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of the Global Fund

## OIG Finds Serious Deficiencies in Performance of All Four PRs in Zambia

All four principal recipients (PRs) implementing Rounds 1 and 4 Global Fund grants in Zambia, two of them government and two NGO, have shown evidence of significant financial management and control weaknesses, episodes of misappropriation and fraud, and losses of grant funds. This is the overarching finding of an audit conducted in 2009 by the Global Fund's Office of the Inspector General (OIG). A report on the audit was recently released. It is apparent from the OIG report that some of the PRs disagreed with a number of the audit's findings.

The PRs in question were the Ministry of Health (MOH), the Ministry of Finance and National Planning (MOFNP), the Zambia National AIDS Network (ZNAN) and the Churches Health Association of Zambia (CHAZ). In the case of the MOH and the MOFNP, the OIG said that they were not fit to continue serving as PRs.

(In June 2010, the MOH was replaced as PR by the United Nations Development Programme [UNDP]. See ["Disbursements to Zambia MOH Suspended Amid Allegations of Fraud; Change of PR Is Imminent"](#) in GFO 126.)

Below, the main findings for each PR are summarised. This is followed by a discussion of the responses to the audit from the PRs. Finally, we report on the audit's findings with respect to the CCM and the LFA.

### Ministry of Health

The OIG said that despite some notable achievements as PR – including, working with other partners, successful treatment of close to 90% of tuberculosis cases, providing antiretroviral therapy to

approximately 245,000 people, and providing at least 70% of households with at least one insecticidal treated bed net – the MOH exhibited serious shortcomings in programme and financial management. The audit identified episodes of fraud and losses of funds, misuse of grant funds, poor management of SRs and procurement, and a significantly weak control environment. OIG auditors identified about \$1,659,000 in ineligible expenditures, and expenses of \$4,365,000 that were not adequately documented.

#### Ministry of Finance and National Planning

The audit revealed serious deficiencies in the management of the programmes for which the MOFNP was PR. The MOFNP delegated its PR responsibilities to the National AIDS Council (NAC), a sub-recipient (SR), without formal documentation, which created uncertainty concerning implementation roles and responsibilities. Although a Programmes Management Unit (PMU) was set up in the NAC, appropriate grant management structures, policies and processes to safeguard Global Fund resources were not instituted.

The OIG said that no internal or external audits of the programmes were conducted; that SR management was deficient; that the PMU lacked technical staff to oversee the technical aspects of the programme; and that there were no identified staff with clearly vested responsibilities for key functions, such as grant management and procurement. The OIG found that these issues severely affected programme implementation and contributed significantly to episodes of expenditures that were unsupported, and ultimately deemed ineligible. OIG auditors identified about \$1,508,068 in ineligible expenditures, and expenses of \$1,443,447 that were not adequately documented.

The audit also found that a member of staff engaged in fraud with respect to programme funds and made expenses that were not supported; the audit identified about \$104,130 in expenditures that could not be accounted for.

Although 70% of the grant funds were managed by the SRs, according to the OIG there were no set procedures to manage the SRs or their use of the grant funds. No selection procedures for SRs were identified; their capacity to implement the programmes was not assessed; no guidance was given to the SRs on the allocation of funds; and there was no formal written agreement between the PR and SRs detailing the SRs' responsibilities with respect to the programme or the associated funding. "All of these circumstances lead to a significant risk of misappropriation of funds," the OIG said.

#### Zambia National AIDS Network

The OIG said that although ZNAN had achieved most of the targets set out in the grant agreements, there were some significant deficiencies in programme and financial management. The audit identified several instances of fraud or misappropriation at the SR level, amounting to about \$1.6 million. Of the 21 SRs visited by the OIG, six were victims of fraud or had themselves misused grant monies. The OIG said that a large number of SRs are funded in each round, and that ZNAN had made over 900 disbursements since the commencement of funding in 2003. "While the organization has developed good selection criteria for the appointment of SRs, there were several instances of non-compliance with internal sub-granting requirements identified. And in other instances, grant funds were disbursed with no agreement between the PR and SR."

Within ZNAN, governance and oversight of the programmes supported by the Global Fund is provided by a "Liaison Committee." The OIG said that the committee was supposed to meet every quarter, but had met only nine times since 2003. "In addition, the bulk of the membership is made up of members from SRs, creating a conflict of interest as potential SR members stand to benefit or be disadvantaged from decisions by the same management they oversee."

