Aidspan
Independent observer of the Global Fund

OIG RELEASES AUDIT REPORT ON 10 GRANTS IN ETHIOPIA

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 Ethiopia reflects that "bias."

At the end of April 2012, the Global Fund's Office of the Inspector General (OIG) released the final report of an audit on ten grants in Ethiopia from Rounds 1-8, administered by four principal recipients (PRs), as follows:

- Ethiopian Interfaith Forum for Development Dialogue and Action (EIFDDA) – one grant: HIV, Round 7
- Federal Ministry of Health (FMOH) – five grants: malaria, Rounds 2, 5 and 8; TB, Rounds 1 and 6
- HIV/AIDS Prevention and Control Office (HAPCO) – three grants: HIV, Rounds 2, 4 and 7
- Network of Networks of HIV Positives in Ethiopia (NEP+) – one grant: HIV, Round 7

The audit was conducted between November 2010 and March 2011. The value of all ten grants was $1.3 billion, of which $947 million (73%) had been disbursed at the time of the audit.

There were no findings of fraud or of funds having been misappropriated. However, the OIG identified $7,026,929 in disbursements and expenditures that it says should be reimbursed to the Global Fund, involving two PRs: the FMOH and HAPCO. (The OIG used to refer to these as "losses," but it does not use that term in its report. In this article, we use the term "reimbursables" to refer to funds that the OIG said should be reimbursed.)

As is common in audit reports from the OIG, the report on the Ethiopian audit identified a number of weaknesses among all of the PRs, primarily in financial management, procurement and sub-recipient (SR) management. In a covering letter that accompanied the report, General Manager Gabriel Jaramillo and

Inspector General John Parsons noted that many of the audit findings relate to weaknesses in grant management and oversight that occurred during the early years of the Global Fund.

This article provides a summary of the OIG's findings concerning the performance of the PRs and on the oversight provided by the CCM, the LFA and the Global Fund Secretariat. The article also provides comments from the PRs, the CCM and the Secretariat on the audit's findings and recommendations.

HIV/AIDS Prevention and Control Office (HAPCO)

The three grants administered by HAPCO had a total value of $879 million, of which $599 million had been disbursed at the time of the audit.

The OIG identified reimbursables totalling $6,914,642, consisting of $4,511,127 in "ineligible expenses" and $2,403,515 in "outstanding advances." The OIG defines "ineligible" expenditures as costs not in line with the budget and work plan approved by the Global Fund. The OIG considers "outstanding advances" to be funds disbursed to the PR that were not spent and that should have been returned to the Global Fund when the grants were closed out.

Most of the ineligible expenses ($3,187,500) were funds used to purchase motor vehicles. HAPCO had proposed to purchase these vehicles as part of the close out plan for its Round 4 grant, but the Global Fund Secretariat did not approve the purchase. The bulk of the remaining ineligible expenses consisted of payments for value added tax (VAT). (The Global Fund asks all governments to waive VAT on funds spent by programmes financed by the Fund.)

With respect to the outstanding advances, the OIG said that in August 2010, when the Round 4 grant ended, HAPCO submitted a grant closure plan to the Global Fund. In the plan, the PR proposed to undertake grant closure activities totalling $9,115,593. However, the Global Fund Secretariat only approved expenditures of $3,524,577. As mentioned above, a further $3,187,500 was used to purchase motor vehicles, leaving $2,403,515 in funds that had not been spent and that should be reimbursed to the Global Fund, the OIG said.

Editor's Note: The breakdown of the $6,914,642 in reimbursables, as described above, is based on Aidspan's review of the OIG report. In its summary table, the OIG used a different breakdown. For example, OIG classified the $3,187,500 spent on motor vehicles as an outstanding advance, while Aidspan has classified it as an ineligible expenditure. The Global Fund Secretariat confirmed to GFO that the $3,187,500 was indeed an ineligible expenditure.

In its report, the OIG also expressed concern about a large budget overrun ($58 million) in two HIV grants due to the construction of health centres that were not included in the programme's approved workplan or budget. The OIG said that this overrun led to a shortfall in funds available to finance other activities in the grants. This finding was disputed by both HAPCO and the CCM. The OIG did not call for the $58 million to be reimbursed. (Aidspan will write about the health centres funding matter in a future issue of GFO.)

