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## OIG RELEASES REPORT ON AUDIT OF GRANTS TO PAPUA NEW GUINEA

Audit has led improvements in grant oversight

Ineligible and unsupported expenditures of \$3.1 million 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 Papua New Guinea reflects that perspective.

In early July 2012, the Office of the Inspector General (OIG) released the final report of an audit on six grants in Papua New Guinea (PNG) from Rounds 3, 6 and 8, administered by three principal recipients (PRs), as follows:

- National Department of Health (NDOH) – four grants: HIV, Round 4; TB, Round 6; and malaria, Rounds 3 and 8
- Rotary Against Malaria (RAM) – one grant: malaria, Round 8
- Population Services International (PSI) – one grant: malaria, Round 8

The audit was conducted in October 2010. The time period covered by the audit was 2004-2010. The value of all six grants was \$107 million, of which \$66 million (52%) had been disbursed at the time of the audit.

This article provides a summary of the OIG's findings concerning the performance of the PRs and 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 implementers, the LFA and the CCM on the audit’s findings and recommendations. (To go directly to the comments section, click [here](#).)

The OIG said that although the programmes supported by the Global Fund had achieved some notable successes, and some best practices were observed, there were significant weaknesses in the internal control environment. However, the OIG said, subsequent to the audit, the CCM and the Secretariat had made a “great effort” to strengthen the oversight of Global Fund grants to PNG. The OIG also acknowledged the challenges of implementing programmes in PNG, where the vast majority of people live in rural areas in widely scattered communities often inaccessible by road.

#### Funds that the OIG said should be repaid

The OIG did not detect any grant funds that had been misappropriated. However, the OIG identified \$3.1 million in what it deemed ineligible and unsupported expenditures that should be reimbursed, involving NDOH, some of its sub-recipients (SRs) and RAM. The OIG did not find any instances of ineligible or unsupported expenditures involving PSI, the third PR. NDOH and RAM, and one of the NDOH SRs, disputed some of the OIG findings (see [last section](#) of this article).

The OIG defines “ineligible expenditures” as costs not in line with the budget and work plan approved by the Global Fund. 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 \$3.1 million in ineligible and unsupported expenditures represented about 4.7% of the funds that had been disbursed to the PRs as of the start of the audit.

The OIG identified what it called significant financial management weaknesses among all three PRs, including non-compliance with grant agreements, inadequate policies and procedures, weak controls and poor budget monitoring. It also said that, overall, the PRs had failed to comply with standard procurement practices.

#### National Department of Health

Of the \$3.1 million in ineligible and unsupported expenditures that the OIG said should be repaid, \$2.8 million involved NDOH and three of its SRs. The table below provides a breakdown.

Table: Ineligible and unsupported expenditures for NDOH grants

	Amounts to be repaid		
	Ineligible	Unsupported	Total
NDOH (PR)	\$669,098	\$1,729,405	\$2,398,503
National Catholic AIDS Office (SR)	\$218,525	\$54,125	\$272,650
J. Thomason & Associates Intl (SR)	\$865	\$8,602	\$9,467
Hope World Wide (SR)	NIL	\$106,296	\$106,296
Total	\$888,488	1,898,428	2,789,916

#### Ineligible expenditures

Of the \$669,098 in ineligible expenditures at NDOH, more than half (\$384,000) were for 80,000 bed nets that were stolen from a provincial storage depot. The OIG said that under the grant agreement, the PR is solely liable for any theft of items purchased with Global Fund money.

Of the \$218,525 in ineligible expenditures at the National Catholic AIDS Office (NCAO), an SR, \$177,837 was for a budget overrun in salaries.

### Unsupported expenditures

Of the \$1,729,405 in unsupported expenditures at NDOH, \$480,052 involved advance payments made to vendors for which no proof of delivery of goods or services was provided. An additional \$448,124 was for advances to vendors for which documentation was “not available for audit inspection.” Another \$166,642 involved expenditures where payment to vendors was made after the goods or services were alleged to have been delivered, but for which documentation was inadequate.

