

Board Chair Cover Note

Audit & Investigation Reports issued by the Global Fund's Office of the Inspector General on 1 November 2011

Dear Reader,

Today, the Global Fund has released eight audit reports, three investigation reports and one review of Global Fund systems by its Office of the Inspector General. The Inspector General regularly conducts audits and investigations. The audits are part of the Global Fund's regular and routine efforts to ensure that grant money is used as efficiently as possible. The investigations have arisen out of suspected wrong-doing found during audits.

It is unusual to release so many reports at one time. Ordinarily, reports of the Office of the Inspector General are released to the Board as and when they are finalized. On this occasion we agreed that these reports would be finalized after completion of the *'The Final Report of the High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund'*. This ensured that the Global Fund Board, Secretariat and Inspector General could focus fully on the report of the High Level Panel and its recommendations.

The reports are:

- Audit Reports: Dominican Republic, Sri Lanka, Nigeria, Swaziland; four reports relating to the work of Population Services International (South Sudan, Madagascar, Togo, and Headquarters)
- A Review of the Global Fund Travel and Travel-related Health and Security policies
- Investigation Reports: Mauritania, India, and Nigeria

The country-specific reports cover grants from different Global Fund financing 'Rounds', and have implementation start dates commencing at various times since early 2004. Together, the reports review around US\$ 1 billion of grant financing. These reports take into account as far as possible, a number of the High Level Panel's recommendations. The Reports include comments from the Principal Recipients and contain a thorough management response and action plan from the Secretariat. Increased attention has been paid by the Office of the Inspector General to the tone of the Reports, without diluting the important message that each carries.

Specifically, the Reports tell us that the Global Fund must seek to recover up to US\$ 19.2 million from grants in eight countries. Around US\$ 17 million of this amount is for activities that are poorly accounted for, were not budgeted in the work plan, or fall within the Global Fund's current definition of an ineligible expense, which is an area that the High Level Panel report suggested be clarified for Principal Recipients. Some of the grant implementer responses contest relevant findings. From the perspective of the Office of the Inspector General, the reports present the evidence that has been found and recovery should be sought in full.

The Nigeria investigation report, which led from the audit, brings to the surface once again issues with the Local Fund Agent engagement model – raised very proactively also in the Inspector General’s reports for Mali in December of last year.

Whilst in no way seeking to reduce the importance of the concerns that come from the three investigation reports, they do come at a time when the Global Fund knows that it has to transform how it manages its grants – and how – most importantly – it proactively addresses risk in its portfolio. This cannot entirely prevent mismanagement in all grants, but it will certainly provide a better framework on which resources are channeled to partner countries.

At its November 2011 meeting, the Global Fund Board will consider a Consolidated Transformation Plan to bring into effect the High Level Panel’s recommendations on risk, grant management and improved fiduciary oversight.

More reports will come from the Inspector General and irregularities will continue to be found given the increasingly complex environments in which the Global Fund works. The Global Fund continues to strive to prevent loss, and we must ensure that the organization has the systems that enable us to take purposeful and immediate action when irregularities are discovered. Where there is dishonesty, we must pursue those involved.

The Global Fund is committed to the mission of saving lives and assisting countries in building strong and sustainable health systems. Emerging as an issue over the last years, but now very firmly confirmed from the Report of the High Level Panel, the Global Fund must be transformed at all levels.

The Consolidated Transformation Plan will provide the Secretariat, the Office of the Inspector General, and the Board with the means to make this transformation, and ensure ongoing service and accountability to the people whose lives we must save, and to those that fund that cause.

Best regards,

Simon Bland
Board Chair



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to Population Services International South Sudan

Audit Report GF-OIG-10-019
31 October 2011

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Abbreviations

ACT	Artemisinin-based Combination Therapy
AMREF	African Medical and Research Foundation
BCC	Behavioral Change Communication
CBO	Community-Based Organization
CCM	Country Coordinating Mechanism
CDD	Community Drug Distributor
CDT	Catholic Diocese of Torit
CP	Condition Precedent
GOSS	Government of Southern Sudan
HMIS	Health Management Information System
HMM	Home-based Management of Malaria
HSS	Health Systems Strengthening
IDP	Internally Displaced Person
ITN	Insecticide Treated Net
IRC	International Rescue Committee
LFA	Local Fund Agent
LLIN	Long Lasting Insecticide Treated Net
M&E	Monitoring and Evaluation
MC	Malaria Consortium
MOH	Ministry of Health
NGO	Non-Governmental Organization
NMCP	National Malaria Control Program
OFOG	Overseas Financial Operations Group
OIG	Office of the Inspector General
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Chain Management
PUDR	Progress Update and Disbursement Request
QA	Quality Assurance
SR	Sub Recipient
TA	Technical Assistance
ToT	Training of Trainers
TWG	Technical Working Group
UNDP	United Nations Development Program
US\$	United States Dollars
WHO	World Health Organization

Executive Summary

1. In 2010, the OIG undertook an audit of Global Fund grants managed by PSI Sudan. The purpose of the audit was to assess whether the Global Fund grants provided to PSI had been spent wisely to save lives in Southern Sudan and where necessary make recommendations to strengthen the management of the grants. The audit largely focused upon the transactions related to one grant for the period November 2008 to March 2010 amounting US\$ 33,512,896 of which US\$ 26,115,395 had been disbursed at the time of the audit.

2. This section briefly highlights the findings and conclusions arising from the audit; the detailed findings are contained below.

PSI

3. PSI Sudan had a number of commendable achievements given the complex environment within which it was operating. These included the purchase of pharmaceutical and health products from WHO certified suppliers; successful distribution of 1.6 million LLINs; and development of comprehensive policies and procedures. A number of constraints however had an adverse impact on PSI Sudan's achievement of its objectives including difficulties in finding competent staff in a post-war environment; insecurity in areas targeted by the program; poor infrastructure; high illiteracy levels; and lack of baseline data for some indicators.

4. The structure and staffing levels proposed by PSI were assessed by the LFA as adequate for the implementation of the Global Fund supported program. However a number of key positions remained unfilled one year into the grant. The OIG notes that the country context affected PSI's ability to attract suitably qualified staff and this resulted in a significant delay in filling other posts. However, the OIG also noted that the profiles of some staff recruited did not meet the qualifications specified in job descriptions. This all impacted program implementation.

5. The demarcation of the different roles played by PSI i.e. (i) its role and responsibility as PR; (ii) the role of PSI headquarters who were in receipt of an overhead; and (iii) PSI Headquarters' provision of technical assistance (at a cost) to PSI Sudan was not clearly defined. This resulted in additional charges being made to the program that one would have been expected to have come out of overheads.

6. There were several instances of non-compliance to the grant agreement that were noted. Key aspects related to testing health products as required under the Global Fund quality assurance policy and incorrect apportionments of interest to the grant which arose from (i) PSI allocating interest to grants at rates lower than those earned; and (ii) computational errors. This should be corrected.

7. At the time of the audit, some 90% of the expenditure had been incurred by PSI Headquarters. The accounting records maintained at the country office did not capture the expenditure incurred at headquarters and so were not included within

the scope of this. A mechanism should be put in place to audit the grant funds expended in Washington DC.

8. PSI had an elaborate manual but was not complied with to a large extent. The control environment within which grants are implemented can only be as strong as the implementation of the laid down policies. The key weaknesses noted in the financial management systems included (i) ineffective monthly budget monitoring; (ii) payment for transactions not included in the budget; (iii) over-riding authorization limits; (iv) non-compliance with policy for allocation of common costs; (v) failure to account for operational advances on a timely basis; and (vi) recording of expenses on incorrect budget lines.

9. The weaknesses noted in the sub grant management function included (i) significant delays in contracting of SRs; (ii) deficiencies in the SR selection process; (ii) (iii) lack of clear work plans and budgets for PSI Sudan as an implementing SR under the Round 7 grant against which its performance could be assessed; (iv) review of SR accountabilities was not comprehensive; and (v) inadequate SR monitoring.

10. The country level procurements were weak as evidenced by (i) instances of non-compliance with the approved PSM Plan; (ii) inadequate and inconsistent information given to bidders; (iii) incidences of single sourcing without proper justification; (iv) contracting of suppliers that had not initially submitted bids; (v) bid evaluations not carried out in a transparent manner; (vi) significant advance payments to suppliers without performance bonds; contracts without sufficient details to guide parties etc.

11. A review of PSI's implementation of the program against the approved work plan revealed that PSI responded to a MOH request to accelerate net distribution and distributed more nets than was anticipated in the first year which was commendable. However this came at the detriment of some other activities particularly the HSS component. Significant delays were also noted with the Home-based Management of Malaria (HMM) program due to a delay in finalizing the drug policy which was outside the control of PSI. Other factors that delayed the implementation of the HMM component was the delay in the identification of SRs.

12. PSI gave priority to implementation of the activities that were tied to indicators, thus leaving the rest of the activities not implemented on a timely basis. At the time of the audit, PSI sought to reallocate funds for some of these delayed activities to an activity that was not in the work plan. All activities as approved in the work plan are key to the success of the overall program and approval should be sought from the Secretariat before funds are reallocated to other activities.

13. With regard to monitoring and evaluation, the OIG identified some inconsistencies between the indicators in the M&E operational guidelines and the performance reporting framework; issues with the appropriateness of the indicators established; targets set without baseline data; weak data collection and

processing systems at PR and SR level; lack of standardized quarterly reports from SRs; and lack of formal feedback reports to SRs once M&E activities are carried out.

Oversight

Country Coordinating Mechanism

14. The CCM's governance manual has relevant guidelines but some of them have not been implemented especially the provisions relating to oversight. The membership of the CCM included the PRs who had full voting rights. This represents a conflict of interest as they carry out both the implementation and oversight roles of the Global Fund program. The OIG also noted instances where CCM members were involved in the PR's operational aspects e.g. the selection of SRs. This impairs the independence of the CCM and may affect its ability to effectively undertake its oversight role.

Local Fund Agent and Secretariat

15. KPMG San Francisco is the LFA but with the execution of the work subcontracted to KPMG Kenya. The LFA is based in Kenya and flies in to the country to undertake their work. The "fly in" LFA model has its disadvantages which unless managed effectively, may affect the quality of the work undertaken by the LFA.

16. The LFA has appropriately qualified financial management experts. However the LFA team was not as strong with regard to public health and PSM. This resulted in some deficiencies in the quality of work e.g. the shortcomings in the indicators and the quality assurance weaknesses in the PSM function that went undetected.

17. The LFA work also went through three layers of review. The OIG could not see the value added of the various layers of review but can report that this has contributed to delays in the submission of reports to the Global Fund.

18. The LFA identified several capacity gaps that PSI needed to address in order to effectively implement the Global Fund supported program. However, the OIG did not see evidence of follow up of the key capacity gaps identified during the assessment. The OIG also noted that for many of the capacity gaps identified, the LFA rationalized them saying that PSI headquarters capacity would mitigate the risks identified. However this was not validated or followed up by the LFA or the Secretariat. The Secretariat had not recognized the need to verify the considerable work done by PSI headquarters.

Events Subsequent to the Audit

19. After the audit field work and on the basis of preliminary findings, the Global Fund Secretariat developed action plans to address key reported weaknesses. Since the OIG oral de-brief in South Sudan in May 2010, the Country Coordinating Mechanism (CCM), the Principal Recipients (PR) and the Local Fund

Agent (LFA) in collaboration with national stakeholders, international partners and the Secretariat have already identified and commenced to implement measures to address the findings and risks identified during the audit.

20. The key changes in implementation arrangements include:
- i. The Phase II Grant Agreement was signed in March 2011 with the Performance Framework for Phase II being better aligned to overall program goals with a special term and condition has been included to update the Performance Framework within three months of the release of the Sudan Household Survey data and Sudan Malaria Indicator Survey data;
 - ii. The grant progress is now being monitored against the work plan and budget, rather than against the Performance Framework alone;
 - iii. The CCM Secretariat has received refresher technical assistance from Grant Management Solutions (GMS) and there is a mission planned to introduce the new dashboard to the CCM to improve their oversight capacity; and
 - iv. PSI has committed in the Special Terms and Conditions of Phase II, to establish and implement an action plan to address internal controls at the Sub-recipient level and to provide for increased monitoring of Sub-recipients.
 - v. The Global Fund Country Team has communicated to PSI and CCM identified M&E weaknesses and developed a comprehensive action plan to strengthen the system. The 2010 OSDV results indicate that there are improvements on the system and data quality as compared to 2009. Also, the Country Team has put in place a close follow-up mechanism in the Phase II grant agreement by which PSI is required to provide annual progress updates on M&E strengthening measures.
 - vi. Significant changes have been effected to the LFA team and the LFA is spending more time in country.

The OIG welcomes these initiatives but has not yet reviewed whether they mitigate the risks identified in the audit.

Conclusion

21. In conclusion, the implementation of the OIG's recommendations should help to strengthen PSI's effectiveness in the implementation the Global Fund grants and strengthen oversight of program activities. The following costs should be refunded to the grant program:

	Ineligible	Unsupported
	US\$	US\$
Payment of sales commissions	173,753	
Bonuses	16,800	
Malaria Consortium indirect costs		45,593
Malaria Consortium salaries		163,350
Malaria Consortium TA		25,400
Malaria Consortium guesthouse rental	30,000	
International Rescue Council overhead		16,587
International Rescue Council rent	13,350	
International Rescue Council salaries	16,642	
International Rescue Council flight	10,000	
International Rescue Council (expenses for other programs)	1,555	
Catholic Diocese of Torit indirect costs		11,365
Catholic Diocese of Torit TA	3,000	
	265,100	262,295

Introduction

Country Context

22. Sudan's civil war, the longest running in Africa, has had a devastating toll in terms of loss of human life, displacement, and destruction of infrastructure and social fabric. The 2005 Comprehensive Peace Agreement officially ended the 22-year North-South civil war. What remained at the time of the audit was the implementation of some key aspects of the agreement e.g. the referendum which took place in January 2011. The outcome of this referendum has determined that Southern Sudan will become an independent country rather than remain an autonomous region of the Republic of Sudan.

23. The effects of more than two decades of war and conflicts have taken an immeasurable toll on the life of ordinary Southern Sudanese. Physical infrastructure remains devastated, most government institutions have been newly created, and existing ones still require reform. Most of the population lacks access to health care, education, clean water and sanitation. The return of peace has allowed the resumption of normal economic activity, notably in urban and surrounding areas in the ten states of Southern Sudan.

24. However, Southern Sudan remains fragile and vulnerable to resumption of conflicts, especially within the South itself. The fragile peace is further complicated and remains at risk because of the serious macroeconomic challenges facing the Government of Southern Sudan (GOSS).

25. Southern Sudan's health care system is fragile and several issues need to be addressed such as

- low absorptive capacity of the MOH;
- few trained health personnel;
- low capacity (funding, human resources, training) of states to manage health care services;
- lack of regulation;
- lack of coordination (between central, state, and county levels, NGOs and partners);
- poor and non-existent infrastructures;
- absence of human resource policy;
- poor quality of health care;
- lack of baseline and follow-up data;
- poor endemic disease control programs;
- funds not forthcoming from or slowly disbursed by national and international sources that make it impossible to cover recurrent health system costs; and
- dependency on external resources.

PSI

26. PSI Sudan (PSI), wholly owned by PSI, was registered in Sudan by the Ministry of Legal Affairs and Constitutional Development as a Non-Governmental

Organization on 21 February 2008. PSI Sudan has been involved in two Global Fund Rounds i.e. as the Principal Recipient (PR) under the Round 7 Malaria grant and as a Sub Recipient under the Round 2 Malaria grant. The objective of the Round 2 grant where PSI was an SR to UNDP was to reduce the malaria burden in Southern Sudan. The objective of the Round 7 grant was to scale up malaria prevention coverage and control interventions in Southern Sudan.

27. PSI implemented some of the Round 7 activities through Sub Recipients (SRs) i.e. the Malaria Consortium, International Rescue Committee, Catholic Diocese of Torit, BRAC Southern Sudan and CHF International. The table below provides the status of the grants managed by PSI:

Round	Component	Grant Number	Grant amount US\$	Disbursed US\$
2	Malaria	SUD-202-G03-M-00	1,431,965	1,260,411
7	HIV/AIDS	SUD-708-G09-M	33,512,896	26,115,395
Grand Total			34,944,861	27,375,806

Table 1: Summary of Grants [Source: The Global Fund Website]

Objectives of the Audit

28. The mission of the Office of Inspector General (OIG) is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations. Through its audits, the OIG provides assurance that Global Fund grants have been spent wisely to save lives and identifies actions that will enable the PR to achieve better results.

29. The audit objectives were to:

- Assess the efficiency and effectiveness of the management and operations of the grants;
- Measure the soundness of systems, policies and procedures in safeguarding Global Fund resources;
- Confirm compliance with the Global Fund grant agreement and related policies and procedures and with related country laws;
- Identify risks that the Global Fund grants may be exposed to and measures in place to mitigate such risks; and
- Make recommendations to strengthen the management of the Global Fund grants based on (a)-(d) above.

Scope of the Audit

30. The audit covered the Global Fund Round 7 Malaria grant where PSI is the PR as well as limited coverage of the Round 2 grant where PSI was an SR. It would be impossible to undertake a comprehensive review of the Round 2 grants without covering PSI's interactions with the PR, UNDP. However UNDP is not covered in this audit. The audit also covered PSI's interactions with the Country Coordinating Mechanism (CCM), Local Fund Agent (LFA) and its Sub-Recipients (SRs).

31. The audit covered financial management, grant management, procurement and supply chain management and public health aspects. In each of the three areas, the OIG sought to give assurance that:

- (a) PSI complied with policies and procedures laid down by the Global Fund and the country and its own guidelines;
- (b) the established internal control structures and systems were adequate to assurance that grant assets were safeguarded against loss, misuse and abuse;
- (c) value for money was obtained from the funds that were spent. This entailed verifying whether program funds were used economically, efficiently and effectively; and
- (d) the systems, processes and controls in place were sufficient in supporting the achievement of grant objectives.

32. The Global Fund grant managed by PSI in Southern Sudan was signed in November 2008 and was still running to the date of the audit. The audit applied a cutoff date of 31 March 2010 in terms of the transactions it examined.

Round 7 Malaria Grant Achievements and Challenges

33. A grant agreement was signed between the Global Fund and PSI Headquarters to manage the Southern Sudan Round 7 Malaria grant. The objectives and service delivery areas of the Round 7 grant were to:

- (a) Provide 80% of the population with coverage of effective malaria preventions for transmission control with special focus on vulnerable groups in all 10 states of Southern Sudan. This covers distribution of Long Lasting Insecticide Treated Nets (LLINs) and Behavioral Change Communication (BCC) using mass media.
- (b) Provide to 60% of children of under-five years with fever with treatment using ACTs in defined geographical areas of the 10 states of Southern Sudan. This is through HMM; and prompt and effective anti-malarial treatment.
- (c) To strengthen the capacity of the health system to deliver health services including malaria interventions. This is through the strengthening of human resources and strengthening of the Information System and Operational Research.

Achievements

34. The Round 7 program is a national program and its successes are attributable to PSI and various other stakeholders. Good practices demonstrated were:

- (a) The Round 7 proposal was well aligned to the Abuja Declaration, Roll Back Malaria, National Malaria Strategic Plan as well as the Millennium Development Goals.

- (b) The main intervention areas of the program i.e. prevention (ITN and BCC) Treatment (HMM) and HSS (HR and systems) are internationally accepted cost-effective interventions for addressing malaria prevention and control and were also in line with national malaria control policies, strategies and guidelines.
- (c) The indicators that were used in the Monitoring and Performance framework for the program were part of the national M&E framework for the health sector and measure all three levels of performance for a multi-year program including output, outcome and impact.

35. At the time of the audit, PSI had been successful in implementing the following interventions:

- (a) 1.6 million LLINs were successfully distributed in the first year against the planned 500,000. The LLIN distribution scale up was undertaken at the request by the MOH;
- (b) The program achieved 90% of the target for training of CBO staff in BCC community outreach activities for prevention and treatment;
- (c) 12 students were enrolled in training institutions covering relevant courses such as medical entomology and vector control, malaria program planning and management;
- (d) ACTs and LLINs were purchased from WHO certified suppliers that meet internationally accepted quality standards and they were subjected to pre-shipment quality control testing; and
- (e) PSI worked with the MOH to develop HMIS tools for the home based management of malaria program at community level.
- (f) PSI has submitted timely reports to the Global Fund. The reports also include a narrative that provides good contextual information on the program.

Challenges

36. The health system in Southern Sudan faces the typical challenges of prolonged conflict situations. These challenges presented implementation constraints to stakeholders in the health sector (including PSI):

- (i) The poor infrastructure, insecurity and social conditions characteristic of post conflict countries inhibited PSI's ability to attract and retain suitably qualified staff to manage the programs. This can also be attributed to the fact that Southern Sudan is considered a hardship post and a non-family duty station for aid workers.

- (ii) The inadequate capacity in terms of structures, tools, personnel etc. at all levels in the MOH has greatly affected the health service delivery in Southern Sudan especially the HMM intervention.
- (iii) Insecurity in some areas affected the accessibility of certain areas and inhibited and/or delayed the distribution of ACTs and LLINs.
- (iv) The country has a poor infrastructure especially health facilities and roads. The number of people that can be reached is affected by the limited number of health facilities i.e. only 25% of the population is estimated to have access to a health facility. Where these facilities exist, their effectiveness is affected by poor infrastructure, inadequate staff, drug stock outs, lack of equipment etc. The roads are sometimes impassable in the rainy seasons.
- (v) There is a high level of illiteracy in the communities targeted. This has affected PSI's ability to identify literate Community Drug Distributors (CDDs). CDDs are however central to the HMM intervention. This has affected the quality of service delivery.
- (vi) There are no national systems to support the implementation of programs e.g. PSM systems, M&E systems etc. Because of the lack of basic systems, implementers have had to develop their own systems to deliver on their programs e.g. procurement and supply chain management, monitoring and evaluation systems, quality assurance systems etc. Systems are set up and fragmented across various donors thus making coordination of programs difficult.
- (vii) There were no baseline data for several indicators and therefore there was no dependable basis for setting targets.

The Report

37. This report is presented by functional areas that is (i) institutional arrangements; (ii) public health; (iii) financial management; (iv) Sub grant management; (iv) procurement and supply chain management and (v) oversight functions. Good internal control practices or significant achievements found during the audit are mentioned in the report, but they are not discussed in depth given that the purpose of the audit was to identify important risks and issues that needed to be addressed.

38. The recommendations have been prioritized. However, the implementation of all recommendations is essential in mitigating identified risks and strengthening the internal control environment in which the programs operate. The prioritization has been done to assist management in deciding on the order in which recommendations should be implemented. They are categorized as follows:

- a) *High priority*: Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- b) *Significant priority*: There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal control, or undermine achievement of aims and objectives; and
- c) *Requires attention*: There is minor control weakness or noncompliance within systems and remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the benefit of the management of the grant programs.

Institutional Arrangements

39. PSI, based in Washington, D.C was founded in 1970 to improve reproductive health using commercial marketing strategies. PSI Sudan (PSI), wholly owned by PSI, was registered in Sudan by the Ministry of Legal Affairs and Constitutional Development as a Non-Governmental Organization on 21 February 2008. The PSI Sudan operations are headquartered in Juba with four sub-offices in Yei, Rumbek, Tambura and Mundri.

40. PSI has a Board of Directors that provides oversight over the whole organization's business. PSI Sudan is headed by a resident Country Representative (CR). The Sudan office also has a Deputy Director who also acts as Business Operations Manager. The Deputy Director supervises the support functions namely finance and administration, logistics and human resources. PSI Sudan has appointed a Global Fund Program Manager to oversee the implementation of the Global Fund supported programs.

