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OIG RELEASES AUDIT REPORT ON 15 GRANTS IN NIGERIA

“Losses” of \$7 million identified by OIG

PRs contest many of the “losses”

Editor’s note: By their very nature, audits tend to focus on what is not working well, and to devote much less space to what is working satisfactorily. This summary of the OIG audit in Nigeria reflects that “bias.”

On 31 October 2011, the Global Fund’s Office of the Inspector General (OIG) released the final report of an audit on 15 grants in Nigeria from Rounds 1-8, administered by six different principal recipients (PRs). The six PRs were:

- Yakubu Gowan Centre for National Unity and International Cooperation (YGC) – four grants: HIV, Round 1; malaria, Rounds 2, 4, 8
- National Action Committee on AIDS in Nigeria (NACA) – four grants: HIV, Rounds 1 (two grants) and 5; HSS, Round 8
- Society for Family Health (SFH) – three grants: HIV, Round 5; malaria Rounds 4, 8
- National Malaria Control Programme (NMCP) – one grant: malaria, Round 8
- Association for Reproductive and Family Health (ARFH) – two grants: HIV, Round 5; TB, Round 5
- Christian Health Association of Nigeria (CHAN) – one grant: TB, Round 5

Of the six PRs, two – NACA and the NMCP – were governmental.

The time period covered by the audit was 2003 to 2009. The value of all 15 grants was \$682 million, of which \$465 million had been disbursed at the time of the audit. It is not clear whether the OIG examined all \$465 million.

The OIG identified what it called “losses” totalling \$7.0 million that it said should be repaid to the Global Fund by three of the PRs: YGC, NACA and CHAN. All three PRs contested many of the OIG’s findings concerning losses.

The audit report identified a number of weaknesses, primarily in financial management, procurement and sub-recipient (SR) management, and advanced 53 recommendations to address the weaknesses.

This article provides a summary of the OIG’s comments on the performance of each of the PRs, and on the oversight provided by the CCM, the LFAs and the Global Fund Secretariat. In the article that follows this one, GFO provides comments from the PRs and the CCM (as well as from the Secretariat) on the audit findings and recommendations.

Yakubu Gowan Centre

The four grants administered by YGC had a total value of \$172 million, of which \$145 million had been disbursed at the time of the audit.

In its audit report, the OIG said that YGC’s capacity in the areas of governance, financial management, sub-recipient management and procurement was inadequate to safeguard the Global Fund’s resources. The OIG identified losses of \$3.7 million in the grants managed by YGC, made up of \$0.3 million in ineligible expenditures and \$3.4 million in unsupported expenditures. The OIG defines “ineligible” expenditures as costs not in line with the budget and work plan approved by the Global Fund; and it defines “unsupported” expenditures as those lacking adequate supporting documents to provide evidence that the activity took place and that the expenditure was in line with programme activities.

The \$0.3 million in expenditures deemed ineligible relate to a contract between YGC and CHAN-Medi-Pharm under the Malaria Round 4 grant to distribute health products from the state medical stores to health facilities. The OIG said that Medi-Pharm was paid for deliveries at commercial rates, and that Medi-Pharm was also registered as an SR with all of its operational costs met by YGC. The OIG said that Medi-Pharm did not reduce its delivery rates to reflect the fact that its operational costs had been met by YGC. The OIG concluded that the grant was overcharged by \$256,722.

Expenditures that the OIG deemed unsupported included \$659,905 in management fees. According to the OIG, YGC drew this amount from the grant bank accounts and categorised it as “management fees,” but declined to provide the OIG with (a) transaction lists against which the amounts could be verified; (b) cash books or ledgers; (c) bank statements; or (d) support documents.

In addition, the OIG said, there were no supporting documents (i.e., no payment vouchers, invoices, receipts, etc.) for one set of expenditures amounting to over \$2.0 million. The OIG said that YGC had poor record-keeping management and lacked a proper archiving system for key Rounds 1, 2 and 4 documents.

