



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to the Independent State of Papua New Guinea

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EXECUTIVE SUMMARY

Introduction and scope of the audit

1. The Office of the Inspector General (OIG) provides independent and objective assurance on the design and effectiveness of controls in place to manage the key risks affecting the Global Fund's programs and operations, with the aim of ensuring accountability and enabling the Global Fund to achieve better results.

2. To this end, the OIG carries out audits at country level to assess the adequacy of the internal control and programmatic systems in managing Global Fund grants; assess the efficiency and effectiveness of the management and implementation of grants; measure the soundness of systems and procedures in place to safeguard Global Fund resources; and identify and assess any risks to which Global Fund grants are exposed, and the adequacy of measures to mitigate those risks.

3. In October 2010, the OIG undertook an audit of all the Global Fund grants to the Independent State of Papua New Guinea (PNG), to assess whether the Global Fund's grants had been used wisely to save lives in PNG; and to make recommendations where appropriate to strengthen the management and control of the grants. The audit covered grant transactions related to the six grants under Rounds 3, 6 and 8, involving three Principal Recipients (PRs) and five Sub-Recipients (SRs). These grants amounted to more than USD 107 million, of which only USD 66 million had been disbursed as of August 2010.

4. The National Department of Health (NDOH) had been the single PR for three Global Fund-supported programs since the inception of the grants in PNG. Since 2009, two additional PRs have been selected under malaria grants: Population Services International (PSI) and Rotary Against Malaria (RAM). These implementing bodies involved collaboration with 17 sub-recipients and provincial health offices.

5. Under the National Health Plan 2001-2010, a Sector-Wide Approach (SWAp) was adopted with a common implementation and management mechanism under government leadership. The National Department of Health established a Health Sector Improvement Program to facilitate implementation of the sector-wide approach.

Program achievements and challenges

6. Among the three Global Fund-supported programs, the malaria program in particular has built strong collaboration between PRs and SRs.

7. The success of the three Global Fund supported-programs was driven by the use of technical assistance and support from the sub-recipients for major parts of the program. In the malaria program, the Disease Control Programme Manager who also provided technical assistance, played a significant role in keeping the program running with sound collaboration among implementing units. However, the National Department of Health as PR did not have a clear action plan on how to transfer knowledge from the technical assistance support in order to build in-country capacity.

8. Due to limitation of capacity, the Department outsourced some of its activities or chose to rely on the work of sub-recipients, which should have been a main task for the PR itself, given its statutory role. For example, in the Round 6 TB grant the monitoring and evaluation unit had been assisted by the Sub-recipient Jane Thomason & Associates International (JTAI) Technical Assistance. This arrangement gave the appearance that the Global Fund had facilitated a parallel system in the country, whereas in fact this was due principally to an absence of capacity in the National Department of Health. The reliance on technical assistance, however, should be complemented with capacity building of national and local staff for long term sustainability.

9. Because of a lack of medical and paramedical staff at national and provincial level, health care was generally provided by Community Health Workers (CHWs). Those community workers were dedicated but were not all trained in TB DOTS. This lack of training was critical, as CHWs that are self-taught use the Stop TB Guidelines (blue book) as a reference source, and this guideline had not been updated. Regarding the malaria grant, Health Care Workers (HCWs) and laboratory agents' training was not yet being achieved because of the delay in orders for the antimalarial drugs and rapid diagnostic tests by the National Department of Health through the Voluntary Pooled Procurement.

10. For the three diseases, patient access to the provision of good quality care was hindered by the fact that: staff were often inadequately trained; frequent stock-outs occurred; there was a lack of treatment compliance; and data analyzed and collected were not accurate. There were risks of increasing resistance to malaria drugs; an increasing incidence of multi-drug resistance to TB; and co-infections of TB and HIV. There is therefore a particular need to avoid stock-outs of necessary drugs, and for a coordinated approach for the three diseases based on integrated service delivery and an integrated supervisory framework. According to the comment from the Country, the above issues are part of greater health system issues which need to be addressed by the health sector, and are not solely 'fixable' through Global Fund funding.

11. For malaria and TB diagnostics, there were microscopes available for examination of slides and sputum specimens, although these were not always functional and the quality of the results was neither consistent nor reliable. With malaria, delays in the delivery of the artemisinin-based combination therapy and rapid diagnostic testing was accompanied by delays in training activities for health workers and laboratory agents.

12. For the HIV program, Voluntary Counseling and Testing (VCT) was a big success. However, the quality of care provided could have been improved if more HIV rapid tests had been available and an effective system of referral had been in place in all HIV and voluntary counseling and testing centres.

13. The National Department of Health faced issues with the quality and accuracy of data collection and reporting. For the three diseases, supervisory visits should be strengthened at provincial level, and there is a need for on-site training in the use of management tools and the accuracy of data reporting. For the TB program, new monitoring tools should be made available and distributed as soon as possible. For the HIV/AIDS program, there is a need to improve data entry monitoring tools quality especially for the relevant data such as the number of patients under antiretroviral therapy. During their field visits, the OIG noted that this indicator been reported incorrectly by ART clinics.

Good practices identified

14. The increase in the number of patients under antiretroviral therapy doubled from 2007 to 2009; voluntary counseling and testing centres increased from 52 in 2008 to 97 in December 2009; and from 250 to 743 was an increase in trained VCT centre staff.

15. The use of community health workers to assist nurses and doctors (due to limited numbers available) has contributed significantly to the program outcomes of the TB program in Papua New Guinea. Despite a lack of training, the commitment of these staff generated positive results in TB service delivery.

Financial management

16. The OIG identified a number of common and significant financial management issues in the Principal Recipients:

- *Non-compliance with terms and conditions stipulated in grant agreements*, such as delays in submission of sub-recipients' audit plans and financial reports, and instances of ineligible expenses charged to the grants.
- *PRs' need to strengthen policies, procedures and financial controls* used to administer Global Fund grants, for example by improved monitoring of program advances and segregation of incompatible duties.
- *Weaknesses in budgetary monitoring procedures*, and instances of budget over-runs and unbudgeted or unsupported expenses having been charged to the grant.
- *Failure to comply with standard procurement requirements*, such as inadequate purchase planning and ordering, lack of evidence of receipt and weaknesses in the fixed assets management.

17. In addition to these issues which are generic and apply to PRs generally, the OIG's audit identified a number of financial management issues which presented risks and which were specific to individual Principal Recipients.

National Department of Health (NDOH) and its Sub-recipients

18. In relation to the National Department of Health, the OIG noted:

- *Non-compliance with grant agreements and approved work plans*, such as the purchase of health products based on an unapproved procurement and supply management plan.
- *Lack of supporting documentation* for expenditure on goods and services, and to support Progress Update and Disbursement Requests, resulting in delayed and incorrect reporting.
- *Unreconciled differences* between the expenses reported to the Global Fund and those in local financial records.
- *Inadequate control over bank and cash operations* and weak monitoring of advances.
- *Instances of non-compliance with grant requirements and guidelines on procurement*, including records maintenance and procurement planning.
- *Weak monitoring controls* over third party activities and sub-recipients.
- Due to the weaknesses listed above, the OIG identified unsupported and ineligible expenditures as listed in the table below (details in Annexure 4)

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	USD
NDOH	2,398,503
The National Catholic AIDS Office (NCAO)	272,650
Jane Thomason & Associates International (JTAI)	9,467
Hope World Wide (HWW)	106,296
Total	2,786,916 ¹

The Rotary Club of Port Moresby

19. In relation to the Rotary Club of Port Moresby Inc., the OIG's review revealed:
- *An absence of documented policies, procedures or guidelines* for financial accounting, budget monitoring, management reporting, asset management and monthly financial closure of books of accounts.
 - *A lack of appropriate processes for budget monitoring.*
 - *Weaknesses in bank procedures*, such as the failure to prepare and review bank reconciliations for all bank accounts.
 - *Unsupported and ineligible expenditures* amounting to USD 305,482 as detailed in Annexure 4.
 - *Weaknesses in procurement controls.*

Population Services International

20. In relation to Population Services International, the OIG found:
- *A lack of appropriate procedures* for the authentication of wire transfer transactions and the use of uncrossed and single signatory checks, contrary to the PR's global policy.
 - *Scope for improved budgetary control* and monitoring.
 - *A need for review and reconciliation controls over payroll.*

Procurement and Supply Management

21. The OIG confirmed that procurement policies and procedures of NDOH/HSIP were in line with country regulations on public procurement. Some weaknesses requiring improvement were the need to: include all drugs procured under Global Fund programs in the national Essential Medicines List/catalogue; review forecasting techniques and methods; establish independent procurement committee arrangements to strengthen procurement of health and non-health products; improve internal control over bed net distribution; promote value for money; conduct independent quality inspections as per Global Fund requirements; and improve drug inventory management.