In addition, the audit found deficiencies in both internal and external audits that were conducted on the programme.

According to the OIG, a salary survey comparison with similar organisations revealed that salaries at ZNAN were in some cases more than 150% higher than in like positions in other organisations in the sector. “With such high salary levels offered to attract the very best staff, the OIG had not expected to find the management deficiencies noted above.”

“In conclusion,” the OIG said, it was “unable to provide assurance that the grant programs managed by ZNAN were operating effectively at the time of the audit. Implementation of the OIG’s recommendations should help to considerably strengthen ZNAN’s effectiveness.”

#### Churches Health Association of Zambia

The OIG noted that “CHAZ has registered a number of considerable achievements over the years. Under Round 1 most of the targets were achieved for establishing sites. Under the Rounds 4 and 7, there had also been significant progress towards the overall achievement of the targets. CHAZ responded to the changes that came with the increased funding by establishing appropriate structures and improving on the internal systems. Over the years of the Global Fund grants, CHAZ has been transformed from being a small indigenous organisation to the largest faith based organization in the health sector. At the start of the Global Fund Grants in 2003, CHAZ had 23 employees and by the end of 2008 had 82 employees.”

The OIG said that some staff benefits as described in CHAZ’s draft human resources management policy “seemed unreasonable especially when viewed in the light of the fact that they were paid from program funds.” This included; (a) a settling-in allowance for all new staff of 30% of basic annual salary; (b) a monthly housing allowance of 50% of basic salary; (c) a transport allowance of 20% of basic salary; (d) a children education allowance; (e) utility vehicles being used by managers with the agreement that they would be sold to them at the end of their first contract; and (f) laptops to be given to managers after three years of use.

The OIG said that top-up allowances were paid to the late Executive Director and the Programs Manager for a period of 31 months from February 2006, amounting to \$4,660 and \$3,660, respectively, per month. These were described in the approved Global Fund work plans and budgets as “program coordination.” The OIG noted that “there was no apparent justification made at the time since other staff directly involved in running the Global Fund activities were not considered.”

The OIG said that because CHAZ lacked the capacity to procure medical products, Crown Agents had been subcontracted to do this work. However, the OIG noted, the memorandum of understanding (MOU) signed for procurement services had not been effectively managed by either CHAZ or Crown Agents. As a result, MOU requirements had not been met; Crown Agents had not built CHAZ procurement capacity; and there were delays in stock deliveries that resulted in emergency procurements.

The OIG also expressed concerns about several accounting policies and procedures. “In conclusion,” the OIG said that it was “unable to provide assurance that the grant programs managed by CHAZ were operating fully effectively at the time of the audit. Implementation of the OIG’s recommendations should help to considerably strengthen CHAZ’s effectiveness.”

#### Response from the PRs

The audit report does not contain a response from the PRs on the overall audit findings. However, it does contain comments from the PRs on specific recommendations. The MOFNP agreed with most of the recommendations. The two NGO PRs agreed with many of the OIG’s recommendations, but the tone –

and sometimes the language – of their responses indicate that they disagreed with many others. The table below provides some examples of where the PRs disputed the findings.