Further, the OIG said, YGC should refund the Global Fund for portions of funds that it transferred to two SRs: the NMCP – in the amount of \$337,816; and the Civil Society Consultative Group on HIV/AIDS in Nigeria (CiSHAN) – in the amount of \$302,617. With respect to the NMCP, the OIG said that the funds were recorded as disbursed by YGC, but not received at the NMCP; and that management at the NMCP did not acknowledge receipt of these monies. In the case of CiSHAN, the OIG said that CiSHAN did not have documentation to support expenditures for the amounts involved.

YGC challenged all of the OIG's findings concerning losses (see next article).

The OIG noted some irregular transactions that remained unexplained at the close of the audit. These involved transfers of funds to various third party foreign bank accounts totalling \$15.8 million. The OIG conducted a separate investigation concerning this finding. GFO will write about this investigation in a future issue.

The OIG also noted that:

- YGC's financial management system could not capture, process and report all programme transactions;
- YGC's financial statements were prepared by its external auditors, contrary to best practice; and
- YGC's internal audit system lacked the capacity to fulfil its mandate.

With respect to SR management, the OIG said that YGC had failed to assess SRs on its capacity to implement grants, and that this resulted in the selection of SRs that lacked the requisite capacity. The OIG also said that YGC failed to sign grant agreements with the SRs detailing programme budgets, work plans and targets.

National Action Committee on AIDS

The four grants administered by NACA had a total value of \$186 million, of which \$113 million had been disbursed at the time of the audit.

The OIG said that NACA had capacity gaps in terms of skills and numbers in its key functional areas. The OIG identified losses of \$763,087 in the grants managed by NACA, made up of \$72,241 in ineligible expenditures and \$690,846 in unsupported expenditures. The expenditures deemed ineligible by the OIG related to the use of Round 5 funds to pay for the preparation of grant proposals for Rounds 8 and 9.

Most of the expenditures in the unsupported category concerned advances that were not accounted for. The OIG said NACA expensed all advances upon payment and did not maintain a ledger to track advances. (NACA responded to this finding; see next article.)

The OIG noted that NACA's audits were often carried out late, and that management did not address the recommendations that arose from the audits.

With respect to financial management, the OIG said that NACA lacked an accounting system that could separate the transactions by grant; that NACA purchased an accounting system which was not fully installed at the time of the audit (almost six years later); and that transactions were recorded in both this system and in Microsoft Excel. This dual system, the OIG said, was not only inefficient and prone to error, but also could not produce reports.

With respect to SR management, the OIG said that NACA lacked a manual to guide SR management and that this resulted in significant internal control weaknesses.

Society for Family Health (SFH)

The three grants administered by the SFH had a total value of \$132 million, of which \$87 million had been disbursed at the time of the audit. The OIG did not identify any losses in the SFH grants that needed to be repaid.

The OIG said that the SFH had the requisite capacity, experience and structures in place to effectively implement Global Fund grant activities. However, the OIG said, there were instances where internal

controls were over-ridden, which resulted in some very small losses to the programme. The OIG recommended that SFH strengthen the control environment within which grants are implemented in order to further safeguard grant resources.

National Malaria Control Programme

The one grant administered by the NMCP had a total value of \$102 million, of which \$69 million had been disbursed at the time of the audit. The OIG did not identify any losses with respect to this grant.

The OIG said that the NMCP capacity and control environment was inadequate to safeguard Global Fund resources in the areas of governance, financial management and procurement. Specifically, the OIG said that the financial management structures within the programme management unit did not have sufficient checks and balances; that the NMCP did not comply with some conditions stipulated in the grant agreement; and that the NMCP also did not meet all the conditions related to disbursements which were meant to address capacity gaps identified by the LFA in its assessment of the NMCP.

The OIG said that it noted several instances where documentation provided in support of expenditures was not authentic.

The OIG noted several weaknesses with respect to the NMCP's procurement services, including that the processes were not transparent; that the OIG was unable to locate some suppliers at their registered offices; and that some transactions resulted in the purchases at prices at higher than prevailing rates.

