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## Update from the Office of the Inspector General - Uganda

15 May 2017

A follow-up investigation by the Office of the Inspector General (OIG) on concerns raised by an audit from 2015 (**GF-OIG-16-005**) found no evidence that significant internal control failures identified by the audit had been exploited for fraudulent gain by the Uganda National Medical Stores (NMS). The OIG only publishes investigation reports when conclusive findings of fraud and abuse have been made, in line with the applicable professional guidelines. The investigation has therefore been closed without a formal report.

### Unexplained variance in stocks held by the National Medical Stores (NMS)

In the audit report published in February 2016, the OIG audit noted an unexplained variance of US\$21.4 million between the expected and actual stocks at NMS. A follow-up investigation by the OIG, finalized in June 2016, established that US\$17.4 million of the variance was attributed to the omission of data from the warehouse management system, which had been provided by NMS to the OIG audit team. The way NMS staff had extracted the data and combined different reports explained the omission. Power disruptions, systems crashes and incomplete data back-up restoration were also found to have affected data reliability in 2014. The OIG investigation could not account for a remaining variance of US\$4.0 million between the actual and expected stock amounts. Furthermore, the OIG is unable to determine how much of this variance relates to Global Fund procured products as the physical inventory system does not break down the stock by source. Subsequently, the Global Fund has asked NMS to fully account for the dispatch to facility level of Global Fund deliveries into the warehouse in the year 2014. If they are unable to trace them, the Global Fund will seek to recover the funds.

### Unexplained variance in stocks held by the National Medical Stores (NMS)

The OIG audit identified a US\$2.71 million variance between the stock recorded as received by NMS and the stock shipped from the Global Fund's Pooled Procurement

Mechanism (PPM). The OIG investigation team has the software provider retrieve data for three products received from all sources by the NMS in 2014. The investigation identified that the data presented by NMS to the OIG audit team was missing stock valued at US\$1.13 million. After inclusion of this amount in the reconciliation, there is a remaining unexplained variance of US\$1.4 million from PPM receipts without a definitive explanation of location. Based on additional procedures performed to evaluate the process of recording PPM receipts, the OIG investigation concluded that the remaining variance is likely attributable to miscoding of budget owners and to data errors, as opposed to fraud.

#### Variances between stocks shipped by NMS and stocks received at facility-level

The OIG audit found a large stock variance where the NMS inventory system indicated that 3.7 million malaria test kits had been issued to a facility, but the facility recorded a receipt of only 3,000 kits. The investigation examined the data entry trail and found that the variance could be attributed to poor controls around data entered into the system. The system audit logs showed that the data entry person had keyed in 152,276 boxes instead of the normal request for 60 boxes. The investigation identified that the number entered was the same number, 152,276, as a product code on the order form. The error was noticed and corrected at the point of dispatch. The delivery note indicates 60 boxes dispatched and received by the facility. The OIG therefore concludes that this was a data entry error and not an act of fraud.

Discrepancies between commodities received in facilities and commodities dispensed to patients

Concerning an audit finding of a difference of US\$1.9 million between commodities received and actually dispensed to patients in eight high-volume facilities, the investigators observed that there had been a notable improvement in the management of stock since the audit. However, the investigators did find unaccounted for inventory in some departments of the facilities reviewed. The OIG cannot recommend the recovery value of the missing inventory because, due to the commingling of drugs from different sources, it is not feasible to determine if the missing inventory was paid for with Global Fund grant funds.

#### **Conclusion**

The audit of the Uganda grant portfolio identified significant weaknesses in internal control such that material amounts of expenditures could not be substantiated during the audit. These included lack of supporting documentation for transactions, weak controls over systems of record, gaps in data recording, and ineffective stock reconciliation processes. When such issues are identified and material amounts cannot be adequately supported in the course of an audit, the audit is generally unable to conclude as to the validity of the recorded expenditures, which are therefore reported as unsupported for audit reporting purposes. In those circumstances, it is standing practice for the Office of the Inspector

General to close the audit and to perform follow-up work through a more targeted investigation of the suspected transactions, which may or may not result in a finding of fraud. In the case of the transactions reported above, the investigation did not find evidence of fraud. However, the OIG investigation corroborated the significant internal control deficiencies that had been identified in the audit. The Secretariat has confirmed to the OIG the implementation of measures to address these significant deficiencies in financial expenditure controls.