agent verification of the Progress Update and Disbursement Request, the link between expenditure and programmatic activity is established at the group activity level but not for individual transactions during spot check verifications.

Furthermore, the verification process does not identify low performance at the sub-recipient level and Principal Recipient staff are not trained in this area. The inadequate systems in place to ensure that financial expenditure is linked to programmatic activity poses a risk that certain expenditures do not directly support grant objectives.

Limitations in the adequacy and effectiveness of controls over sub-recipient expenditures

Weaknesses in the financial verification process

The Principal Recipient's financial verification process of sub-recipient expenditures includes detailed monitoring of the funds allocated to each individual sub-recipient through monthly checks of financial reports. The Principal Recipient staff review 100% of monthly expenditures and stamp each reviewed transaction, but without keeping record. This made it difficult to prove that transactions had been reviewed.

PSI excludes the rejected transactions from the monthly financial balance and provides the sub-recipient with the opportunity to re-submit the following month. However, rejected transactions are not monitored to ensure that they have been duly rectified, although program funds have been used to finance these transactions.

OIG review of sub-recipient expenditures

OIG reviewed the financial expenditures for seven sub-recipients. Overall, the internal financial controls for the governmental entity sub-recipients require improvements due to the absence of reliable accounting systems, policies and procedures that are not updated and the lack of an internal audit function.

Sub-recipients are allocated 56% of total grant budgets for Haiti. The governmental entity sub recipients implement 20% of this total and work regularly with ten departments at provincial level. Their financial verification of the departments' expenditures requires significant improvements, including the rigor of the payment process controls and the quality of the supporting documents received. In some cases, the verification reviews conducted by the governmental entity sub-recipients could either not be traced or lacked verification stamps. There are also continuous delays in submitting supporting documents by the departments to the sub-recipients. The weaknesses noted are due to financial capacity gaps at sub-recipient level that need to be strengthened.

The OIG expenditure testing for the fourth quarter of 2016 shows systematic control weaknesses for expenditures related to travel, training, fuel consumption, school fees expenses and related procurement processes. Weak sub-recipients internal controls have resulted in the following:

- **Cumbersome sub-recipient procurement processes**: Based on a sample of procurement transactions, the auditors found several emergency procurements that were non-compliant with tender documentation requirements (which requires a minimum of three quotations) leading to the possibility of poor value for money. In addition, the procurement manual had not been updated and the monetary threshold for requiring three

quotations was considered low by sub-recipients, which meant that many small transactions were subject to heavy procurement rules. There were no long-term agreements with frequent suppliers, which could have facilitated the procurement processes and provided better value for money. The Principal Recipient is currently putting in place a process aiming at strengthening controls.

- **Inadequate supporting documentation**: There was inadequate supporting documentation for travel costs and no third party documentation for school fee payments. This was due to policy inconsistencies regarding the need for supporting documents for travel across sub-recipients and no policy regarding external third party confirmation. The audit confirmed that this is mainly due to inconsistent practices by the sub-recipient on the type of supporting documents needed to justify expenses.
- **Weak budget controls**: The auditors noted unjustified over-spending from the approved budget and non-budgeted expenditures for transactions totalling US$185,000. The sub-recipients, in some examples, did not comply with the applicable budget policy, including the requirement to request a letter of "no-objection" from the Principal Recipient for expenditures that are not in line with the budget.
- **Lack of a common cost sharing methodology:** Most of the sub-recipients either receive funding from other donors or manage more than one Global Fund grant. Some sub-recipients, however, do not have a systematic allocation mechanism to charge common costs across the donors or grants or to avoid double payments by several donors for the same activity. The Principal Recipient is currently establishing a process to strengthen the common cost sharing methodology.

Agreed Management Action 3

The Global Fund Secretariat will work with the Principal Recipient to perform a comprehensive review of school fees activities for all sub-recipients (using the assistance of the Local Fund Agent as applicable) and put in place an action plan to address the current control gaps.

Owner: Head of Grant Management

Due date: 31 December 2017

4.5. Weak controls over programmatic and health product data management, and reporting at source level

The Principal Recipient has weak controls over programmatic and health product data quality at the source level and limited mechanisms in place to ensure that the data it receives is accurate and complete at source level. This can result in inaccurate data being used to quantify health products and prioritize disease interventions, with potential adverse effects for patients and grant performance in the second year of implementation.

The sub-recipients report on programmatic and health product (consumption and treatment) data to the Principal Recipient on a monthly basis. The Principal Recipient conducts quarterly verifications of programmatic data at the sub-recipient level, during which it compares data reported by the sub-recipient with data from the source level.

However, the Principal Recipient verifications are not systematically extended to the source level. In 2016 there was no mechanism in place to ensure that the programmatic data is accurately collected, recorded and reported on a regular basis. There was no formal mechanism in place for Principal Recipient verification of health product data at sub-recipient level or source level.