Table: Examples of OIG recommendations and PR responses

OIG recommendation	PR response
Z NAN	
<p>Revenues generated from Global Fund activities should be reported to the LFA/CCM. Approvals should be sought by the PR on how these funds should be applied to Global Fund programs before the funds are used. ZNAN should report all income generated and seek approval for expenditure incurred from these resources.</p>	<p>Revenues generated as interest are consistently reported to the LFA/CCM through the PUs/DRs and solely used for Global Fund program activities.</p>
<p>ZNAN should ensure that SRs possess sufficient financial management capacity before disbursing funds. This includes but is not limited to; (i) having qualified staff; (ii) Mechanism for recording financial transactions e.g. accounting software; and (iii) Demonstrated ability to report financial transactions on a periodic basis.</p>	<p>ZNAN does strive to ensure that SRs have financial systems in place before disbursement but it should borne in mind that ZNAN deals with a wide range of from support groups to international NGOs. It should be expected therefore that the skills levels in these organizations will range from simple systems in support groups to very complex systems in international NGOs.</p>
<p>The salaries paid by the Global Fund should be in line with sector levels. The contribution to salaries from program funds should be revised to reflect this and release funds to fighting the three diseases.</p>	<p>ZNAN will continue to pay salaries in line with sector levels.</p>
CHAZ	
<p>CHAZ should ensure that reporting timelines are properly communicated to staff, followed through and met. This will facilitate timely and informed decision making at the Global Fund.</p>	<p>CHAZ will continue to ensure that reporting timelines are properly communicated to staff, followed through and met.</p>
<p>The PR should allocate expenses and salaries based on the time allocation to the particular grant. As part of the grant negotiation process, CHAZ should provide justification for its salary charges to the Global Fund account. All funds involving double claims should be refunded to the Global Fund.</p>	<p>CHAZ has provided justification for all salaries charged to GF. During round 4, 7 and 8 negotiations, these justifications were provided. In addition, there have been no double claims as explained to the Audit team in the country.</p>
<p>CHAZ management should provide a justification for the administration cost charges to the Global Fund. This should include allocation of costs by donor. This should be reviewed by the LFA and recommendations made to the Global Fund about the reasonableness of charges.</p>	<p>CHAZ charges indirect costs to all partners implementing programmes with CHAZ. CHAZ has been charging indirect costs to GF since the inception of the programmes in 2003 based on negotiation with and approvals from the LFA.</p>

The section of the audit report that contains the recommendations and the PRs' responses also includes comments from the Secretariat and, sometimes, additional comments from the OIG. These often make for interesting reading. For example:

## Original recommendation

ZNAN should work with SRs to centralize procurements as much as possible so as to avoid using Global Fund monies to pay taxes. In addition, ZNAN should, through the CCM, discuss with the Ministry of Finance and National Planning on ways to improve compliance in respect of tax payments.

## PR response

The need for ZNAN to centralise the purchasing of all supplies for all SRs would pose huge financial and logistical challenges such that any savings in terms VAT not paid would be far exceeded by the cost of warehousing and distributing these supplies throughout Zambia. ZNAN will inform SRs to obtain VAT exemption from the Ministry of Finance and National Planning.

## Secretariat response

The Secretariat notes the Country response, and concurs that centralizing procurements for all of ZNAN's many SRs is impractical. The Secretariat will work with the LFA to monitor VAT payments by the SRs in spot check audits. In cases of payment of VAT, the Secretariat will send a formal letter to the PR requesting the PR utilize these funds in accordance with the recommendation of the Secretariat.

## OIG response

The recommendation is intended to control loss of funds through payment of VAT. OIG is not satisfied with the Country response to the finding regarding payment of VAT on procurements undertaken by SRs/SSRs. Simply "informing" the SRs/SSRs to obtain exemption may not yield the required results. The PR should make a commitment to facilitate the process to obtain the required exemptions from the relevant authorities.

## CCM and LFA

The audit also examined the CCM and the LFA. With respect to the CCM, the OIG said that while the CCM has made some progress in creating governance structures and processes, including the development of a manual of procedures, the CCM had "performed poorly" in implementing most of the provisions in the manual (including the selection of PRs and SRs). In addition, the OIG said, the CCM appeared to be government-controlled and its discussion were not really open. As well, the CCM had no plan for the oversight of the PRs, and had done a poor job of ensuring collaboration among the PRs.

Concerning the LFA, PricewaterhouseCoopers, the OIG found that it had not provided quality work and that it had failed to deliver on various aspects of its mandate. The OIG said that "there were noticeable delays in the performance of work with a lot of work assigned in 2008 only completed in mid-2009. Whilst PRs were late in submitting reports to the LFA, the OIG noted from the LFA records, that indeed the LFA

contributed to the delays by not finalising the reviews on time. Delays in the LFA therefore contributed to delays in disbursing funds to the PRs.”

In its comments, the Secretariat said that it had decided to significantly revise the terms of reference for LFA work in Zambia, and that this would result in a re-tender, which would be carried out in the last quarter of 2010.

The information for this article was taken from “Country Audit of Global Fund Grants to Zambia,” 5 October 2010, available at [www.theglobalfund.org/en/oig/reports](http://www.theglobalfund.org/en/oig/reports).

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