41. The CR reports to the East Africa Regional Director who is based in Washington DC. There are also reporting linkages by function between PSI Sudan and the headquarters e.g. the financial and programmatic reports are sent to the Financial Analyst and Program Manager in Washington who consolidate the country results at an international level.

Oversight

42. The OIG's review covered the oversight provided to the Global Fund supported program in Sudan. The PSI Sudan office would have benefited from stronger management oversight especially with regard to working with the country to identify solutions to the challenging environment within which the programs are operating. At the time of the audit, the program was only successful in

implementing one of the three interventions and as the Fund Portfolio Manager noted concentrated only on activities that were linked to meeting targets leaving other activities within the program not covered.

43. The OIG was informed that such oversight is provided by the Headquarters senior management team which comprises of the Child Survival technical team in Nairobi as well as the Regional Director for East Africa, the Program Manager and Financial Analyst for Southern Sudan. According to PSI, these staff work with the Sudan office to strengthen institutional capacity through the implementation and monitoring of organizational performance against a set minimum standard. PSI said that this team is not involved in the operational aspects of the grant.

44. The OIG, on the other hand, noted that contrary to the PSI representation, the senior management team supervises and in some cases is involved in processing headquarter transactions related to the country programs. In fact the LFA describes the senior management team as a 'stop gap measure' to address the local country capacity. Because of their direct involvement in country operations, this team therefore may not be the appropriate body to provide oversight to the Global Fund supported programs.

Recommendation 1 (Significant)

PSI should identify an appropriate oversight structure that is independent of the staff involved in the operational aspects. This body would oversee the PSI's strategies, governance matters, operations etc. in relation to the overall program performance. It should also cover financial and programmatic oversight over the grants as approved in the work plan and budget.

Staff Capacity

45. PSI prepared and received approval and funding for an organization structure that was ideal for implementing the Global Fund program. The proposed structure and staffing levels were assessed by the LFA as adequate for the implementation of the Global Fund supported program. The OIG reviewed the staffing in post at the time of the audit against the approved organogram and job profiles and noted the following:

- (a) There were delays in filling key positions e.g. the position of Global Fund Program Manager remained vacant for six months.
- (b) Some positions were vacant at the time of the audit e.g. three HMM program managers, three pharmacists, two M&E officers etc. There were two finance manager positions, one for the Finance and Administration Manager and the second for a Finance Manager. Only one of the two positions was filled.
- (c) The profiles of some staff did not meet the qualifications specified in the job descriptions.

- (d) Some of the recruited staff did not cover the envisaged scope of work e.g. the M&E manager recruited in July 2009 only covered activities implemented by PSI. There was no manager responsible for the monitoring the overall program implementation.
- (e) Although the funds for the vacant positions had been released, the PUDRs did not reflect the savings from these staff shortages i.e. one would have expected that there should have been savings on the staff costs as a reflection of the shortages.

46. The OIG appreciates that they were unable to attract and retain good staff due to the country context. PSI also explained that its regional team in Nairobi and their office in Washington DC provided technical backstopping to the local office and because of this the Global Fund supported program was not affected by the staff shortage. As the subsequent findings show these shortages impacted program implementation.

47. PSI did not provide the OIG with evidence that they were doing enough to fill the vacant positions. The LFA also noted in its assessment report that it had not seen any adverts by PSI to fill its vacant positions. Out of all the vacant positions, PSI provided adverts for only two technical positions dated November 2009 and March 2010 as evidence that they were trying to fill the vacant positions.

Recommendation 2 (High)

PSI Sudan should ensure that all key positions necessary for the successful implementation of the Global Fund program, as per the budget, are filled with personnel possessing the required skills, experience and knowledge.

48. The PSI budget provided for technical assistance. This technical assistance is provided by PSI headquarters staff. PSI explained that the TA was thoroughly vetted via its rigorous TA approval process and it represented a small budget commitment when compared to other assistance PSI provides its platforms. However, given the automatic selection for TA without making comparisons with other external TA providers, the OIG was not able to determine if value for money was obtained from the services offered and charged to the program by PSI.

49. PSI also explained that the TA was first it provided during proposal development where technical advice on best approaches, indicators etc. was provided. During grant negotiation, PSI provides TA to ensure activities will lead to achievement of indicators and targets, and that the country platform is capable of delivering the intended results. During grant implementation, this TA covers a huge range of activities including training, review of program documents, phone calls in meetings to address challenges and issues, in person visits, etc.

50. However, in the OIG's view, some of the activities undertaken and charged as TA actually fall within the ambit of the PSI's role as PR. Some of roles charged under TA represent what would be management's supervision of its programs for which the Global Fund pays an overhead. For example PSI's malaria technical

expert from Nairobi developed the communication campaign for the LLIN distribution. This should have been undertaken by the BCC manager and charged to the PR budget line. The M&E officer was charged under the TA budget line and yet typically they should fall under the PR budget line.

Recommendation 3 (Significant)

There should be a clear demarcation of the different roles played by PSI i.e. (i) its role and responsibility as PR; (ii) the role of PSI headquarters towards which an overhead is paid; and (iii) PSI's provision of technical assistance (at a cost) to PSI Sudan.

Compliance with the Grant Agreement

51. PRs are required to comply with the grant agreement and the laws and regulations of the relevant country. The OIG's review of PSI's compliance with the grant agreement identified some instances of non-compliance with the Global Fund grant agreement as detailed in the paragraphs below.

Maintenance of funds in an interest bearing account

52. The grant agreement requires that project funds be maintained in an interest bearing account. The local bank accounts in Sudan are not interest bearing and PSI argued that the balances held on the two accounts were minimal and would not attract much interest. However, this represents a missed opportunity to increase the funding available for programs. Most of the grant funds are held in Washington DC. PSI Headquarters maintains one bank account that is interest bearing for all grant funds for different countries and donors.

53. The Washington office apportions interest to country grants using US federal treasury interest rates on the balance of funds each month for each individual grant i.e. total received from Global Fund less reported expenditures for the month. The interest reported to the Global Fund is therefore not the actual interest earned but a manual calculation and allocation of interest by PSI. The resultant computed interest is reported in the PUDR and available for program implementation.

54. The OIG reviewed the interest computation and noted the following issues:

- (a) The US federal rates that are applied to the Global Fund program funds are lower than the rates that are actually earned on the PSI bank account. As a result, the program income that is recorded and accredited to the country grant is lower than the interest earned by PSI on grant funds and actually attributable to the program.
- (b) There were also computational errors noted in the schedules provided to the OIG. The OIG has sought a refund of these amounts to the grant from PSI Headquarters.

PSM related matters

55. The grant agreement requires the Principal Recipient, for quality control purposes, to test random samples of pharmaceutical products procured with Global Fund resources. The Global Fund quality control policy further states that samples should be taken along the whole supply management chain system and that these tests should be undertaken in a WHO recognized laboratory. PSI explained that it follows the Sudan MOH quality assurance procedure and that the ACTs were tested in the MOH “Quality-Minilab” prior to distribution. This is contrary to the Global Fund policy that requires that the tests are undertaken in a pre-qualified laboratory and that it is not only at the point of entry but throughout the supply chain system. The MOH “Quality-Minilab” was not a pre-qualified laboratory.

56. The grant agreement provides guidance on the basic principles that procurements should follow at all times. The OIG’s review of the procurement undertaken by the local office revealed noncompliance specifically in the following areas (Details are contained in the PSM section):

- (a) Contracts were not always awarded in a transparent manner;
- (b) The solicitations to bidders were not always clear and the time provided for solicitation was in some cases inadequate; and
- (c) Solicitations did not always provide all the required information necessary for a prospective bidder to prepare a bid.

Recommendation 4 (High)

PSI should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the PRs should:

- (a) Ensure that the interest charged to the grant is accurate and credit the grant program with additional interest that they have retained;*
- (b) Quality assure their pharmaceutical products in line with the grant agreement; and*
- (c) Ensure that their procurements meet the standards set in the grant agreement.*

Audit Arrangements

57. The grant agreement stipulates that PRs should have its books of account audited and a report presented to the Global Fund within six months of the year end. At the time of the audit, PSI was in the process of identifying external auditors. The audit report was likely to be late since at the time of the OIG audit, the PR’s audit had not been scheduled and the deadline for submitting the audit report was already fast approaching.

58. The OIG noted that at the time of the audit, some 90% of the expenditure had been incurred in PSI’s headquarters. The accounting records maintained at the country office did not capture the expenditure incurred in PSI’s headquarters and so were not going to be subjected to the audit. This means that some 90% of the grant funds will remain unaudited.

59. PSI does not have an in-house internal audit function. Instead the Overseas Financial Operations Group (OFOG) undertakes activities that are akin to an internal audit. OFOG periodically visits field offices. Its objectives are to determine compliance to PSI's finance policies and procedures and donor agreements. It also conducts an evaluation of the existing internal control systems over fund disbursements and revenues. The frequency and length of a review is determined by PSI Headquarters and is based on a risk-based prioritization model. There has only been one review undertaken since the inception of the grants. The review covered a year to July 2009 and a comprehensive report was presented to the PSI Headquarters management in December 2009.

60. The OFOG function is presented to the Global Fund as a risk mitigation measure. In fact, the Global Fund contributes to the costs incurred in carrying out OFOG country reviews. However, PSI does not share the resultant reports with the Global Fund or the LFA. PSI maintains that the resultant reports are confidential. However, because the OFOG visits are presented to the Global Fund as a control mechanism and the Global Fund contributes to the OFOG related costs, then the Secretariat should in the OIS's view be granted access to the reports.

61. The OIG reviewed the OFOG report and noted the following:

- (a) At the time of the audit i.e. almost one year after the OFOG mission, many of the control weaknesses identified in the OFOG report were still prevalent.
- (b) The OFOG report states that its scope covers compliance with the grant agreement. However the report did not highlight the instances of non-compliance with the Global Fund agreement noted by the OIG.
- (c) The OFOG review was an office wide review and did not focus on specific grant risks and circumstances such as the management of Global Fund supported programs by PSI and grant implementation by SRs.

62. PSI has an elaborate manual referred to as the Employee Manual that stipulates the policies on key processes. The manual covers human resources, finance, procurement and grant management. The OIG noted however that many of the guidelines stipulated in the manual were not complied with. The OFOG report contained 45 recommendations for PSI Sudan with regard to the implementation of its own policies. The control environment within which grants are implemented will be only as strong as the implementation of the laid down policies.

Recommendation 5 (Significant)

- (a) *PSI should institute audits that cover the funds expended on behalf of the country at the Head Office. The Global Fund should ensure that the audit plans submitted for approval provide for the audit of the transactions incurred at the HQ.*

- (b) *PSI should consider extending the OFOG mandate to cover Global Fund specific program areas identified as risky e.g. SR management and make OFOG reports available to the Secretariat and LFA.*

Public Health Aspects

Malaria in Southern Sudan

63. Malaria is endemic throughout most areas of Southern Sudan with 24-36% of the population affected. It is estimated that over 70% of the Sudanese population living in endemic areas are at risk of malaria. *Plasmodium falciparum* is the dominant parasite causing more than 95% of all morbidity cases. However in the border regions with Ethiopia, *Plasmodium vivax* also causes malaria infection i.e. some 5% while less than 1% have plasmodium malariae. No plasmodium ovale were seen¹.

64. As is the case with most of Sub Saharan Africa, the population groups most affected by malaria in Southern Sudan are (i) the biologically vulnerable (pregnant women and children under five); (ii) the economically disadvantaged or hard-to-reach populations e.g. internally displaced persons (IDPs), pastoralists etc.; (iii) immunologically-compromised e.g. people living with HIV/AIDS; and (iv) the elderly.

65. Malaria epidemics and more localized outbreaks do occur and are caused by environmental and climatic factors e.g. massive flooding; movement of populations IDPs from low to high areas of high transmission as well as lack of access to any kind of anti-malarial treatment in some areas. There is no data available to assess whether reported cases are within seasonal variation or above what represents an epidemic.

66. Local capacity for response to malaria is inadequate due to poverty, extreme climatic factors leading to proliferation of mosquito breeding sites, poor infrastructure and poor education. As a result the majority of the population has little or no information and limited access to the prevention and management of malaria. The Malaria Control Program is focusing on scaling up malaria prevention, diagnosis and treatment through community based services.

67. The main prevention and control strategies are (i) prompt treatment with Artemisinin-based Combination Therapy (ACTs); (ii) vector control i.e. Insecticide Treated Net (ITNs), Indoor Residual Spraying (IRS) and environmental management; (iii) control of malaria in pregnancy i.e. Intermittent Preventive Treatment, ITNs and case management; and (iv) epidemic preparedness and response.

¹ 2009 Malaria Indicator Survey

Program Implementation Against Work Plan

68. At the time of the audit, this grant was rated as a B1 i.e. adequate. PSI exceeded and/or met its targets for 7 indicators namely (i) number of LLINs distributed; (ii) number of states in which a BCC Mass Media Campaign had taken place; (iii) number of CBO staffs trained in a BCC community outreach activities; (iv) Percentage of health facilities in project areas with no stock-outs of AS+AQ for children under five; (v) proportion of Health Workers (facility and community based) with regular supervision; (vi) proportion of health facilities providing complete and timely reports; (vii) number of health workers trained in data collection and reporting.

69. However, PSI's good performance in the above indicators was let down by inadequate and/or poor performance in some indicators: (i) Number of students recruited into health training institutions with Global Fund grant funding; and (ii) Number of fever episodes in children under five treated with the first line (AS+AQ) antimalarial medicines at the communal level. PSI attributed its poor performance under these targets to:

- (a) Delays in the contracting of the Sub Recipient for training; and
- (b) Delays in the finalizing of the change in drug policy for ACTs from a co-blistered formulation to a fixed dose combination (AS+AQ). The procurement of drugs stalled until the policy was finalized.

70. PSI also attributed the failure to reach targets to the re-prioritization of program implementation by fast tracking the net related activities. However, PSI as a PR should, in the OIG's view, consider program related decisions holistically i.e. one should ideally not be taken at the detriment of the other.

71. The OIG noted that implementation priority was given to the activities that were tied to indicators, often leaving the rest of the activities not implemented on a timely basis. Examples of such activities include trainings not linked to indicators and the equipment for strengthening of M&E at central and state level which had not been implemented at the time of the audit. At the time of the audit, PSI had reallocated the funds for some of these activities to another activity that was not in the work plan. All activities as approved in the work plan are key to the success of the overall program and due diligence should be taken before funds are reallocated to other activities.

Prevention

72. PSI undertook two interventions under prevention i.e. the distribution of nets and BCC activities. The Round 7 proposal emphasized the LLIN distribution as the most feasible and scalable vector control intervention compared to IRS and environmental management because of the limited capacity of the MOH, lack of skilled vector control personnel, limited infrastructure, and inaccessibility of large sections of the country especially during the rainy season. PSI distributed 1.9 million nets against a target of 0.6 million nets in year 1. The Ministry of Health

requested PSI to accelerate the distribution of nets in order to meet the Abuja 2010 net targets.

73. PSI reported 1,987,173 LLINs as having been distributed. However, only 1,661,899 could be verified to signatures or thumbprints. This left some 325,274 nets i.e. 16.4% that could not be validated as having been distributed. PSI explained that a container of nets was delivered to one of the states and they found the containers opened the following day and the nets taken out. PSI maintains that the nets were distributed but could not provide the evidence that these nets had actually been distributed. PSI should in the future put in place to appropriate measures to ensure full accountability for program assets.

74. With regard to Behavioral Change Communication, the OIG noted that there was a delay in the start in the implementation of this activity. However the targets for BCC mass media campaigns were achieved i.e. the 90% of target for CBO staff were trained in BCC community outreach activities for prevention and treatment was achieved.

Treatment

75. With regard to treatment, the CCM chose to implement a home based management of malaria (HMM) approach because less than half the population have access to health facilities. This means that ACTs will be distributed through Community Drug Distributors (CDDs) that would be identified in years one and two. The CDDs will be supervised and managed by the Sub-Recipients (SRs). These distributors will receive a five-day training addressing identification of common symptoms and danger signs, giving correct treatment, counseling caregivers on how to give treatment and when to seek treatment from a trained health worker, drug storage and record keeping.

76. Given the importance of ensuring that the same ACT's targeting children under five are available at the health facilities as our given out in the communities, PSI Sudan will also provide a small percentage of the ACTs to health facilities that the CDDs will be referring caregivers to in the event of danger signs.

77. There was a delay in the start of implementation with only 12% of the target reached. PSI attributed the poor results to the following:

- (a) Re-prioritizing of program implementation by switching LLIN distribution for HMM treatment;
- (b) Protracted contracting process for SRs;
- (c) Need to develop the policies and training material before the program could be contracted to SRs and implemented. The Child Survival Guidelines (essential to guiding program implementation) were only finalized in April 2009. The accompanying, harmonized training materials were only finalized in September 2009 but had not been endorsed by the MOH at the time of the audit; and
- (d) The targets were unrealistic. The Global Fund agrees targets with the PR and if they are noted to be unrealistic (especially in this case where targets

may not be based on empirical data), there is a process to have them reviewed which PSI should follow. It may be prudent to await the results of a planned survey before the targets can be amended.

Health Sector Support

78. The health sector support (HSS) component had three interventions i.e. support to the central and state government, the human resources component and information systems and operational research.

79. With regard to the support to the central and state government, the planned activities as defined in the proposal were to:

- (a) Conduct biannual National RBM Coordination Committee meetings that bring together all partners from Government, civil society, and the private sector to discuss progress in malaria control and make recommendations to the Health and Nutrition Coordination Group Framework (HNCG);
- (b) Strengthen linkages between the national, state and county levels through provision of a vehicle per state for malaria coordinators;
- (c) Map RBM partners at central and state levels and involve them into common plans, coordination and M&E arrangements; and
- (d) Harness the potential of private sector to advocate, deliver and monitor services including malaria according to national priorities.

80. With regard to the biannual RBM coordination committee meetings, the OIG did not see evidence of these meetings happening as had been envisaged. PSI was however part of a malaria Technical Working Group (TWG) which comprised of WHO, UNDP, MSH/USAID, Malaria Consortium, PSI, JSI, AMREF, World Relief, and World Vision as the key partners. The TWG supports the National Malaria Control Program (NMCP) to develop/update technical guidelines, quantify malaria prevention and control inputs; mobilize resources; design capacity building plans; and monitor malaria interventions.

81. At the time of the audit, only one vehicle had been passed on to the government. The MOH had formally requested the remaining nine vehicles. PSI explained that the money for the vehicles and equipment was to be used for a survey which was not included in the work plan and budgeted for. The OIG also did not see evidence of CCM or Global Fund approval of this reallocation of the budget. This created a tension between PSI and the MOH.

82. Whereas policy, planning, and financial decisions about health services happen at GOSS level, actual service provision and delivery of interventions occurs at the state level and below. The state level is therefore a key structure for the delivery of healthcare that needed to be strengthened alongside that of the central level. At the time of the audit, PSI stated that there was improved coordination at the state and lower levels with 7 of the 10 states having full time malaria coordinators.

83. The planning, coordination and M&E is more apparent at central than state and lower level. It is also more evident for the LLIN distribution than the other interventions. For example PSI explained that the Malaria Focal People in the states travelled with the LLIN implementation teams and participated in all aspects of the program implementation. However, for the HMM component, PSI explained that motorcycles, communication equipment and supervision support costs had been provided to SRs but could not confirm that these had translated into any engagement between SRs and the MOH at county level. It is also noteworthy that the support that was meant for MOH was provided to PSI's SRs instead.

84. With regard to the human resource component, the envisaged activities were to:

- (a) Support the AMREF coordinated manpower training program by availing funds for training an additional 150 multipurpose health workers who can deliver malaria services e.g. midwives, laboratory technicians, clinical officers. Preference would be given to currently underserved states and counties. Upon graduation, the trained health workers will be incorporated and paid through the national health sector human resources management system and bonded to work in their counties of origin for at least 2 years;
- (b) Orient school tutors on national malaria control policies and guidelines and facilitate pre-service trainings;
- (c) Train all state malaria coordinators in project management (planning, implementation and evaluation) at appropriate public health institutions in the sub region. This would be in addition to the on-going plan of training the coordinators in basic malariology; and
- (d) Recruit a full time vector control specialist to the Directorate of Disease Prevention. While maintaining the focus on malaria vector control, the specialist would spearhead the operationalization of an Integrated Vector Management (IVM) strategy for other vector borne diseases.

85. However, the implementation of the human resources component was also behind schedule. At the time of the audit:

- (a) The mass training aimed at building capacity of state and county had not started. This included the 2 and 3 year training courses that had been planned and budgeted for the 150 public health nurses, midwives and clinical officers. PSI explained that these people were not trained because of a change in the strategy use CDDs. However the PSI position is not in line with the proposal. At the time of writing the proposal, the decision to use CDDs had already been made and this training was to be in addition to the CDD training.
- (b) The school tutors had not yet been oriented on the malaria control policies and guidelines.
- (c) The training of the state malaria coordinators in project management had also not yet been undertaken.
- (d) The vector control specialist had not yet been recruited.

86. Tracking of malaria outputs and outcomes in the Round 7 proposal was dependent on having a functional integrated HMIS. State health teams were required to be the key source of information for assessing the existence and coverage of interventions. However these states needed to have the appropriate resources to build and maintain a HMIS in order to generate the appropriate information. The proposal, work plan and budget provided for the purchase of computers and communication equipment for strengthening of monitoring and evaluation at GOSS and State level.

87. Under the Round 7 grant, provision was made to strengthen the HMIS by equipping state ministries of Health. This component involved:

- (a) Provision of one desktop computer to each of the 10 states. This was to be accompanied by focused computer training on data management including analysis, storage, use and feedback;
- (b) Training of health workers (2 per state and 2 per county) in data collection, entry, analysis, use, reporting and feedback as part of HMIS and IDSR systems;
- (c) NMCP was to undertake biannual technical support supervision visits to each of the 10 states;
- (d) Installation of a radio communication system to complement the radio system that had been set up at the state level by the IDSR program;
- (e) Establishment of a functional pharmacovigilance system (tools, training, data collection, reporting and feedback) for adverse drug reactions; and
- (f) Supporting existing sentinel sites to undertake regular antimalarial drug efficacy studies.

88. At the time of the audit, the OIG reviewed the status of implementation and noted the following:

- (a) With regard to information system and operational research, the OIG sought evidence that PSI was providing support to NMCP, state and county MOH officials to undertake supervision.
- (b) At the time of the audit, most of the equipment had not been procured and distributed to the states.
- (c) Although these activities should have started as early as quarter 1, no work had started on drug efficacy studies and in developing a pharmacovigilance system.
- (d) There was no evidence of the planned biannual technical support supervision visits to each of the 10 states. PSI explained that a joint field supervision schedule was developed with the CCM Secretariat for all Round 7 activities. The visits would have representatives of the CCM, MOH and PSI. At the time of the audit, these visits had not yet been undertaken.

Recommendation 6 (Significant)

An accelerated work plan for the HMM and HSS components should be developed and its implementation closely monitored if the targets set for the grant are to be realized. Specifically:

- (a) The PR should purchase and hand over the remaining 9 vehicles and other equipment that should have been purchased for MOH for strengthening M&E at GOSS and State level. A sub-grant agreement should be signed between PSI and MOH to this effect.*
- (b) A training plan for the proposed 2 and 3-year courses for public health nurses, clinicians and midwives which clearly outlines when and where training will take place should be developed and its implementation closely monitored.*
- (c) PSI should present its reallocated budget to the Global Fund via the CCM for approval.*

Quality of Service Delivery

Prevention

89. The LLIN intervention was well planned and executed according to plan. An oversight body was created known as National Mass LLIN Technical Working group comprising the MOH, CCM, NGO partners, WHO, and UNICEF. The nets were distributed through mass campaigns. PSI worked with the MOH to develop LLIN distribution guidelines and a National Plan of Action for LLIN distribution. These documents were provided to partners and reports were made to County Health Departments and the Ministry of Health through the Malaria Technical Working Group and the quarterly CCM meetings. Meetings were held at all levels i.e. at State level and country level.