### Rotary Against Malaria

Of the \$3.1 million in ineligible and unsupported expenditures that the OIG said should be repaid, \$0.3 million involved RAM. Most of this amount (\$270,947) was for overhead fees for which the OIG said there was inadequate justification.

### Oversight

CCM. The OIG said that the CCM was not adequately fulfilling its oversight role. Although the CCM received substantive training on oversight techniques and tools from Grant Management Solutions in 2008-2009, the OIG said, these tools had not been consistently implemented. The OIG found little evidence that the CCM had regularly conducted site visits. The OIG concluded that further work is required to establish an oversight plan, a site visit plan, additional guidelines for site visits, a CCM dashboard and a communications strategy.

LFA. The OIG noted that Cardno Emerging Markets USA had acted as LFA since 2008, having replaced KPMG at that time. In May 2010, the Global Fund Secretariat asked Cardno to improve the quality of its LFA services, fully staff the LFA activity, and provide training and orientation to the LFA team. When it conducted its audit in October 2010, the OIG noted that these areas still needed to be improved. The OIG said that the most serious problem had been the lack of country presence of the LFA in PNG.

Global Fund Secretariat. The OIG said that the complexities of operating in PNG require strong oversight from the Secretariat, and that the Secretariat has, in fact, devoted special attention to PNG, particularly since 2009.

### Recommendations

The audit report advanced 40 recommendations to address the weaknesses noted in the audit. 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.

### Comments from implementers, LFA, CCM

After the audit was concluded, and as reported in [GFO 157](#) in September 2011, NDOH resigned as PR for two grants and declined a nomination as PR for a Round 10 grant.

In response to OIG's findings concerning the LFA, the Global Fund Secretariat terminated its contract with Cardno on 9 November 2010 and appointed PricewaterhouseCoopers (PwC) as the interim LFA in PNG. (PwC has since been made permanent LFA as a result of a re-tendering process.) The Secretariat also added PNG to the list of countries managed under the Global Fund's Additional Safeguard Policy. Finally, the Secretariat decided to suspend disbursements to the NDOH until contracts were signed with

replacement PRs; direct disbursements to procurement agents for pharmaceuticals and other health products were allowed to continue.

When we were preparing this article, Richard Dangay, spokesperson for Cardno, told GFO that the OIG report did not take into consideration a number of factors about Cardno's performance as LFA. In response to concerns raised by the Secretariat in May 2010, Mr Dangay said, Cardno provided the Secretariat with an action plan to improve performance. The plan included the appointment of a full-time LFA team leader based in PNG. "Unfortunately," Mr Dangay said, "the Secretariat failed to respond to our action plan and numerous staffing proposals in a timely manner during the summer of 2010."

Mr Dangay added that there is a structural issue concerning how the Global Fund contracts with LFAs which limited Cardno's ability to perform and be the "eyes and ears" of the Global Fund in PNG. He said,

"LFA contracting is essentially activity-based, which means we are only paid for completing specific activities. This means that LFA firms cannot guarantee full-time employment to team members. In the case of PNG, our Team Leader was, on an annual basis, close to 90% billable to LFA activities. This percentage is lower in many other countries. When a full-time opportunity arose with another donor, our Team Leader naturally chose the promise of more consistent employment. This is a problem that affects all LFAs, especially in the high risk, large portfolios. This problem will continue to exist as long as the Global Fund continues to engage with LFA firms on an activity basis instead of as a long-term partner."

In a letter dated 15 May 2012, a copy of which was included in the audit report, CCM Chairperson Lady Roslyn Morauta said that action has been taken to implement nearly all of the OIG's recommendations. Lady Morauta added that the CCM is pleased that in its final report the OIG took into account most of the comments made by the CCM and the PRs on the draft report. "Nearly all of the inaccuracies we identified have been corrected, and the remedial actions we have taken have been noted."

The letter from the CCM Chairperson contained messages from the three PRs. NDOH said that although it is no longer serving as PR, it will continue to work closely with the current PRs. PSI said that it "has made every effort to rectify the identified deficiencies" and to ensure that its procurement procedures are in line with Global Fund standards. RAM said that all issues identified by the OIG have been acted on.