The OIG identified a number of weaknesses at HAPCO in budget preparation and monitoring, internal audit, the preparation of external audit reports, and governance.

Federal Ministry of Health

The five grants administered by the FMOH had a total value of $404 million, of which $326 million had been disbursed at the time of the audit.

The OIG identified $112,287 in reimbursables, consisting entirely of outstanding advances that had not been accounted for. The OIG said that these were paid to various regions, SRs and institutions for grants that had since expired.

The OIG also said that $7.0 million from the Round 8 malaria grant had been reprogrammed from indoor residual spraying to health centre construction without the necessary approval from the Global Fund Secretariat. The OIG did not call for these funds to be reimbursed.

The OIG identified several weaknesses in FMOH's financial management, including the following:

- the use of spreadsheets for the programme's accounting does not provide an audit trail and is prone to errors;
- external audits were not carried out in a timely manner;
- key reconciliations related to cash and bank transactions and programme disbursements were not regularly prepared and reviewed; and
- the FMOH did not keep records of proof of delivery of commodities.

Ethiopian Interfaith Forum for Development Dialogue and Action (EIFDDA)

The one grant administered by the EIFDDA had a Phase 1 value of $13.8 million, all of which had been disbursed at the time of the audit. Under the grant, there were six SRs and 14 sub-SRs.

The OIG said that the EIFDDA had no systematic programme in place to supervise SR and sub-SR performance. The OIG noted that the EIFDDA's grant implementation manual includes the requirement for the PR to orient SRs on the Global Fund guidelines for annual external audits and to jointly develop a plan of how the SR audits will be undertaken. The OIG said that there was no evidence that this plan was developed. In addition, the OIG said, although the manual requires the PR to withhold disbursements where an SR has not completed the external audit within the defined time, the PR continued to make disbursements to delinquent SRs.

With respect to governance, the OIG noted that the EIFDDA Board had not set up any committees to deal with the various functional aspects of the organisation, such as finance, audit or programme management. In addition, the OIG said, nine of the Board members are executive directors of SRs, which affects the Board's independence and objectivity with regard to grant programme oversight. The OIG said that there were no policies in place to guide the Board on how to address conflicts of interest; and that the OIG found no evidence that Board members had declared their conflict of interest and excluded themselves from Board deliberations and decisions relating to their respective organisations.

Network of Networks of HIV Positives in Ethiopia (NEP+)

The one grant administered by NEP + had a Phase 1 value of $9.5 million, of which $8.7 million had been disbursed at the time of the audit.

The OIG noted that there is no mechanism in place to ensure linkage between programmatic and financial results that the SRs submit to the PR on a quarterly basis. The OIG noted some weaknesses in governance, including the fact that although some of the board members of NEP+ also serve on the boards of SRs and sub-SRs, the NEP+ Board had no conflict of interest policy.

Procurement

In the early rounds, the procurement and supply of pharmaceutical and health products was handled by the FMOH; the majority of procurements were outsourced to UNICEF. In 2007, the Pharmaceutical Fund and Supply Agency (PFSA) was established to handle forecasting, procurement, storage and distribution of all pharmaceuticals and health products for the public sector. Since 2009, procurement and supply management for all of the grants in Ethiopia has been handled by the PFSA. The OIG noted a number of weaknesses in the PFSA's procurement systems, including numerous instances of under-procurement, over-procurement and unplanned procurement, and significant delays in delivery of commodities.

Oversight

CCM. The OIG stated that CCM members representing non-government constituencies were not selected by their own constituency based on a documented, transparent process, developed within each constituency (as is required by the Global Fund). The OIG also said that although the CCM solicited and received concept notes from the public for inclusion in the Round 7 HIV proposal, only the concept notes from two nominated PRs – NEP+ and EIFDDA – were selected for inclusion in the proposal. There was no evidence that other submissions were considered. The OIG noted the following additional deficiencies:

- here was no evidence that persons living with the diseases were included on the CCM;
- for the malaria and TB proposals, the CCM did not follow a transparent process for PR nomination; and
- oversight of grant implementation was weak.