90. The country proposal provided for the delivery of LLINs and HMM to be enhanced through an intensive BCC program since this was identified as a key intervention that would be essential for the various malaria control interventions. The Round 7 proposal emphasized BCC because despite being seen as being critical to various malaria control interventions, past Global Fund proposals did not focus on it. This resulted in community education being fragmented, not properly coordinated, limited to project areas and their coverage not being well known. However, PSI did not sequence the LLINs distribution and BCC activities. This resulted in about 700,000 LLINs being distributed before the BCC campaigns. This was likely to have affected the effectiveness of the campaign i.e. net utilization.

91. PSI acknowledged that an increase in BCC activities would affect behavior and increase net utilization. However, given the size, difficulty in reaching people in areas where the LLIN distribution was taking place, and the costs associated with high quality long-term inter personal communication it was not possible to

carry out these activities in all areas where LLIN distribution was taking place. PSI stated that SRs under the HMM component of the grant were expected to incorporate net use communication as part of their communication activities.

Recommendation 7 (Significant)

To minimize the risk of irrational use of LLINs, communities should be fully educated through BCC activities prior and during mass LLINs distribution exercises as was stipulated in the work plan.

Treatment

92. An effective drug management system should deliver the correct drug to the patient who needs that medicine. When looking at the various steps to getting the drug to the patient, the critical steps are: (i) procuring the drugs approved by the Global Fund QA policy, (ii) storage of drugs in the recommended conditions, (iii) diagnosing and prescribing appropriate treatment; and (iv) ensuring adherence to treatment especially because patients may feel better very soon after they started the treatment. The failure to have an effective drug management system increases the risk of having drug shortages and interruption of treatment which in turn creates the risk of resistance to ACTs. There were risks identified in the treatment process which had not been appropriately addressed as detailed in the paragraphs below.

93. As already mentioned, with regard to receipt, quality assurance and storage of drugs, the temperature in the warehouse holding ACTs was 42 degrees Celsius as opposed to the recommended below 30 degrees Celsius. No random quality control testing of ACTs was being carried out from the point of entry into the country to service point as required by the Global Fund quality assurance guidelines. The implementation of the PSI ACT Quality Assurance Guidelines on quality of health products should be adhered to and closely monitored at all levels as well as adapting them for effective implementation at county and community levels. Special attention should be given to storage conditions, random quality testing of ACTs from port of entry to point of use and to disposal procedures.

94. The literacy rate in Southern Sudan is 12% for women and 37% for men. Therefore, most of the CDDs who can't read and write were included as dispensers of ACTs. Unless proper mitigation factors are put in place, there is a risk of children getting wrong prescriptions. This is a concern especially because there are three prescription options that a CDD has to consider when an under-five child is presented with fever. PSI explained that the training was undertaken taking into account the CDDs' low literacy levels i.e. highly pictorial tools were used.

95. Adherence is important for all treatment and in the case of the HMM intervention, there was a need to ensure adherence at two levels i.e. the CDDs' compliance with the treatment guidelines and the patients adherence to the treatment provided. The CDDs were responsible, with the assistance of the SRs, for monitoring treatment adherence. Special leaflets for low literate audiences were to be included in the pre-packaged ACTs. Patients were referred to a PHCC if their

situation did not change after the treatment. Because the CDD forms were completed by the supervisors, there was no independent review of the CDD work. There was also no mechanism in place to monitor the CDDs' compliance to the treatment guidelines i.e. whether they had prescribed the correct dosage. The supervisors just monitored the numbers of people treated by CDDs and not the appropriateness of treatment offered.

96. The proposal provided for the CDD supervision to be built on existing support systems. CDDs were to be supervised on a monthly basis by the Payam supervisor who was to be given a bicycle and to be trained using a standardized package of M&E tools, including a supervisory checklist that the Payam supervisor will be required to complete for every CDD on a monthly basis. In addition, quarterly meetings of all Payam supervisors and CDDs would be held at the Payam level. This would create an opportunity to share experiences, receive refresher training, replenish stock and report on activities. The supervision model however was built on SRs and this represented a missed opportunity to work with the Payam staff.

97. There were no guidelines on proper storage and disposal of expired ACT by the CDDs and in county stores. The ACT Procurement and Distribution Quality Assurance guidelines for PSI programs did not give clear guidelines relevant to these levels especially at the community level. PSI explained that it followed the MOH disposal guidelines but these guidelines do not provide guidance at the community level.

Recommendation 8 (High)

- (a) An internal system for monitoring compliance of CDDs with the ACT treatment guidelines needs to be put in place in order to mitigate the risk of under or overdosing of patients as well as irrational use of drugs.*
- (b) Proper guidelines should be developed to guide lower level staff on how to deal with expired drugs. This should be in line with the MOH disposal guidelines.*

Health Systems Strengthening

98. The proposed trainings detailed in the work plan and budget could not be reconciled to those that undertaken by PSI. The failure to train the 150 public health nurses, midwives and clinical officers as planned in the proposal and training budget may have an adverse impact on the quality of service delivery in malaria prevention and treatment.

99. The OIG requested and was not provided with a training needs assessment. PSI explained that training to be undertaken was determined by WHO and MOH. Without a needs assessment, the OIG could not confirm that the resources were being applied to the places where they would be most effective. The OIG also noted the people that were trained were not attached to the MOH for a period of

time after the training. This raised the risk of losing staff after they had been trained.

100. The OIG did not see any evidence of cascaded Training of Trainer (ToT) courses on HMM undertaken by the PR to the SRs. This therefore raises questions on the effectiveness of the quality assurance mechanisms of the PR over the HMM trainings carried out by the SRs.

Recommendation 9 (High)

- (a) *Standardized ToT training for HMM should be developed and cascaded down to the different levels of the health system.*
- (b) *To ensure Government ownership and sustainability of the program as well as improved program implementation, a proactive relationship between the PR (including SRs) and MOH counterparts needs to be strengthened through: regular formal meetings on program planning, monitoring of work plan implementation and joint supervision; and accelerated implementation of planned HSS activities.*

Monitoring and Evaluation (M&E)

101. The M&E systems in Southern Sudan are almost non-existent. Different partners have therefore developed their own systems to meet specific project requirements. There is also a lack of national level baseline data, as well as data for ongoing routine health service outputs such as the number of malaria patients treated on a monthly basis. This significantly hampers the planning and monitoring of programs including the interpretation of data, as well as response to reported malaria epidemics. Similarly, insufficient data are available with respect to the epidemiology and mapping of malaria and the health seeking and preventive behavior of the population. Recent interventions to strengthen the M&E systems for the health sector have intensified.

Monitoring and Evaluation Plan

102. The OIG was presented with M&E Operational Guidelines for the Global Fund Round 7 Malaria Grant as the grant's M&E plan. The plan lacked key information that was critical for a detailed M&E plan. It did not have detailed activities, implementation timeframes, responsible organizations/persons for implementation of the activities and a detailed budget for the activities. The OIG noted that there was no provision for evaluations.

103. The OIG noted discrepancies in the output indicators contained in the M&E plan and those in the Performance Reporting Framework i.e.:

- (a) The indicators were stated differently in the two documents “number of CBO staff trained in BCC outreach activities” and “number of CBO staff children trained in BCC outreach activities for prevention and treatment”

- (b) The following indicators were in the Performance Reporting Framework but not in the M&E Operational Guidelines:
- Proportion of health facilities in project areas with no stock out of (AS+AQ) for children under five.
 - Proportion of health workers (facility and community based) with regular supervision.
 - Proportion of health facilities providing complete and timely reports.

104. The quality of one of the output indicators in both M&E documents was not an effective measure. It measured “Number of students recruited into health training institution”. A better output indicator would be “Number of students trained and deployed”. PSI explained that the indicator used is a Global Fund indicator but this does not mean that the indicators cannot be strengthened further to make them meaningful.

105. The OIG could not objectively evaluate the quality of the program targets because some of them were set with either 2006 baselines or none at all. There was an assumption that the targets would be reviewed once the Malaria Indicative Survey results is completed. Unfortunately, the survey had not been completed by the time of this audit.

Recommendation 10 (Requires attention)

The M&E Operational plan needs to be revised to ensure that:

- (a) *It includes a proper work plan which details activities, timeframe for implementation of activities, responsible organization/persons and budget.*
- (b) *It contains all indicators that are used in the program performance framework.*
- (c) *Outdated baselines are updated once the Malaria Indicative Survey is completed.*

Data collection and quality assurance

106. PSI along with other NGOs have been the main practices of health care services in Southern Sudan. It is therefore an important source of data regarding health determinants, and health system inputs, outputs, and outcomes. For the HMM component, to the extent possible, PSI used the MOH forms. Treatment data is collected and fed through the national health system from facility level upwards. PSI has developed additional tools to complement the MOH tools for the HMM component. With regard to LLINs, PSI explained that this was so because LLIN distribution was a one off activity and so data is not recorded through the national system. The data was collected by PSI and collated into reports. These reports were sent to the NMCP periodically. It is however important for this information be fed into the national systems because it would be the basis for future decision making both at the regional and national level.

107. Considering that a high proportion of the data collectors for HMM component were unable to read and write, the accuracy of the data collected can't be assured. Given this the OIG noted that the CDD supervisors, who were

supposed to carry out validation of the data collected by the CDDs, instead completed the data forms retrospectively at the end of the month and as such defeating the internal data verification system.

108. Both the PR and the SRs had not put in place simple data bases for HMM which summarize data reported by each SR per county and Payam. This would have provided an audit trail and enabled easy review of program performance and data verification.

109. The SR supervision checklist was inadequate because it did not cover monitoring of program implementation, M&E work plans verification of death and adherence to standards of care. The check list does not provide space for filling in the date of supervision, names of supervisor and supervisee, discussion and agreed way forward to ensure the supervision undertaken is effective.

Recommendation 11 (Significant)

The data quality assurance system should be strengthened by putting in place a simple summary data base for HMM that provides an audit trail, and by revising the supervision tool to ensure that it monitors implementation of the program work plan and M&E plan.

Program reporting

110. The quarterly program reports submitted by the SRs were not standardized. The wording of indicators was different from those in the performance framework. Some SRs split the indicators e.g. 'Proportion of health workers (facility and community based) with regular supervision' was split into 'Proportion of health workers at facility with regular supervision' and 'Proportion of health facility at community with regular supervision'.

111. There was no evidence that the PR provided feedback reports to the SRs on a quarterly basis to ensure timely action on program components that were not performing well. Best practice requires that there is a formal feedback channel following supervision visits, with subsequent visits following up issues arising from earlier visits.

Recommendation 12 (Requires attention)

The quality of program reporting needs to be improved by ensuring that SRs submit standard reports and that the PR provides feedback to SRs for timely action on identified program implementation bottlenecks.

Financial Management

112. The grant agreement is signed with PSI Headquarters and not Sudan and therefore the funds are received and managed by PSI Headquarters. PSI Sudan maintains two local accounts, one in US dollars and the other in Sudanese pound. PSI Sudan submits a request to PSI Headquarters, which then issues the disbursement upon receipt of approval. At the time of the audit, the LFA reported that approximately 90 percent of the PR's expenditure was incurred at the head office i.e. for procurement of health products.

113. PSI Headquarters uses Lawson as its accounting system. PSI Sudan uses QuickBooks Pro software for recording, accounting and financial reporting. Each program has a separate project code so that transactions can be classified and separately tracked for fund accounting purposes. QuickBooks is compatible with Lawson. PSI Sudan on a monthly basis uploads into PSI Headquarters' financial system its financial data for review and consolidation. The Lawson has online capabilities which allow PSI Sudan to view and generate reports but not input data or make changes to transactions.

114. The PSI Headquarters accounting department also makes manual adjustments to downloaded accounting data from QuickBooks to reflect the expenditure incurred in PSI Headquarters. The PSI Headquarters accounting department then generates a project status report which is used for preparing the financial and programmatic reports.

115. PSI operates pool bank accounts for all the monies disbursed by different donors. In such cases, the accounting system should be able to split the incomes and expenditure balances by donor. In practice PSI was not able to isolate Global Fund related funds held by donor, and by country. The Global Fund requires that the balance of funds held at the end of each period, as reported in the PUDR, should be agreed to a bank balance. The accounting system is not able to show a breakdown of the bank balance by funder. The LFA confirmed that they were unable to confirm the bank balances and verify the expenditure that was incurred at the Headquarters and included in the PUDR. Commingling of donor funds without a proper supporting accounting system raises the risk that Global Fund resources will be used to fund activities that are not related to its programs.

Recommendation 13 (High)

PSI should maintain proper books of account that are able to reconcile fund received to what Global Fund monies have been spent on, outstanding balances at any point in time and what share of the remaining bank balances relate to the Global Fund. These balances should be verifiable as part of the periodic PUDR verification process by the LFA.

116. The OIG noted some significant costs that had not been included in the budget but were incurred without prior Global Fund approval. Incurring ineligible expenditure means that funds are not available to implement the activities laid

out in the approved work plan and budget. All ineligible expenditure should be recovered from PSI:

- (a) Malaria Indicator Survey: PSI Sudan signed a memorandum of understanding with the Government of Southern Sudan through Ministry of Health committing to co-finance the *Malaria Indicator Survey* using Global Fund to the tune of US\$ 800,000. By the time of the OIG audit, US\$ 354,523 had been spent on the activity and charged to the Global Fund. This amount was not budgeted for and there was no evidence of approval by the Global Fund Secretariat before entering into the commitment and spending the funds. The Global Fund provided retrospective approval to this cost after the audit.
- (b) Sales staff salaries: PSI Sudan charged sales staff salaries to the Global Fund. The Global Fund supported programs did not have any social marketing elements and no provision had been made in the budget for them. By 31 December 2009, the amount had accumulated to US\$ 173,753.
- (c) Staff bonuses: In December 2009, PSI Sudan paid a staff bonus of US\$ 480 per person amounting to US\$ 16,800 and charged the cost to the Global Fund. This, according to PSI, was included in the fringe benefits approved by the Global Fund but this approval was not documented.

Recommendation 14 (High)

PSI should strengthen its budgeting framework to ensure that only eligible expenditure as per grant agreement is incurred. Budgetary reallocations should be justified in writing and approved before expenditure is incurred. PSI should refund the unbudgeted entries charged to the Global Fund to ensure funds are available to finance activities included in the approved budget.

117. PSI's financial guidelines provide for the allocation of common costs across donors. The basis of allocation of costs is the percentage of the estimated project costs to the overall budget adjusted for significant one-off procurement items. While the basis of allocation in the policy manual is reasonable, the OIG noted that PSI Sudan did not consistently apply the policy. For example, in November and December 2009, the Global Fund was charged 50% of the common salaries but there were no computations to show the basis of the allocation. The OIG could not therefore get assurance in the absence of such computations happening that the charges to the Global Fund were reasonable.

Recommendation 15 (Significant)

The PR should ensure that the common cost allocation formulae stipulated in the employee manual are adhered to so that there is reasonable allocation of shared costs. Recoveries should be made as appropriate.

118. There was also no evidence that monthly financial reviews including budget/actual comparisons were undertaken with corrective action taken to address significant variances. The OIG learnt that financial oversight was supposed to be provided by the PSI Sudan management team through the review of periodic

financial reports. However, the OIG did not see evidence of such reviews happening. This raises the risk that significant budget actual expenditure variances and/or errors will go undetected and consequently timely corrective action may not be undertaken.

119. The OIG also noted cases where expenditure had been misclassified by budget line. For example human resource expenditure for the period up to December 2009 amounting to US\$ 300,228 was budgeted for under the “Procurement and Supply Management Costs” budget line but was reported under the PR’s human resource budget line. This partially contributed to the significant budget overspends on the “Human Resources” budget line in the December 2009 PUDR. This reflects the lack of proper review of financial reports by PSI Sudan management.

120. The OIG also noted that PSI passed journal entries to correct transactions that had taken place almost a year before that. The misclassification of expenditure across budget lines suggests that financial statements and the reports submitted to the Global Fund do not reflect the actual transactions that have taken place. For example, voucher number JUSD-01J reclassified expenditure worth US\$ 423,864.71 that had been incurred in the period from January to August 2009. By this time, PSI had prepared two bi annual reports to the Secretariat.

Recommendation 16 (Requires attention)

PSI should establish mechanisms through which a comprehensive review of the financial data is undertaken before reports are submitted. Corrective action from such reviews should be undertaken in a timely manner to ensure that stakeholders are provided with accurate information for decision making.

121. PSI had sound financial management guidelines and these are contained in the Employee manual. The manual was prepared by PSI headquarters and was tailored to meet the unique country circumstances. However the OIG noted several instances of non-compliance:

- (a) The guidelines give expenditure authorization limits in order to ensure that suitable levels of risk are handled at appropriate levels. The OIG noted instances where the approval limits were not followed i.e. where the requisite Country Director/ Regional Director approval was not obtained. The overriding of authorization limits exposes Global Fund resources to the risk of misuse.
- (b) PSI policies require that employees account for advances within five days of returning from the date of return from travel. The OIG’s review of advances revealed instances of non-compliance. At 31 December 2009, PSI had unaccounted staff advances amounting to US\$ 103,635 that were past their due date.
- (c) The policies of PSI Sudan require that during payment processing, all payment vouchers and the documents supporting the payment should be

stamped “PAID” after payment. From the sample reviewed, the OIG noted that while the payment vouchers had been stamped, the supporting documents such as third party invoices, receipts, contracts, etc. had not been stamped. This exposes the program to the risk of supporting documents being submitted for payment more than once.

- (d) PSI Sudan payment vouchers reviewed were not serially pre-numbered. There were also various instances noted where serial numbers of the payment vouchers were manually changed.
- (e) The guidelines place a lot of emphasis on clear segregation of duties to reduce the risk of error or inappropriate action. However, the OIG noted that this control was not operational especially in procurements where some staff members developed specifications, called for bids, evaluated them and selected the successful bidder. Such a practice places the Global Fund resources at risk since the errors, inappropriate judgment or fraud may go undetected.

Recommendation 17 (Requires Attention)

PSI Sudan should apply the laid down policies in order to strengthen the control environment within which the programs are implemented. Justifications for exceptions should be provided and approved by the relevant PSI authorities as required in the manual.

122. The OIG reviewed PSI’s fixed asset register and noted that the fixed asset register did not include the assets purchased and distributed to the SRs for the implementation of the Global Fund projects worth US\$ 73,375. The grant agreement provides that this remains the responsibility of the PR until the close out process at which stage the Global Fund determines what should happen to the assets.

123. The register was not comprehensive in as far it did not list the following attributes for some assets:

- (a) the source of funds was not provided. This is particularly important for identification of assets at the close of the program;
- (b) the cost of the assets was not provided;
- (c) the acquisition dates for some assets was not provided; and
- (d) there was also no evidence to show that periodic verification of fixed assets was carried out to confirm their physical existence.

Recommendation 18 (High)

For both assets held by the PR and SRs, PSI Sudan should maintain an up to date fixed assets register that has all the key information required for proper control of fixed assets. This is especially critical given that the assets are funded by different donors who have different guidelines regarding management and disposal of assets. PSI Sudan would also benefit from periodic fixed asset verification exercises to ensure that all assets exist and are in good condition. Timely corrective action should then be taken where anomalies are found.

Sub Recipient Management

124. PSI undertook two processes to identify SRs i.e. one for LLIN distribution and another for the HMM intervention. This process resulted in the selection of Malaria Consortium, International Rescue Committee, Catholic Diocese of Torit, BRAC Southern Sudan; and CHF International as SRs. PSI was also identified as an SR.

Identification of SRs

125. Although the Round 7 Malaria grant to Sudan became effective in December 2008, SRs for LLIN distribution were contracted in April 2009 and the HMM ones were contracted in October 2009. The delay in identifying SRs affected the implementation of program activities especially under the HMM service delivery area and contributed to the PR's inability to meet set targets.

126. The bid evaluation committee comprised of PSI, the MOH, WHO and the Chair of the CCM. The panel included only one PSI staff member with the other members being either members of the CCM or SRs. This limited representation of PSI on the panel weakened its ownership of the process. PSI in its representations about the process stated that it worked under the instructions of the MOH, WHO and the CCM Chair. The CCM's involvement in the SR selection process also meant that the CCM lost its objectivity and independence in relation to the process which is critical for it to undertake its oversight role. WHO should have not participated in this process because it was identified on a sole source basis as the SR responsible for the HSS component.

127. The OIG reviewed the two processes followed in identifying SRs. The initial RFP called for potential SRs to respond in relation to all or part of the grant. A question and answer session was held for potential SRs. All SR responses were received at the PSI office and signed into a registration book. Two organizations were noted to have been late but these organization were still evaluated. At the proposal opening, the proposals were reviewed for completeness and the information summarized in a table detailing what indicators would be applied, the proposed geographical area and budgets of each proposer.

128. The initial selection process was however aborted before the evaluations could be undertaken. PSI explained that this was because the proposers did not follow the MOH LLIN national distribution strategy and the proposers fell well short of meeting targets. PSI explained that the MOH, WHO and the CCM Chair decided and advised them to follow the same procedure they had used during the Multi Dollar Trust Fund grant. Minutes to this effect were not provided to the OIG. LLIN service providers were eventually identified through a sole source process. PSI took responsibility for LLIN distribution in the areas where no interest was received from any organization.

129. Because the RFP requested proposers to express interest in all or part of the Round Seven grant, all proposers were requested to resubmit their proposals for only the HMM component. Local organizations were particularly encouraged to

submit proposals. The evaluation committee selected six organizations. However two organizations were eventually dropped subsequent to the evaluation.

130. The OIG concluded that the two processes followed in identifying SRs did not follow best practice. This was because:

- (a) The selection process was revised several times. The LLIN selection process was aborted before evaluations could be completed and a decision to sole source was made.
- (b) New criteria were introduced during the process e.g. bidders having a high staff turnover, 'non responsiveness', or the proposers not having offices in Juba.
- (c) Late proposers were still considered in the process.
- (d) The HMM selection process was cancelled and bidders requested to resubmit proposals. Some proposers were advised to change their composition, a role which should not be undertaken by an evaluation committee.

131. The OIG also noted that the template that was provided to the panel for the selection process did not provide clear criteria against which the proposals would be reviewed. This resulted in significant variances in the scores of the panel members. For example, one SR received a score of 25 from one panelist; 47 from a second and 80 from the third.

132. There was also unfair application of the SR selection tool by members of the evaluation committee. Because the proposals were evaluated by three people, the final score was an average of the three assessors. However, some assessors did not evaluate some proposals and these were subsequently awarded nil points. This disadvantaged the service providers that were not marked by some assessors.

133. PSI undertook pre-award assessments for some but not all SRs. The OIG noted that no pre-award assessments were carried out for the Catholic Dioceses of Torit and International Rescue Committee. The OIG's review revealed that in cases where the SR had capacity weaknesses, these were not identified at the outset. In the case of the CDT, PSI only noted the capacity challenges once implementation was underway and at the time of the audit, was working on addressing the weaknesses identified.

Recommendation 19 (High)

- (a) *For future SR evaluations, a more comprehensive and objective evaluation tool should be developed to enable assessors to make objective evaluation of responses to calls for proposals and enhance transparency in the process.*
- (b) *The CCM should avoid being involved in the direct evaluation of the SR applications so that their oversight responsibility is not compromised.*
- (c) *Before starting work, all TEC members should receive training and understand: (a) their role; (b) the rating and scoring system; (c) how to use the tools provided for evaluation; (d) what their boundaries are i.e. what*

they can do and cannot do during the evaluation process; (e) how to evaluate the proposals; and (f) how to report their results.

