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of the Global Fund

## OIG RELEASES AUDIT REPORT ON EIGHT GRANTS IN KENYA

Says \$3 million in expenditures should be reimbursed

Small amount of misappropriated funds identified

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 Kenya reflects that "bias."

At the end of April 2012, the Office of the Inspector General (OIG) released the final report of an audit on eight grants in Kenya from Rounds 2-7, administered by two principal recipients (PRs), as follows:

- Ministry of Finance (MOF) – seven grants: HIV, Rounds 2 and 7; malaria, Rounds 2 and 4; TB, Rounds 2, 5 and 6
- CARE International in Kenya (Care Kenya) – one grant: HIV, Round 7

The audit did not cover two Round 1 grants or some grants that started in 2011.

The audit was conducted from 21 June to 30 July 2010. The time period covered by the audit was April 2003 to June 2010. The value of all eight grants was \$373 million, of which \$221 million (59%) had been disbursed at the time of the audit. It is not clear whether the OIG examined records for all \$221 million.

The OIG said that Kenya has achieved meaningful results in its fight against HIV, TB and malaria, but that at the time of the audit, there was significant scope for improvement in all of the grants, particularly in governance and oversight, financial management, procurement and sub-recipient (SR) management.

The OIG identified one instance of funds having been misappropriated. The amount involved was very

small – \$33,986, involving one employee in an SR for a grant for which the PR was the MOF. The OIG said that one employee had used photocopied authorisation memos that had already been used to process payments to withdraw additional programme funds.

In all, the OIG identified \$3,253,161 in disbursements and expenditures incurred by the MOF, and in interest income that the MOF failed to declare, that the OIG said should be repaid to the Global Fund. (The OIG used to refer to these as “losses,” but it does not use that term in this report. In this article, we use the term “reimbursables” to refer to funds that the OIG said should be repaid.)

The \$3,253,161 in reimbursables included the \$33,986 in funds that were misappropriated, \$1,290,656 in ineligible expenses, \$761,830 in unsupported expenses, \$580,920 in outstanding advances, and \$585,769 in interest income. The OIG defines “ineligible expenditures” as costs not in line with the budget and work plan 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. “Outstanding advances” are funds disbursed to the PR that were not spent and that should have been returned to the Global Fund when the grants were closed.

The OIG did not find any instances of misappropriation, ineligible expenditures, unsupported expenditures or outstanding advances in the grant administered by the other PR, Care Kenya.

As is common in audit reports from the OIG, the report on the Kenyan audit identified various weaknesses in financial management, including poor maintenance of books of account and absent accountability statements. Other weaknesses included the use of personal bank accounts for programme purposes, and irregular payments and expenditures not in line with the grant agreement.

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 comments on the performance of the PRs and on the oversight provided by the country coordinating mechanism (CCM), the local fund agent (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.

## Ministry of Finance

The three grants administered by the MOF had a total value of \$357 million, of which \$217 million had been disbursed at the time of the audit.

As PR, the MOF acted primarily as a conduit to get funds to its implementing agencies. The OIG identified reimbursables involving the PR itself, four of its implementing agencies – the Division of Malaria Control (DMC), the National AIDS and STIs Control Program (NAS COP), the Division of Leprosy, TB and Lung Diseases (DLTLD), and the National AIDS Control Council (NACC) – and the Procurement and Supply Chain Management Consortium (PSCMC), which handled all procurement and supply management for the MOF grants.

## Ineligible expenses

Of the \$1,290,656 in ineligible expenses identified by the OIG, most of it (\$1,078,040) concerned funds that NAS COP was administering from the HIV Round 2 grant that were loaned to the malaria Round 2 grant to purchase commodities, and that were not reimbursed to the HIV programme (even though the Round 2 malaria grant was already closed at the time of the audit).

The OIG also identified \$212,616 administered by NASCOP from the Round 2 HIV grant that was used to pay for a women's conference. The OIG said that the expenditure was not adequately supported and there was no evidence that the activity had been implemented. The OIG also told GFO that it did not obtain assurance that this activity was related to the programmes financed by the grant.

#### Unsupported expenses

Of the \$761,830 in unsupported expenses, almost two-thirds (\$450,041) concerned funds being administered by the DMC from the Round 2 malaria grant. The OIG said simply that these expenditures were not "appropriately supported by documentation" and that it "could not obtain assurance that this expenditure was incurred in furtherance of program objectives." In addition, the OIG said that NASCOP had paid \$192,305 for training sessions and other programme activities and had failed to provide adequate supporting documentation.

#### Outstanding advances

Of the \$580,920 in outstanding advances, four-fifths (\$464,324) concerned funds that remained in the accounts of the Round 2 grants for which the implementing agency was the NACC. The OIG said that these funds should have been returned to the Global Fund when the Round 2 grants were closed.

#### Other reimbursables

The OIG identified \$585,769 in interest income earned by grant deposits that should have been credited to the programme accounts but had not been. Of this amount, \$544,949 came from bank interest amounting to \$793,949 earned from the funds managed by the PSCMC. According to the OIG, the PSCMC had approval from the PR to spend \$249,000 of the interest income. The OIG said that the remaining \$544,949 should be reimbursed to the Global Fund via the PR.

#### Other findings

The OIG found that the MOF's Project Management Unit (PMU), which was responsible for grant oversight, had inadequate human resources and that the ministry did not have effective oversight mechanisms to ensure proper accountability of funds by its implementing agencies. The OIG said that no reports were available at the agency level to show how funds had been spent.