Lady Morauta also said that the CCM and the PRs have taken note of the OIG's recommendations regarding SRs, "most of which are civil society organisations (CSOs) that play an important role in augmenting the delivery of services by the Government." Lady Morauta said that major initiatives were being undertaken by the government, the PRs and AusAID, PNG's largest bilateral donor, to develop the capacity of CSOs, particularly in the areas of financial management, organisational planning and development, and human resource management.

In a press release issued on 10 July 2012, Lady Morauta said that the OIG report was comprehensive and fair. She added that the report has caused the CCM and implementers "to examine their performance more critically, and to rectify weaknesses."

A large section of the audit report was devoted to recording the responses of the PRs and the CCM to each of the 40 audit recommendations.

NDOH took issue with the OIG's finding that the full cost of 80,000 stolen bed nets (\$384,000) should be paid back. NDOH argued (supported by RAM) that the bed nets were stolen during an "aggravated attack" by a large number of local residents; that given the security situation in PNG, staff in the storage depots could not have been expected to obstruct the mob; and that this is a clear case of "force majeure." However, exactly what constitutes a "force majeure" is open to interpretation. The OIG took the position that the theft of the bed nets was not a force majeure situation "since this was an incidence of theft and

not a natural and unavoidable catastrophe.” However, the OIG said, given the country response, the Global Fund’s legal unit should provide an opinion as to whether the funds should be repaid.

With respect to the \$177,837 in budget overrun in salaries that the OIG said should be repaid by NCAO, both NDOH and the CCM disagreed. NDOH said that “the proposed reimbursement has resulted in considerable anguish and reluctance on the part of [NACO], which is an important provider of HIV treatment and other services in PNG, to engage with GF grants again in the future.”

NDOH said that NCAO is taking steps to improve its accounting systems, but that the overrun identified by the OIG happened several years ago when NCAO’s systems were not well established and when administrative staffing was limited. “The fact is,” NDOH said,

“the money given to NCAO under the Round 4 grant was spent honestly, wisely and to great effect. NCAO has been an important player in the response to HIV in PNG and has clearly demonstrated the capacity to deliver services to the most remote areas... In order to achieve this high success rate in service delivery NCAO has operated largely in an emergency mode, without understanding the need to pay sufficient attention to many of the processes required for auditing purposes.”

The CCM said that “it is unreasonable to request reimbursement from NCAO. [The] CCM is confident that all monies were used appropriately in carrying out the activities approved under the grant, even though the correct documentation for audit purposes may be absent.”

When we were preparing this article, Sister Tarcisia Hunhoff, Director of NCAO, told GFO that the audit was “understandably rigorous.” However, she said, “the auditors appeared to have little understanding or appreciation of the difficulties of implementing programs in PNG.” Sister Hunhoff added that she was disappointed that the Global Fund Secretariat had not been on top of the issues identified in the audit report.

Sister Hunhoff said that “because of the anxiety caused by the audit findings, and the unjustified damage to NCAO’s reputation,” NCAO thought very hard about whether it should continue to participate in the programmes supported by the Fund. NCAO finally decided to try it for one more year. “In spite of this experience with the audit, NCAO remains committed to providing high quality HIV services in PNG.”

Concerning the \$270,947 in overhead fees charged by RAM that the OIG said should be reimbursed, RAM stated in the audit report that this was a legitimate expense that was clearly shown as an administration fee in the approved Procurement and Supply Management Plan. The OIG countered that RAM had not provided any documentation to support its claim; that the Global Fund Secretariat should state whether it approved the overhead fees; and that an opinion should be obtained from the Fund’s legal unit.

When we were preparing this article, Ron Sheddon, a spokesperson for RAM, told GFO that many members of the team sent by the OIG to conduct the audit were very rude to RAM staff and “on more than one occasion were asked to leave RAM’s office.”

With respect to the OIG’s findings concerning expenditures that were not adequately documented, the CCM asked for more time to provide the necessary documentation.

The OIG audit report on PNG, and all of the other OIG reports, are available on the Global Fund website [here](#). A copy of the press release issued by the CCM is on file with the author.

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