- (d) *The PR should ensure that pre-award assessment is carried out on all institutions they wish to partner with to obtain assurance that they have the capacity to implement the Global Fund programs and that any capacity gaps identified can be dealt with in a timely manner.*

134. A number of weaknesses were identified by the OIG regarding PSI Sudan's role in monitoring SRs. These included the following:

- (a) Programmatic M&E supervision visits were only undertaken for the programs implemented by PSI as SR and none were carried out for the other SRs. At the time of the audit, no field visits by the PR had been undertaken to check the implementation of HMM activities.
- (b) There was no evidence of comprehensive review of SR financial transactions. Some of the expenditure incurred by the SRs was not adequately supported and this had not been picked up by PSI.
- (c) The amounts reported in the financial reports of the Malaria Consortium and International Rescue Committee could not be tied to their primary books of accounts.
- (d) While there were detailed work plans and budgets for each of the implementing SRs selected, PSI Sudan as an SR implementer did not have a work plan and budget prepared for the SR activities that it would undertake. As a result it was not possible to compare and evaluate the activities of PSI Sudan as an implementer against the other implementing SRs. Without this, the OIG could not assess the efficiency and economy with which its activities were undertaken.

Recommendation 20 (Requires Attention)

- (a) *The PR should ensure that there are clear work plans and budgets for PSI Sudan as an implementing SR to facilitate performance review and comparison to the other SRs. This should enable PSI Sudan as PR to evaluate and take a decision on whether to continue implementing the program as SR or work mainly through other SRs.*
- (b) *PSI Sudan should strengthen its SR monitoring function by: ensuring that finance staff review the supporting documents of the transactions reported by the SRs; implementing the SR visit schedule that had been developed and hiring adequate M&E staff to carry out SR supervision.*

Malaria Consortium (MC)

135. Malaria Consortium signed an SR agreement with the PSI in April 2009 to distribute LLINs. Malaria Consortium signed a contract of US\$ 795,545 for LLIN distribution. The OIG noted that the disbursement of funds to some SRs was not in

accordance with the schedule in the contract. While the initial disbursement was on time, no other disbursement was sent to the SR until the end of the contract in October 2009. This was likely to have impacted the implementation of program activities.

Recommendation 21 (Requires Attention)

The PR should remit funds to the SRs in a timely manner so that there are no delays in implementation of the programs.

136. The MC did not purchase some of the assets indicated in the budget. While assets worth U\$88,500 were budgeted for, only assets worth U\$50,397 were purchased. The PR however disbursed the entire amount in the agreement and did not follow up with the SR to refund the balance. Further, at the end of the contract in October 2009, no decision was made about what would happen to the assets. At the time of the audit, the assets were still held by the MC.

Recommendation 22 (High)

PSI Sudan should ensure that SRs comply with the budget and that proper sub-grant agreement close-out procedures are followed. Once the activities that a SR is contracted to undertake are completed within the program, all assets should be returned to the PR.

137. The OIG's review of the expenditure incurred by the MC revealed the following issues:

- (a) MC reported US\$ 45,593 as expenditure on indirect costs. This was computed at 18% of the costs incurred by the end of December 2009. The OIG was not provided with the rationale for the 18% overhead charge. There were also no documents to support the amount charged.
- (b) The basis used by MC to allocate salaries to the Global Fund could not be established. The amount reported as actual expenses in the PUDR was simply what had been included in the SR budget amounting to \$169,005. The actual human resource cost as per the MC ledgers was \$5,655.
- (c) For the quarter ended 31 December 2009, MC reported that \$25,400 had been spent on technical and management assistance. However, there were no supporting documents to confirm this amount.
- (d) MC allocated the rent of a guest house for six months' rent worth \$30,000 to the Global Fund program. The OIG could not link the costs of the guest house and the program activities funded by the Global Fund which mainly included LLIN distribution.
- (e) Some expenses incurred by MC were not recorded in their correct expense category. For example guest house expenses had been recorded under the "planning and administration expense" category with narrations "communications and operating costs".

Recommendation 23 (High)

- (a) *PSI should review the financial transactions and supporting documents underlying the financial reports sent by the SR before more disbursements are released so that any anomalies are identified and immediate corrective action taken.*
- (b) *For the amounts in the examples above, PSI Sudan should ensure that MC has appropriate supporting documents for the amount spent or refund the amounts back to the PR.*
- (c) *All funds spent on items that are not part of the Global Fund activities in the agreement should be refunded by MC.*

International Rescue Committee (IRC)

138. The OIG noted the following issues while reviewing the transactions of IRC, one of the SRs to PSI Sudan under Round 7.

- (a) IRC reported \$16,587 as expenditure on indirect costs. This was computed at 7% of the costs incurred by the end of December 2009. The basis for the computation of the 7% could not be established and furthermore, there were no documents available to support the amount charged.
- (b) The OIG noted that IRC allocated to the Global Fund some of expenses incurred before 1 October 2009, which was the effective date of the SR contract. The costs noted were rent for August 2009 amounting to US\$ 13,350 and salaries for various staff in the period from April 2009 amounting to US\$ 16,642. These amounts should be recovered from the SR.
- (c) World Food Program charged IRC flight costs amounting to US\$10,000. At the time of the audit, IRC was still having discussions to justify the costs to IRC. However, the entire amount was posted to the Global Fund program. Supporting documents for this amount were not provided by the SR and there was no clear explanation regarding the eligibility of the cost with respect to the Global Fund's activities.
- (d) Other expenses charged to the Global Fund program that were not included in the SR work plan and were not related to the Global Fund program were US\$ 1,100 for USAID rules and regulations training and US\$455 for a transfer allowance payable under a different grant.

Recommendation 24 (High)

- (a) *PSI should review the financial transactions and supporting documents underlying the financial reports sent by the SR before more disbursements are released so that any anomalies are identified and immediate corrective action taken.*

- (b) *For the amounts in the examples above, PSI Sudan should ensure that IRC has appropriate supporting documents for the amount spent or refund the funds back to the PR.*
- (c) *All funds spent on items that are not part of the Global Fund activities in the agreement should be refunded by IRC.*

Catholic Diocese of Torit (CDT)

139. The OIG reviewed the expenditure incurred by CDT and noted the following issues:

- (a) CDT reported \$11,365 as expenditure on indirect costs. This was computed at 7% of the costs incurred by the end of December 2009. It was not clear how the 7% was arrived at and there were no documents available to support the amount charged.
- (b) CDT reported an amount worth US\$ 3,000 spent under technical assistance in the 31 December 2009 PUDR. When the OIG reviewed the detailed transaction listing, this expenditure was not included. The management of CDT explained that inclusion of the expense in the PUDR was an error.
- (c) CDT carried out training on 14-17 January 2010 but the related expenses worth US\$ 5,038 were charged in the period ended 31 December 2009. This was a mismatch in reporting periods.
- (d) The OIG noted that documents supporting payments such as invoices and receipts were not stamped "PAID" after payment. As a result, the same support documents could be used to support multiple transactions.

Recommendation 25 (High)

- (a) *PSI should review the financial transactions and supporting documents underlying the financial reports sent by the SR before more disbursements are released so that any anomalies are identified and immediate corrective action taken.*
- (b) *For the amounts in the examples above, PSI Sudan should ensure that CDT has appropriate supporting documents for the amount spent or refund the funds back to the PR.*
- (c) *All funds spent on items that are not part of the Global Fund activities in the agreement should be refunded by CDT.*
- (d) *The SR should avoid mismatch of expenses and reporting period to enhance informed decision making.*
- (e) *CDT should mark documents supporting payments "PAID" to prevent multiple payments using the same documents.*

Procurement and Supply Chain Management

140. Procurement of health and pharmaceutical products was carried out by PSI Headquarters while infrastructure, equipment and other non-health products were purchased locally by PSI Sudan. The procurement undertaken by PSI Headquarters did not form part of this audit. Over the period under review, PSI Sudan had locally procured items worth about US\$1.5m. The OIG reviewed the procurement activities of PSI Sudan in relation to the adequacy of procurement and supply chain management policies and their implementation. Specifically, the review focused on procurement planning, bid solicitation, bid evaluation, supplier selection, supplier contracting; supplier monitoring, logistics management and distribution.

Planning for PSM Activities

141. PSI Sudan has well documented comprehensive procurement policies and procedures in the Employee manual. These were prepared based on the procurement guidelines of various donors that fund PSI projects. These policies are generally adequate to ensure procurement is undertaken within the Global Fund guidelines. However, the OIG noted that PSI did not follow the laid down policies resulting in a weakened control environment within which procurement was undertaken.

142. The OIG also noted that the flow diagrams in the manual provided for a tender committee did not define the composition and role of this committee. Such a committee would have helped strengthen the control environment within which procurement is undertaken.

Recommendation 26 (Significant)

PSI Sudan should apply the laid down policies in order to strengthen the control environment within which the programs are implemented.

143. A Procurement and Supply Chain Management (PSM) Plan was prepared and approved by the Global Fund. The plan was assessed by the LFA and proposals made to address capacity weaknesses identified. However, the OIG noted the following issues:

- (a) There were cases of non-compliance with the plan. For instance, nine vehicles that should have been procured and delivered to MOH in the second quarter had not been purchased at the time of the audit. This became a point of contention between PSI and the MOH.
- (b) The LFA assessment states that PSI was to use the services of a Procurement Agent to procure the inputs of the HSS intervention. However, the procurement agent was not identified.

Forecasting

144. The PSM Plan provided for quantification and forecasting of ACTs and LLINs to be done by both local and international experts in the initial budgeting process.

The experts comprised of the PSI project management unit and MOH. A straight forward quantification method was applied based on the population figures divided by age groups and adjusted to reflect an estimate of those already covered. However, the assumption on population numbers and growth rate were based on data from a UNICEF report which was issued in 2004. There was therefore a need to validate these estimates using the latest available information but this has not been done at the time of the OIG audit.

145. The PR opted to use the “Push” strategy for ACTs with the aim of shifting to the appropriate “Pull” strategy once the consumption data had been collected. At the time of OIG’s audit, this data had not yet been collected and analyzed. This process should be enforced if the PR envisages moving to the ‘Pull’ strategy.

146. SRs are required to fill drug request forms based on average ACT consumption. These forms would then be reviewed by the project management unit and ACTs distributed on a needs basis. The OIG however noted that there were huge variances between what the SRs are given and their request, as shown in the table below.

Sub Recipient	ACTs requested as per drug request form	ACTs Delivered to SRs	Variance
International Rescue Committee	500,067	246,600	253,467
Malaria Consortium	158,445	136,260	22,185
Catholic Diocese of Torit	58,022	58,140	(118)
BRAC	86,784	86,760	24
PSI Sudan	-	87,660	(87,660)
Save the Children	131,312	9,900	121,412

Recommendation 27 (High)

PSI Sudan should work with its SRs in collecting and analyzing consumption data on a timely basis. This data should then be used to support supply decisions for the future as well as forecasting.

Bid Solicitation

147. A review of the bid solicitation process revealed instances where the bid documents did not provide adequate information for the preparation of bids by bidders. In other cases, the information provided to different bidders was not consistent. The failure to provide adequate information to bidders may affect their ability to prepare good bids. It may also give some bidders an unfair advantage over others. For example, in June 2009, calls for bids were made for 15 Thuraya handsets, SIM cards and five car kits. M&E Company Limited was asked to also provide quotations for 25 tents, LED lamps and sleeping bags. This information was not provided to the other bidders. M&E Company was awarded the contract on the basis that it was able to supply all the items.

148. The OIG also noted an instance where calls for proposals were made and responses received but PSI selected a bidder that did not submit a bid. Abdi Rahman Omar was selected in November 2009 to transport LLINs but a review of the bid documents revealed that the contractor had not responded to the call for proposal. There was no information on file to also reflect how the decision to award this contract was reached.

149. PSI made awards on a sole source basis in several instances (e.g. the award of the photography contract to Ms. Warren and packaging materials to World Wide Movers). The sole source forms were not fully completed as required. PSI also did not compare prices obtained to assess if they were getting value for money from the purchases.

150. The OIG also noted, contrary to best procurement practice, cases where specifications of the requirements were drafted restrictively, hence limiting competition. For example when some of the cars were being purchased, the request for bids mentioned the type of car and the model of the car that PSI was looking for.

Recommendation 28 (High)

The bid solicitation process should be strengthened. Specifically:

- *Management of PSI Sudan should strive to call for bids for purchases in accordance with its procurement policies and procedures. Single sourcing should be carried out as an exception and with clear justification and with appropriate support to evidence value for money.*
- *PSI should provide adequate and consistent information to all prospective bidders to enhance transparency.*
- *PSI should ensure that the procurement requirements or specifications are not restrictive in order to ensure fair competition.*
- *Only suppliers that have responded to calls for proposals should be considered. If they are not found suitable, the procurement process should be started again.*

Bid Opening and Evaluation

151. PSI's procurement policies require that all bids are transparently evaluated by the procurement committee with a bid comparison/ analysis form being completed, reviewed and approved prior to confirmation of the order. A review of procurements undertaken revealed the following:

- (a) There was no evidence of transparent bid opening as required by procurement best practice.
- (b) There were cases noted where no evaluation committees were constituted to evaluate the bids. For example for the purchase of motor vehicles.
- (c) Technical and financial evaluations of bids at the same time. This is contrary to procurement best practice where technical evaluations are undertaken first and financial evaluations only undertaken for bids that are technically compliant.

- (d) In some cases, the lowest bid was not selected. For example Vajas Manufacturers was selected to supply advertisement and print media services yet there was a lower bid of US\$ 99,605. The lower bid was not taken because the supplier did not offer one item worth US\$ 117.
- (e) The selection criteria were not clearly spelt out and as a result, for the emergency procurement of 2 vehicles, the purchase requisition was prepared by the Deputy Country Director and the highest bidder was selected on the basis that they would supply in the shortest time. There was no evidence of involvement by the procurement committee in the evaluation of the bids.

Recommendation 29 (High)

PSI Sudan would benefit from establishing a Procurement Committee to provide oversight over the procurement transactions. The committee should comprise of individuals with the appropriate technical expertise and experience to ensure that high quality decisions are made. The organization should develop comprehensive Terms of References for the Committee.

Contracting

152. The OIG reviewed the processes in place for contracting and noted the following:

- (a) Some of the contracts signed with service providers did not contain key terms under which they were being contracted. For example the contract with Soszim Company Limited for warehouse space did not state the space that the monthly rate of \$6,500 was covering. The contract signed with M&E Trading Company for shipping and handling of bed nets did not specify where the nets would be collected from and where they would be delivered.
- (a) In response to a request from MOH, PSI Sudan contracted WHO to handle the HSS component of training. However the contract for the period 1 December 2008 to 7 Jan 2010 was only signed in April 2010.

153. There were also instances noted where PSI Sudan made significant advance payments to suppliers without a performance bond. For example in May 2009 PSI Sudan contracted Soszim Company Limited to provide warehouse facilities for 24 months at a rent of US\$ 6,500 per month. The OIG reviewed the contracting process and noted the following anomalies.

- (a) Although the contract stated that the contract was for US\$ 156,000 i.e. US\$ 6,500 times *24, PSI Sudan signed a contract for US\$ 216,000. PSI Sudan could not explain the difference in cost and this overpayment should be refunded.
- (b) PSI deposited US\$ 60,000 up front to Soszim Company Limited to construct the warehouse without a performance bond.
- (c) The contract did not specify whether the US\$ 60,000 advance payment was refundable or not. The US\$ 60,000 paid was over and above the 24 months' rent.
- (d) The entire payment was charged to the Global Fund although the warehouse was used to store commodities of other programs as well. The rent should

have been apportioned in accordance with the policy for apportioning common costs.

Recommendation 30 (High)

- (a) *Agreements entered into by PSI Sudan and third parties in the performance of Global Fund activities should include all the relevant contractual details required to ensure Global Fund resources are safeguarded and used in an efficient and effective manner. This also enables monitoring and evaluation of the contract.*
- (b) *In cases where significant advance payments are made to suppliers, PSI Sudan should obtain performance bonds to give a guarantee of performance and protect the Global Fund resources.*

Receiving and Distribution

154. The OIG reviewed PSI's processes for receiving and distributing products. At the time of the audit, PSI did not have adequate documentation to support some key transactions. For example:

- (a) PSI Sudan signed an agreement with UNDP on 17 April 2009 to lend 400,000 nets to UNDP. Under the agreement, UNDP committed to return the nets to PSI in Juba. PSI explained that the nets were not returned to Juba but were distributed to different locations in Sudan however, there were no documents to evidence the return of the nets at the delivery points by PSI. PSI subsequently provided documentation to evidence the receipt and distribution of nets to the different locations.
- (b) Shibli Enterprises was contracted to carry out net distribution on behalf of PSI Sudan. As per Way Bill 294, one of the containers delivered 8,500 nets instead of 14,500 nets. PSI provided evidence subsequent to the audit of the receipt of these nets.
- (c) In the PUDR for the quarter ended 31 December 2009, PSI Sudan reported that they had distributed 1,987,173 LLINs. However the records only showed evidence by signatures and thumbprints that 1,661,899 had been distributed. The OIG was not therefore in a position to provide assurance that over 300,000 LLINs were distributed to the intended beneficiaries.

Recommendation 31 (High)

The distribution and receipt function of products should be strengthened. PSI Sudan staff should verify receipt and raise goods received notes immediately showing the quantities received and their condition. Any short deliveries should immediately be followed up with the transporters and/or the suppliers.

Logistics Management

155. PSI is required to comply with WHO guidelines for good storage practices and good distribution practices for pharmaceutical products. The stores for LLINs were found to meet the requirements. However, the ACT stores located at Yei Road did not meet the PSI's ACT Quality Assurance guidelines and the Global Fund guidelines on quality of health products as detailed below:

- (a) temperature was not monitored. During OIG team field visit, the temperature was as high as 42 degrees which was above the recommended maximum of 30 degrees.
- (b) There was no warehouse clerk to monitor and report on the storage conditions;
- (c) There were no pest control records; and
- (d) The stores were dirty and not well aerated.

During the audit however, the PR moved the ACTs to another store with the required storage conditions for pharmaceutical products.

156. The OIG did not find evidence in PSI Sudan of a drug monitoring system to support the recording, monitoring and reporting of inventory transactions. Absence of an effective drug monitoring system may lead to overstocking, stock outs and expiry of drugs which in turn may affect the achievement of the Global Fund supported program objectives.

Recommendation 32 (Significant)

- (a) *Storage conditions should be monitored regularly and reported to the PSI Sudan management in a timely manner to ensure that corrective action is taken.*
- (b) *The PR is encouraged to put in place a drug monitoring system for improved efficiency and effectiveness in drug management.*

Quality Assurance

157. There is no National Drug Regulatory Authority in Southern Sudan. The Government is working on implementing a regulatory system. In consequence, registration of pharmaceuticals is not yet an obligation. Sudan does not have a WHO approved reference laboratory and the LFA assessment report noted that a WHO approved laboratory would be identified where tests could be undertaken. The OIG however noted that samples of ACT drugs were not tested in a WHO prequalified Quality Control Laboratory as required in the grant agreement. A recommendation to address this has already been made.

Oversight

Background

158. As part of the Global Fund grant architecture, the Global Fund's programs are overseen by a Country Coordinating Mechanism (CCM) established in each country. A Local Fund Agent (LFA) provides assurance on programs to the Global Fund Secretariat on the implementation of grant programs. These fiduciary arrangements place reliance on effective oversight arrangements. The entities responsible for oversight of Global Fund grant programs are:

- (a) Country Coordinating Mechanism (CCM);
- (b) Principal Recipients (PRs) over Sub-recipients (SRs);
- (c) Local Fund Agent (LFA); and
- (d) Global Fund Secretariat.

Country Coordination Mechanism

159. As per the Global Fund policy, the CCM is a country-level public-private partnership which carries out:

- (a) Coordination of the development and submission of national proposals;
- (b) Nomination of the PR;
- (c) Oversight of the implementation of the approved grants;
- (d) Approval of any reprogramming and submission of requests for continued funding; and
- (e) Ensuring linkages and consistency between Global Fund grants and other national health and development programs.

Composition of the CCM

160. As required by the Global Fund, the membership of the CCM is quite varied with representation from different stakeholders including GOSS (11 members); education sector (1 member); multi-lateral sector (4 members); non-governmental organizations (4 members); persons living with HIV/AIDS (1 member); faith-based organizations (1 member); the private sector (1 member); principle recipients (2 members); and the donor community (1 member).

161. One of the Global Fund minimum requirements for grant eligibility for CCM members representing the non-government sectors is that they must be selected by their own sector(s) through a documented, transparent process, developed within each sector. However, the OIG was not provided with evidence that the non-government members had been selected by their own constituencies following a documented transparent process. There was also no evidence that the CCM members representing these constituencies hold meetings with their constituencies to ensure that representative views and concerns are expressed in the CCM.

162. The CCM membership also includes the PRs and SRs who have full voting rights. This presents a potential conflict of interest as the entities responsible for implementation are also involved in the oversight of the Global Fund supported

program. The OIG however noted that the CCM has a documented conflict of Interest policy which once enforced mitigates the risk.

Recommendation 33 (Significant)

All non-government sectors represented on the CCM should develop and document transparent processes for selection of their representatives at the CCM.

Mode of operation

163. The OIG commends the CCM for developing several documents to guide its operations namely a governance manual and a constitution. The draft governance manual was developed in April 2008 covering the CCM mandate, functions, procedures and key framework documents. The CCM also developed a constitution in April 2008 that covered the CCM principles, structure, membership, rights, responsibilities, meetings and conflict of interest. However, at the time of the audit in May 2010, these documents had not been finalized.

164. The CCM has sub committees that undertake detailed work on behalf of the CCM and report back to the CCM especially proposal writing. These have been created for each of the three diseases. The CCM has registered a high success rate. While Round 9 was not successful, there was evidence that the CCM had invested time to study the causes of the failure to ensure key learning in preparation for the Round 10 proposal.

165. The audit covered a review of the oversight provided by the CCM over program activities. The OIG saw evidence that PSI and the other PRs present their performance periodically to the CCM. However, there was no evidence of detailed discussion tasking the PR to explain shortfalls in performance and giving guidance on corrective action to be taken.

166. In undertaking its oversight role, the CCM has in some instances been involved in the day to day running of the programs. Examples include being involved in the selection process of SRs, supervising the LLIN distribution, undertaking supervision visits alongside the PR etc. Involvement in the day to day management of the grants affects the CCM's objectivity and ability to provide effective oversight to the grants.

Recommendation 34 (High)

- (a) The OIG recommends that the CCM should ensure that the draft CCM governance manual and draft CCM constitution are finalized and used to guide CCM operations.*
- (b) The OIG recommends that the CCM considers using the CCM Dashboard to improve on its oversight role over the implementation of the programs by the PRs. Further, there should be independent field visits (i.e. without PRs) carried out by the CCM members acting in their oversight role.*
- (c) The OIG recommends that the CCM oversight role over SR selection be limited to development or approval of the selection criteria so that it retains the independence and objectivity required to query the process.*

Role of the Cooperating Partners

167. Given that the Global Fund Secretariat does not have a physical presence in Southern Sudan, reliance is placed on in-country stakeholders such as the development partners, to provide oversight over the implementation of the grant. Some of the development partners are members of the CCM and have participated in discussions regarding the holistic approach to curb HIV/AIDS, Tuberculosis and Malaria.