The OIG noted a number of accounting weaknesses. The PMU, for instance, could not provide a cashbook or ledger for Round 2 grants and proper bank reconciliation statements were not prepared. The DMC had no dedicated accountant, which resulted in poor record keeping and expenditures that were not supported by documentation. Money was disbursed to districts without any instructions about what activities should be undertaken and how funds should be spent.

#### Care International in Kenya

The grant administered by Care Kenya had a total value of \$16 million, of which \$5 million had been disbursed at the time of the audit.

The OIG said that Care Kenya was not involved in the selection of its SRs despite the fact that responsibility for selection and assessment of SRs lies with the PR. The OIG found that many SRs performed poorly, and that there were delays in implementation and failure to account for funds. The OIG said that at the time of its audit, 17 SRs had accessed only the first tranche of funds, constituting only 16% of the grant funding they should have received by that time.

The OIG said that Care Kenya was unable to terminate the contract with the SRs and find other SRs with better capacity because the SRs had been selected by the CCM.

## Procurement

The OIG found that the PSCMC generally followed good procurement practice. The OIG noted, however, that the PSCMC was not a registered legal entity with the ability to sue or be sued. This implied that contracts the PSCMC had entered into could not be enforced in a court of law.

The PSCMC was required to submit regular financial and procurement progress reports. The OIG found that the reports lacked basic management information such as disbursements to date by grant; amounts spent and committed; procurements in progress and pending by grant; and constraints in service delivery.

## Oversight

CCM. The OIG said that the CCM failed to evaluate grant performance at the end of Phase 1 of each grant, and did not ensure linkages between Global Fund assistance and other development and health assistance programmes. The OIG said that most of the members of the CCM were involved in programme implementation, which presented a high risk of conflict of interest with respect to the CCM discharging its oversight responsibilities. According to the OIG, evidence of conflict of interest was apparent in the selection of SRs for the Round 7 HIV grant for which the PR was Care Kenya. (As mentioned above, the CCM itself chose the SRs.) The OIG said that three out of five members of the selection committee represented organisations that were selected as SRs.

LFA. The OIG said that there had been problems with KPMG, the LFA that was in place until the end of 2008. However, the OIG said that in-country partners reported an improvement since the new LFA, PriceWaterhouseCoopers (PWC), started in 2009. Nonetheless, the OIG said, there were delays on the part of PWC of up to 45 working days in the processing of progress updates and disbursement requests (PU/DRs), which affected timely disbursement of funds.

Secretariat. The OIG said that there were significant delays (up to 4-5 months) between the time LFA reports were submitted and the time they were approved by the Global Fund Secretariat. The OIG said that this delayed disbursements to the PRs. The OIG also found that for several grants, there was no evidence that Secretariat staff had reviewed the PSM plans.

## Recommendations, reactions and follow-up

The OIG report made 31 recommendations to solve the problems identified with the Global Fund grants in Kenya. 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 had 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 said that it had taken note of the OIG findings with respect to ineligible and unsupported expenditures, and that it would ask the LFA to review all “unresolved recoveries.” The Secretariat reported that the CCM has been undergoing reforms since the beginning of 2010, and that SRs are no longer selected by the CCM.

## Country Response

The report also contained a “country response” to the OIG’s recommendations.

### Ministry of Finance

NASCOP said that it accepted the finding by the OIG that \$1,078,040 loaned to the malaria programme needed to be reimbursed, and added that it was working to resolve this. However, with respect to the expenditure of \$212,616 for the women’s conference, which the OIG had identified as ineligible, NASCOP said that it is “preparing the necessary documentation to support the activities and expenditure.”

NASCOP also said that it would provide the necessary supporting documentation for the \$192,305 spent on training sessions and other programme activities which the OIG had said was not adequately documented.

With respect to the findings concerning the PSCMC, the Kenya Medical Supplies Agencies (KEMSA) provided comments. KEMSA was one of the members of the PSCMC. KEMSA replaced the PSCMC as the agency responsible for procurement after the audit was conducted. Concerning the \$544,949 in interest income that the OIG said should be reimbursed by the PSCMC via the PR, KEMSA did not take issue with this finding.

The country response said that the process to recover \$450,041 spent by the DMC for which the OIG said there was insufficient documentation was well underway. The response said that Ksh 1,458,000 (\$17,566) had already been refunded, Ksh 435,000 (\$5,240) had been accounted for and Ksh 2,549,000 (\$30,710) had been demanded from the officers concerned. The response did not say anything about the remaining \$396,525.

When asked to comment on a draft of this article, a spokesperson for the MOF said that, as a country, Kenya has not been defensive on its response to the audit report. He said that “our responses have been progressive, being fully aware that we need to continue strengthening our systems.”

### Care Kenya

The country response section of the audit report contains several comments from Care Kenya concerning statements made in the draft audit report. For the most part, the OIG amended the text of the final audit report to reflect these comments.

### CCM

The CCM said that it has now developed an oversight committee and an oversight plan. The CCM also said that it has developed and “is implementing” a conflict of interest policy. (It is not clear from the audit report when the CCM’s comments were made.)

All of the OIG reports released in April 2012 are available on the Global Fund website [here](#). GFO invited the MOF, the DMC, NASCOP, the DLTLD, the NACC, Care Kenya and the Global Fund Secretariat to comment on a draft of this article. Only the MOF and the Secretariat responded. GFO also invited the LFA, PwC, to comment. A spokesperson for PwC said that PwC declined to comment. He added that PwC is not allowed to speak on behalf of the Global Fund and that “reviewing and commenting on an article on the Global Fund can be construed to be a violation of our agreement with the Fund.”

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