# AUDIT OF PHILIPPINES GRANTS REVEALS SERIOUS IRREGULARITIES ON THE PART OF ONE PR

An audit conducted on the implementation of Global Fund grants in the Philippines documents numerous systems weaknesses, accounting irregularities and unauthorised expenditures on the part of one principal recipient (PR), the Tropical Diseases Foundation (TDF). TDF, a non-profit science foundation that performs research, service, and training projects in infectious diseases, was the PR for eight grants (involving all three diseases), two of which had already expired by the time of the audit. The audit also raised concerns about the quality of oversight of the PR's performance on the part of the Local Fund Agent (LFA) and the Global Fund Secretariat.

The 121-page report on the audit was recently released by the Global Fund's Office of the Inspector General. As reported in GFO 107 (available at www.aidspan.org/gfo), the Global Fund suspended all five active grants to TDF in September 2009. (There were, in fact, six active grants, but two of them were being consolidated into one.) Since then, the grants have been re-assigned to other existing and new PRs (see next article).

The following table highlights some of the problems identified in the audit.

Table: Problems identified in the performance of TDF as PR

| Problem | Description | Examples |
|---|---|---|
| Inadequate financial management systems | Proper books of accounts not maintained | |

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| Ineffective budgeting processes | Review of budget versus actual expenditures revealed large variances which were never explained. | |
| Improper accounting procedures | Global Fund monies were recorded in various TDF bank accounts, although in its reports to the Fund TDF said these amounts had been disbursed to SRs. | |
| Global Fund monies improperly transferred into TDF's General Fund | US$1.24 million from Global Fund bank accounts had been transferred to the General Fund, had not been refunded, and had not been used for programme activities. | |
| Unauthorised expenditures | Programme funds used for activities that were not in the approved work plan and budget | TDF used $577,000 to purchase two properties. (TDF l refunded the money, after the Fund asked for it back.) TDF used programme resources to pay catering costs f birthday party of one of its executives. |
| | Rates used to bill the Global Fund in excess of the rates approved in the workplan and budget | TDF billed at higher rates for tests for MDR-TB patients. This resulted in over-billing the Global Fund in amount of $252,000. |
| | Double-billing | TDF billed some patients for tests for which it had also charged the Global Fund. |
| Ineffective governance structures within TDF | Lack of policies and procedures to guide programme implementation | There were no policies on how salaries, overheads, etc should be charged to the various cost centres. |
| | Ineffective internal audit function | The internal audit unit, with more than 10 staff, was ine as most of its staff were involved in the day-to-day management of programme activities. |
| | Weak programme oversight by the board | |

The OIG said that TDF's capability to manage and administer the growth in the number of grants "became increasingly an area of concern over the years," and that this was reflected in LFA assessments. (The LFA is PricewaterhouseCoopers.) The OIG said that it noted "a disconnect between [the otherwise] generally positive LFA assessments and the very weak internal control systems" at TDF. The OIG said that "this did not provide a secure environment for the management of Global Fund program resources."

The audit report said that the LFA's assessment of the PR's procurement and supply management (PSM) systems was undertaken only at the central level, and was based only on a desk review of documents. The LFA expert involved had never visited implementation sites at the regional, provincial, municipal, city and suburb levels. The OIG said that this "brings into question the quality of the work done by the LFA as regards PSM."

The OIG said that the LFA had not conducted risk assessments at either the entity level or the grant level. “Failure to review work [from] a risk management perspective clearly led to several significant weaknesses not being identified by the LFA,” the OIG concluded.

However, the OIG also found that the LFA was limited in its ability to effectively assess the capacity of TDF because, by setting up the key implementing departments of the foundation as sub-recipients, TDF had placed these departments outside the scope of the work of LFA. The OIG said that the LFA raised the effect of this set-up with the Global Fund portfolio manager at the time of implementation, but that no action was taken. The OIG noted several instances where the LFA reported concerns about the performance of TDF to both TDF and Global Fund, but said that the LFA’s recommendations were not implemented.

The OIG also noted that grant agreements contained similar conditions precedent from one grant to the next. (Conditions precedents are actions the PR is required to take by a certain time to improve its systems or skills.) Since 2003, for instance, the Global Fund had required TDF to put in place the following systems – none of which were in place yet at the time of the audit in August 2009: systems to account for programme income as grant funds; procurement and logistics management systems; case management systems; and monitoring and evaluation systems. The OIG said that the Global Fund Secretariat did not act to ensure that these conditions precedent were implemented before approving further disbursements.

The audit also covered the CCM. The OIG noted that the CCM was not doing any oversight of the grants being implemented in the Philippines; and that the CCM did not have dedicated secretariat services.

The audit report contains a number of recommendations for corrective action to address the problems revealed in the audit. It also contains the response of the Secretariat to the report’s findings. The Secretariat agreed with virtually all of the findings, but said that the OIG’s recommendations concerning TDF were “moot,” given that TDF has been removed as PR. The Secretariat said that it “fully agreed” with the findings concerning the LFA and was “already exercising tighter control of the quality of work of the LFA.”

With respect to the CCM, the Secretariat reported that the CCM is currently working to enhance its oversight role, which will include the creation of an oversight committee; and that the CCM is in the process of creating a secretariat, and will request funding for the secretariat under the recently established CCM funding mechanism.

The report spells out the steps that the Secretariat has taken to ensure an orderly transfer of responsibility from TDF to the new PRs. The Secretariat is currently in negotiations with TDF concerning repayment of certain sums of money that the Global Fund believes were improperly expended.

The “Audit Report on Global Fund Grants to the Philippines” is available at www.theglobalfund.org/en/oig/reports.

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