168. PSI is implementing a national program. There are several interventions by different donors in the health sector but their activities are fragmented. This calls for an effective governance structure to coordinate the activities of the many different health actors. This coordination of in country malaria stakeholders and functional linkages between the central, state and county levels was weak until the national malaria strategic plan was prepared. This strategic plan created a platform for improved coordination among the malaria partners and defined the roles of the different levels of the health system.

169. While there is harmonization on the implementation of the program with other in-country technical partners, the development partners interviewed raised the risk of over or under-stocking of LLINs and ACTs due to lack of a reliable forecast of national needs for these commodities. As noted above, the GOSS and MOH should coordinate the harmonization of national pharmaceutical and health commodity forecasting and procurement planning to create efficiency in the procurement and supply of these commodities.

Local Fund Agent

170. KPMG has been the LFA for Sudan from the inception of the Global Fund grants. The Global Fund signed a contract for the LFA arrangement with KPMG based in San Francisco, United States of America. KPMG San Francisco worked through local subcontractors in Kenya under the former's supervision. This arrangement was approved by the Global Fund Secretariat.

171. The subcontracted LFA is not resident in Sudan. The LFA is based in Kenya and flies in to the country to undertake their work. There are more pros than cons to having a resident LFA, key advantages including their ability to better understand the country context and ability to engage with stakeholders on an ongoing basis. Key country stakeholders expressed their dissatisfaction with this arrangement. This arrangement however, affected the quality of the work undertaken by the LFA.

Staffing of the LFA

172. The LFA work order provides for financial management, public health and PSM specialists. It also provides for a central coordination team to provide oversight over the work undertaken in country. The LFA is appropriately staffed with financial management experts. However the OIG noted that the LFA team was not

as strong with regard to public health and PSM. This resulted in some deficiencies in the quality of work e.g. shortcomings in indicators and quality assurance in the PSM function that went undetected.

173. The LFA work on Sudan goes through up to three layers of review by KPMG Kenya and another layer of review by KPMG San Francisco. The OIG cannot validate the value added of the various layers of review but can report that this has contributed to the delays in the submission of reports to the Global Fund. For example, PSI Sudan submitted its PUDR for the period ended 30 June 2009 on time but it was only got submitted to the Global Fund on 4 October 2009 that is almost three months after the due date. Late submission of these reports affects grant related decision making in the Global Fund Secretariat especially disbursements.

Role of the LFA

174. The LFA as ‘eyes and ears’ of the Global Fund locally play a crucial part in the Global Fund’s system of oversight and risk management. The LFA’s key roles are to:

- (a) assess the key capacities and systems of PRs before grant signing and at other stages of grant implementation;
- (b) provide independent and continuous oversight through verification of implementation by grant recipients throughout the lifetime of a grant and to make recommendations to the Global Fund on disbursement amounts and adjustment to grant implementation arrangements;
- (c) carry out on-site data verification visits;
- (d) review the CCM Request for continued funding for Phase 2 of the grant and make a recommendation on funding for year three onwards of the grant;
- (e) provide country updates on key issues and events that impact grant implementation and pose risks to grant resources, and
- (f) carry out other services as requested by the Global Fund such as support for country visits by the Global Fund staff and consultants, grant consolidation and closure.

175. While PSI had been an SR in past grants, the Global Fund had not asked the LFA to fully assess its capacity to implement programs as a PR. A background assessment of PSI was undertaken but this was not sufficient. A background assessment provides quick insights on the nominated PR’s planned arrangements to implement the grant and helps define the scope and depth of a subsequent in depth assessment that should be undertaken. Because this was the first time PSI was being assessed to be PR, a full “*new PR assessment report*” should have been prepared which is a more comprehensive assessment for identifying critical capacity requirements.

176. Despite carrying out a superficial assessment, the LFA identified several capacity gaps that PSI needed to address in order to effectively implement the Global Fund supported program. However, the OIG did not see evidence of follow up of the key capacity gaps identified during the assessment. For example, the LFA did not highlight the failure by the PR to fill key positions.

177. The OIG's review of the assessment undertaken by the LFA revealed that for most of the capacity gaps identified, the LFA rationalized that PSI Washington's capacity would mitigate the risks identified. The OIG noted that the LFA did not validate these assertions. The LFA also did not confirm that the mitigating actions identified during the assessment had in practice been taken during the execution of the program.

178. At the time of the audit, about 90% of the Sudan grant funds were spent by PSI Washington. The accounting records and other evidence held at the country level did not show all costs incurred and revenues earned by PSI Washington. The LFA did not have access to the details of the expenditure incurred by PSI Washington for which it was expected to still give assurance. The Global Fund monies were commingled with funds from other donors and the LFA could not validate the balance of funds as reported in the PUDR.

179. The lack of complete information at the country level created other challenges to the LFA's Verification of Implementation work such as:

- (a) Verifying that of the grant funds expended by PSI Washington were used solely for program related activities;
- (b) Validation of the accuracy of the program income i.e. interest;
- (c) Assessing whether there was a reasonable allocation of common costs (e.g. rent, utilities, etc.) at country level by donor;
- (d) Verifying the appropriateness of the agreed rates in computing overheads and procurement costs;
- (e) Compliance with procurement conditions stipulated in the grant agreement e.g. that contracts were awarded in a transparent manner etc.

180. The OIG reviewed the reports arising from the verification of implementation work. The OIG noted a consistent lack of in-depth review and comments on the technical aspects of the program. The PUDR reviews paid attention to the fulfillment of the indicators and targets as appended to the grant agreement. However the LFA did not pay attention to the implementation of the overall work plan. So while PSI may have been to a large extent been meeting its targets, it was significantly behind schedule in implementing activities that were not linked to the indicators in the performance framework. This was not picked up by the LFA.

181. The OIG noted instances where the LFA was unable to provide the Secretariat with country updates on key grant related issues. For example, the OIG's review of the budget versus actual expenditure analysis revealed that PSI had made significant reallocations without CCM and Global Fund approval. Related to this was the inability of the LFA to provide the Global Fund with timely information for decision making about the purchase of vehicles on behalf of the MOH by PSI. The Global Fund as a result did not have a clear understanding of the source of conflict between the MOH and the PR.

Recommendation 35 (Significant)

- (a) *LFA should follow up the implementation of recommendations from their initial capacity assessment or any other such reviews during their subsequent reviews and assessments.*
- (b) *The LFA, in accordance with the LFA Work Order, should ensure that a public health expert is always on the team to carry out reviews to enhance the value derived from their reports.*
- (c) *Timely reports enable the Global Fund Secretariat to take decisions in a timely manner. The LFA should ensure that reports are submitted in accordance with the agreed timelines.*

Secretariat

182. The oversight work of the Global Fund Secretariat in-country is coordinated by the Fund Portfolio Manager. The FPM interacts with country structures including the CCM, the LFA, CPs and other sector players to facilitate smooth Program implementation. Since the Global Fund, by design, has no direct in-country presence, the FPM relies greatly on the work of the LFA and feedback from the other in-country stakeholders to make grant decisions.

183. The issues that affected the Secretariat's oversight included the failure by the LFA to identify risks and alert the Secretariat accordingly. The LFA did not obtain comprehensive information in undertaking its work and this resulted in the Global Fund making decisions on information that was inadequate e.g. the LFA's reviews only covered the indicators and as a result, did not identify shortcomings in implementing the overall work plan. The assessments also identified capacity as an issue but never followed through the resolution of the risks identified.

184. Although a lot of reliance was placed on inputs from PSI headquarters to compensate for country specific risks and the fact that significant amounts were spent at headquarters, the Secretariat had not recognized the need to put mechanisms in place that verify the work done by the headquarters. The LFA and audit arrangements could only cover transactions at country level. Errors sometimes went undetected e.g. the computation of bank interest.

Recommendation 36 (Significant)

The Secretariat should institute measures to ensure that all expenditure incurred by PSI Washington is verified in accordance with the signed grant agreement.

Annex 1: The Country Coordinating Mechanism's Overall Comments

We acknowledge the challenges and capacity gaps identified in the Office of the Inspector General (OIG) audit, and we recognize the need to rapidly scale up national systems and programs. However, we would like to highlight that South Sudan is a post-conflict country which just gained independence in July 2011 and we are operating under an incredibly difficult operating environment. Despite this, we have seen marked improvement in the areas of national coordination, collaboration and oversight mechanisms, and note that several of the issues which were identified in this audit have been addressed.

The CCM would like to highlight specific areas of improved capacity and coordination. First, the CCM has benefited from capacity building support from Grant Management Solutions, resulting in updated and final CCM South Sudan founding documents (Constitution, Governance Manual, Communication Protocol, Conflict of Interest policy, CCM guidelines for Principal Recipients and Sub-Recipient Selection, grant oversight plan, Terms of Reference for CCM Officials, elections of new CCM –South Sudan membership, and the establishment of sub committees and working groups. The CCM Secretariat also recruited two additional staff to assist the CCM in implementation of its oversight and resource mobilization activities through its expanded funding for 2011-2013.

The National Malaria Control Program (NMCP) has recently hired three key positions, including the NMCP Program Manager who will spearhead the government response and coordination. The Population Services International (PSI South Sudan) as a Principal Recipient has improved their oversight mechanisms by increasing staff for its Project Management Unit (PMU) which include additional Monitoring and Evaluation and Financial Management staff, and embarking on enhanced Sub-Recipients (SRs) capacity building, oversight and verification activities. There have also been several improvements in the national coordination systems, with the establishment of technical working groups and coordination bodies. Additionally, South Sudan is embarking on a National Malaria Program Review coordinated by Roll Back Malaria, and this will result in a five year Malaria Strategic Plan.

The CCM would like to conclude by recognizing the improved health outcomes due to the activities of the Global Fund Malaria Program in South Sudan, including the first ever national mass distribution on long lasting insecticide treated mosquito nets, the establishment of a home based treatment of malaria program in 35 counties, and training of numerous community members and health facility staff on malaria case management, gains that would have not been possible without the support of the Global Fund.

Now that South Sudan attained its sovereignty with a full independent Country Coordinating Mechanism, we look forward to the continuous strengthening of the National Malaria Control Program, capacity building of national partners, improved CCM oversight, and increased coordination between all parties moving forward.

We thank you for your continued support for South Sudan in the fight against Tuberculosis, HIV/AIDS and Malaria.

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Annex 2: The Global Fund Secretariat's Overall Comments



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Audit of the Global Fund Grants to Population Services International (PSI) South Sudan

Dear John

The Secretariat would like to thank the Office of the Inspector General (OIG) for its constructive collaboration during the audit of the Global Fund grants to Population Services International (PSI) in South Sudan. This letter and the accompanying documents represent the Secretariat's response to the OIG findings, as a result of combined efforts from the South Sudan Country Team and the Local Fund Agent (LFA).

The Secretariat appreciates the OIG's input and will ensure it is incorporated into the Global Fund programs managed by PSI in South Sudan. The Secretariat will continue working closely with the South Sudan CCM, the PR and the LFA to monitor the implementation of the agreed upon audit recommendations. These will be given due consideration in the upcoming negotiation and preparation of the grant agreement, consolidating the Round 7 grant audited by the OIG with a new Round 10 malaria grant for which PSI will be Principal Recipient.

This letter provides a brief contextual background to the Global Fund program in South Sudan and highlights specific actions the Secretariat and the PR have taken and will take to address the challenges and key risks in the portfolio, as noted by the OIG.

A. Contextual background

Global Fund programs are implemented in a challenging environment. South Sudan has become an independent state on 9 July 2011, but security remains a major concern and impacts considerably grant implementation. The country still lacks infrastructure and basic services, livelihoods are largely at subsistence level and economic development remains low. The Global Fund has invested significant resources in HIV/AIDS, tuberculosis and malaria and health systems strengthening in South Sudan. A total of US\$ 149,817,508 has been disbursed to date for all grants including US\$ 46,229,289 under the Round 7 malaria grant. Global Fund supported programs helped achieve commendable results, among which the following:

- As of July 2011, 2,610 people with advanced HIV infection receive ARV combination therapy;

- The achievement of treatment success rate at about 70% among smear-positive TB patients;
- Case management of malaria has improved thanks to the distribution of more than 2,300,000 insecticide-treated bed nets since December 2008 and treatment of about 50% of fever episodes in children under five at community level.

B. Summary of key recommendations and actions by the Secretariat

Key recommendations by the OIG	Actions by the Secretariat
Staff capacity	
Recommendation 2 PSI Sudan should ensure that all key positions necessary for the successful implementation of the Global Fund Program, as per the budget, are filled with personnel possessing the required skills, experience and knowledge.	Since the time of the audit, PSI Sudan has filled all key positions necessary for the successful implementation of the Global Fund programs. The Global Fund Program Manager has recently been replaced by a Program Manager from the headquarters, with significant expertise and experience in management of Global Fund programs. The team in South Sudan is also strengthened thanks to the recent recruitment of M&E, Finance and Legal Officers.
Quality of service delivery	
Treatment: Recommendation 8 (a) An internal system for monitoring compliance of Community Drug Distributors (CDDs) with the ACT treatment guidelines needs to be put in place in order to mitigate the risk of under or overdosing of patients as well as irrational use of drugs. (b) Proper guidelines should be developed to guide lower level staff on how to deal with expired drugs. This should be in line with the MOH disposal guidelines.	The Secretariat will work with PSI Sudan and the LFA to ensure that CDDs comply with this recommendation. Specifically, under the Malaria SSF grant: (a) Monitoring and supervision of CDDs is strengthened, including the implementation of tools to monitor adherence to treatment/prescribing guidelines. As per the draft work plan of the consolidated malaria grant, SRs will distribute the ACTs through CDDs and will provide monthly monitoring sheets for ACT delivery to the PR as part of the quarterly reporting. The LFA will verify periodically compliance with the recommendation. (b) Guidelines for the management of ACTs, including proper storage and disposal, are developed and implemented at CDDs and Country stores.
Health Systems Strengthening: Recommendation 9 (a) Standardized Training of Trainer (ToT) for HMM should be developed and cascaded down to the different levels of the health system.	(a) Under the SSF Malaria grant, ToT will be conducted for state and county health officials, to build a team of trainers for HMM (trainees will be selected from the county level). In turn, selected CDDs and community health workers will be trained on HMM. HMM training materials,

(b) To ensure Government ownership and sustainability of the program as well as improved program implementation, a proactive relationship between the PR (including SRs) and MOH counterparts needs to be strengthened through: regular formal meetings on program planning, monitoring of work plan implementation and joint supervision; and accelerated implementation of planned HSS activities.	services guidelines, registration books and monitoring tools will be developed and/or reviewed and updated. Supervision tools of CDDs will be produced; monthly home visits to CDDs by payam health supervisors will be conducted; and quarterly CDD group meetings will be held at the payam level. The PR is to report on any progress made in the context of periodic reporting. (b) The Secretariat, the LFA, the PR and the CCM will ensure that the Government is actively and continuously involved in planning and program implementation. Over the last months, while preparing the consolidated grant documents, PSI has closely worked with the Ministry of Health under active oversight by the CCM. The CCM has expressed its intention to closely supervise grant implementation and to broker close collaboration between the National Malaria Control Program and PSI.
Recommendation 11 The data quality assurance system should be strengthened by putting in place a simple summary data base for HMM that provides an audit trail and by revising the supervision tool to ensure that it monitors implementation of the program work plan and M&E plan.	The PR has addressed this issue by designing a suitable database. Generally, the LFA verifies programmatic data quality on an annual basis (i.e. on-site data verification – OSDV). Progress on data quality is assessed during subsequent OSDV exercises. As part of the OSDV process, the Secretariat will request the LFA to verify whether the issue observed by OIG has been addressed. The database as recommended by the OIG has in the meantime been developed by the PR and is to be piloted in the final quarter of 2011 at the PR's program sites. If successful, the database will be rolled-out to the other sub-recipients.
Financial management	
Recommendation 13 PSI should maintain proper books of account that are able to reconcile funds received to what Global Fund monies have been spent on, outstanding balances at any point in time and what share of the remaining bank balances relate to the Global Fund. These balances should be verifiable as part of the periodic PUDR verification process by the LFA.	The Secretariat will follow up on this issue with the PR in order to understand how PSI headquarter intends to fix this problem. Given that this is a common issue to all grants managed by PSI, a corporate decision should be taken.
Recommendation 14 PSI should strengthen its budgeting framework to ensure that only eligible expenditure as per grant agreement is incurred. Budgetary reallocations should be	PSI has put in place monthly budget review and variance analysis processes where HQ prepares the budget versus expenditure reports for each department. The Global Fund program manager reviews the PR's

justified in writing and approved before expenditure is incurred. PSI should refund the unbudgeted entries charged to the Global Fund to ensure funds are available to finance activities included in the approved budget.	disbursements against budget while the HMM manager reviews PSI's implementation disbursement against budget. Following the program and HMM manager reviews, a call is then held with HQ Finance team, the managers, the Finance officer in Juba and the Country Representative to address any mis-postings or confusion. As for the unbudgeted entries, the Global Fund retrospectively approved the expenditure for the MIS through a budget reprogramming exercise.
Identification of SRs	
Recommendation 19 (a) For future SR evaluations, a more comprehensive and objective evaluation tool should be developed to enable assessors to make objective evaluation of responses to calls for proposals and enhance transparency in the process. (b) The CCM should avoid being involved in the direct evaluation of the SR applications so that their oversight responsibility is not compromised. (c) Before starting work, all Technical Evaluation Committee (TEC) members should receive training and understand (a) their role; (b) the rating and scoring system; (c) how to use the tools provided for evaluation; (d) what their boundaries were i.e. what they can do and can't do during the evaluation process; (e) how to evaluate the proposals; (f) how to report their results. (d) The PR should ensure that pre-award assessment is carried out on all institutions they wish to partner with to obtain assurance that they have the capacity to implement the Global Fund programs and that any capacity gaps identified can be dealt with in a timely manner.	(a) Based on an open call for proposals and having assessed the proposed SRs against objective criteria and a comprehensive evaluation tool, PSI Sudan has selected the SRs for program implementation during Phase 2 among more than 30 applications. The LFA reviewed this process as part of the Round 10 Repeat PR Assessment and found the selection of SRs to be objective and transparent. It is expected that the same selection procedure of SRs will be applied for the SSF grant, which is in accordance with the OIG's recommendation. (b) The open and transparent selection process of SRs for Phase 2 preserved the CCM's full oversight responsibility, as only PSI Sudan and the TEC were involved in the direct evaluation of the applications. This procedure will be maintained for selection of SRs for implementation of the SSF grant. Since the CCM is challenging this process, the Regional Team will communicate this clearly to the CCM. (c) The Secretariat, the LFA and the PR will ensure that members of the TEC are properly trained on the evaluation process and systems, for selection of SRs under the SSF grant. (d) The PR has carried out pre-award assessments of all institutions selected as SRs for Phase 2 of the Round 7 malaria grant and this will also be applied for SR selection under the SSF grant. It should also be noted that South Sudan being under Additional Safeguards Policy, the LFA

	conducts a capacity assessment of all SRs, prior to signature of the agreement between the PR and the SR.
Recommendations 23, 24, 25 (a) PSI should review the financial transactions and supporting documents underlying the financial reports sent by the SR before more disbursements are released so that any anomalies are identified and immediate corrective actions taken. (b) For the amounts in the examples above (referring to paragraphs 137, 138 and 139), PSI Sudan should ensure that all SRs have appropriate supporting documents for the amount spent or refund the amounts back to the PR. (c) All funds spent on items that are not part of the Global Fund activities in the agreement should be refunded by the SR. (d) Catholic Diocese of Torit (CDT) should avoid mismatch of expenses and reporting period to enhance informed decision making. (e) CDT should mark documents supporting payments "PAID" to prevent multiple payments using the same documents.	(a) This recommendation was also made by the PR's internal audit team and the PR has since implemented a process to review supporting documents prior to disbursing additional funds to SRs. This process commenced in Round 7 Phase 2 and will also be applied to the consolidated grant. (b) The Secretariat through the LFA will perform a verification of supporting documents provided by the PR for the respective SRs in order to determine the eligibility of the expenses. (c) Based on the findings in point (b) above, the Secretariat will take the appropriate remedial action and demand reimbursement by SRs through the PR. (d) The PR has worked with CDT to correct this situation and according to the 2010 audit of CDT, the mismatching of expenses and reporting periods appears to have been resolved. Furthermore, the PR will be asked to align reporting cycle for all implementers. (e) According to the 2010 audit of CDT the failure to mark supporting documents as "PAID" appears to have been resolved. In addition, training of SRs on financial management will be conducted.
Procurement and Supply Chain Management	
Recommendations 27, 33 and 34 - PSI Sudan should support supply decisions and forecasting on consumption data. - The distribution and receipt function of products should be strengthened, by verifying receipt and note the quantities and their condition. - Storage conditions should be monitored and the PR should implement a drug monitoring system.	Specifically, under the Malaria SSF grant, the Secretariat, the LFA and PSI Sudan will follow-up to ensure that: - A functional MIS is implemented and that the data is used to support procurement and supply decisions. - SOPs on the logistics management of health products are developed and implemented at PSI's warehouse.
Recommendations 4(c), 26, 29, 30 and 31 PSI should ensure that their procurements meet the standards set in the grant agreement.	The Secretariat will ensure that procurement systems, for adhering to the requirements of the grant agreement, are either in place or are put in place within the next 6 months. In that respect, PSI has held training sessions

b

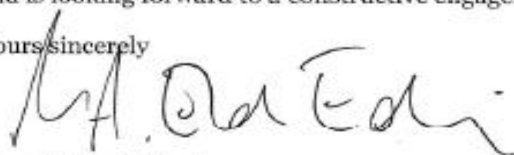
• The bid solicitation process should be more transparent (single sourcing as an exception) and ensure a fair competition. • A Procurement Committee should be established to provide oversight over the procurement transactions.	with staff to ensure understanding and compliance with Global Fund administrative and financial policies, including procurement. The LFA will follow-up on strengthening measures for bid solicitation processes on a continuous basis. A procurement oversight committee has been established which will include the Finance Officer, Procurement Officer, Budget Holder (Department Manager) and Country Representative for significant amounts.
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C. OIG recommendations to the LFA

Recommendations by the OIG	Actions by the Secretariat
LFA	
Recommendation 37 (a) LFA should follow up the implementation of recommendations from their initial capacity assessment or any other such reviews during their subsequent reviews and assessments. (b) The LFA, in accordance with the LFA Work Order, should ensure that a public health expert is always on the team to carry out reviews to enhance the value derived from their reports. (c) Timely reports enable the Global Fund Secretariat to take decisions in a timely manner. The LFA should ensure that reports are submitted in accordance with the agreed timelines.	(a) As part of the Repeat PR Assessment for Round 10 Malaria, the LFA has followed up with PSI Sudan on the recommendations from the draft OIG report. (b) As of January 2011, the LFA's Team Leader is a Public Health and Monitoring and Evaluation specialist who contributes to the review and enhances the final deliverables. The LFA team is further enhancing their public health knowledge through internal trainings lead by the Team Leader. (c) Noted.

The Secretariat thanks the Office of the Inspector General for the completion of this report and is looking forward to a constructive engagement on matters raised in this letter.