22. For Rotary Against Malaria, procurement and distribution of insecticide treated nets in the country was well defined, with rules and procedures included in the PSM plan and procurement manual. However, the OIG found that improvements were needed in the areas of forecasting, stock availability and distribution of nets. For Population Services International, there was a need to ensure that contracts are awarded on a demonstrably transparent and competitive basis.

¹ For the purpose of this report, all transactions in PGK have been converted to USD at an exchange rate of 1USD=PGK2.55102 as on September 30, 2010 (Source: www.oanda.com, selling rate)

Grant Oversight

23. The OIG found that the Country Coordination Mechanism representation was in line with the Global Fund's requirements but non-governmental bodies dominated the CCM with 81 % of total members. To avoid the risk of over-dominance, it would be appropriate to add a CCM Vice Chair from the government or a development partner; and also ensure consistent application of the conflict of interest policy, given that some CCM members were representing Principal or Sub-Recipients. According to the Country's comment to the draft report, the CCM has addressed this item.²

24. The establishment of an oversight body with participation of appropriately qualified non-CCM members might better support the CCM members in decision making; and the participation of civil society organizations could be enhanced by involving them in site visits as part of the CCM mechanism of oversight to grant implementation. The strong commitment and role of development partners in supporting the CCM needs to be continued and formalized where possible. This has been addressed after the audit³.

25. In relation to the Global Fund Secretariat, the complexity of operating in PNG requires a strong effort on their part to ensure the achievement of the Global Fund's program objectives. The Secretariat has accorded special attention to PNG through visits by Global Fund senior management and other regular visits and feedback to the country. Given the country risk situation, this effort needs to be continued.

26. In line with the new reform agenda of the Global Fund Secretariat, the OIG has recommended the establishment of a mechanism for tracking and following up recommendations from the country missions and Local Fund Agent reviews; and the need to establish further guidelines for countries subject to the Additional Safeguards Policy.

Overall Conclusion

27. Based on the outcome of the audit, the OIG concludes that the internal control environment requires significant improvement due to non-compliance with applicable policies, operating standards, sound commercial practices, the terms of the grant agreements and weak financial controls. Given the findings at the time of the audit, the OIG could not provide reasonable assurance that oversight arrangements ensured that grant funds had been used for the purpose intended and that value for money had been secured. However, the OIG acknowledges, as the following paragraphs show, that subsequent to the audit, there has been a great effort by the CCM and the Global Fund Secretariat to strengthen the oversight of the Global Fund grants to PNG.

Events Subsequent to the Audit

28. After the audit field work and on the basis of preliminary findings, the Global Fund Secretariat developed action plans to address the key challenges identified by the OIG's audit. Since the OIG oral de-brief in Papua New Guinea in November 2010, the Global Fund took prompt action to address emerging risks arising from the audit findings in relation to:

² PNG CCM Narrative comment to the Draft Report: 'The CCM has addressed this item already and since the OIG audit, RAM resigned as Vice Chair to allay conflict of interest concerns, and a new CCM Vice Chair representing the Government (from the National Department of Health) has been elected, coinciding with the resignation of NDOH as a PR.'

³ PNG CCM narrative response to Draft Audit Report.

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- Invoking the Additional Safeguard Policy⁴ over the PNG portfolio and developing an action plan of detailed safeguards;
- Limitation of disbursements to active grants to only support the continuation of key services like procurement of health products and pharmaceuticals critical to program implementation and public health interests;
- Temporary suspension of local procurement; and
- Termination of the LFA contract with Cardno EM and appointing a new company to offer LFA services.

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

29. Subsequent to the country audit, the NDOH, in a letter to the Global Fund dated 15 April 2011 resigned from its role as the PR for Global Fund supported programs in Papua New Guinea for TB Round 6, declined its nomination as PR for the Phase 2 of Malaria Round 8 and declined its nomination as PR for the Round 10 HIV +HSS proposal. As a result of this, some of the recommendations (related to the NDOH) have been overtaken by events. However, the ethos of these recommendations should be taken into account by the new PRs as they establish their relevant systems. The OIG therefore request the CCM to encourage the new PRs to implement these recommendations when they are clearly applicable.

30. The CCM's newly established PR Oversight Committee oversaw the PR selection process which resulted in the selection of World Vision as the PR for the Round 6 TB grant and Oil Search Ltd for the Round 8 Malaria Phase II and Round 10 HIV/HSS.

31. In response to the draft audit report, the CCM submitted additional documentation relating to unsupported and ineligible expenses to the OIG for further review. The OIG reviewed these documents and took the results into consideration in finalizing the audit report. Of the USD 5,868,321 unsupported and ineligible expenses reported in the initial draft, ineligible expenses of USD 2,775,923 have been removed based on the supporting documents and/or justification provided by the CCM. Annex 4 provides details of the USD 3,092,398 that remained classified as ineligible or unsupported at the time the OIG finalised this report. The CCM had asked for more time to provide further supporting documents. Given that fieldwork on which this report is based took place over 18 months ago, the OIG said that a further extension was not possible. The OIG suggested to the Secretariat that they should enter into a dialogue with the CCM and review any further documentation that emerges. It is for the Secretariat to decide on a cut-off date when recoveries of unsupported expenditure will be sought. Furthermore, some findings from the audit have been referred to the Investigations Unit of the OIG, which is undertaking further work in Papua New Guinea.

⁴ The Additional Safeguard Policy (ASP) is part of this risk-management strategy, which can be invoked in full or in part, based on risks identified in the country where a particular grant or group of grants is being implemented (OPN in Additional Safeguards Policy, February 2008)

MESSAGE FROM THE GENERAL MANAGER



10 YEARS
OF IMPACT

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19 June 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the Audit of the Global Fund grants in Papua New Guinea.

The audit was conducted in October 2010 and covers grants made from 2004 to 2010, worth a total of USD 107 million.

The report identifies significant advances in public health in Papua New Guinea, including a doubling in the number of patients under antiretroviral therapy from 2007 to 2009 and a big increase in voluntary testing and counselling and in the number of testing centres from 52 to 97. It also found that using community health workers to assist nurses and doctors contributed to positive results in TB service delivery.

The audit found weaknesses in grant management and includes an action plan with 40 detailed recommendations for improvements in order to make the grants more effective and a table that shows the status of progress on each recommended action. Steps have already been taken to implement nearly all of the recommendations. The report also notes that the Global Fund took prompt action following the OIG's oral de-brief in Papua New Guinea in November 2010, to address the identified risks.

Annex 4 provides details of USD 3,092,398 that have been classified as ineligible or unsupported spending at the time the OIG finalised this report. The CCM had asked for more time to provide further supporting documents. It should be noted that the CCM was able to produce supporting documentation for USD 2,775,923 for expenses that had originally been classified in the draft audit report as ineligible or unsupported, and that were removed from the OIG's findings upon examination of the provided documentation. As the report notes, the OIG's Investigations Unit is undertaking further work in Papua New Guinea.

Following the completion of the country audit, the National Department of Health resigned as the Principal Recipient for Global Fund-supported programs in Papua New Guinea.

World Vision has since been selected as PR for the Round 6 TB grant and Oil Search Ltd for the Round 8 Malaria Phase II and Round 10 HIV and Health System Strengthening grants.

Audit reports by the Office of the Inspector General are an essential form of quality control for the Global Fund and reflect on the robustness of oversight, both by recipients as well as by, and on behalf of, the Secretariat. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission effectively investing the world's money to save lives.

