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OIG RELEASES AUDIT REPORT ON EIGHT GRANTS IN SWAZILAND

“Losses” of \$5.8 million identified by the OIG

CCM and PR question some of the OIG’s findings

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 Swaziland reflects that “bias.”

On 31 October 2011, the Global Fund’s Office of the Inspector General (OIG) released the final report of an audit on eight grants in Swaziland from Rounds 2-8, all administered by the same principal recipient (PR), the National Emergency Response Council on HIV/AIDS (NERCHA).

The audit covered three HIV grants (Rounds 2, 4, 7), two malaria grants (Rounds 2, 8), two TB grants (Rounds 3, 8) and one health services strengthening (HSS) grant from Round 8. The time period covered by the audit was 1 September 2003 (the start date of the first grant) to 30 June 2010. The value of all eight grants was \$142 million, of which \$102 million had been disbursed at the time of the audit. It is not clear whether the OIG examined all \$102 million.

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

Losses

The OIG identified \$5.8 million in what it called “losses” that it said should be repaid to the Global Fund. This included \$2.9 million in ineligible expenditures, \$2.3 million in unsupported expenditures, and expenditures of \$577,000 that the OIG considered inappropriate. None of the losses identified by the OIG were in the category of “misappropriations.”

The OIG defines “ineligible” expenditures as costs not in line with the budget and work plan approved by the Global Fund. One example of what the OIG labelled “ineligible” in Swaziland was \$1,180,656 that was spent to purchase 38 vehicles but that was not included in the approved budget. Another example was what the OIG described as “excess spending” on the construction of 328 Kagogo centres (to provide support for orphans and vulnerable children) in a Round 2 grant. Total expenditure incurred on the construction of the centres was \$3.4 million, which was \$1 million over budget. The OIG said that the excess was not 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. In this category, in Swaziland, the OIG included expenditures of \$557,000 where all supporting documents were photocopies, and expenditures of \$536,000 where some of the supporting documents, ones that the OIG termed “essential,” were photocopies.

The biggest expenditures that the OIG deemed inappropriate involved the costs of vehicles that were purchased with grant monies but that could not be traced during a physical verification of assets (\$408,000).

The Swaziland CCM and NERCHA questioned the OIG’s determinations (see below).

Other findings

The OIG said that while Swaziland has made impressive strides in its response to HIV/AIDS, tuberculosis and malaria, and although the PR’s capacity to manage Global Fund grants had grown between 2003 to 2010, there were still key areas where NERCHA needed to strengthen its implementation capacity – specifically, financial and programme management, procurement, monitoring of sub-recipients, certain aspects of service delivery, and compliance with the terms of the grant agreements.

In its audit report, the OIG cited numerous instances of irregularities and weaknesses in financial, management and procurement systems and procedures. The following are examples of these irregularities and weaknesses:

- Some of the policies and procedures necessary for NERCHA to properly manage the grants were non-existent, incomplete or still in draft form.
- There were instances where funds were disbursed even though special conditions attached to the grant agreement had not been met.
- Progress updates and disbursement requests (PU/DRs) were not submitted to the Global Fund within 45 days after the end of each reporting period, as specified in the grant agreement. Delays of 90 days or more were common.
- NERCHA did not have a tracking system in place to monitor the recovery of advances to its employees for training activities.
- There were inadequate procedures for the review of transactions prior to posting them in the accounting system.
- CD4 machines, reagents, long-lasting insecticide-treated nets, lab equipment, and HIV rapid test kits were being purchased on a single-source basis without establishing whether the prices were

reasonable.

With respect to the management of SRs, the OIG cited several problems, including that no capacity assessments of SRs were made before they were selected; and no memorandums of understanding were executed with 75 of the 86 implementers that participated in the Round 2 malaria grant.

The OIG noted that there were no standard data collection tools at service delivery level for non-health sector interventions, and that the SRs visited by the OIG were using a variety of tools and mechanisms.

The OIG said that NERCHA is Swaziland's equivalent of a National Aids Council, and that over the years NERCHA performed two roles, that of Global Fund grant manager, and that of coordinating the national response to HIV. Until June 2010, NERCHA also played a third role, as the CCM's secretariat. The OIG said that many stakeholders found these multiple roles confusing.

The OIG noted that following the provision of technical support by Grant Management Solutions in October 2009, NERCHA underwent restructuring, which resulted in improvements in the management of the Global Fund grants.

Round 8 HSS grant

The OIG said that a major limitation on the capacity of the health system to deliver quality services is the shortage of health staff in Swaziland. The OIG noted that the Round 8 HSS grant was designed to address this problem, but that the grant "has been beset by ownership and leadership issues which have led to significant delays in implementation."

The OIG said that the Round 8 HSS grant was developed in the absence of a national strategy and without much involvement of the Ministry of Health (MOH). As a result, the OIG said, when the grant was approved, MOH engagement happened slowly. While this has since improved, the OIG said, management problems continue to exist, and have resulted in significant delays in the implementation of the grant. The OIG said that delayed activities included recruitment of key staff; the acquisition of laboratory sample transport vehicles; and the contracting of technical assistance for the development of a health care worker performance framework, a health care worker retention package, and a private sector M&E strategic plan.

Oversight

CCM. The OIG said that eight of the 16 substantive members of the CCM, including the Vice-Chair, managed grant funds as SRs or other implementers. The OIG said that this creates a potential conflict of interest concerning the independence of these members when monitoring implementation activities, evaluating programme performance and selecting PRs. The OIG added that some of these SRs and other implementers were also members of the CCM Oversight Committee and the CCM Executive Committee. Finally, the OIG said that while the CCM has an article on conflict of interest in its by-laws, the article lacks the details needed to manage the conflicts described above.