Yours sincerely



Mark Eldon-Edington
Director
Country Programs Cluster

Annex 3: PSI and CCM Response to the PSI Sudan Draft Audit Report

PSI and the CCM of South Sudan acknowledge receipt of the draft OIG audit of Global Fund grants to Population Services International in Sudan. Below are the responses and actions proposed, as well as some additional information regarding the recommendations. Due to the limited time available to respond, PSI focused on the recommendations, rather than on addressing factual misunderstandings. Lack of response to the narrative of the report does not imply agreement with the findings therein

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
RECOMMENDATION 1 (Significant) PSI should identify an appropriate oversight structure that is independent of the staff involved in the operational aspects. This body would oversee the PSI's strategies, governance matters, operations etc. in relation to the overall program performance. It should also cover financial and programmatic oversight over the grants as approved in the work plan and budget.	PSI does not fully understand the recommendation. PSI has an appropriate oversight structure. Grant management is performed in-country, with some activities executed by junior and mid-level staff at headquarters. These staff are managed by the Regional Director, and above her the COO, CFO and the President/CEO. The Board of Directors oversees PSI Senior Management, and is responsible for strategic planning, governance issues, and ensuring that operations are performed according to donor requirements. In addition to adequate, independent supervision by PSI senior management and the PSI Board, grant oversight is performed by the CCM of South Sudan, which is tasked with this function and monitored by the LFA. Additional comment As noted in the prior response, PSI South Sudan has an appropriate oversight			Some of the findings of the audit are reflective of the lack of effective oversight over the programs. The report highlights areas that have impacted the effectiveness of established 'oversight structures' e.g. regional teams that should provide oversight being involved in the management of the program. PSI should consider how established structures can be made more effective.

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	structure, and is committed to ensuring effective management of GF grants. The country program is supported by the East Africa Regional Department at PSI Headquarters, with technical input provided by relevant departments. In the past six months, two Deputy Directors have been hired, one Deputy Director of Programs based in Washington, DC, and one Deputy Director of Operations based at PSI's regional office in Nairobi. These individuals provide additional support to the South Sudan program. Additionally, PSI South Sudan will conduct an internal Platform Assessment and Strategic Planning exercise in December 2011 which will allow the organization to evaluate and improve effective oversight of the programs.			
RECOMMENDATION 2 (High) PSI Sudan should ensure that all key positions necessary for the successful implementation of the Global Fund program, as per the budget, are filled with personnel possessing the required skills, experience and knowledge.	PSI acknowledges the importance of recruiting qualified persons in a timely manner to ensure timely and effective grant implementation. As stated in this report, the operating environment and country context have resulted in a smaller pool of qualified candidates. While this situation has improved since the beginning of this grant, the candidate pool remains relatively small. For the international positions under this grant, PSI advertised in 11 international development and/or public health related websites for an average of 79 days. The			As highlighted in the report as well as in the LFA assessments, there was no evidence to prove PSI's aggressiveness in filling key positions initially especially in light of the difficult country context. The report also reflects the fact that PSI has received funding for unfilled positions and no savings are reflected in the budget in this regard.

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	recruitment was initiated on average 6 months prior to the anticipated start date for the position. Despite these efforts recruitment remained a challenge due to the country context. PSI has had a Program Management Unit (PMU) that was staffed by Program Manager under Phase 1. An M&E Manager has been recruited to spearhead the program M&E as well as quality of data for all Global Fund grants. For any open positions under Phase 2, we will endeavor to expand our recruitment efforts even further to ensure timely and effective implementation. Additional comments As noted in our previous response, PSI is keenly aware of the importance of recruiting qualified personnel for its projects. The PMU is expanding from one Global Fund Program Manager to a maximum of 17 staff. The new PMU structure will include: 1 Global Fund Program country context have resulted in a Manager (hired), 1 M&E Manager (hired), 2 M&E Coordinators (in place by 12/2011), 10 State M&E Officers (2012), 1 Finance Manager (in place 10/2011), 1 Finance Analyst (in place by 12/2011), and 1 Health Systems Strengthening Coordinator (2012).			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	In addition, a HR Manager from PSI HQ travelled to PSI South Sudan for three weeks to conduct an assessment and provide capacity building for PSI South Sudan's new Human Resources Director. The HR Director also attended a PSI Regional HR Conference in South Africa to be trained in effective hiring techniques, and share best practices with colleagues from across the continent. Since that time, PSI South Sudan has improved our hiring practices to ensure they attract the most suitable candidates for each post. PSI submitted a realigned budget along with its Phase 2 budget in August 2010 that showed actual expenditure to date for the grant, and asked for a realignment based on over/under spending within some cost categories; this budget was approved by the LFA and the GF.			
RECOMMENDATION 3 (Significant) There should be a clear demarcation of the different roles played by PSI: (i) its role and responsibility as PR; (ii) the role of PSI	We believe this recommendation has been mostly resolved by the Global Fund Secretariat's new policy on headquarters support costs, which entered into force on April 18, 2011. The policy details which headquarters level activities are included as part of the overhead/ indirect cost rate, and which are not. The policy also details the process under which International NGOs may			Agreed

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
headquarters towards which as overhead is paid; and (iii) PSI's provision of technical assistance (at a cost) to PSI Sudan.	request funding for direct charging of headquarters costs. PSI stands by the technical assistance provided by technical departments. It is more cost effective to hire technical experts that can work across countries and only charge the grant for the actual work performed, and PSI is also better able to recruit and train a higher caliber of talent. Whenever PSI does not have the right technical expert for a particular need, we hire external consultants to perform the work, as has been done several times in South Sudan. Additional comments The inclusion of project-specific technical assistance (TA) is a budgeted activity that is proposed and approved by the GF. PSI stands by the quality and value of the technical assistance provided by its technical departments, and asserts that it is more cost effective to utilize technical experts that can work across multiple countries, programs and regions and only charge the grant for the actual work performed. PSI asserts that having trained personnel familiar with PSI's country's programs and operations saves both time and			The opening up of the process to identify consultants to work with external service providers is probably the only way to demonstrate PSI's point that it is best placed to provide technical assistance to the programs and that it does so at competitive prices.

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	money versus having to hire an external party. PSI's technical assistance practices are consistent with most other international NGOs and are generally accepted by donors. However, whenever PSI determines that it does not have the right technical expert for a particular need, it conducts a competitive bidding process to locate external consultants to perform the work as allowed by the approved budget.			
RECOMMENDATION 4 (High) PSI should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment with which the Global Fund programs are implemented. Specifically, the PRs should: (a) Ensure that the interest charged to the grant is accurate and credit the grant program with additional interest	PSI is committed to compliance to any and all conditions in agreements to which we are a signatory. PSI has extensive systems for ensuring compliance. We regularly review our compliance systems and we appreciate any opportunity to strengthen those systems. Please find our responses to the specific compliance recommendations below: (a) PSI accounts for the interest earned on donor funds by obtaining the rate information from the Federal Reserve based on quarterly Treasury Bill rates. This information is used to calculate the total interest earned by project. Depending on the stipulations in the donor agreement, the interest is either subtracted prior to the submission of the financial report or applied			The OIG's review revealed that the rates were in some cases higher and others lower. The 0.066% (referred to in the response) was not verified by the OIG. PSI has not addressed the fact that the computations of interest also contained errors and thus the need to recompute all interest accrued under the grants.

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
that they have retained. (b) Quality assure their pharmaceutical products in line with the grant agreement; and (c) Ensure that their procurements meet the standards set in the grant agreement.	to a separate component associated with the main donor project code in PSI's fund accounting system which is attributable to the specific donor. If the interest earned is applied to the separate component, it is used per the requirements of the donor agreement. In response to paragraph 50 and 51(a) specifically, for the period of January 2004 through May 2011, the difference between the US Federal Rate applied to donor balances and actual interest earned is approximately (.066%). Effectively, PSI has allocated more interest to Donor fund balances than actual interest earned on the pooled Donor account. These findings were shared with the Global Fund during the PSI Washington GF audit in June 2010. In response to paragraph 49 specifically, the majority of donor funds are managed by PSI Washington to ensure funds are held in stable financial institutions to minimize risk and optimize interest earnings. PSI Washington provides country offices with operating funds that average of 2 to 4 weeks of operational expense to maximize the interest earning opportunity in the consolidated donor interest bearing account.			At the close of the PSI HQ review, PSI committed to recompute all grant related interest and make the necessary adjustments (positive or negative) to the grants. The Global Fund should ensure that this happens. The letter from the MOH Director of Pharmaceutical does not override PSI's obligation to complying with the grant agreement.

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	(b) In Phase 1, PSI followed the MOH QA procedure. The MOH sampled and tested the ACT in their “Quality-Minilab” prior to allowing it to be distributed. The MOH Directorate of Pharmaceutical provided a letter authorizing delivery based on our adherence to the MoH QA procedure and inspected PSI Sudan’s warehouse and authorized storage of pharmaceuticals at the warehouse. Since 2010 PSI has fully complied with the QA outlined in the grant agreement conducting post-shipment testing of ACTs through a third party agent (Crown Agents). (c) PSI Sudan has well documented procurement policies and procedures that are based on the principles of transparency and fair competition. PSI Sudan’s Employee Manual outlines the procurement process flow including a transparent and competitive bidding process. The PSI Sudan procurement procedures have been developed and reviewed to be in compliance with all funding requirements. Additionally, all relevant staff were trained on the policies and procedures to ensure a standard understanding of PSI/Sudan procurement requirements. Compliance with local procurement policies and procedures is assured by PSI’s Global			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	Internal Audit function via an assessment every 12-24 months as well as through an annual external audit. In Phase 2 of this grant PSI Sudan has further strengthened the local procurement environment with a more clearly defined procurement committee to review procurements according to PSI Sudan's Employee Manual. Moreover, we regularly review our policies and procedures to ensure we stay up to date with international policy standards. We will also provide additional training based on any updates on the manual. Additional comments (a) PSI would like to note that after the OIG raised its concern with using the US Federal Reserve rates, PSI reviewed our policy and in response to the GF recommendation has changed to an actual interest rate application starting in 2011 and going forward. PSI will undertake a review and recomputation, and will work with the Secretariat to resolve any identified discrepancies. In addition, while the report referenced the need for PSI to refund money due to computational errors as noted above, the report failed to disclose all the grants to which the application of the US federal			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	treasury interest rate actually caused an over application of interest (interest applied to the grant over the interest rate earned by PSI for a particular period). PSI previously provided a schedule to the GF OIG audit staff during their field work that summarized both the over and under application of interest. Given the over and under applications that have occurred over 8 years and resulted in more interest applied to the GF grants, PSI maintains there is no repayment of funds due to the GF. Furthermore, PSI would like to respectfully note that any recalculations would have to include the interest on the funds that PSI has advanced on the Sudan GF grants. PSI would be happy to discuss this issue further with the Secretariat to find resolution. (b) PSI is committed to full compliance with the grant agreement on quality assurance use of pre-qualified laboratories.			
RECOMMENDATION 5 (Significant) (a) PSI should institute audits that cover the funds expended on behalf of the country at the	(a) PSI acknowledges the recommendation to institute audits that cover the funds expended on behalf of the country in Washington, DC. On January 7, 2011 PSI submitted correspondence to Mr. Jonathan Brown, GFATM Director of Country Programs a.i. to propose audit procedures that would provide consistently and completeness			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
head office. The GF should ensure that audit plans submitted for approval provide for audit of transactions at the HQ. (b) PSI should consider extending OFOG mandates to cover GF specific program areas identified as risky e.g. SR management and make OFOG reports available to the Secretariat and LFA.	throughout PSI's GFATM grants. We are awaiting comment and approval of our audit procedure recommendations. In response to paragraph 55 specifically, The OIG conducted an audit of expenditures incurred in PSI's headquarters on behalf of the Sudan platform in June of 2010. (b) PSI's Global Internal Audit department (previously OFOG) performs internal assessments of local offices and the intended audience of these reports is senior management and ultimately the Audit Committee. In order to maintain independence and confidentiality, distribution of their reports is specifically restricted and release of a report requires approval from the Director of Global Internal Audit. Sharing of these reports with the Secretariat and the LFA may result in a perceived loss of internal audit independence, which could result in local management not being willing to share concerns before they become significant. As these internal assessments are performed at a local office level, rather than at a donor specific level, the reports may contain confidential information regarding the office, its staff, or other donors/funders, and therefore PSI does not think it is appropriate			The OIG's work at the HQ did not constitute an audit as defined in the Global Fund guidance on audit and the report therefrom cannot be construed to be aligned to what is required in the grant agreement. PSI's response is contrary to article 13 of the grant agreement that regarding access to documentation. This is especially the case when PSI states that it is undertaking Global Fund specific work e.g. visits to SRs and that fact that Global Fund has been contributing to the OFOG costs. This matter has been picked up by the Global Fund and a policy is being developed to access internal audit reports.

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	to share these reports with the Global Fund. The scope of work performed by our Global Internal Audit department is regularly reviewed to ensure that key risks faced by PSI's platforms are covered during the internal assessments, and sub-awardee management was incorporated into the standard scope of work last year. Additional comments As explained to the OIG in previous communications, PSI has several layers of financial and donor audits. Country platforms have local financial audits as a control feature, as well as local donor cost audits whenever a donor requires this. Since the Global Fund's publication of new audit guidelines, PSI HQ has engaged with PSI Sudan - and all of PSI's platforms - to ensure their audits are fully compliant. PSI will continue these efforts. PSI also performs a global financial audit by an internationally recognized public accounting firm and as such, PSI can submit any qualification to the firm, including the need to be independent. This audit provides a consolidated assurance of the financial reporting and controls for all of PSI platforms and HQ operations. In addition to this, PSI			This has been addressed in the Secretariat response to the PSI HQ report

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	has historically provided donors with a donor schedule completed as a part of the annual audit that provides details of PSI's grant funds, cash receipts, expenditures and balances. These reports have been available for a number of years but PSI is open and willing to further refine these donor reports to meet all the needs of the GF. PSI initiated these discussions in early 2011 and is continuing these discussions with the finance team of the Secretariat to come to an agreement of the specific nature of the report and audit coverage for this report. Since PSI is a global organization with headquarters operations, we welcome a single review of our headquarters operations and a single set of recommendations for improvement annually by an independent third party. PSI does not agree that individual LFA's should all individually review and offer "areas for improvement" to PSI headquarters operations. This could result in 30+ different reviews and perspectives. PSI does however understand and respect that the LFA's need to know if there are areas for improvement, not only at the country level but also at HQ. As such, PSI is confident that a management letter from the global auditors specifically related to GF grants in conjunction with the GF global donor audit will meet these needs,			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	since all HQ operations are standard and a single report on improvements is the most appropriate and cost effective monitoring tool. PSI's expectation is that the details of the GF donor audit will be agreed on with the staff of the Secretariat by the 4th quarter of 2011. PSI is open to and continues to discuss terms of the donor audit with the GF and looks forward to a rapid conclusion to the discussion. Regarding access to documentation, PSI firmly maintains that internal audit reports should remain confidential in order for the internal audit process to remain effective and independent. PSI, along with other members of the Civil Society Principal Recipients Network, continues to work with the Secretariat regarding the sharing of internal audit reports, and looks forward to finding an approach that meets the needs of both the Global Fund and PRs with an internal audit function.			
RECOMMENDATION 6 (Significant) An accelerated work plan for the HMM & HSS components should be developed and its implementation closely monitored if the targets	(a) PSI Sudan has procured and handed over one vehicle to the GoSS MoH for use by the National Malaria Control Program. PSI Sudan is in the process of procuring the remaining eight vehicles. These vehicles are expected in country at the beginning of July 2011. PSI respectfully requests a description of the "other equipment" mentioned in the			The other equipment was

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
set for the grant are to be realized. Specifically: (a) The PR should purchase and handover the remaining 9 vehicles and other equipment which should have been purchased for the MOH for M&E strengthening at GOSS & State level. A sub agreement should be signed by the MOH and PSI. (b) A training plan for the proposed 2-3 year courses for the public health nurses, clinicians and midwives which clearly outlines when and where trainings will take place and implementation should be closely monitored. (c) PSI should present its reallocated budget to the GF via the CCM for approval.	recommendation. The remaining eight vehicles will also be handed over against an MoU. The MoH is not amenable to signing a sub-agreement, as they do not believe that under this grant they are an SR. The MoH will enter into an MoU with PSI to ensure the proper usage of the vehicles. (b) During Phase 1, the Director of the NMCP and the WHO representative agreed that priority should be given to the state and county health focal persons who should be trained in malaria prevention and diagnosis. This was identified by the Director of the NMCP and by the WHO representative as an area of key importance for this grant to achieve its objectives. The originally planned training for clinicians, midwives and nurses was replaced with this training of state and county health focal persons. Through WHO, PSI Sudan ensured the training of state and county health focal persons was completed by the end of 2010 (end of Phase 1). A total of 138 students across the 10 different states of southern Sudan received this training. (c) PSI submitted the re-aligned Phase 1 budget on July 25, 2010, which was approved by the Global Fund Secretariat on September			computers and radio communication equipment. PSI was also supposed to provide the requisite computer related training on data management. (paragraph 87 of the report)

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	30th 2010 and since then a Phase 2 budget effective 1st Dec 2010 has also been submitted and a grant agreement signed. Additional comments (a)PSI anticipates that a MOU with the Ministry of Health to hand over 9 vehicles, computers, and office supplies will be signed in October, 2011. Additionally, during this time, USAID provided radios to the State Ministries of Health, and the National MoH requested that PSI therefore provides motorcycles instead of radios, as they are similar in cost and are essential for program support. This change was reflected in the consolidated grant documents submitted to the Global Fund on 12 September 2011. Once the equipment is in place, PSI is arranging for a PMU M&E officer to be in each state, and they will provide capacity building for the State Ministry of Health M&E Officers in data management.(b and c) no further comments received from OIG.			
RECOMMENDATION 7: (Significant) To minimize the risk of irrational use of LLINs, communities should be	The Plan of Action for the LLIN distribution campaign involved a communication strategy based on mass LLIN distribution best practice and included 5 touch points for communication messages. These included:			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
fully educated through BCC activities prior and during mass LLINs distribution exercises as was stipulated in the work plan.	1. Pre-distribution through community sensitization about campaign activities and general malaria education during door to door registration; 2. At the distribution site, a mosquito net was set up, low literate brochures in local languages were made available, and volunteers were on hand to explain the importance of consistently and correctly using a LLIN, and how to properly hang a LLIN; 3. A post-distribution hang-it and use-it communication campaign which involved door to door visits, hanging the nets in households and reviewing the brochure with the household again to reinforce end-users' knowledge about malaria prevention and to dispel any fears about sleeping under a long-lasting insecticide treated net; 4. Radio communication, limited billboards and IEC material that are present in communities year round; 5. Community members were hired to conduct "megaphone" communications in which they drove around the village announcing communication messages provided by			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	PSI. PSI does acknowledge the importance of IPC activities in changing behaviors. Effective IPC campaigns to change behavior are resource intensive as well as requiring repetition over regular intervals to realize the full potential of the investment. For this reason IPC activities are better reserved for the longer-term scope of LLIN keep-up activities as opposed the catch-up activities under this grant. That is why SRs under the HMM component of the grant are expected to incorporate net use communication as part of their communication activities. In Phase 2, PSI will employ the most effective communication considering the scope and feasibility of logistics and budget.			
RECOMMENDATION 8 (High) (a) An internal system for monitoring compliance of CDDs with the ACT treatment guidelines needs to be put in place in order to mitigate the risk of under or overdosing of	PSI recognizes the correct dosage and adherence to treatment are critical to treating malaria. In any malaria treatment or any disease treatment intervention this is a key component for success. As stated the low levels of literacy among CDDs increase the challenge of reporting and thus monitoring. PSI and the SRs used strategies to address this challenge. The program uses highly pictorial tools to accommodate the			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
patients as well as irrational use of drugs. (b) Proper guidelines should be given to lower level staff on how to deal with expired drugs, in line with the MOH's disposal guidelines.	low literacy levels in the community of CDDs. For example, we have developed CDD patient registers for the community level. During training, role-plays are used to ensure message recall by all participants. In addition, research carried out by International Rescue Committee (IRC) as part of their CIDA funded Child Survival program indicates that with appropriate training and support functionally illiterate CDDs are able to report in an accurate and timely fashion. CDDs are trained to refer any complicated cases of malaria or other diseases to the nearest health facility using very simple and easy to use referral slips. Strengthening the monitoring system for the CDD primary health care delivery network is of interest to GOSS, donors and partners even beyond this GF grant. This continues to be a focus for PSI and thus the SRs in Phase 2. PSI welcomes the opportunity to collaborate at all levels of the health sector in South Sudan to strengthen monitoring efforts to ensure correct dosage and treatment adherence. PSI will strengthen its routine monitoring and supervision capacity in line with other integrated community case management partners in South Sudan. Along with our partners, we will introduce activities to monitor drug stocking levels and			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	compare them with supply and case management/treatment records. This system will give us monthly data that can be followed up by clinical officers and CDD supervisors to identify irregular treatment and dosing practices. In addition we will expand the CDD supervisory training curriculum and introduce improved supervisory checklists. (b) PSI follows the MOH disposal guidelines for both the counties and the CDDs. In the event of expired drugs left with CDDs, these are to be collected by the responsible SR and returned to the counties for disposal there. The appropriate authorities under close supervision would then dispose of the expired drugs. CDDs, supervisors and grant staff overseeing these activities are aware of the MOH disposal guidelines and the process to deal with expired dugs. These procedures will continue to be reinforced in Phase 2.			
RECOMMENDATION 9 (High) (a) Standardized ToT trainings for HMM should be developed and cascaded down the levels of the health system.	(a) Standardized TOT trainings have been done for HMM with CDD Supervisors who then go and conduct the trainings of CDDs. Attendance sheets are available with the SRs who are responsible for these trainings. In compliance with the recent policy change from the GF, PSI has submitted training plans in accordance and will update the training			

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
(b) To ensure Government ownership and sustainability of the program as well as improved program implementation, a proactive relationship between the PR (including SRs) and MOH counterparts needs to be strengthened through: regular formal meetings on program planning, monitoring of work plan implementation and joint supervision; and accelerated implementation of planned HSS activities.	plans once SRs are signed on for Phase 2. (b) PSI recognizes the importance of the recommendation. Regular informal meetings are held weekly, as NMCP schedules permit, primarily with the Director. Minutes are rarely kept of these meetings because these are informal meetings to discuss program activities and progress. At the recommendation of the OIG, some of these meetings will be formalized with minutes kept. Additionally PSI provides updates on program progress at Malaria Technical Working Group (MTWG) meetings, conducts field visits with key partners to mass LLIN distribution activities, and attends HMM SR meetings and quarterly CCM review meetings in which program progress and disbursement information is shared with the CCM for comment and review. The MOH is an important partner and PSI will continue to work to strengthen this relationship through even more regular communication.			
RECOMMENDATION 10 (Requires Action) M&E Operational Plan needs to be revised to ensure that: (a) It includes a	(a)(b) and (c) Since this audit was conducted in June 2010, PSI has submitted a costed M&E Operational Plan, Work-plan and performance framework with updated baseline data from the 2009 MIS - the Global Fund approved these documents. The final		Completed.	

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
proper work plan which details activities, timeframe for implementation of activities, responsible organisation/persons and budget. (b) It contains all indicators that are used in the program performance framework. (c) Outdated baselines are updated once the Malaria Indicative Survey is completed.	plan was submitted on 1st March 2011 and forms the basis of the Phase 2 grant agreement. Additional comments An M&E Plan covering the consolidated grant period (2012-2016) was submitted to GF on 12 September 2011. It includes details on all indicators within the performance framework, a list of activities to be undertaken, timeframes for implementation of these activities, responsible organizations/persons, as well as the associated budget.			
RECOMMENDATION 11 (Significant) The data quality assurance system should be strengthened by putting in place a simple summary data base for HMM that provides an audit trail by revising the supervision tool to	PSI acknowledges the importance of a strong data quality assurance system. PSI has hired a Global Fund M&E Manager with a start date of August 1, 2011 who has demonstrated experience working with government partners to integrate M&E frameworks. In Phase 2 PSI will look into a suitable database that will track all SR data on this grant for both LLINs and HMM components. The M&E Manager will work to revise systems, meet	PSI	Phase 2.	