Yours sincerely

MESSAGE FROM THE COUNTRY COORDINATING MECHANISM

PAPUA NEW GUINEA COUNTRY COORDINATING MECHANISM
The Global Fund to Fight AIDS, Tuberculosis and Malaria

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15 May 2012

Mr John Parsons
Inspector General
The Global Fund to Fight AIDS, Tuberculosis and Malaria
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Dear Mr Parsons

The OIG Audit Report on Papua New Guinea: Statement from the CCM

On behalf of the CCM, I would like to thank you and the OIG team for the comprehensive audit undertaken of Global Fund grants in Papua New Guinea. The CCM, all Principal Recipients and Sub-Recipients have studied the findings and recommendations carefully. I am pleased to report that action has been taken to implement almost all of the recommendations. We will work closely with the Global Fund Secretariat to resolve any outstanding issues.

We are pleased that the final report of the OIG has taken into account most of the comments made by the CCM and Principal Recipients on the draft report. Nearly all of the inaccuracies we identified have been corrected, and the remedial actions we have taken have been noted.

The Principal Recipients for the grants covered by the Audit have requested the CCM to include the following comments in the CCM response:

"The National Department of Health is grateful to the GFATM for its support in ensuring that Papua New Guineans have access to lifesaving treatment for TB, Malaria and HIV and AIDS. The success of the ITN program and scale-up of HIV testing and treatment have been significant for the country. Although NDOH is no longer a Principal Recipient, NDOH will continue to work closely with the current Principal Recipients to develop and strengthen governance mechanisms and to ensure that all GFATM endorsed grants reflect and implement the national government plans and priorities."

"Population Services International PNG recognizes the areas for improvement that were cited during the audit of its portfolio. PSI has made every effort to rectify the identified deficiencies and to adhere to transparent contractual procedures to ensure that procurement procedures are in line with GF standards."

Rotarians Against Malaria: "All issues mentioned in the OIG draft report as needing action or improvement have been acted upon."

The CCM and Principal Recipients have also taken note of the recommendations regarding Sub-Recipients, most of which are *civil society organisations* that play an important role in augmenting the delivery of services by the Government throughout the country. Major initiatives are being taken by Government, the Principal Recipients and PNG's largest bilateral donor, AusAID to develop the capacity of CSOs, particularly in areas of financial management, organizational planning and development, and human resource management.

The CCM looks forward to ongoing collaboration with the Global Fund to improve health systems and health services in Papua New Guinea.

Yours sincerely



Roslyn Morauta
Chairperson, Country Coordinating Mechanism, Papua New Guinea

INTRODUCTION AND OVERVIEW

Background

32. Papua New Guinea (PNG) is one of the most diverse countries in the world geographically, biologically, linguistically, and culturally. Currently 87% of PNG's people live in rural areas in widely scattered communities that are often inaccessible by road. Health indicators are poor, with average life expectancy at 53 years, an infant mortality rate at 49 per 1000 live births, and a high maternal mortality rate of 733 per 100,000 live births⁵.

33. The leading health problems continue to be communicable diseases, with malaria, tuberculosis, diarrhea diseases and acute respiratory disease being major causes of morbidity and mortality. PNG has a generalized HIV epidemic, driven predominantly by heterosexual transmission.

34. During the audit period, PNG was being guided by its fifth National Health Plan - Health Vision 2001-2010 - which aimed to improve the health of all Papua New Guineans, through the development of a health system that is responsive, effective, affordable, and accessible to the majority of the people. Specific priorities include that the majority have access to quality basic health services, family health with a focus on women's and children's health and elimination, eradication and control of priority diseases.

35. The Government of PNG launched its vision 2050 in 2010, for PNG to "be a Smart, Wise, Fair, Healthy and Happy Society by 2050". The PNG Development Strategic Plan 2010-2030 has also been released and will have an important impact on all sectors. To realize the two strategies, the strategy for the health sector for the next 20-40 years is to transform the current health service delivery system. The Government of PNG launched the National Health Plan 2011-2020 "Back to Basics" in August 2010, which aims to strengthen primary health care and improve service delivery to the rural majority and the urban disadvantaged.

Objectives of the audit

36. As part of its work plan in 2010, the Office of Inspector General (OIG) carried out an audit of Global Fund grants to PNG, to assess whether grants had been used wisely to save lives in PNG, and to:

- Assess efficiency and effectiveness in the management and operations of grants;
- Assess 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 the relevant laws of the country;
- Identify any other risks to which the Global Fund grants may be exposed; and
- Make recommendations to strengthen the management of Global Fund grants in PNG.

37. The OIG deployed a multi-skill team comprising audit specialists, a procurement and supply management specialist, and a public health specialist.

⁵http://www.who.int/countryfocus/cooperation_strategy/ccs_png_en.pdf

Audit of Global Fund Grants to Papua New Guinea

38. Total approved funding to PNG amounted to over USD 107 million, with disbursements at the time of audit amounting to USD 66 million. The Round 10 HIV/AIDS grant was just signed at the time the report was finalized, for which USD 23 million has been approved by the Global Fund Board for the Phase 1 Round 10 HIV/AIDS program in December 2010.

Grant type	Round	Principal Recipient	Grant	Amount committed USD	Disbursement (USD)	Status
Malaria	3	NDOH	PNG-304-G01-M	20,105,690	17,051,813	Closed ⁶
	8	NDOH	PNG-809-G04-M	20,949,246	9,920,349	Phase I
	8	RAM	PNG-809-G06-M	23,112,615	13,967,238	Phase I
	8	PSI	PNG-809-G05-M	6,373,170	2,584,059	Phase I
HIV/AIDS	4	NDOH	PNG-405-G02-H	17,552,150	14,157,579 ⁷	Phase II ⁸
TB	6	NDOH	PNG-607-G03-T	19,193,202	8,143,112	Phase II
Grand Total *				107,286,073	65,824,150	

(Source Global Fund Web Site, August 2010)

* As of 14 July 2011, total amount committed was USD 128,673,879 which included the approved Round 10 HIV/AIDS grant. The total disbursement was USD 72,430,184.

Scope and methodology

39. The OIG audit covered all grants to PNG since the inception of the Global Fund-supported programs to the date of the audit. It covered the key players involved in the management and operations of grant programs: Principal Recipients (PRs), sub-recipients (SRs), the Country Coordinating Mechanism (CCM) and the Local Fund Agent (LFA). The OIG audit fieldwork approach covered data collection, interview with related stakeholders, review of documentation, direct observation; control and substantive test and field visits to project sites. The substantive procedures were followed for high risk area with a representative sample (between 20 to 40 %) of the audit population.

40. Until 2008, the National Department of Health (NDOH) was the single PR since the start of grant aid in PNG. Since 2009, two additional PRs (Population Services International (PSI) and Rotary Against Malaria (RAM)) have been selected with the NDOH for the implementation of Round 8 Malaria.

41. The PRs contracted 17 sub-recipients to implement programs involving some of USD 12

⁶ Round 3 Malaria Grant has ended on 31 July 2009 and is awaiting formal closure from the Global Fund.

⁷ In addition to this, an amount of USD 23 million has been approved by the Global Fund Board for Round 10 HIV/AIDS, unsigned grant.

⁸ Phase II of the Grant has ended on 31 Aug 2010. The Global Fund Board has approved funding for extension of the Grant through Continuity of Services (CoS), however, given sufficient government resources, the CCM officially informed the Global Fund that there was no more need for signing the COS agreement.

million or 19% of the funds disbursed to the country. The OIG's audit covered five of the 17 SRs, World Vision, Hope World Wide, the National Catholic AIDS Office, the World Health Organization and Jane Thomason & Associates International, selected on the basis of materiality in terms of amounts disbursed.

Audit scope limitation

42. Some relevant documentation was not available for audit review by the OIG, as detailed later in this report. To ensure sound financial and management practice, the LFA should follow up these cases during its regular review of grant implementation.

43. Professional internal audit standards require that audit activity must evaluate the potential for fraud and how the organization manages fraud risk. Fraud risks identified during the audit have been passed to the OIG's Investigation Unit for follow up.

Recommendations

44. This report presents a total of 40 recommendations, set out in context in the main body of the report and listed for convenience at Annexure 1. The OIG's audit recommendations have been prioritized as follows:

- High Priority recommendations - issues of material concern, fundamental control weakness or non-compliance which, if not effectively managed, present material risk and which may be highly detrimental to the organization's interests and the achievement of aims and objectives. These recommendations require immediate attention by senior management.
- Significant recommendations - control weaknesses or non-compliance which present significant risk and where management attention is required to remedy the situation within a reasonable period of time.