LFA. Since the beginning of 2009, the LFA for the grants in Ethiopia has been the United Nations Office for Project Services (UNOPS). (The KPMG had served as LFA from the start of the grants until the end of 2008.) The OIG identified some weaknesses in UNOPS' review of the PRs' progress updates and disbursement requests (PU/DRs) – such as failure to reconcile information in the PU/DRs with the PR's accounting records in the case of the EIFDDA grant, and a lack of comprehensive analysis between forecasted and budgeted expenditures for the Round 4 HAPCO grant.

Recommendations, reactions and follow-up

The audit report advanced 87 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 a letter attached to the audit report, General Manager Gabriel Jaramillo noted that many of the recommendations have already been implemented.

Secretariat response

The audit report contains a section where the Secretariat commented on the recommendations that were addressed to it. The Secretariat expressed no major concerns with the recommendations. It said that it would work with the OIG and the PRs to ensure recovery of all funds that were categorised as "ineligible" or "outstanding advances."

In its comments, the Secretariat noted that during the OIG's debrief of the findings in March 2011, significant concerns were raised regarding the staffing level of the LFA team in relation to the size of the Ethiopia portfolio. (UNOPS started with four staff in January 2009; this was scaled up to six later in the year.) In March 2011, the Secretariat carried out a mid-term evaluation of the LFA which confirmed the concerns of the OIG, and agreed with UNOPS to increase the number of financial analysts. As a result, the Secretariat said, the LFA has made significant improvements, including hiring eight new financial analysts. The Secretariat also noted that in 2012 it has broadened the scope of work of the LFA to further mitigate risk, resulting in a budget increase for the LFA of 56% between 2011 and 2012.

Country response

The report also contained a "country response" to the OIG's recommendations. In its comments, HAPCO indicated that a large portion of the VAT expenditures deemed ineligible by the OIG has already been reimbursed, and that the remainder would be reimbursed shortly.

The FMOH agreed to refund only $96,307 of the $112,287 that the OIG identified as outstanding advances. The FMOH said that the difference – $15,980 – represented a payment that the OIG said the FMOH had made to Addis Ababa University under the Round 1 TB grant. The FMOH denied that it had made this payment. In their comments, the EIFDDA and NEP+ generally accepted the OIG's recommendations.

For its part, the CCM took issue with the OIG's finding that the non-government members on the CCM were not selected through a transparent process developed by each constituency. The CCM said that civil society representatives are selected from umbrella organisations which have their own general assemblies where all constituencies are represented.

The CCM said that there is representation of people living with HIV/AIDS on the CCM and that attempts have been made to include representatives of people affected by TB and malaria, but that this has proven to be difficult. The CCM said that it will renew its attempts.

In response to the OIG's finding that some submissions for inclusion in the Round 7 HIV proposal were not considered, the CCM said that it has put in place mechanisms for transparent and broad-based engagement and inclusion of stakeholders in the solicitation of inputs, the identification of gaps, and the review and enrichment of draft proposals. The CCM said that in future it will do a better job of documenting these processes and outputs.

The CCM agreed with the OIG that its oversight activities need to be strengthened. It said that it is implementing an action plan to address this.

When we were preparing this article, HAPCO and the CCM told GFO that the motor vehicles purchased by HAPCO were included in the workplan of the Round 4 HIV grant, and that the procurement process had commenced during the period of the grant, but that delivery of the vehicles was made after the grant had expired. They said that the vehicles were used to strengthen supervision by district officials to improve programmes on voluntary counselling and testing, prevention of mother-to-child transmission and antiretroviral therapy.

HAPCO and the CCM said that HAPCO is arranging for $5,591,015 of the $6,914,642 in reimbursables to be repaid to the Global Fund (most of the balance constitutes VAT payments), and that this information had been left out of the country response in the OIG's report (perhaps inadvertently). They said that discussions are underway with the Secretariat about the possibility of using the returned VAT funds (about $1 million) to fund programmes for most-at-risk populations and community systems strengthening.

All of the OIG reports released in April 2012 are available on the Global Fund website here. GFO provided the LFA (UNOPS), the PRs (HAPCO, FMOH, EIFDDA and NEP+), and the CCM an opportunity to comment on a draft of this article. HAPCO and the CCM provided joint comments. UNOPS also provided comments.

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