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ensure that it monitors implementation of the program work plan and M&E plan.	with stakeholders and present options to the CCM.			
RECOMMENDATION 12 (Requires Attention) The quality of program reporting needs to be improved by ensuring that SRs submit standard reports and that the PR provides feedback to SRs for timely action on identified program implementation bottlenecks.	PSI acknowledges this recommendation. In Phase 2, PSI will ensure that all SRs use the same reporting tool (developed from the new PUDR forms). In Phase 1, PSI did provide feedback to SRs on implementation bottlenecks. However, this was done verbally in discussion and was not well documented. In Phase 2, PSI will ensure better documentation of feedback sessions is maintained for ease of reference. In addition, PSI will continue to hold quarterly SR workshops, which provide a platform for best practice sharing among SRs and for MoH technical input for implementation bottlenecks. Additional comments A standard quarterly reporting tool was rolled out to SRs on 1st October 2011, containing clear guidance on indicator definitions. Supervision visits will be scheduled to follow the submission of quarterly data to enable the PMU to provide timely feedback/support to SRs. In addition to the above, the PMU undertook a M&E			

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	systems strengthening assessment of all SRs in September 2011, which lead to an agreed action plan for systematic improvements.			
RECOMMENDATION 13 (HIGH) PSI should maintain proper books of account that are able to reconcile fund received to what Global Fund monies have been spent on, outstanding balances at any point in time and what share of the remaining bank balances relate to the Global Fund. These balances should be verifiable as part of the periodic PUDR verification process by the LFA.	PSI maintains proper books, which meet accounting standards for financial management and compliance. PSI's financial records are audited annually by a major international accounting firm. The audit follows US generally accepted accounting principles (GAAP) and audit provisions, and includes a report on compliance and internal controls. PSI maintains a team of overseas financial operations advisors that visits and reviews financial controls in place in PSI's foreign country offices on an annual basis. PSI's accounting system is designed to support fund accounting whereby the receipt and disbursements of funds is segregated and maintained by individual project agreement. Revenue from grants, contracts and cooperative agreements wherein the organization agrees to perform specified services is recognized only to the extent that project-related expenses are incurred. Revenue is earned, as project-approved expenses are incurred, not upon receipt of funds. Expenses are segregated and tracked by donor-specific project codes. The PSI accounting system tracks expenses and			PSI does not have a system that reconciles the cash balances held in its pooled bank accounts by donor (in Togo and Washington). Therefore, the cash balances reported by PSI at the end of each period remain purely theoretical and cannot be matched to the balances in the bank statements. Both OIG during its review and LFA in several instances could not certify the cash balances as reported by PSI. In the absence of such system and a valid certification that the cash balances reported by PSI correspond to the cash in hand; and in the absence to ensure that the grant funds are used solely for Program purposes and consistent with the terms of this Agreement (Article 9 of the grant agreement) Either a separate bank account

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	generates reports and bills to donors based on the expenses assigned to each project agreement. The receipt of funds is also segregated by donor project codes in the accounting system, however because funds in and of themselves are not recognized as revenue, the funds received, including operating advances from PSI, are pooled into a single operating accounting for the country office/platform. This minimizes risks to both the donor and PSI. If the platform's expenses under an agreement exceed specific ceilings in the agreement, or if expenditures are incurred outside those covered by donor agreements, such costs are funded through unrestricted net assets of PSI and accordingly not recognized as revenue assigned to that agreement. As such funding balances on agreements, in which expenses are below the ceilings in the agreement, are refunded or re-programmed per the donors' instructions. The financial and sometimes political systems in the countries in which PSI operates are often unstable. Maintaining numerous bank accounts for each project leaves PSI vulnerable to these instabilities, including daily fluctuations in currency. The operating account for each PSI platform is closely monitored to minimize the risk. Cash			should be maintained or PSI's accounting system should be able to reconcile the grant fund balances to bank balances held per grant. The Secretariat has recommended that a separate bank account be maintained for Global Fund grants.

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	on hand for each platform is not to exceed 45 days of operating costs. Daily operating costs are projected and updated monthly based on financial burn rates. Additional comments The cash balance reported by PSI is not theoretical, as PSI recognizes that the net amount of any sums received from the Global Fund less expenditures to date is the amount due to/from the Global Fund at any point in time. PSI can and does reconcile all its donor funds through an activity management system within its Lawson Financial system that tracks all receipts from donors on an activity by activity basis, fees and revenue earned, and expenditures. This system was implemented in January 2008. Since the system conversion, additional controls and reports have been developed and implemented to ensure that at any point in time for any award, contract or activity, the system can produce reports that identify the exact amount of the outstanding funds held from the GF by PSI on a grant by grant basis. PSI is pleased to work with the Secretariat or individually with the LFA to provide these reports. In addition, PSI's system of controls and the reports are extensively audited by global auditors each year and do provide			

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	absolute assurance of the tracking of all funds received from PSI's donors. As the OIG noted, PSI pools its cash funds in its Headquarters' banks and so the accuracy of the donor reports are the controlling factor and assurance of proper accounting for all funds received, spent and all balances for GF grants. PSI's global auditors extensively audit this aspect of our business. Verifying correct balances of funds received and appropriate documentation for expenditures is a main focus of the audit. PSI's global auditors understand und/activity accounting and provide assurance through their annual audit of PSI that all cash is properly accounted for and that all donor account balances are accurate. All PSI platforms are required to reconcile bank accounts monthly. This is tested by our Global Internal Audit group regularly and is also monitored monthly at the headquarters level through monthly reporting package reviews. The GF Secretariat has generally approved the in country reconciliations as meeting their needs, and PSI continues to work with the Secretariat to provide additional information requested.			
RECOMMENDATION 14 (HIGH) PSI should strengthen its	PSI works within a specific budget framework following stringent rules about eligible expenditure on grants. PSI has a vigorous			

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budgeting framework to ensure that only eligible expenditure as per grant agreement is incurred. Budgetary reallocations should be justified in writing and approved before expenditure is incurred. PSI should refund the unbudgeted entries charged to the Global Fund to ensure funds are available to finance activities included in the approved budget.	budget management system. Multiple levels of review are executed to ensure no unbudgeted expenses are charged to an award. We are happy to address specific concerns that unbudgeted expenses were charged to the GF grant. Malaria Indicator Survey - As stated the GF provided retrospective approval and this expenditure is budgeted in the Phase 1 re-alignment that was approved by the GF on September 30th, 2010. The PR fully appreciates the need for formal approvals before re-programming of grant money is done and will be sure to observe this better in Phase 2. Sales Staff Salary - The costs entered into the PSI Sudan accounting system were for volunteer distributors as part of the LLIN distribution. The indicated costs did not pay PSI Sudan sales staff but provided stipends/ incentives for volunteers as approved in the grant budget. The PSI Sudan accounting system did not have a separate code for volunteer stipends/incentives. Therefore this payments were coded in the PSI Sudan accounting system as "5010400 · Local Salaries-Sales Comm/Incn". These costs were coded at the beginning of implementation under sales staff but were			

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	later coded under program support/administration staff. We have documentation which verifies and supports these payments. Bonus Payments to Local Staff - The payment of bonuses to staff who have exceeded performance targets is common and consistent practice for PSI Sudan. It is considered a benefit and is part of the compensation to employees and was budgeted for under local fringe at the time of submission. As such PSI Sudan paid this compensation as part of the staff salary. The Global Fund rules do not prohibit the payment of bonuses. Additional comments As noted in our earlier response, the costs entered into the PSI Sudan accounting system were for volunteer distributors as part of the LLIN distribution. The indicated costs did not pay PSI Sudan sales staff but provided stipends/ incentives for volunteers as approved in the grant budget. The PSI Sudan accounting system did not have a separate code for volunteer stipends/incentives. Therefore these payments were coded in the PSI Sudan accounting system as “5010400 - Local Salaries-Sales Comm/Incn”. These			As stated in the report, the payment of bonuses appears wasteful given that staff are already well paid. In cases where it is part of performance, there should be appraisals that support the process and this should be disclosed to the Global Fund at grant negotiation.

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	costs were coded at the beginning of implementation under sales staff but were later coded under program support/administration staff. The documentation submitted with our earlier response verifies and supports these payments, and PSI does not agree that the costs are ineligible. In accordance with the GF's Guidelines for Budgeting in GF Grants¹, the payment of incentives/bonuses is allowed; PSI's Employee Manual notes annual bonuses to staff, and the costs were included in our budgeted fringe rate. The payment of annual bonuses is a common practice among NGOs in South Sudan, and PSI included them in their former remuneration package to remain competitive. PSI would like to note that since the OIG's visit to Sudan in 2010, PSI Sudan has undertaken a comprehensive review of its salary structure and has realigned its compensation levels. This has included ending the payment of annual bonuses.			
RECOMMENDATION 15 (Significant) The PR should ensure that common cost allocation formulae	PSI acknowledges the common cost allocation recommendation. PSI has developed a methodology for distributing platform (field office) common costs in a fair and reasonable way. This methodology was			

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stipulated in the employee manual are adhered to so that there is reasonable allocation of shared costs. Recoveries should be made as appropriate.	tested in 5 pilot countries during the first and second quarters of 2011. The proposed methodology, updated procedures, policy and implementation plan will be presented finalized in July 2011. Upon finalization and deployment, common cost will be applied consistently to all future budgets and costs. The approved PSI common cost policy will be provided to the Global Fund. Additional comments Since the last draft of the report, PSI has finalized the proposed common cost allocation methodology and updated related procedures; policy and implementation will be rolled out starting Q4 2011 in a phased implementation schedule to all countries. Upon deployment, common costs will be applied consistently to all future budgets and costs. The approved PSI common cost policy will be provided to the Global Fund upon request.			
RECOMMENDATION 16 (Requires Attention) PSI should establish mechanisms through which a comprehensive review of the financial data is undertaken	As stated in our response to recommendation 14, PSI maintains a vigorous system to review financial data. Multiple reviews happen at different levels within this system prior to report submission. The different levels include review from PSI Washington by both the finance department and the regional	PSI	A finance manager will be in place before the end of October	

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before reports are submitted. Corrective action from such reviews should be undertaken in a timely manner to ensure that stakeholders are provided with accurate information for decision making.	backstopping unit and review by the PSI Sudan PMU. To further strengthen this aspect of grant management, PSI will be recruiting a dedicated Finance Manager for the PMU who will oversee all finance-related grant management roles.		2011.	
RECOMMENDATION 17 (Requires Attention) PSI Sudan should apply the laid down policies in order to strengthen the control environment within which the programs are implemented. Justifications for exceptions should be provided and approved by the relevant PSI authorities as required in the manual.	PSI acknowledges the recommendation. PSI Sudan has reviewed the financial policies and is placing priority on training key staff on compliance issues.			
RECOMMENDATION 18 (High) For both assets held by the PR and SRs, PSI	PSI Sudan does have a fixed asset register containing all details of fixed assets held by PSI as the PR. This register has been improved and all fields filled appropriately,	PSI	Phase 2	

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Sudan should maintain an up to date fixed assets register that has all the key information required for proper control of fixed assets. This is especially critical given that the assets are funded by different donors who have different guidelines regarding management and disposal of assets. PSI Sudan would also benefit from periodic fixed asset verification exercises to ensure that all assets exist and are in good condition. Timely corrective action should then be taken where anomalies are found.	including the source of funding. Further improvement of asset management has been made by apportioning responsibilities among key staff to ensure that spot as well as periodic physical verifications are conducted. Fixed asset management is a key part of PSI's Global Internal Audit assessment, which occurs every 12-24 months. In addition PSI has a list of each SRs' fixed assets which is reviewed during every field supervision visit conducted. We also plan to revise the fixed asset registers maintained by the SRs to accurately note funding sources. Fixed asset verification constitutes part of the field supervision check-list.			
RECOMMENDATION 19 (High) (a)For future SR evaluations, a more comprehensive and objective evaluation tool should be	(a)PSI will ensure a more comprehensive and objective evaluation will be used in the Phase 2 SR selection. (b)The CCM for the Phase 2 SR selection will not be involved in direct evaluation of SRs but rather provided guidance and	PSI, Global Fund Manager	August 2011	

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developed to enable assessors to make objective evaluation of responses to calls for proposals and enhance transparency in the process. (b) The CCM should avoid being involved in the direct evaluation of the SR applications so that their oversight responsibility is not compromised. (c) Before starting work, all TEC members should receive training and understand (a) their role; (b) the rating and scoring system; (c) how to use the tools provided for evaluation; (d) what their boundaries were i.e. what they can do and can't do during the evaluation	recommended key factors for consideration during evaluation of SR proposals. Therefore their oversight role will not be compromised. (c) The TEC will be guided on their role and receive training on the evaluation tools for SR selection. (d) PSI will ensure that both Phase 1 SRs continuing into Phase 2 and new SRs interested in implementing Phase 2 are assessed before contracting is done. New SRs will also be assessed by the Global Fund LFA. In order to standardize the SR assessment PSI has developed an SR assessment tool. Additional comments PSI has detailed manuals at the platform level that clearly elaborate the policies and procedures related to the selection and management of SRs. To strengthen the control and monitoring environment around the management of sub recipients (SR), and ensure that the policies and procedures are adhered to in a consistent manner, PSI is in the process of implementing several initiatives at the PSI headquarters and platform level. SR management tools are being developed to supplement the existing SR manual, and			

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process; (e) how to evaluate the proposals; and (f) how to report their results. (d) The PR should ensure that pre-award assessment is carried out on all institutions they wish to partner with to obtain assurance that they have the capacity to implement the Global Fund programs and that any capacity gaps identified can be dealt with in a timely manner. (e)	ongoing trainings are planned for PSI HQ and platform staff. For example, regional trainings on SR Management and Monitoring have been planned for October - November 2011 for Southern Africa, East Africa and Asia/Eastern Europe. These trainings will focus on implementing best practices in the solicitation, selection, assessment, monitoring and closeout of sub recipients. The tools and templates that will be shared at these trainings will complement the guidelines in PSI's SR management manual, and participants will have the opportunity to discuss their application and use in their own platforms/country context. Examples of these tools include a solicitation template, proposal evaluation score sheet, log for tracking incoming proposals, and negotiation memo. PSI has also developed illustrative special conditions and accompanying guidance that platform staff can use and adapt as determined by the results of a sub recipient's capacity and risk assessment. PSI has also developed guidance on the ongoing monitoring of sub recipients and will be working with platforms to develop monitoring plans to track site-visits, findings and action plans for sub recipients. PSI's Grants and Contracts Department at HQ has begun tracking all sub recipients quarterly to strengthen monitoring.			

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	This will help HQ and platforms keep a track of active sub recipients, any amendments/modifications issued and anticipate and plan for a timely and complete closeout in compliance with funder regulations.			
RECOMMENDATION 20 (Requires Attention) (a) The PR should ensure that there are clear work plans and budgets for PSI Sudan as an implementing SR to facilitate performance review and comparison to the other SRs. This should enable PSI Sudan as PR to evaluate and take a decision on whether to continue implementing the program as SR or work mainly through other SRs. (b) PSI Sudan should strengthen its SR	(a) PSI Sudan has ensured that for Phase 2 PSI has a comprehensive budget and work-plan for its work as an SR. (b) The Senior Finance Operations Manager currently supports the PMU in reviewing financial reports. However as indicated above PSI is recruiting a dedicated Finance Manager to sit within the PMU who will be responsible for financial oversight of SRs. In addition PSI will ensure in Phase 2 that SRs submit Financial reports with supporting documentation for reported expenses for ease of verification. The PMU has recruited an M&E Manager who will start work 1 st August 2011 and this will help strengthen SR supervision and strengthen SR monitoring.			

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monitoring function by: ensuring that finance staff review the supporting documents of the transactions reported by the SRs; implementing the SR visit schedule that had been developed and hiring adequate M&E staff to carry out SR supervision.				
RECOMMENDATION 21 (Requires Attention) PR should remit funds to SR in a timely manner so that there are no delays in implementation of programs.	PSI recognizes the need for timely disbursement of funds to SRs. However this can only be done if the Global Fund releases disbursements to the PR in a timely manner as well. Late Global Fund disbursements to the PR will impact PR disbursement to SRs as the PR cannot use its own resources to bridge fund for the Global Fund in instances of delays.			
RECOMMENDATION 22 (High) PSI Sudan should ensure that SRs comply with the budget and that proper sub-grant	Noted.			

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agreement close-out procedures are followed. Once the activities that a SR is contracted to undertake are completed within the program, all assets should be returned to the PR.				
RECOMMENDATION 23 (High) (a) PSI should review the financial documents of SRs before sending them new disbursements so anomalies can be identified and corrections made. (b) For the amounts mentioned, PSI should ensure MC has the appropriate documentation to support the expenditures or refund the money to the PR. (c) All funds not spent on Global Fund activities should be refunded by MC.	(a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with transaction details as well as evidence of transaction/procurement costs as is necessary. (b) PSI will ensure MC provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR.			Supporting documentation has not been provided to support the PR's position and therefore these funds are still recoverable.

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RECOMMENDATION 24 (High) (a) PSI should review the financial documents of SRs before sending them new disbursements so anomalies can be identified and corrections made. (b) For the amounts mentioned, PSI should ensure IRC has the appropriate documentation to support the expenditures or refund the money to the PR. (c) All funds not spent on GF activities should be refunded by IRC.	(a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with transaction details as well as evidence of transaction/procurement costs as is necessary. (b) PSI will ensure IRC provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR. Additional comments For this recommendation, as well as the two that follow, PSI has an official letter from each SR addressing each recommendation. Along with the supporting documentation they provided, PSI accepts their responses and as indicated in the paragraphs that follow, will ensure that all unsupported and ineligible expenditures are reimbursed. In the case where PSI agrees			Supporting documentation has not been provided to support the PR's position and therefore these funds are still recoverable.

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	with the SR that a cost was allowable or eligible, PSI looks forward to working with the OIG and Secretariat to resolve the issue. PSI is committed to working with Malaria Consortium, the LFA and the Secretariat as appropriate to resolve these issues, and will ensure that any necessary adjustments to the Global Fund project account are made. In response to the findings regarding Malaria Consortium, PSI has appointed Deloitte and Touche to review Malaria Consortium's expenses under the grant. PSI is reviewing the findings and will work with Malaria Consortium to resolve any issues and make any necessary adjustments to the Global Fund project account. PSI takes the management of SRs very seriously and has put in place special supervision arrangements with MC as a result of their ongoing challenges with staff retention and turnover. These include a change in frequency of reporting and supervision visits, as well as an increase in information sharing.			
RECOMMENDATION 25 (High) (a) PSI should review the financial transactions and supporting documents	(a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with transaction details as well as evidence of transaction/procurement costs as is			Supporting documentation has not been provided to support the PR's position and therefore these funds are still recoverable.

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underlying the financial reports sent by the SR before more disbursements are released so that any anomalies are identified and immediate corrective action taken. (b) For the amounts in the examples above, PSI Sudan should ensure that CDT has appropriate supporting documents for the amount spent or refund the funds back to the PR. (c) All funds spent on items that are not part of the Global Fund activities in the agreement should be refunded by CDT. (d) The SR should avoid mismatch of expenses and reporting period to	necessary. (b) PSI will ensure CDT provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR. (d) and (e) PSI will emphasize this during the first Phase 2 SR workshop to all SRs and in particular to CDT prior to Phase 2 contract signing. Additional comments Annexed is a letter from IRC describing how the audit concerns were addressed and rectified. According to this letter, inappropriate entries have been transferred to the correct grants, and IRC has already reimbursed April - October costs. With respect to the 7% ICR rate, IRC maintains it is standard practice and was in the approved budget. PSI agrees and would also like to note that this grant was signed prior to the			

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enhance informed decision making. (e) CDT should mark documents supporting payments "PAID" to prevent multiple payments using the same documents.	implementation of the new GF ICR rate (April, 2011), and the costs were budgeted and approved by the GF and validated by the LFA. Annexed is a letter from CDT describing how the audit concerns were addressed and rectified, and CDT has provided supporting documentation. According to this letter, inappropriate entries have been transferred to the correct grants, and CDT has already reimbursed April - October costs. It shows the adjustment made by CDT in the PUDR regarding \$3,000 for technical assistance. With respect to the 7% overhead rate, CDT maintains that the LOA between CDT and PSI provided OH as a percentage (7%) and is allowable. PSI agrees, and would also like to note that this grant was signed prior to the implementation of the new GF ICR rate (April, 2011), and the costs were budgeted and approved by the GF and validated by the LFA.			
RECOMMENDATION 26 (Significant) PSI Sudan should apply the laid down policies to strengthen the control environment within which the programs are	PSI acknowledges this recommendation. A TOR for the procurement committee has been finalized and will be implemented. The procurement committee will play an instrumental role in strengthening the control environment. Moreover, PSI Sudan is working with PSI Washington in 2011 to	PSI	The procurement committee will be operational in July 2011.	

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implemented.	strengthen the platform's policy document using the Global Procurement and Logistics Manual. Ensuring compliance with procurement policies is a key part of PSI's Global Internal Audit scope of work and PSI Sudan is assessed every 12-24 months.			
RECOMMENDATION 27 (High) PSI Sudan should work with its SRs in collecting and analyzing consumption data on a timely basis. This data should then be used to support supply decisions for the future as well as forecasting.	PSI continues to strengthen this aspect of Grant Implementation and always advises SRs on report submission dates well in advance. The standard agreed SR report submission date is the 20 th of the following month for the preceding period. In Phase 1 SRs who repeatedly missed deadlines were put on monthly reporting cycles and this proved successful in improving the timeliness of reports. PSI will continue to be very strict on the issue of timely reporting by SRs under Phase 2. PSI has a system where SRs provide drug forecasting on a semi-annual basis for follow-on requests stock on hand as verified by the records is considered in computing the approved drug request or the requested period. This way PSI ensures SRs do not have more stock than they can control or that is required at a given time and mitigates risks of expiry of drugs in the field. Additionally, PSI will review the potential obstacles in getting reports on time, including clarity of data collection forms and			

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	the relaying of data up the chain, to see if there is a way to streamline the process and further improve the accuracy of product movement. Finally, where relevant, PSI Sudan will conduct semi-annual monitoring and support visits to verify the LMIS data and SRs to further improve their reporting accuracy. Additional comments PSI is currently developing a new database that will be designed to inform supply decisions at all levels. SRs will be better able to monitor/report on stock movements, given that the database will longitudinally capture stock inflows/outflows up to the service delivery point level (i.e. health facility/CBD-level stock movement). This information will be scrutinized by the PMU when modelling for future stock needs. The quantification form that all SRs are required to fill out when submitting their semester drug needs though the database has been developed.			
RECOMMENDATION 28 (High) The bid solicitation process should be strengthened.	PSI has taken the following measures to ensure continued compliance: - As mentioned earlier, the procurement manual is under revision;			

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Specifically: • Management of PSI Sudan should strive to call for bids for purchases in accordance with its procurement policies and procedures. Single sourcing should be carried out as an exception and with clear justification and with appropriate support to evidence value for money. • PSI should provide adequate and consistent information to all prospective bidders to enhance transparency. • PSI should ensure that the procurement	- Procurement as a function is now centralized to the procurement section in the operations department; - All platform key staff both at the country and the field offices have been trained in procurement practices as required of PSI policy manual. They will be trained again on updates to the manual that come out of the aforementioned policy document review. This will also serve as a good refresher; - Restricted criteria for when sole sourcing is permitted has been emphasized in the manual revision and in the procurement trainings. Sole sourcing is discouraged; however, when a situation arises that sole sourcing is the only option to satisfy the procurement this is documented via a sole source authorization form which is reviewed and approved by multiple levels within the organization.			