The report

45. After a commentary on the overall control environment in which programs are implemented, audit findings in this report are presented by Principal Recipient and within each PR by functional areas, relating as appropriate to compliance with grant agreements, financial management, program asset management, human resources matters, sub grant management and procurement and supply chain management; plus specific observations relating to service delivery and grant oversight.

OVERALL CONTROL ENVIRONMENT

47. This section of the report presents findings in relation to the general control environment within which program implementation has been taken forward.

Compliance with Grant Agreements

48. The OIG's review of terms and conditions stipulated in the Grant agreement revealed common instances of non-compliance with the terms of the grant agreement:

- Documented evidence of communicating tax exemption status to the Global Fund within 90 days of the program start date was not available (in the case of the Round 3 Malaria grant, taking three years, and for Round 8 Malaria not occurring until the OIG's audit). According to Global Fund Secretariat, the initial communication with regard to the tax exemption was communicated to the Global Fund by all three Round 8 Malaria PRs (NDOH, PSI and RAM) in March 2010;
- The sub-recipient audit plan not being submitted to the Global Fund within the prescribed period of six months from the commencement of the grant; and

49. The OIG identified many instances where Progress Update and Disbursement Requests (PU/DR reports) had not been submitted to the Global Fund within the required period of 45 days from the end of the reporting quarter, noting delays ranging up to 211 days, or in average of 91 days of 19 selected samples.

50. The OIG's audit also revealed instances where expenses relating to other donors had been paid using Global Fund grant money. In the case of NDOH, including one instance amounting to USD 11,575 (PGK 29,527.47) and 25 instances amounting to USD 68,924 (PGK 175,825) and in the case of PSI, USD 154,098 subsequently reclassified and reversed by the PR, although with a consequential exchange loss of USD 2,844. The PR refunded this amount to the Program at OIG's request.

51. None of the PRs were monitoring the total amount of Goods and Services Tax paid by them using program funds, and therefore were unable to ascertain the total amount of GST which should be reimbursed to the grant, although the OIG's review of a sample of PR's expenses revealed instances where GST had been paid using grant funds: five instances amounting to USD 43,579 (PGK 111,171) from Round 3 Malaria and Round 4 HIV/ AIDS grants, by the National Department of Health to pay GST on purchase of goods and services; USD 23,692 (PGK 60,439) paid for GST by Rotary Against Malaria; and USD 11,955 (PGK 30,496) paid for GST by Population Services International during August and September 2010. The initial communication with regard to the tax exemption has been communicated to the Global Fund by all three Round 8 Malaria PRs (NDOH, PSI and RAM). The OIG is of the opinion that, as per the grant agreements, the guiding principle is that the Global Fund grant programs are intended to be free from taxation, so that all of the grant funds provided by the Global Fund shall contribute directly to the treatment and prevention of the three diseases in the Host Country. Therefore, efforts to obtain the tax exemption should be continued by the Global Fund Secretariat and the PRs.

52. Subsequent to the audit, the CCM had informed OIG that PSI has been granted exemption from payment of GST on the purchase of goods or services in March 2011 (with certain exceptions). In addition, PSI has identified the total GST amount charged to the Global Fund grants so far and reversed it from the program. This amount has been re-classified and accounted for as an amount recoverable from the PNG's Internal Revenue Commission.

Recommendation 1 - High Priority

Principal Recipients should comply with all conditions stipulated in grant agreements and in particular should ensure that all financial reports, required information and supporting documents, and audit reports are submitted to the Global Fund on time.

Recommendation 2 - High Priority

To achieve an acceptable level of internal control:

- (a) Principal Recipients should ensure that grant funds are used solely for program purposes and consistent with the requirements of grant agreements;*
- (b) The Global Fund Secretariat should discuss with the Government of PNG the possibility of requesting refund to the programs of the amount of grant funds utilized by Global Fund supported programs to pay Goods and Services Tax;*
- (c) PRs should make efforts to obtain an exemption from payment of taxes and duties on purchase of goods and services under the Global Fund grants; and*
- (d) Other donor charges and expenses should be reviewed to identify improper charges for reimbursement to the program.*

Furthermore, the expenses relating to the programs of other donors amounting to USD 80,499 should be reimbursed to the program.

Financial Management

53. The OIG identified a series of deficiencies in financial management procedures and practice relating to the documentation of policies and guidelines; the effectiveness of control over accounting software; segregation of duties; budget monitoring; the monitoring of program advances; control of treasury operations; proof of delivery; and the adequacy of supporting documentation.

54. Neither the National Department of Health nor Rotary Against Malaria had documented policies, procedures or guidelines in place to guide staff in reviewing and approving expenses and implementing the program for some key processes. In particular, the OIG noted an absence of documented policies for: budget monitoring and management reporting; SR selection; recording foreign currency transactions (a single exchange rate had been used for recording US dollar transactions from 2004 to 2009); vehicle management, such as vehicle log books and the allocation of fuel and repair and maintenance costs based on vehicle usage by other programs; and supporting documentation to be maintained for each type of transaction.

55. Rotary Against Malaria failed to document key policies in relation to financial accounting, such as: accounting policies, accrued expenses, payment processing and documentation to be maintained for the each type of transaction; budget monitoring and management reporting; asset management (preparing and maintaining fixed assets registers, physical counts, asset disposal, vehicle usage monitoring, and transfer of assets); the allocation of shared or indirect costs; and monthly financial closure of the books of account.

Recommendation 3 - High Priority

To improve accounting practice and support an adequate level of internal control, the PRs should document all basic policies procedures and communicate them to the employees involved in the review and approval of expenses and implementation of program activities.

56. The accounting software used by the PRs lacked essential features and controls necessary to facilitate accurate recording and reporting of program expenses. The accounting software:
- i. Did not facilitate the review of transactions prior to posting to the ledgers;
 - ii. Did not match vendor invoices with payments and goods received;
 - iii. Did not automatically generate unique transaction numbers;
 - iv. Assigned reference numbers to vouchers which did not match with entries in the accounting system;
 - v. Did not have controls to prevent the processing of duplicate payments; and
 - vi. Was based on manually-input spreadsheet records which were liable to error and vulnerable to unauthorized changes. For example NDOH in four instances made payments exceeding PO value to a value of USD 2,481 (PGK 6,330). (Round 3, Malaria Grant and Round 4, HIV/AIDS Grant).

Recommendation 4 - Priority Significant

- (a) *To strengthen internal control over the recording of financial information, Principal Recipients should explore the possibility of enabling all appropriate features and controls available in accounting software necessary to facilitate accurate recording and reporting of program expenses.*
- (b) *Expenses (USD 2,481) in excess of PO value should be reimbursed to the Program. Any other similar cases should be identified and reimbursement made.*

57. The OIG identified instances at NDOH where incompatible duties were being carried out by finance staff of the Principal Recipient, such as the same person being responsible for the recording of expenses, processing vendor payments and custody of blank checks. The Fixed Asset Register was maintained by the respective Program teams who also had custody of Program assets; and at PSI, a business operations director prepared bank reconciliation statements whilst being a signatory to the bank account with administrator rights to the accounting system.

Recommendation 5 - High Priority

PRs should ensure adequate segregation of duties by reassigning existing roles and responsibilities wherever appropriate.

58. PRs had no formal processes in place to carry out a periodic review of actual expenses, identify variances between actual and budgeted expenses, and obtain reasons for variances from the relevant personnel involved in implementing program activities. No independent review of transactions was being performed to ensure that expenses were matched with correct budget line items.

59. The OIG's review of the budget monitoring procedures at the National Department of Health showed that:
- i. The review of expenditure against budget was only performed for the purposes of enhanced financial reporting and that budgeted and actual expenses were compared at the Service Delivery Area (SDA) level rather than for each activity budgeted under the SDAs;
 - ii. the description of program activities included in annual activity plans did not match with detailed work plans;
 - iii. no documented evidence was available for review of AAPs entered in the accounting software to ensure accuracy and completeness of budgets;
 - iv. no system was in place to monitor changes to the AAP entered in the accounting software; and

- v. the Principal Recipient did not maintain a central repository of budgets approved by the Global Fund (multiple versions of the grant budgets for Round 4 HIV/AIDS and Round 6 TB grants had been used to monitor program activities).
60. Review of a sample of expenses during the grant period revealed budget overruns and unbudgeted expenses, such as:
- i. NDOH: 12 instances of unbudgeted purchases or expenses amounting to USD 93,392 (PGK 238,248) charged to the grant;
 - ii. RAM: four instances of unbudgeted purchases of assets amounting to USD 9,676. The total value of purchases was within the budgeted amount; however the total number of units purchased by the PR was in excess of the budgeted units.
 - iii. NDOH: six instances where expenses had been incurred in excess of the budgeted amount (the purchase of three vehicles under the Round 6 TB grant for USD 80,422 against an approved budget of USD 66,000; and
 - iv. NDOH: three instances of expenses incurred in excess of the allocated budget amounting to USD 9,603 (PGK 24,497).
61. The OIG review of budget monitoring procedures at PSI highlighted one instance where expenses amounting to USD 62,457 pertaining to Human Resources and Planning & Administration were incorrectly reported under Technical Assistance budget head.