LFA. The OIG said that the PU/DR reviews conducted by the LFA, PricewaterhouseCoopers (PwC), did not include verification work in high-risk areas such as procurement, SR expenditures and implementer salaries. In addition, the OIG said, certain problems identified by the OIG in the audit report were not captured in the LFA's reviews of the PU/DRs even though the types of problems involved were within the LFA's scope of work.

Secretariat. The OIG noted that the Secretariat released disbursements in several instances where the conditions imposed on the PR had not been fulfilled.

Recommendations, reactions and follow-up

The audit report advanced 64 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 the audit report, the OIG noted that the Global Fund Secretariat and NERCHA had already corrected a number of shortcomings.

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.

The report also contained an executive summary of the response by the CCM to a draft of the audit report. (Editor's note: GFO was told by NERCHA that the CCM's comments in the audit report also reflected the views of NERCHA.)

The CCM said that the findings of the OIG, particularly with respect to the first round of grants, were generally factual. However, the CCM questioned some of what the OIG identified as losses, saying that there were sound programmatic justifications for these expenditures.

The CCM cited as an example the construction of the Kagogo centres. The CCM said that the centres were under-budgeted and that this was compounded by an unfavourable swing in currency exchange rates. With respect to the vehicles that the OIG said were not included in the budget, the CCM said that it accepted that more vehicles were procured than were budgeted for, and that the purchase of the additional vehicles should have been cleared with the Global Fund Secretariat. However, the CCM said, it seriously doubted whether the programmatic achievements of the grant would have been possible without the extra vehicles.

The OIG replied that the issue is not whether there were good reasons for the expenditures, but rather whether the expenses were adequately documented, whether budget overruns had been approved by the Global Fund Secretariat, and whether the expenditures were in accordance with the grant agreement. With respect to the Kagogo centres, the OIG said that the budget overrun was also related to incomplete budget oversight and monitoring during construction.

Concerning the additional vehicles, the OIG said,

"We do not question that NERCHA identified programmatic reasons for needing additional vehicles. We have requested that NERCHA provide evidence that the 38 unbudgeted vehicles exist and were used to achieve Global Fund grants purposes. To date, NERCHA has identified and evidenced the existence of these vehicles but has not yet shown that these vehicles were/are used in support of Global Fund-funded programs."

With respect to expenditures for which most or all of supporting documents were photocopies, the CCM said this was mainly due to procurement arrangements in the early years of grant implementation, where the goods and services were delivered to implementing partners and it was up to these partners to forward the original documents to NERCHA. In some instances, the CCM said, the original document would get lost – hence the need to rely on photocopies. The OIG replied that while it understood that management controls and record keeping in the early years were weaker, the PR has always been required by the grant agreement "to secure and keep adequate accounting records, books and documents to show, without limitation, all costs incurred and revenues earned." The OIG said that if NERCHA can find the missing originals of the documents that NERCHA provided in photocopy form, the OIG will be able to reduce its "refund request."

When we were preparing this article, Mr Vulindiela Msibi, Executive Secretary of the CCM, told GFO that

“the CCM is gratified that the OIG has not found any theft or corrupt elements during the audit.” Concerning the motor vehicles that the OIG listed among the losses it identified, Msibi said that the CCM is hopeful that further verifications will produce the necessary supporting documents to enable the OIG to substantially reduce the amount of losses.

Msibi said that, as one of the lessons learned from the OIG audit, the CCM is committed to beefing up its oversight role to mitigate the risk in existing and future grants. He said that the CCM and NERCHA have already embarked on a process that seeks to strengthen grant implementation and performance, including strengthening the selection of PRs. Msibi said that the CCM and NERCHA were also reviewing their conflict of interest policies.

When we were preparing this article, Derek Von Wissell, Director of NERCHA, said that NERCHA accepts “that the OIG makes valid observations and recommendations. We welcome these and are confident that these will contribute to fulfilling our future obligations as PR.”

Von Wissell said that “the ‘rules of the game’ when the Global Fund was set up are different from the Global Fund’s 2010 ‘rules.’ A flexible funding mechanism was set up to achieve results against an epidemic out of control – the focus was on achieving results and mobilizing all levels to respond to the epidemic!” Von Wissell said that in the early rounds, guidelines around reprogramming and re-allocations across budget lines were not available. Von Wissell said that many of the disputed expenditures (including re-allocations) were specified in the work plans contained in the requests for disbursements sent to the Global Fund; and that these workplans may have differed from the work plans in the proposal. As far as NERCHA was concerned, he said, approval of the disbursement requests implied approval of the work plans sent with the requests.

Von Wissell said that the audit report released on 31 October 2011 did not consider submissions made in NERCHA’s response to the draft audit report, submitted on 1 September 2011. (Von Wissell added that NERCHA understood that its submissions will still be considered.)

Concerning the use of photocopies, Von Wissell said that when NERCHA’s financial systems, including its accounting procedures, were reviewed at the time of the PR assessment, the accounting procedures included a provision that, in exceptional circumstances, where original documentation got lost, an authorised photocopy could be used for payment. He said that the PR’s financial systems were approved as being “adequate” for the management of Global Fund grants.

The audit report contained a complete list of the OIG’s recommendations, with comments from in-country stakeholders. The tone of this section of the report suggests that there were no major disagreements concerning what the OIG was recommending.

The OIG audit report on Swaziland, and all of the other OIG reports released on 31 October 2011, are available on the Global Fund website [here](#). See also the [letter](#) from Derek Von Wissell, Director of NERCHA, responding to a commentary on “Auditing the Auditor” in GFO 148.

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