OIG RELEASES AUDIT REPORT ON 12 GRANTS IN SRI LANKA

“Losses” of $2.6 million identified by the OIG

Two of the PRs dispute some of the OIG’s findings

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 Sri Lanka 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 12 grants in Sri Lanka from Rounds 1-8, involving three principal recipients (PRs). The three PRs were:

- Ministry of Health Care and Nutrition (MOH&N) – six grants: HIV, Round 6; malaria, Rounds 1, 4, 8; and TB, Rounds 1, 6
- Lanka Jatika Sarvodaya Shramadana Sangamaya (Sarvodaya) – five grants: malaria, Rounds 1, 4, 8; and TB, Rounds 1, 6
- Tropical Environmental Disease and Health Associates Pvt. Ltd (TEDHA) – one grant: malaria, Round 8

The audit was conducted in 2010. The value of all 12 grants was $63 million, of which $22 million had been disbursed at the time of the audit.

This article provides a summary of the OIGs comments on the performance of the PRs, and on the oversight provided by the CCM, the LFA and the Global Fund Secretariat.

For all three PRs combined, the OIG observed weak financial controls and multiple instances of failing to comply with the grant agreement and failing to adequately conform to policies, operating standards and sound commercial practices. The OIG concluded that the internal control environment of the grants requires significant improvement.

For all grants combined, the OIG identified what it called “losses” of $2.6 million which, it said, should be refunded to the Global Fund. These losses consisted of ineligible and unsupported expenditures. The OIG defines “ineligible” expenditures as costs not in line with the budget and workplan approved by the Global Fund. The OIG 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. None of the losses identified by the OIG were in the category of “fraud” or “misappropriations.”

The OIG noted weaknesses in financial management systems that applied in some cases to two PRs and in some cases to all three PRs. These included ineffective monitoring of expenditures; using inferior accounting software; co-mingling of grant funds with funds from other donors without an accounting system that could segregate the bank balances by donor; and recording of expenses under incorrect budget lines. The OIG also noted weaknesses in procurement and supply chain management, such as a lack of adequate documentation to support procurements; and failure to enter data into the Global Fund’s Price Quality Reporting (PQR) mechanism.

Ministry of Health Care and Nutrition (MOH&N)

The seven grants administered by the MOH&N had a total value of $44 million, of which $11 million had been disbursed at the time of the audit.

The OIG identified “losses” of $1.4 million in the grants managed by the MON&H, made up of $1.2 million in ineligible expenditures and $0.2 million in unsupported expenditures. One example of ineligible expenditures concerned the purchase of vehicles. The OIG said that MOH&N spent $368,472 in excess of what had been budgeted. A second example of ineligible expenditures was $616,241 in inter-grant transfers for which the OIG said there was no evidence of prior approval by the Global Fund. A third example involved $189,779 for the payment of taxes on the purchase of goods and services despite the fact that the programme had tax exemption status.

One example of expenditures that the OIG said were unsupported was travel expenses without proof of travel.

In addition, the OIG said that there were several instances where value for money did not appear to have been realised – for example, the purchase of 50 microscopes in 2006 which were only distributed at the time of the audit in 2010.

Finally, with respect to sub-recipient (SR) management, the OIG said that there was no system in place to ensure regular reporting from SRs; and that the MOH&N failed to develop formal guidelines spelling out the operational, financial and budgeting requirements that SRs should comply with when administering Global Fund grants.

Lanka Jatika Sarvodaya Shramadana Sangamaya (Sarvodaya)

The five grants administered by the Sarvodaya had a total value of $14 million, of which $8 million had been disbursed at the time of the audit.

The OIG identified “losses” of $1.2 million in the grants managed by Sarvodaya, made up of $0.4 million in ineligible expenditures and $0.8 million in unsupported expenditures.

Most of the ineligible expenditures concerned $305,124 in inter-grant transfers, for the Round 1 malaria grant, for which the OIG said there was no evidence of prior approval by the Global Fund. The OIG provided the following details: (1) One bank account was used for both the Round 1 malaria grant and the Round 1 TB grant (also managed by Sarvodaya), and $167,671 that should have been used for malaria was used instead for TB; (2) $91,935 was transferred to the MOH&N; and (3) $45,518 was transferred to the Anti-Malaria Campaign (AMC), a programme not covered by the Global Fund. The OIG said that the transfers raised the risk that funds would not be available when needed to implement programme activities.

In the audit report, the OIG did not provide a breakdown of the expenditures that it said were not supported.

With respect to SR management, the OIG observed that Sarvodaya did not have documented eligibility criteria for the selection of SRs; and there was no system in place to ensure regular reporting from SRs.

Tropical Environmental Disease and Health Associates Pvt. Ltd (TEDHA)

The one grant administered by TEDHA had a total value of $5.2 million, of which $2.8 million had been disbursed at the time of the audit.