Recommendation 6 - High Priority

- (a) *Given that in some instances, multiple versions of the annual grant budget were available and there was no mechanism to ensure that a final approved budget was used, the Global Fund Secretariat should establish a mechanism to formalize the process of annual budget approval, for example by signing a final approved budget to be distinguished from a draft annual budget which may have been changed;*
- (b) *PRs should establish a mechanism to facilitate mapping of the Global Fund approved budgets and work plans with approved annual activity plans. (Budgets initially entered in the accounting software should be verified against the approved Annual Activity Plan and any changes made to the budgets in the system thereafter should be periodically verified.) PRs should maintain all budgets approved by the Global Fund in a central repository;*
- (c) *All PRs should define adequate procedures for monitoring actual expenses against the budget approved by the Global Fund at program activity level; and*
- (d) *Expenses should be incurred only in accordance with the approved grant budget, any material deviations being the subject of prior approval from the Country Coordinating Mechanism and the Global Fund. The amount of USD 127,092 should be refunded (NDOH USD 117,416 and RAM USD 9,676).*

62. The OIG found that monitoring of program advances was inadequate. PRs maintained program financial records on a cash basis rather than within an accruals-based accounting system and in consequence, all program advances to employees or vendors were recorded as expenses immediately on disbursement. Program advances were being monitored manually, outside the accounting software. From January 2009, the PR (NDOH) had started tracking program advances outside the accounting software and advances disbursed prior to 2009 had not been monitored. Due to this, the details of actual expenses incurred prior to 2009 were unavailable for audit. The monitoring of advances did not (but should) include advances disbursed to Provincial Offices and sub-recipients for implementing Global Fund activities.

63. For NDOH, as per the Program advance tracking sheet as on October 2010, the total unsettled advances were 1,039,835 (PGK 2,652,640) which comprised of unsettled employee advances for USD 138,782 (PGK 354,035) and unsettled vendor advances for USD 901,053 (PGK 2,298,606). Settlement documents for employee advances amounting to USD 138,782

(PGK 354,035) and vendor advances amounting to USD 448,124 (PGK 1,143,623) were not available for audit inspection. An age analysis revealed that advances amounting to USD 606,098 (PGK 1,546,168) had been outstanding for more than 180 days (of which USD 533,891 had been outstanding for more than 365 days). The OIG noted instances where fresh advances had been disbursed to employees and vendors before liquidation of previous advances; and employee advances amounting to USD 134,704 (PGK 343,632) disbursed during 2010 had not been recorded in program advance tracking sheets.

64. For PSI, in 97 instances out of 149 advances reviewed, fresh advances had been disbursed to employees without liquidating previous advances. Vendor advances were not being monitored and employee advances were not monitored against the expected date of settlement.

Recommendation 7 - High Priority

To reduce the risk of losses due to non-recovery of advance payments:

- (a) *PRs should strengthen the tracking and monitoring procedures for advances. All program advances should be recorded in tracking sheets and be monitored against the expected settlement date.*
- (b) *PRs should ensure that no fresh advances are disbursed prior to settlement of previous advances. In case it is necessary to disburse the fresh advance prior to settlement of previous advance, an exception approval should be obtained from the appropriate authority.*

The balance of unsettled advances (USD 586,906) should be reimbursed to the grant.

65. Effective and consistent bank reconciliations are fundamental to sound financial control. The OIG review of the treasury function and audit of a sample of bank reconciliation statements revealed delays in carrying out reconciliations and a failure to review, and evidence review, of the process.

66. Further, the PRs had not applied appropriate procedures to enable the bank to authenticate wire transfer transactions and confirm the originator, for example by the use of serially numbered authorization letters, callback procedures and so on. None of the PRs had performed any periodic physical count of their blank check inventory; and periodic physical verification of petty cash was not carried out by Rotary Against Malaria or Population Services International.

Recommendation 8 – Priority Significant

To strengthen treasury management, PRs should carry out bank reconciliations on a timely basis; ensure adequate controls over wire transfer authorizations; and improve procedures over the monitoring of blank checks and petty cash.

67. Concerning inadequacy of documentation, the OIG's audit identified instances where payments had been made by the PRs without first obtaining proof of actual delivery of goods or services. In the case of the National Department of Health, the OIG found 19 instances of expenses amounting to USD 166,642 (PGK 425,112) unsupported by adequate proof of delivery of goods or services and 27 instances of advance payments totaling USD 480,052 (PGK 1,224,623) made to vendors, where proof of delivery of goods or services was not available with the PR. In the case of Rotary Against Malaria, the OIG identified 2 cases where expenses amounting to USD 24,859 (PGK 63,416) were unsupported by final vendor invoices and delivery notes for specified services.

68. The audit revealed other instances where payments had been processed by PRs on the basis of inadequate documentation, even though the OIG could confirm delivery of goods or

services purchased by the PRs. For the National Department of Health, the OIG identified 47 instances of expenses amounting to USD 6,583,035 (PGK 16,793,454) which were unsupported by requisite documents such as purchase requisitions, competitive quotes, technical evaluation, purchase orders/contracts or invoices. For Rotary Against Malaria, expenses amounting to USD 19,318 (PGK 49,280) were unsupported by original invoices. In the case of Population Services International, audit review of a sample of expenses revealed four instances where payments totaling USD 15,810 (PGK 40,331) had been made on the basis of pro-forma invoices with no final invoice being obtained from the vendors; and three instances to a value of USD 17,800 (PGK 45,408) where payments had been made on the basis of quotations from vendors.

Recommendation 9 - High Priority

To improve payment process control, PRs should ensure that all payments are processed on the basis of adequate supporting documents and requisite approvals. Proof of delivery of goods or services should be obtained in all cases prior to making payment to the vendor and in case of advance payment, proof of delivery of goods or services should be subsequently obtained and filled along with the payment voucher/expense voucher. All expenses (amounting to USD 671,553 comprised of USD 646,694 for NDOH and USD 24,859 for RAM) in the transactions identified by the OIG that are unsupported by vendor invoices and proof of delivery of goods or services should be reviewed with a view to reimbursement to the program.

Procurement and Asset Management

69. The OIG noted instances of inadequate purchase planning, where program assets had been purchased without assessing actual requirements based on approved work plans and further noted that these assets had not been used by the program for a considerable period of time after purchase. For example, under the Round 4 HIV/AIDS grant, NDOH purchased two vehicles amounting to USD 49,628 from WHO in November 2008 with delivery happening in November 2009 after repeated reminders from the WHO. During this time, these vehicles were parked uninsured and remained unutilized. Another example was under the Round 6 TB grant where eight microscopes amounting to USD 10,356 (PGK 26,418) were purchased during September 2009 and had not been issued to the laboratories at the time of the audit in November 2010. Additionally, Population Services International purchased a vehicle for its provincial office for USD 51,196 in January 2010, but did not take possession until September 2010. These factors resulted in the blockage of grant funds for more than eight months and delay in utilization of the assets for program activities.

70. The audit examination revealed that PRs failed to obtain 'no conflict of interest' statements from the members of the Procurement Committee and the Technical Evaluation Committee to ensure the integrity of procurement decisions.

71. The PRs (NDOH and RAM) did not have any documented guidelines for the monitoring of usage of program vehicles; and the OIG was not provided with any evidence of periodic review by the PR of the usage and maintenance cost of vehicles to ensure that program assets are used solely for program purposes.

72. The OIG also noted that purchases of goods and services had been initiated by Principal Recipients without raising a purchase order (PO), and that goods receipt notes (GRN) were not prepared to evidence receipt of goods and supplies.