Association for Reproductive and Family Health

The two grants administered by the ARFH had a total value of \$66 million, of which \$27 million had been disbursed at the time of the audit. The OIG did not identify any losses in the ARFH grants.

The OIG said that the ARFH had the requisite capacity, experience and structures in place to effectively implement Global Fund grants. However, the OIG said, the ARFH needs to strengthen its control environment, particularly with regard to SR management, in order to safeguard grant resources.

The OIG noted some irregular transactions, where ARFH withdrew large sums of cash from its U.S. dollar account. The equivalent local currency was returned in instalments some time later – sometimes as much as a month later. In the view of the OIG, this exposed programme funds to the risk of loss, especially since there was no documentation to support the rate at which the funds were converted. The OIG said that it was not provided with an explanation for this unusual practice.

Christian Health Association of Nigeria

CHAN was PR for the first phase of a Round 5 TB grant. The CCM nominated a different PR for Phase 2 due to, in the words of the OIG, "poor performance." During Phase 1, which ran between 1 January 2007 and 30 June 2009, the Global Fund disbursed \$23.9 million against a budget of \$25.7 million.

In its audit report, the OIG identified losses of \$2.5 million in the portion of the grant managed by CHAN, made up of \$0.8 million in ineligible expenditures and \$1.7 million in unsupported expenditures.

The ineligible expenses consisted of \$395,668 in salaries for staff that were not involved in the programme funded by the grant; and \$444,919 in expenditures for "project support costs." With respect to the latter, the OIG said that CHAN management decline to provide it with (a) transaction lists against which the amounts could be verified; (b) cash books or ledgers; (c) bank statements; or (d) support documents.

About two-thirds of what the OIG labelled “unsupported” expenditures consisted of disbursements to SRs where, the OIG said, the SRs did not submit proper documentation to account for the funds. The OIG said that these expenditures were not supported by payment vouchers or relevant third party support documents. The OIG said that accountability for funds disbursed to one particular SR is the subject of an on-going investigation.

CHAN contested some parts of the losses identified by the OIG (see next article).

The OIG said that the audit revealed evidence of management over-ride of controls, including instances when management approved transactions that contravened the grant agreement. In addition, the OIG said, CHAN’s procurement and logistics management was weak and resulted in transactions that did not represent value for money. For example, CHAN procured equipment worth \$522,412 for setting up six zonal MDR-TB laboratories, but the equipment was not installed in five of the laboratories because the laboratory architecture was not appropriate.

Oversight

CCM. The OIG said that although the CCM undertook some oversight activities – i.e., site visits – these activities did not result in any actions to strengthen grant performance.

LFA. The audit report said that following an LFA retender process in 2008, PricewaterhouseCoopers (PwC) replaced KPMG as Nigeria’s LFA. The OIG said that, although required by the LFA guidelines to do so, KPMG failed to undertake data quality audits, draw attention to the absence of annual financial audits of grant recipients, flag incomplete financial records of some PRs, or identify financial irregularities and inappropriate indicators and targets. The OIG said that in-country partners reported an improvement in the interaction with the LFA after the appointment of PwC. The OIG noted what it termed “commendable good practice” in the LFA services delivered by PwC in Nigeria, including having customised software for reviews, identifying some critical performance issues, and recognising fraud risk as a grant-related risk. However, the OIG said it was concerned about the fact that PwC did not identify many of the more recent shortcomings identified by the OIG.

Secretariat. The OIG said that between early 2003 and the end of 2008, established guidelines and controls in the operational manual were not followed, and that this contributed to the weaknesses in the control environment within which grants were being implemented. The OIG said that in 2009, the West and Central Africa team at the Secretariat undertook a review of risks that were affecting grants in Nigeria, and that this resulted in risk mitigation measures being implemented for each of the PRs. The OIG said that the Secretariat should be commended for these efforts.

The OIG audit report on Nigeria, and all of the other OIG reports released on 31 October 2011, are available on the Global Fund website [here](#).

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