



Independent observer
of the Global Fund

Audit Reveals Deficiencies in the Management of Global Fund Grants in Cambodia

All four principal recipients (PRs) in Cambodia established separate structures parallel to national ones to manage procurement and monitoring and evaluation (M&E) functions within Global Fund grants. The creation of parallel structures goes against the intention of core Global Fund principles that call for the use and strengthening of national systems.

This is one of the conclusions of an audit conducted in 2009 of all 13 Global Fund grants in Cambodia. The Office of the Inspector General (OIG) recently released a report on the audit. The purpose of the audit was to assess the adequacy of the internal control and programmatic processes in managing Global Fund grants. For 10 of the grants, the PR was the Ministry of Health (MOH). Each of the following entities was PR for one grant: the National Centre for HIV/AIDS, Dermatology and STI (NCHADS), the National Centre for Parasitology, Entomology and Malaria Control (CNM), and the National Centre for Tuberculosis and Leprosy Control (CENAT). All three entities are semi-autonomous agencies within the MOH.

The OIG said that at the time of the audit, there was no capacity building or plan for transitioning the programmes from the parallel structures to the national ones.

According to the OIG, the establishment of separate procurement units within each of the PRs and some sub-recipients (SRs) specifically for the Global Fund grants resulted in a fragmentation of procurement activities. (Each PR already had a procurement unit for its non-Global Fund-related activities, but these were not used for the grants.) across all four PRs, there was weak procurement planning, lack of procurement and contract management capacity, and a lack of transparency in some procurement processes.

In most cases, the OIG said, contracts awarded for procurement of goods and services did not conform to formal written procurement guidelines and best practice. Procurement processes were not open, competitive and transparent. Goods and services were not always obtained at the lowest possible prices.

The OIG said that each PR had its own M&E systems and structures, including for data collection and analysis. There was no alignment with the national M&E system. Furthermore, the technical assistance (TA) that was obtained to build these parallel systems did not contribute to strengthening the national M&E system, but instead supported contract staff that should have had the required skills at the time they were recruited.

With respect to TA generally, the OIG said that it saw no evidence of on-the-job mentoring or of institutional capacity development. While there was the occasional example of quality TA, it “tended to be in the form of ‘doers’ rather than mentors. It also seemed to have had little influence on strengthening the ministry as an institution. Rather it benefited just one of the 3 diseases or, worse still, just one of the Global Fund grants.”

The OIG noted that as Global Fund support increased over the years, there was a gradual reduction in government and other partner support – contrary to the Global Fund core principle that requires recipients to treat its funds as additional to the resources from the host country and other external sources.

In the view of the OIG, all four PRs had weak human resources functions as evidenced by inadequate policies and practices around the recruitment, task allocation and appraisal of staff. In addition, the PRs failed to conduct capacity assessments of the SRs at the start of the grant (as they are required to do). The OIG reported that although most of the SRs had significant capacity weaknesses, no capacity building was undertaken.

In its report, the OIG identified a number of problems that were common to all four PRs. For example, salaries paid to contract staff were significantly higher than those paid to government staff employed in the same institution. This caused distortions in the government structures within the various institutions as staff moved from government positions to the more lucrative contract positions. The incentives paid were also much higher than those paid by other donors. In addition:

- there was poor delegation of authority within each PR;
- all PRs made most of their payments in cash and not through the banking system, thus raising the risk of misappropriation of the money;
- PRs and SRs consistently failed to comply with approved work plans and budgets;
- health products that should have been provided free of charge were sometimes being sold to the public;
- there was no written policy or guidelines for disposal of expired drugs;
- progress reports were consistently submitted late; and
- there was no system at the PR to track disbursements made to the SRs.

With respect to the budgeting function, the OIG noted that there were frequent budget reallocations where funds from one budget line were moved to another budget line to cover other costs. In some instances, the budget was changed to cover items that were not included in the approved budgets. The OIG said that the need to frequently adjust budgets points to an ineffective budget preparation and review system, and that it also defeats the purpose of budgeting as a cost control mechanism. “Because of the frequent changes to the budget, the Ministry had so many adjusted budgets that they could not provide the OIG team with the approved Global Fund budget.”

As part of the audit, the OIG visited 10 of the 32 MOH SRs. It noted several internal control weaknesses

that were common to all SRs, including weak cash management controls, inadequate human resource policies and inadequate fixed asset controls. The OIG said that, contrary to government laws, the SRs did not withhold taxes on salary, consultant fees and rent payments.

Two of the SRs visited by the OIG were the Khmer HIV/AIDS National Alliance (KHANA) and Pharmaciens Sans Frontières (PSF). With respect to KHANA, the OIG noted that no assessments of the financial and programmatic capacity of its 50 sub-sub-recipients (SSRs) were conducted prior to disbursement of funds. In addition, KHANA was also unable to identify the entities that would have benefited from closer supervision and capacity building. The OIG said that some of KHANA's SSRs were unable to maintain up-to-date financial records.

The OIG's visit to PSF revealed several irregularities and inadequacies in its financial management systems, including the following:

- PSF paid per diems in addition to paying for accommodation for staff for a staff retreat. This was unreasonable from two aspects: (a) the payment of per diems covered accommodation and, therefore, the payment of both represents an overpayment to staff; and (b) the full costs of attending a staff retreat should not be charged to the Global Fund; charges should only be to the extent that the staff retreat was for programme activities related to the Global Fund.
- The total cost of the rent for the country Global Fund coordinator's house was charged to the Global Fund from April 2008 to the time of the audit. However, this was contrary to his contract that stipulated that the Global Fund would cover 50% of the rent.
- PSF's finance department paid for training expenses without obtaining verification from the programme department that the activities had taken place.

The audit report included a number of recommendations to address the problems identified by the OIG, as well as responses to these recommendations from the organisations that were audited. In most cases, the organisations agreed with the audit findings; for some recommendations, the organisations agreed "in principle," but proposed alternate ways to address the OIG's concerns.

The information for this article was taken from "Country Audit of Global Fund Grants to Zambia," 1 October 2010, available at www.theglobalfund.org/en/oig/reports.

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