73. Although Population Services International's Finance Manual provided for physical verification to be carried out twice a year, the OIG found that PRs did not carry out any periodic

reconciliation of the Fixed Asset Register with program financial records to verify the completeness and accuracy of asset records; and the OIG found no evidence of periodic physical verification of assets being carried out to strengthen control over assets and provide assurance on the existence of assets at various locations. The Fixed Asset Register had not been properly updated with the details of assets purchased under the program.

Recommendation 10 - Priority significant

PRs need to ensure more efficient utilization of grant funds by more effective purchase planning and the purchase of goods and services based on actual program requirements and the observance of basic control procedures.

Recommendation 11 – Priority significant

As a matter of routine good practice, PRs should ensure that appropriate statements and assurances in relation to possible conflicts of interest are obtained from members of the Procurement Committee.

Recommendation 12 - Priority significant

For the improvement of fixed asset management, PRs should ensure that the fixed asset register is reconciled periodically with the program financial records; and should conduct a periodic physical count of assets. The physical verification report should be reviewed and approved by an appropriate authority. The PRs should ensure that the asset register is updated with the details of assets purchased under the program.

Recommendation 13 – Priority significant

To ensure authorized and effective use of program vehicles:

- (a) The PRs (NDOH and RAM) should document guidance on the official usage of vehicles and promulgate these to staff;*
- (b) The PRs should introduce a standard record format or log book to record vehicle trip details, to be kept with the vehicle and form the basis for management supervision of vehicle use.*

NATIONAL DEPARTMENT OF HEALTH

Institutional Arrangements

74. The National Department of Health (NDOH) was the only Principal Recipient (PR) for the Global Fund grants to Papua New Guinea under Round 3 Malaria, Round 4 HIV/ AIDS and Round 6 TB, joined by two further PRs for the Round 8 Malaria grant.

75. Since 2001, PNG has been implementing health reforms under the framework of the Sector Wide Approach (SWAp), which seeks to develop a single programmatic approach for partners to support various health interventions with common implementation and management mechanisms under government leadership. The NDOH has established a Health Sector Improvement Program as an officially recognized government entity to facilitate the implementation of the SWAp and manage grant funds from all development partners. The Global Fund supported programs were administratively and financially included in this SWAp but because of the specific program objectives, program implementation was separately managed.

76. The PR has implemented the Global Fund Grants received during Round 4, 6 and 8 through Sub-Recipients (SRs). A sub-grant agreement was signed with each SR to implement program activities. In the case of the Round 3 Malaria grant, the program was implemented by the PR through its provincial health offices.

Component	Round	Grant number	Number of SRs	Funds disbursed (USD)
HIV/AIDS	4	PNG-405-G02-H	9	2,343,642
Tuberculosis	6	PNG-607-G03-T	6	5,659,671
Malaria	8	PNG-809-G04-M	2	2,414,524

Number of sub-recipients and amount of funds disbursed to 30 September 2010

Compliance with Grant Agreement

77. In addition to the audit observations elaborated in the context of the overall control environment, the OIG's review at the National Department of Health identified a number of instances of non-compliance with the terms of the grant agreement:

- The Procurement and Supply Management (PSM) plan for the Round 4 HIV grant (Phase II) had not been approved by the Global Fund and the PR had made purchases of health products based on the unapproved plan. According to the Global Fund Secretariat, the PSM Plan for Round 4 HIV Phase 2 was not approved partially because of the lack of the PR's capacity to produce a sound plan, and also because of lack of availability of the LFA PSM expert to review the updated draft PSM Plans submitted;
- The OIG was not provided with any evidence to confirm the tax exemption status for the Grant programs for the Round 4 HIV/AIDS, Round 6 TB and Round 8 Malaria grants. As per NDOH, an electronic file copy was provided to the Secretariat team during their in-country visit for grant negotiation. It is thus an oversight of the both the Secretariat and the NDOH that there was no "formal" communication trail for that particular document.
- The OIG was not provided with evidence of submission of sub-recipient audit plans for the Round 4 HIV/AIDS and Round 6 TB grant.

78. The OIG found that the PR did not use appropriate and verifiable source documents when preparing Progress Update and Disbursement Requests (PU/DRs), resulting in incorrect reporting. The OIG review of a sample of PU/DRs revealed:

- 9 instances of unreported program expenses of USD 6,752 (PGK 17,225) (Round 6 TB and Round 8 Malaria grant);
- The PU/DRs for 2009 and 2010 omitted interest income on unutilized program funds. The total interest accrued in a trust account for this period was USD 227,066; and
- The absence of any basis for the OIG to verify the allocation of interest income prior to 2009. Total interest earned prior to 2009 was USD 897,509 and the amount reported in the PU/DR was USD 86,182.

79. The PR is required to provide details of actual expenses incurred by completing an Enhanced Financial Reporting (EFR) to the Global Fund within 45 days of completion of the financial year. The OIG noted that:

- The PR had not prepared and submitted EFRs for 2008.
- No basis for categorizing program expenses into 13 EFR expense line items was available for audit with the PR. (Expenses until 2009 had been allocated based on the percentage of the amount budgeted under each line item; and after 2009, program expenses were being manually identified and allocated across 13 line items based on the nature of the expense.)
- Incorrect budgets had been reported in the EFRs in respect of the Round 3 Malaria and Round 4 HIV/AIDS grant submitted in 2009.

80. The OIG's reconciliation between expenses reported in the latest PU/DR and EFR submitted to the Global Fund and the program's financial records maintained by the PR, highlighted that for Round 3 Malaria, Round 4 HIV/ AIDS and Round 8 Malaria grants, expenses reported in the EFR/PU/DR were less than the expenses brought to account in the program financial records by USD 1,327,541. In the case of the Round 6 TB grant, expenses reported in the EFR were higher than the expenses reflected in the program financial records by USD 262,786.

81. The Round 3 Malaria grant had ended on 31 July 2009, however, the grant close-out report submitted by the PR was not approved by the LFA until the time of the OIG's audit in November 2010; and the total grant expenses reported in the close-out report did not match with the program financial records.

Recommendation 14 - High Priority

To ensure reliability of financial reporting to the Global Fund:

- (a) PU/DRs and EFRs should be prepared in accordance with the requirements specified in the grant agreement and in guidelines issued by the Global Fund;*
- (b) The PR should reconcile expense heads and ledgers to EFR line items to facilitate accurate allocation of expenses, and PU/DRs and EFRs should be prepared using accounting data (such as transactions listings) that facilitate identification of expenses by donor and by program;*
- (c) PU/DRs and EFRs should be reviewed by appropriate personnel to ensure that ineligible expenses are excluded from the report and interest income on the unutilized grant funds is credited to the program; and*
- (d) Grant close-out procedures should be carried out on a timely basis and the LFA should ensure that total interest income attributable to the grant is identified and reported to the Global Fund.*

Financial Management

82. The PR did not have an adequate archiving system in place to support audit verification. The OIG identified expenses amounting to USD 156,683 (PGK 399,702) pertaining to Round 3

Malaria, Round 4 HIV/AIDS and Round 6 TB grants which lacked vouchers or supporting documents for the receipt of goods or services.

83. The PR did not carry out internal audit reviews of the Global Fund grants to assess the efficiency and effectiveness of controls in place to safeguard Global Fund resources. The NDOH informed the OIG that since June 2011, the internal audit function has been strengthened and as a result, a number of suspensions, arrests and charges have been made.

84. The OIG review of a sample of expenses identified 17 instances where CCM expenses were charged to the grant. Funds amounting to USD 14,063 (PGK 35,875) relating to Round 3 Malaria, Round 4 HIV/ AIDS and Round 6 TB grants were used to pay administrative and travelling expenses of the Country Coordinating Mechanism. According to the Global Fund Secretariat, only in 2010 did the PNG CCM apply for and receive funding from the Global Fund. The CCM provided comment that these expenses related to outstanding payment to a company which provided Secretariat services to the CCM in 2006 and 2007.

85. The PR did not have a system in place to track availability of funds by donor in the trust account maintained under the SWAp arrangement. This poses a risk of commingling of funds and use of the Global Funds Grants to fund other donor activities. As per the Country comments, NDOH has now implemented a fund tracking system which requires individual transactions to be coded to a specific funding source. Separate funding sources exist for each Global Fund grant.