The OIG identified “losses” of $85,583, made up entirely of ineligible expenditures. Examples of ineligible expenditures were payments for the project director’s residence; and payments to consultants (including TEDHA’s directors) that exceeded actual time worked.

Oversight

CCM. The OIG noted that PRs and SRs sat on the CCM, and that the CCM’s conflict of interest policy was inadequate to mitigate the resultant risks. In addition, the CCM was inadequately funded, so programme funds had to be used to cover CCM-related costs.

LFA. PricewaterhouseCoopers (PwC) was the LFA from the start of the grants. The OIG said that although PwC had made some effort to improve its performance over time, including increasing the number of staff involved, only twice in the seven years the grants were operational did PwC procurement experts get involved – despite the fact that procurement comprises 70% of the Sri Lankan grants.

Secretariat. The OIG noted that there had been no systematic process in place to monitor recommendations from LFA reviews.

Recommendations and Follow-Up

The audit report advanced 40 recommendations to address the weaknesses noted in the audits. Many of these recommendations had been made earlier, at the de-briefings held in-country at the conclusion of the field visits, and when the draft audit report was prepared.

In its report, the OIG commended the commitment of in-country stakeholders to address the audit's recommendations, and stated that the recommendations were already being implemented at a rapid rate. Some details are provided in a letter from the Global Fund Secretariat which is included in the audit report.

The audit report contains an annex where the OIG recommendations are listed, and comments are provided by the entity to whom the recommendations were addressed – i.e., Secretariat, PRs, LFA, CCM.

MOH&N

Concerning the "loss" of $616,241 that the OIG said was transferred between grants by the MOH&N without the prior approval of the Global Fund, the MOH&N told GFO when we were preparing this article that this occurred during a transfer from a general bank account to a grant-specific bank account, and that this matter was fully resolved in September 2010.

Sarvodaya

In the annex to the audit report, Sarvodaya provides an explanation for the inter-grant transfers identified by the OIG as losses. With respect to the $167,671 that the OIG said was spent on the TB programme instead of the malaria programme, Sarvodaya said that this "payment" was made on the advice of the LFA, and that the expenditure is reflected in the TB grant. Therefore, Sarvodaya said, this amount can be treated as actual programme expenditure under the TB grant.

Concerning the $87,291 that the OIG said was transferred to the MOH&N, Sarvodaya said that this amount was paid to MOH&N as a loan for the Global Fund-supported programme at the National Programme for TB Control & Chest Diseases (NPTCCD); and that this was done at the request of the Director of NPTCCD, and with approval of the fund portfolio manager at the Global Fund Secretariat. Sarvodaya said that the $87,291 was subsequently returned to the bank account used for the Round 1 grants, and that this matter has therefore been settled.

(Note: There is some confusion in the audit report concerning whether the amount of the transfer to MOH&N was $93,135, as reported earlier in this article, or $87,291 as mentioned by Sarvodaya in its comments.)

With respect to the $45,588 that the OIG said was transferred to AMC, Sarvodaya said that this amount constituted savings from a grant managed by another PR, was transferred to AMC to overcome a cash flow shortfall and, on instructions from the fund portfolio manager, was used for activities in the Round 1 malaria grant managed by the MOH&N.

When we provided Sarvodaya with a draft of this article, Sarvodaya responded that the "losses" referred to in our article "were fully explained (with all required supporting documents)" in the OIG report "and accepted by the OIG." Sarvodaya said that it would be "factually incorrect" to refer to these as "losses" and that to do so would be "not only erroneous but un-ethical" and "unfairly damaging to the reputation of the organisations concerned."

When contacted by GFO, the OIG said that while Sarvodaya's comments about the losses identified by the OIG were included in the final audit report, the OIG did not receive any supporting documents to back up Sarvodaya's comments. The OIG added that the OIG's calculation of ineligible expenses would only be reduced if Sarvodaya's claims concerning the losses "can be accepted with verification on supporting documents."

Editor's note: In this article on the Sri Lanka audit, as in all articles we have written about the audits and investigations conducted by the OIG, we do not express an opinion about the accuracy of the OIG's findings or the validity of its determinations. We simply report what the OIG said in its reports. Where possible, particularly where the OIG identifies what it calls "losses," we try to provide comments from the organisations that were audited or investigated.

TEDHA

When we were preparing this article, TEDHA told GFO that TEDHA experienced the OIG audit at an early stage of programme implementation, and that the audit enabled TEDHA to revise its system to conform to the audit recommendations. TEDHA suggested that the time frame between the actual audit and the final report with recommendations should be reduced to enable corrective action to be taken as early as possible.

The OIG audit report on Sri Lanka, and all of the OIG reports released on 31 October 2011, are available on the Global Fund website here.

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