The weaknesses in Principal Recipient control over data are compounded by the lack of timeliness and completeness of the sub-recipient reporting, despite repeated efforts by the Principal Recipient to improve it. Furthermore, there were discrepancies in data reported at sub-recipient level due to poor understanding of the indicators to be reported. For example, health facilities reported on the number of HIV tests provided to pregnant women, not the number of pregnant women tested, which can give room for duplications.

The Local Fund Agent was not mandated to conduct on site data verification or other reviews of programmatic data quality at source level during the audit period as highlighted previously in section 4.2.

Weaknesses in data quality control and management throughout the reporting chain were caused by insufficient human resources at the Principal Recipient level. They were also caused by the lack of a clear policy at Principal Recipient level which outlines their responsibility to ensure that data quality is of a high enough standard throughout the reporting chain.

Reliable, complete and timely data is essential in order for grant managers at the Principal Recipient and the Global Fund to take informed decisions, allocate resources and evaluate progress of the grant activities. If programmatic and health product data is not collected, recorded and reported in a systematic and accurate manner and the data quality is not reliable, there is a risk that decision are made using inaccurate or incomplete data. Consequently, this can negatively affect the quantification processes and prioritization of disease interventions, leading to negative consequences for the availability of services to patients and for grant performance.

Weak data quality at peripheral level has already been identified by the Principal Recipient, who has taken steps to improve data verification and quality:

- During the second half of 2016, the Principal Recipient conducted its first programmatic on site data verification of the three sub-recipients working with HIV prevention.[23] The onsite data verification evaluated data management systems, checked data reported for key indicators at selected sites and investigated effective participation of beneficiaries in key activities. The onsite data verification highlighted important weaknesses in data validation and management of tools for data collection. Corrective action is ongoing.
- The Principal Recipient has recently recruited 20 quality assurance officers who will reinforce its capacity to conduct programmatic and health product supervisions and data verifications.

[23] The on-site data verification report was published in January 2017

- PSI is also working with sub-recipients and other partners to improve data quality, such as through improving the process of identification of men who have sex with men grant beneficiaries together with the organization Linkages.

Agreed Management Action 4

The Global Fund Secretariat will request that the Local Fund Agent verify the implementation of quality assurance mechanisms planned as part of the recently approved monitoring and evaluation plan and evaluate whether the Principal Recipient is addressing quality assurance weaknesses identified by OIG.

Owner: Head of Grant Management

Due date: 30 June 2018

5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
1. The Global Fund Secretariat will work with the Principal Recipient to: (a) ensure that for the next implementation period, grants are disbursement ready with budgets and activities approved. Provisions should be taken to sign/extend (as applicable) sub-recipient agreements in a timely manner to ensure no delays related to the signature of sub-recipient agreements; (b) develop a tool and process for programmatic capacity assessment of sub-recipients and ensure that this is conducted before any agreements with new sub-recipient are signed; (c) update the Global Fund Secretariat programmatic assurance framework to addresses programmatic gaps identified in 2016.	31 March 2018	Head of Grant Management
2. The Global Fund Secretariat will work with the Principal Recipient and relevant in-country stakeholders to ensure that: (a) the next implementation period grants include a component of capacity development activities focusing on national Global Fund implementers with the most significant capacity gaps, in coordination with other donors; (b) implementation of the approved sub-recipient capacity development plan and update the capacity to development plan to address current OIG findings on weaknesses noted in financial management. This includes support from PSI Global Internal Audit (GIA) to provide each sub-recipient with clear guidelines, including internal control checklists for key transactions and for fraud detection and follow-up.	31 December 2018	Head of Grant Management
(c) The Global Fund Secretariat will work with the Principal Recipient to perform a comprehensive review of school fees activities for all sub-recipients (using the assistance of the Local Fund Agent as	31 December 2017	Head of Grant Management

applicable) and put in place an action plan to address the current control gaps.		
(d) The Global Fund Secretariat will request that the Local Fund Agent verify the implementation of quality assurance mechanisms planned as part of the recently approved monitoring and evaluation plan and evaluate whether the Principal Recipient is addressing quality assurance weaknesses identified by OIG.	30 June 2018	Head of Grant Management

Annex A: General Audit Rating Classification

Effective	**No issues or few minor issues noted**. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
Partially Effective	**Moderate issues noted**. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
Needs significant improvement	**One or few significant issues noted**. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
Ineffective	**Multiple significant and/or (a) material issue(s) noted.** Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised**.**

Annex B: Methodology

The OIG audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place across the Global Fund as well as of grant recipients, and is used to provide specific assessments of the different areas of the organization's' activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.

Annex C: Message from the Executive Director