86. The PR uses pre-printed check stationery for making bank payments to vendors, employees and sub-recipients. The OIG's review of controls over blank check stationery revealed that blank checks were not recorded in a register; voided checks were not properly recorded; and check numbers used in the accounting software did not match with the numbers pre-printed on the check stationery.

87. Although the PR had an official e-mail server and official e-mail identification had been issued to all PR staff, the OIG noted that most of the PR staff used personal e-mail identities for internal and external correspondence.

Recommendation 15 - High Priority

To improve financial management and accounting to an acceptable level:

- (a) The PR should establish an effective archiving system to ensure that the supporting documents are referenced and retained for management review and audit purposes;*
- (b) Unverified expenses amounting to USD 156,683 for which supporting documents were not provided to the OIG should be reimbursed to the grant;*
- (c) The PR should instigate periodic internal audit reviews of Global Fund grants to strengthen the internal control environment in which programs are implemented;*
- (d) The PR should ensure that grant funds are used solely for program purposes consistent with terms of the grant agreement;*
- (e) The PR should take steps to ensure the accurate identification of expenditure by donor within the accounting system, and establish a mechanism to track funds available under each grant in the trust account;*
- (f) The PR should establish and maintain an effective and secure check register and related records; and*
- (g) The use of private e-mail for official purposes should be stopped.*

Program Asset Management

88. Review of the asset management procedures followed by the NDOH revealed a number of aspects of poor control or management. The PR was using multiple versions of a fixed assets register with different asset details under the Round 4 HIV/AIDS grant; no sign-offs were obtained from users on the issue of program assets; and fixed assets were not tagged with unique identification numbers.

89. The OIG also noted that titles to four program vehicles purchased through the World Health Organization under the Round 3 Malaria grant had not been transferred to the name of the PR. Program assets other than vehicles under the Round 6 TB grant had not been insured by the PR; and the PR had not obtained Annual Maintenance Contract arrangements for assets such as computers and printers when warranty periods had expired.

90. Under the grant agreement, the PR is solely liable for loss or theft of, or damage to, any and all items purchased with grant funds and should replace such items at its own expense. The OIG identified instances where stolen program assets had not been reimbursed to the program:

- A vehicle under the Round 6 TB grant valued at USD 30,110 which had been stolen in 2008 but not reimbursed to the program, although the PR had purchased five new vehicles from grant funds in the subsequent year without replacing the stolen vehicle; and
- Five instances involving assets valued at USD 15,037 stolen from the office but not replaced by the PR. The PR had not informed the Global Fund of the theft and a police report was filed for only one of the stolen assets.
- NDOH commented that the Global Fund Secretariat has reduced one of the Round 6 TB Grant disbursements with the amount of the vehicle that was stolen. NDOH undertakes to replace stolen assets in line with the internal policies regarding this. Furthermore, asset verification is being carried out as part of the new-PR transition process and efforts will be made to secure replacement assets for those stolen.

Recommendation 16 – Priority significant

To ensure more effective management of tangible assets:

- (a) Program assets should be tagged with unique item numbers appropriately referenced in the asset register and individual sign offs should be obtained to evidence transfer to the users of program assets;*
- (b) The PR should ensure that valid legal title to program vehicles is held in the name of the PR, and appropriate insurance cover obtained for critical and high value assets; and*
- (c) Steps should be taken to ensure that appropriate action is taken in all cases of loss or theft.*

Stolen assets amounting to USD 45,147 (USD 30,110 and USD 15,037) should be replaced by the PR.

Human Resources

91. The human resource (HR) and payroll function of the Principal Recipient was outsourced to a third party payroll vendor who was responsible for hiring program staff, maintaining an employee database, payroll processing and disbursement. The OIG's review of controls over HR and payroll processing functions, however, showed that:

- The PR had not carried out adequate monitoring to verify that payments to program staff were in accordance with the terms of the payroll agreement (formally known as Direction of Service). In this regard, the PR did not have access to employment contracts or to employee master and fortnightly payroll movement reports maintained by the payroll

vendor; did not review quarterly reconciliation reports to verify the accuracy of the balance of funds in the imprest account; and did not follow up with the payroll vendor on timely submission of payroll reports.

- The basis for computation of the management fee paid to the payroll vendor was not defined in the relevant agreement. The OIG noted that the PR had paid the management fee of USD 57,061 (PGK 145,566) in excess of the management fee computed based on actual salaries and allowances paid to the employees during June 2007 to March 2010.
- The payroll agreement with the vendor was governed by the law of Queensland, Australia. The agreement did not include a clause on audit rights or provision for access to payroll records.

92. The OIG's review of 25 employee selection documents, employment contracts and payroll payments made by the vendor identified the following:

- In the case of four employees, selection documents had not been signed off by all three members of the selection panel (and for two employees, the selection documents were not available from the payroll vendor); and
- In one instance a monthly payroll payment of USD 4,622 (PGK 11,790) for the month of November 2005 was not supported by employee timesheets, bank transfer documents and employee salary slips.

Recommendation 17 – Priority significant

To strengthen internal control over the payroll system:

- a) The PR should strengthen controls over payroll processing by the third party vendor by establishing a monitoring process. The PR should review all monthly reports to ensure accuracy of payroll processed and paid to employees;*
- b) The existing payroll agreement with the vendor should be reviewed with a view to incorporating necessary clauses for safeguarding the PR's interests; and*
- c) The PR should ensure that the final selection of an employee is signed off by all panelists, to ensure that all selection criteria have been met.*

The following amounts should be reimbursed to the Program: (i) Management fees amounting to USD 57,061 paid on unpaid salaries and allowances; and (ii) Payment of USD 4,622 to the payroll vendor not supported with necessary documents.

Provincial Health Office visits

93. The PR had implemented program activities through 19 provincial health offices. The OIG visited two provincial offices, for the Central Province and the Western Highlands, and noted that:

- No check register was maintained at the Central Province office to record details of checks issued to vendors and employees.
- Advances to vendors and employees were not recorded or monitored (Central province and Western Highlands).
- The Western Highlands Province had lost all financial records prior to June 2010 during a robbery. The Provincial Office did not maintain any backup of accounting data or records kept electronically. The OIG also noted that:
 - No bank reconciliation statements were available for the period after June 2010;
 - No fixed asset register was kept;

- Vendor invoices and other supporting documents were not cancelled as 'Paid' to reduce the possibility of duplicate processing of invoices; and
- Checks were not crossed and stamped as 'Not negotiable'.

94. The OIG's review of program expenses incurred at provincial offices revealed nine instances relating to Round 3 Malaria Grant expenses of USD 42,035 (PGK 107,233) charged to the program in excess of the approved budget (Central Province); and three instances of expenses incurred for repair and maintenance by the Central province on non-Global Fund vehicles amounting to USD 3,137 (PGK 8,004) and charged to Round 3 Malaria Grant.

Recommendation 18 – Priority significant

To improve internal control at provincial health offices:

- (a) The provincial offices should maintain a check register to record the details of checks issued to the employees or vendors; and should establish an advances monitoring system at each office.*
- (b) Effective backup of financial and programmatic data should be carried out on a regular basis.*
- (c) Provincial offices should prepare bank reconciliation statements on a prompt and regular basis; and maintain an asset register for proper tracking and monitoring of fixed assets.*
- (d) Vendor invoices and other supporting documents should be cancelled and stamped as 'Paid' after processing payments to avoid duplicate processing and checks should be crossed as 'Not negotiable'.*

The expenses (USD 42,035) in excess of the approved budget should be reimbursed to the Program.

Financial Management of Sub-Recipients

95. The PR has implemented Global Fund grants received during Rounds 4, 6 and 8 through 17 Sub-Recipients (SRs). Program activities were implemented through nine SRs under Round 4 HIV/AIDS; six SRs under Round 6 tuberculosis; and two SRs under Round 8 Malaria. A total disbursement of some USD 10,417,837 was made to SRs from grant funds.