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requirements or specifications are not restrictive in order to ensure fair competition. Only suppliers that have responded to calls for proposals should be considered. If they are not found suitable, the procurement process should be started again.				
RECOMMENDATION 29 (High) PSI Sudan would benefit from establishing a Procurement Committee to provide oversight over the procurement transactions. The committee should comprise of individuals with the appropriate technical expertise and experience to ensure that high quality	PSI Sudan has reviewed guidelines to address the gaps in the procurement processes. A TOR for the procurement committee has been finalized and will be implemented. Additional comment Since the draft audit report was released, PSI South Sudan has put in place a functional procurement committee, established a detailed TOR, and provided training to the committee members.	PSI, Global Fund Manager	July 2011	

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decisions are made. The organization should develop comprehensive Terms of References for the Committee.				
RECOMMENDATION 30 (High) (c) (Agreements entered into by PSI Sudan and third parties in the performance of Global Fund activities should include all the relevant contractual details required to ensure Global Fund resources are safeguarded and used in an efficient and effective manner. This also enables monitoring and evaluation of the contract. (d) In cases where significant advance	(a) PSI Sudan is in the process of standardizing key documents including developing contract agreement templates for different services and goods delivery that are in line with PSI Global contract language. With regards to 3 rd party handling of commodities, the contracts will take into consideration quality assurance and product movement reporting so as to ensure that PSI and GF can guarantee the state of our products, as well as the correct passage of these products down the supply chain. For our routine distributions, PSI Sudan will conduct semi-annual site evaluations to cross-check the 3 rd party data as agreed to in our contracts. (b) It should be noted that in Sudan, it may be impractical to obtain performance guarantees. PSI recognizes the OIG's concern and will consider other payment options to minimize the use of and size of any advance payments. Where possible, PSI Sudan will obtain performance guarantees.			The US\$ 60,000 was not reflected in the contract signed with the service provider .

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Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
payments are made to suppliers, PSI Sudan should obtain performance bonds to give a guarantee of performance and protect the Global Fund resources.	(c) The contract amount was for \$216,000. The initial US\$60,000 was paid as a down payment, out of the total contract fee of US\$216,000 for the 24 months. At the time of signing the contract, there were no adequate warehousing facilities in Juba, so PSI entered into an agreement with the vendor to construct the warehouse and PSI to rent it. This decision was made after PSI's evaluation of all available options, and the offer from this vendor was deemed most favorable. This lump sum was not amortized because PSI operates on a modified cash accounting basis. Therefore, PSI does not believe this \$60,000 should be reimbursed to the Global Fund, as it was a legitimate expense contracted and paid for. Additional comments PSI acknowledges that all agreements entered into by PSI Sudan and third parties should include all of the relevant and necessary contractual details to ensure that GF resources are protected.			
RECOMMENDATION 31 (High) The distribution and receipt function of products should be	(a) Noted. To give maximum focus on these functions, the platform will ensure segregation of duties among the Warehouse Coordinator and Logistics Coordinator. Both will be provided further training on these	PSI	Training and verification of understanding	

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
strengthened. PSI Sudan staff should verify receipt and raise goods received notes immediately showing the quantities received and their condition. Any short deliveries should immediately be followed up with the transporters and/or the suppliers.	functions to ensure consistency in the use of tools, documentation and reports. PSI shall ensure that we have clear instructions on which delivery points and the number of nets at each point and will ensure that we have PSI staff on hand to receive, inspect and sign off delivery notes on delivery. (b) PSI respectfully disagrees with the comment that there is no documentation to support that UNDP did return the LLINs to the designated locations. The freight forwarder contracted to deliver the LLINs followed a replacement schedule and provided email confirmation of delivery as well as delivery notes signed by PSI Sudan staff as proof of delivery. PSI acknowledges that the Goods Received Note should have been completed by PSI Sudan independently of the delivery note. As stated previously we are committed to strengthening our warehousing and inventory systems. Regarding the claim that the LLINs distributed by CHF lacked proof of receipt by signatures or thumbprints, PSI has had numerous discussions with the implementing partner (CHF) on this matter to better understand the challenges. CHF did err in misplacing some of the signature tracking sheets collected. CHF confirms that the LLINs		of procedures to completed by August 2011	Supplementary documentation provided is adequate and report has been amended accordingly and recommendation removed.

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
	were distributed. PSI made a number of efforts to verify the LLIN distribution and is confident from our own investigation that these nets were indeed distributed to the intended beneficiaries. Our investigation included site visits to targeted locations to verify that LLINs are hanging in people's homes. We acknowledge the errors made by CHF during the distribution, and PSI's inadequate oversight of the SR, and commit to improved supervision during the next campaign. PSI is providing additional information here to resolve the matter of the LLINs related to Shibli Enterprises, paragraph 150 (b). The consignment that Shibli Enterprises delivered to the SR, Malaria Consortium (MC), was documented by two Waybills and one Goods Received Note from MC. Both Waybills, 294 & 291 support that there were no missing LLINs. Waybill 294 contained 145 bales of 100 LLINs, or 14,500. Please find attached the full documentation for the full consignment was 53,100 LLINs received by Malaria Consortium			Supplementary supporting documentation provided has been reviewed and the report amended accordingly.
RECOMMENDATION 32 (Significant) a) Storage conditions should be monitored	(a)As noted in the report, PSI Sudan currently stores its ACTs in a warehouse that meets the required storage conditions. It will continue to maintain the warehouse up to			

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
regularly and reported to the PSI Sudan management in a timely manner to ensure that corrective action is taken. (b) The PR is encouraged to put in place a drug monitoring system for improved efficiency and effectiveness in drug management.	the standards required for ACTs and other health commodities as cited in PSI's Global Warehouse Manual. b) PSI Sudan shall undertake a warehouse assessment to improve the inventory control system that will allow for more accurate receipt, storage, production, and distribution at PSI warehouse(s). PSI Sudan warehouse staff will undergo inventory control training in line with the newly developed system.			
RECOMMENDATION 33 (Significant) All non-government sectors represented on the CCM should develop and document transparent processes for selection of their representatives at the CCM.	The recommendation is noted. It should be noted that it is not a violation of the Global Fund's CCM guidelines for PRs or SRs to have voting rights, provided a conflict of interest policy mitigates the risks. The CCM is currently updating its founding documents and also developing TORs for the varying CCM constituents. Selection guidelines will be developed by the CCM secretariat and will be taken into effect for membership renewals for all the constituencies.			
RECOMMENDATION 34 (High) (a) The CCM documents	(a)The CCM in June 2011 with the assistance and technical support of Grant Management Solutions has finalized all 10 governing			

Audit of Global Fund Grants to PSI South Sudan

Recommendations	PSI Response	Responsible Official	Completion Date	OIG comment
are finalized and used to guide CCM operations. (b) The OIG recommends that the CCM considers using the CCM Dashboard to improve on its oversight role over the implementation of the programs by the PRs. Further, there should be independent field visits (i.e. without PRs) carried out by the CCM members acting in their oversight role. (c) The OIG recommends that the CCM oversight role over SR selection be limited to development or approval of the selection criteria so that it retains the independence and objectivity required to query the process.	documents for the CCM. This will strengthen CCM operations. (b)The CCM has rolled out the dashboard to improve on its oversight role. A dashboard manual has also been developed and shared with all CCM members. This manual will serve as a guide in dashboard use by CCM members. The dashboards are presented at scheduled CCM meetings held on a quarterly basis where grant progress updates are presented by the PRs. The CCM has been doing independent field visits (without PRs) and provides feedback to the PR on their findings, however this has not been well documented and the CCM will ensure better documentation practices are observed going forward. (c)The CCM is not directly involved in SR selection - the CCM only plays an advisory role during development of selection criteria for SRs.			

Annex 4: Reimbursements and Clarifications

PSI acknowledges that the Office of the Inspector General makes a number of claims for reimbursement in the draft audit report. Pursuant to the Global Fund Board's decision point GF/B23/DP28, PSI would like to provide some justification here in addition to what has already been provided, and ask for additional details. PSI stands by its actions on a number of the points below, and requests the Office of the Inspector General to further consider our explanations below. PSI requests a table with an itemization of all costs requested for reimbursement with as thorough and detailed referencing as possible in order to assist our investigation of said charges.² PSI is willing to provide additional documentation and justification as requested.

Paragraph Number	Item Described	Amount Claimed by OIG	PSI Response	OIG response
69(a)	400,000 ITNs were lent to UNDP and delivered to points throughout the country. OIG claims that PSI could not provide any follow-up evidence to confirm whether or not the nets were returned or delivered.	No estimated USD cost provided	Recommendation 33 (b) response: PSI respectfully disagrees with the comment that there is no documentation to support that UNDP did return the LLINs to the designated locations. The freight forwarder contracted to deliver the LLINs followed a replacement schedule and provided email confirmation of delivery as well as delivery notes signed by PSI Sudan staff as proof of delivery. PSI acknowledges that the Goods Received Note should have been completed by PSI Sudan independently of the delivery note. As stated previously we are committed to strengthening our warehousing and inventory systems.	See OIG response to recommendation 33
69(b)	A further 325,274 nets could not be verified	No estimated USD cost	Recommendation 33 (b) response: Regarding the claim that the LLINs distributed by CHF lacked proof of receipt by signatures or thumbprints, PSI has had numerous discussions with the implementing partner (CHF) on this matter to better	No recommendation was made for the recovery of funds

² This was provided to PSI by the OIG as part of the final draft of this report.

Audit of Global Fund Grants to PSI South Sudan

		provided.	understand the challenges. CHF did err in misplacing some of the signature tracking sheets collected. CHF confirms that the LLINs were distributed. PSI made a number of efforts to verify the LLIN distribution and is confident from our own investigation that these nets were indeed distributed to the intended beneficiaries. Our investigation included site visits to targeted locations to verify that LLINs are hanging in people's homes. We acknowledge the errors made by CHF during the distribution, and PSI's inadequate oversight of the SR, and commit to improved supervision during the next campaign.	relating to this activity. The OIG reviewed the additional documentation provided by the PR but it does not constitute proper accountability for the missing documentation. Lessons should be learned to strengthen future similar activities.
112 (a, b & c)	The report mentions three (3) separate cases of ineligible funds (a malaria indicator survey for \$354,523; salaries for sales staff, \$173,753; Staff bonuses, \$16,800	\$ 545,076	Recommendation 14 response: Malaria Indicator Survey - As stated the Global Fund provided retrospective approval and this expenditure is budgeted in the Phase 1 re-alignment that was approved by the Global Fund on September 30th, 2010. The PR fully appreciates the need for formal approvals before re-programming of grant money is done and will be sure to observe this better in Phase 2. Sales Staff Salary - The costs entered into the PSI Sudan accounting system were for volunteer distributors as part of the LLIN distribution. The indicated costs did not pay PSI Sudan sales staff but provided stipends/ incentives for volunteers as approved in the grant budget. The PSI Sudan accounting system did not have a separate code for volunteer stipends/incentives. Therefore this payments were coded in the PSI Sudan accounting system as "5010400 · Local Salaries-Sales Comm/Incn". These costs were coded at the beginning	The PR has received retrospective approval from the Global Fund and this is cleared. The PR did not provide a complete breakdown and support for funds

Audit of Global Fund Grants to PSI South Sudan

			of implementation under sales staff but were later coded under program support/administration staff. We have documentation which verifies and supports these payments . Bonus Payments to Local Staff - The payment of bonuses to staff who have exceeded performance targets is common and consistent practice for PSI Sudan. It is considered a benefit and is part of the compensation to employees and was budgeted for under local fringe at the time of submission. As such PSI Sudan paid this compensation as part of the staff salary. The Global Fund rules do not prohibit the payment of bonuses.	classified under sales staff salary. This cannot be cleared without a complete breakdown and support for the costs charged to this code. In light of this, the funds are still recoverable. See comment under recommendation 14.
133	OIG's review of SR Malaria Consortium detected three alleged irregularities (high overhead charge without documentation, salary costing discrepancies, lack TA documentation, and a rental of a guest house)	Estimates vary upon formulae used	Recommendation 23 response: (a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with transaction details as well as evidence of transaction/procurement costs as is necessary. (b) PSI will ensure MC provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR.	No evidence was provided to support the PR position and the funds should be refunded.
134	OIG review of SR IRC notes similar discrepancies (indirect	\$58,134	Recommendation 24 response: (a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with	No evidence was provided to support the PR

Audit of Global Fund Grants to PSI South Sudan

	costs, salaries, flights and several misc. expenses intended for other projects).		transaction details as well as evidence of transaction/procurement costs as is necessary. (b) PSI will ensure IRC provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR.	position and the funds should be refunded.
135	Similar findings with Catholic Diocese of Torit (CDT)	\$19,403	Recommendation 25 response: (a) PSI recognizes the need to strengthen review of financial documents and will ensure that under Phase 2 all financial reports are submitted with transaction details as well as evidence of transaction/procurement costs as is necessary. (b) PSI will ensure CDT provides documentation for the indicated findings prior to contract signing of Phase 2. (c) PSI has collected detailed information from the SR on how these funds were used. We will work with the SR to validate these responses. Nearly all expenses can be clearly shown to support Global Fund program activities, but in the case that they cannot, PSI will demand reimbursement from the SR. (d) and (e) PSI will emphasize this during the first Phase 2 SR workshop to all SRs and in particular to CDT prior to Phase 2 contract signing.	No evidence was provided to support the PR position and the funds should be refunded.
149	Overpayment of a warehouse contract	\$60,000	Recommendation 31 (c) response: The contract amount was for \$216,000. The initial US\$60,000 was paid as a down	The contract contained

Audit of Global Fund Grants to PSI South Sudan

			payment, out of the total contract fee of US\$216,000 for the 24 months. At the time of signing the contract, there were no adequate warehousing facilities in Juba, so PSI entered into an agreement with the vendor to construct the warehouse and PSI to rent it. This decision was made after PSI's evaluation of all available options, and the offer from this vendor was deemed most favorable. This lump sum was not amortized because PSI operates on a modified cash accounting basis. Therefore, PSI does not believe this \$60,000 should be reimbursed to the Global Fund, as it was a legitimate expense contracted and paid for.	contradictory information (contract value of US\$ 156,000 and US\$ 216,000) and did not contain the conditions against which the payment would be effected and in consequence support for the position presented by the PR.
150	LLIN distribution discrepancy of 6,000 nets (Shibli Enterprises)		Recommendation 33 (a) response: The OIG does not have complete documentation in regards to Shibli Enterprises. The consignment that Shibli Enterprises delivered to the SR, Malaria Consortium (MC), was documented by two Waybills and one Goods Received Note from MC. Both Waybills, 294 & 291 support that there were no missing LLINs Please find attached the full documentation for the full consignment was 53,100 LLINs received by Malaria Consortium	See comment under recommendation 33.
	Total	\$ 682,613 Plus LLINs		

Annex 3(i): Catholic Diocese of Torit Program Management Response

Catholic Diocese of Torit
P. O. Box 11, Torit
Eastern Equatoria State
Southern Sudan
Tel. +249 922197507
c/o P.O Box 52802
Nairobi, KENYA

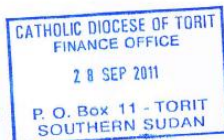


مطرانية توريت الكاثوليكية
ص. ب 11 , توريت
جنوب السودان

Catholic Diocese of Torit Health Program Management Response:

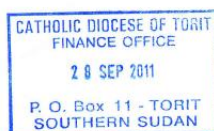
Management Response

SNO	Priority	Observation	Management Response
01	High	CDT reported \$11,365 as expenditure on indirect costs. This was computed at 7% of the costs incurred by the end of December 2009. It was not clear how the 7% was arrived at and there were no documents available to support the amount charged.	The LOA between CDoT and the PR provided Overhead as a percentage (7%). However, this charge normally support activities directly tied to this project, e.g. Office maintenance, repairs, PSM cost, CDoT Health Office Support Staff Costs, Bank Charges, CDoT Health Office Stationeries, shared Costs such incentives, and general overheads. These documents can be aggregated.
02	High	CDT reported an amount worth US\$ 3,000 spent under technical assistance in the 31 December 2009 PUDR. When OIG reviewed the detailed transaction listing, this expenditure was not included. The management of CDT explained that inclusion of the expense in the PUDR was an error.	CDOT acknowledges the amount in question reported in the mentioned period was a human error/posting error. CDOT has since revised this reported and the mentioned errors corrected.



03	High	CDT carried out training on 14-17 January 2010 but the related expenses worth US\$ 5,038 were charged in the period ended 31 December 2009. This was a mismatch in reporting periods.	CDOT acknowledges that the amount in question was advanced for CBDS Training in the month of December 2010. Thus the date indicated in the GL was the right one on the CPV.
04	High	Audit of the Global Fund Grants to Population Services International (PSI) South Sudan. The OIG noted that documents supporting payments such as invoices and receipts were not stamped "PAID" after payment. As a result, the same support documents could be used to support multiple transactions.	We acknowledge some of the supporting documents for the expenditures incurred during the reporting period were not stamped paid. However, CDOT has stamped all the documents "PAID".

for Management
Emmanuel Ogo



Annex 3(ii): International Rescue Committee Management Response



International Rescue Committee
Southern Sudan
Hai Cinema, Juba
www.theIRC.org

September 30 2011,

Cherie Carter,
Global Fund Program Manager,
Population Services International
Juba, Southern Sudan

RE; Audit of the Global Fund Grants to Population Services International (PSI) South Sudan Audit Report No: GF-OIG-10-019 Final draft September

Dear Ms Carter,

This letter is in response to an email from Ms Muna Shalita, dated 17th August 2011, related to specific comments in the OIG response document (#133, #134 and # 135)

(a) IRC reported \$16,587 as expenditure on indirect costs. This was computed at 7% of the costs incurred by the end of December 2009. The basis for the computation of the 7% could not be established and furthermore, there were no documents available to support the amount charged.

In accordance with IRC global finance policy (chapter 8-20, IRC Finance Manual) Indirect Cost Recovery (ICR) is revenue received from donors to cover the (indirect) or overhead costs incurred by IRC headquarters in support of Country Offices. Currently these expenses include Overseas Program Support, Finance, Human Resources and Administration in New York. Indirect (ICR) has been charged at 7% of the total program cost as per IRC's approved grant budget. No supporting documents are required for detailed transactions made by IRC headquarters. The accounting entry supports this charge.

(b) The OIG noted that IRC allocated to the Global Fund some of expenses incurred before 1 October 2009, which was the effective date of the SR contract. The costs noted were rent for August 2009 amounting to US\$ 13,350 and salaries for various staff in the period from April 2009 amounting to US\$ 16,642. These amounts should be recovered from the SR.

As detailed in IRC's letter dated 13 December 2010 (Susan Purdin – Response to OIG Audit), expenditures of US\$83,643 under Human Resources incurred before the project commencement date have been re-coded to the appropriate grant. This includes salaries for staff in April 2009 amounting to US\$ 16,642.

Rental costs for August 2009 amounting to US\$13,350 have been re coded to an appropriate grant.



International Rescue Committee
Southern Sudan
Hal Cinema, Juba
www.theIRC.org

- (c) World Food Program charged IRC flight costs amounting to US\$10,000. At the time of the audit, IRC was still having discussions to justify the costs to IRC. However, the entire amount was posted to the Global Fund program. Supporting documents for this amount were not provided by the SR and there was no clear explanation regarding the eligibility of the cost with respect to the Global Funds activities.

As detailed in IRC's letter dated 13 December 2010 (Susan Purdin, Response to OIG Audit), US\$ 4,000 in costs for air travel deemed unrelated to this grant were removed in 2010. An adjusting entry was posted in IRC's system in 2010. The transaction for recoding was provided to the auditors at the time of the 2010 audit. An additional amount of US\$ 6,000, which was not mentioned in the initial draft audit report submitted to IRC in December 2010 by Ernest and Young, was also deemed to be unrelated to this OIG grant. The costs have been re coded by IRC to an appropriate grant.

- (d) *Other expenses charged to the Global Fund program that were not included in the SR work plan and were not related to the Global Fund program were US\$ 1,100 for USAID rules and regulations training and US\$455 for a transfer allowance payable under a different grant.*

These expenses relating to USAID training are not an allowable cost for this OIG grant. As such, the costs have been re coded by IRC to an appropriate grant.

If there are any other further queries, please do get in touch with us any time.

Sincerely,

Lisa Owen

Lisa Owen
Acting Country Director
IRC South Sudan



Annex 3(iii) Email from Ruth Allan, Country Director, Malaria Consortium South Sudan

NOTE: 1 email of 2 due to attachment size

Dear Zachary

Please see our responses to the queries you raised below on the OIG audit:

(a) MC reported US\$ 45,593 as expenditure on indirect costs. This was computed at 18% of the costs incurred by the end of December 2009. The OIG was not provided with the rationale for the 18% overhead charge. There were also no documents to support the amount charged.

'MCs indirect costs calculation is conducted at organizational level. During contract negotiations an overall contribution of 18% towards these expenses was negotiated therefore there are no further justifying documents. The application of an indirect rate is common practice across the NGO world and we have our overhead rate (NICRA) audited each year. In fact our actual rate for this period was a higher %, 25.4%. These costs relate to organizational expenses such as management support from our regional and head office including office costs and governance, that is not charged directly to this or any other project. We attach our audited NICRA rate.

(b) The basis used by MC to allocate salaries to the Global Fund could not be established. The amount reported as actual expenses in the PUDR was simply what had been included in the SR budget amounting to \$169,005. The actual human resource cost as per the MC ledgers was \$5,655.

'Our finance system at the time did not allocate international staff salaries across countries but were held in the UK financial system, hence the \$5,655 viewed by the auditors was only posted for national staff. Please see the attached break down of the international staff costs that were allocated to this project. We attach contracts for these international staff allocated to this project. The national staff support should have been reviewed by the auditor in Juba. Time sheets were not in place during this period but the time charged seems reasonable based on the activities and budget for this project. "

Please note contracts attached. The remaining contract all bar one will be sent in 2 email of 2. There is currently one missing contract for Stella Agutti.

(c) For the quarter ended 31 December 2009, MC reported that \$25,400 had been spent on technical and management assistance. However, there were no supporting documents to confirm this amount.

'Our finance system at the time did not allocate international staff salaries across countries however all costs included in this cost category would have been international staff based in our regional/ HQ offices. Again we have reviewed the financial system and attach a list of staff that worked on this project along with supporting documents .

(d) MC allocated the rent of a guest house for six months" rent worth \$30,000 to the Global Fund program. The OIG could not link the costs of the guest house and the program activities funded by the Global Fund which mainly included LLIN distribution.

'Costs were allocated to different projects as they occurred. From our review we can see that from October 2009 to March 2010, the project represented 17% of total spend in country , and bore 16% of the rent costs. Please see the attached calculation. We therefore feel the rent costs allocated are a fair reflection of the project utilization'.

(e) Some expenses incurred by MC were not recorded in their correct expense category. For example guest house expenses had been recorded under the "planning and administration expense" category with narrations "communications and operating costs".

We note that some costs do not appear to be correctly classified into cost categories. However these costs were validated during the audit therefore we believe they should be accounted for within this project' In summary, please be assured that since 2009 Malaria Consortium has improved its financial processes, procedures and systems significantly. The current computerized finance system was introduced in October 2010 and now all expenditure relating to a project is posted into that country, including direct international staff salaries, in addition staff salaries in-country are allocated across projects based on timesheets,. The majority of the finance team both in South Sudan and supporting South Sudan across the organization are new and bring with them increased qualifications and experience appropriate to the size of organization that Malaria Consortium has become.

We thank you for your patience in waiting for us to respond to these queries officially. Let myself and our Regional Finance Manager Doug in Kampala know if you have any questions.

Many thanks,

Ruth Allan

Country Director

Malaria Consortium South Sudan