96. The OIG review of the process of awarding sub grants and monitoring the performance of Sub-Recipients revealed the following:

- No documented evidence was available to the OIG of any assessment of SRs' capacity to implement the program activities in Round 4 HIV/AIDS and Round 6 TB grants.
- In five instances, the duration of sub-grant agreements under the Round 4 HIV/AIDS grant was longer than the grant agreement itself by one month.
- There was no mechanism in place to monitor timely submission of financial reports and audit reports by the SRs as required by the sub-grant agreement. The OIG noted six instances under the Round 6 TB grant where quarterly financial reports had been submitted with delays ranging from 9 to 156 days; and six instances where quarterly financial reports had not been submitted by the SRs.
- Goods and Services Tax had been charged to sub grants by the National Catholic AIDS Office (NCAO), Jane Thomason & Associates (JTAI) and World Vision (WV), contrary to the terms of the sub-grant agreement. A total of USD 7,437 (PGK 18,973) was charged by NCAO to Round 4 HIV/AIDS Sub Grant; USD 18,522 (PGK 47,259) was charged by JTAI to Round 6 TB Sub Grants and In case of WV, the amount of GST charged to the Grant was not separately recorded in the Program financial records. The SR, however, confirmed

that the amount of GST not reimbursed to the Grant amounted to USD 11,766. Subsequent to the audit, OIG was informed that World Vision has received GST refund amounting to USD 13,757 (PGK 35,095) from Internal Revenue Commission in July 2011 and this amount has been credited to the program; and

- In one instance, the PR had permitted World Vision to charge unbudgeted management costs amounting to USD 119,880 to the Round 6 TB sub grant without amending the budget.

97. The PR did not verify whether total funds disbursed to SRs were within the approved sub grant budget before making subsequent disbursements, and the OIG noted three instances where the PR had made disbursements in excess of the approved sub grant budget for USD 154,235; eight instances where funds had been disbursed to the SRs with delays ranging from 25 to 398 days from the date of the SR's fund request or grant signing date; one instance where the PR had continuously disbursed funds to the National Catholic AIDS Office under the Round 4 HIV/AIDS sub grant without receiving any formal request for funds between 2006 and 2010; and two instances where sub grant funds had been disbursed to a sister concern of the NCAO under the Round 4 HIV/AIDS sub grant (although the sister concerned had transferred these disbursements to the Sub-Recipient's account). In the case of Hope World Wide, the excess disbursement amounting to USD 39,200 was, however, returned to the Health Sector Improvement Program (HSIP) Secretariat after a delay of six months from the date of disbursement.

98. The Health Sector Improvement Program Secretariat is required to review the financial records of each SR prior to recommending subsequent disbursement of funds to the SR. The OIG's review of the procedures carried out by the HSIP Secretariat highlighted the following:

- There was no mechanism in place to track the amount of advances outstanding with SRs.
- In three instances, the OIG found that funds amounting to USD 1,481,265 (PGK 3,778,738) disbursed to SRs were not supported by any evidence of review by the HSIP Secretariat.
- The review of SR financial reports had been performed by the HSIP Secretariat when 60% of sub grant funds had been utilized. The OIG noted that this criterion had not been communicated to the SRs, which can result in the submission of financial reports only at the end of each quarter rather than when the 60% threshold is reached (with the risk of delay in the disbursement of funds to the SR).
- The OIG noted delays in review of SR financial records by the HSIP Secretariat due to shortage of staff, which resulted in delay in the disbursement of funds to SRs.
- In one instance, expenses amounting to USD 55,146 (PGK 140,678) had been rejected by the HSIP Secretariat during their review of financial reporting in 2008 under Round 4 HIV/AIDS, but this was not communicated to the SR. Since the SR was unaware of the rejections, these expenses remained unreversed in the SR's program records.

99. The PR maintained no central repository of SR-related documents such as signed agreements, approved budgets and progress reports (financial and program reports). The World Health Organization is a Sub-Recipient under the Round 6 TB grant and the OIG review of the sub grant arrangement with the SR highlighted instances where the terms of the SR agreement did not align with the PR's agreement with the Global Fund. The OIG was not allowed access to the program financial records maintained by the SR, nor provided with the basis of release of subsequent tranches of funds, when there was no documented evidence of liquidation of previous advances by the SR.

100. The OIG's review further highlighted the following:

- Due to changes in the WHO management system, the PR had transferred some budget line items/indicators in the WHO workplan to other SRs under the Round 6 TB Grant; and
- The OIG was unable to find evidence of review of the SR's financial records by the Health Sector Improvement Program Secretariat.

Recommendation 19 - High Priority

To improve management and oversight of Sub-Recipients:

- The PR should maintain records documenting in detail the results of assessments of the capacity of existing and potential SRs; and strengthen the existing monitoring arrangements for effective monitoring of expenses charged by the SR and their performance. Ineligible expenses should not be charged to the sub grant.*
- The PR should maintain a central repository of all SR-related documents. Sub-grant agreements should be consistent with the overall grant agreement and the duration of sub-grant agreements should not exceed the term of the grant agreement. Sub-grant agreements should be supported by detailed budgets against which SRs can be held accountable.*
- The PR should establish effective arrangements to monitor the funds disbursed to SRs and the amounts liquidated by them. The PR should ensure that disbursements are not made prior to liquidation of previous advances and total disbursements should not exceed the budgeted amounts.*
- The PR should review the existing Sub-Recipient arrangement with WHO, keeping in view the fact that the WHO is guided by its internal accounting and auditing arrangements and may not be able to comply with the accounting, auditing and reporting requirements which are applicable to other SRs under the grant. Acknowledging the important role of WHO to the Global Fund program implementation, there is a need for Global Fund Secretariat to develop an agreement/template considering compliance to the rules and regulation of both organizations.*
- PRs should make efforts to obtain an exemption from payment of taxes and duties on purchase of goods and services under the Global fund Grants.*

The excess disbursement of USD 154,235 made to the SR should be reimbursed to the program.

Sub Recipient Visits

101. The OIG carried out audit visits to five Sub-Recipient organizations in PNG.

Component	Grant Round	Sub Recipient	Funds disbursed (USD)
HIV/AIDS	4	Catholic Health Services	947,454
HIV/AIDS	4	Hope World Wide	368,686
Tuberculosis	6	World Vision International	2,281,951
Tuberculosis	6	World Health Organization (WHO)	1,949,814
Tuberculosis	6	JTAI	923,388
Total			6,471,293

Sub-Recipients visited by the OIG

102. The OIG noted instances of non-compliance with the sub-grant agreement and weaknesses in SRs' financial management systems. The SRs did not monitor the approved detailed budget and actual expenses on a periodic basis to identify instances of unbudgeted expenses or budget overruns and the OIG identified instances of unbudgeted expenditures and budget overruns. The OIG also noted that bank reconciliations were not prepared by one SR; instances where expenses were not supported by vendor invoices and proof of delivery of goods; instances of unexplained sole source procurement; weak controls over program assets; and a failure by some SRs to carry out month-on-month payroll reconciliations.

103. Detailed findings from visits to Sub-Recipients are set out at Annexure 3 to this report.

Recommendation 20 - High Priority

To improve SRs' financial management performance:

- (a) *SRs should carry out periodic internal audit review of sub grants to strengthen the internal control environment in which they operate;*
- (b) *SRs should comply with the conditions stipulated in sub-grant agreements, including requirements for the submission of reports;*
- (c) *SRs should follow generally accepted accounting practices for the recording of income and expenditure. Necessary policies and procedures should be defined and circulated to employees involved in implementation of the sub grants;*
- (d) *SRs should define appropriate procedures for monitoring expenses against the budgets approved by the PRs, including arrangements and responsibilities for identifying the reasons for variances and verifying accuracy of the reported information;*
- (e) *Expenses should be incurred in conformity with the approved sub-grant budget and in case of any deviation, prior approval should be obtained from the PR;*
- (f) *Checks should be signed by at least two authorized bank signatories and bank reconciliations should be prepared on a monthly basis and reviewed by an independent person;*
- (g) *Invoices should be cancelled as 'Paid' after payment processing;*
- (h) *Disbursement and settlement of advances should be closely monitored ;*
- (i) *SRs should tag appropriate assets with a unique identification number and details of assets should be recorded in the fixed assets register. The SR should carry out physical verification of program assets on periodic basis;*
- (j) *Where appropriate, annual maintenance contracts for critical assets should be established once manufacturers' warranty periods are over;*
- (k) *Month-on-month payroll reconciliations should be prepared by the SR to identify significant variations, if any, in payroll related payments;*

- (l) *SRs should retain appropriate documentation for all staff-related payments made to dioceses; and*
- (m) *SRs should establish a process for preparing and using purchase requisitions, purchase orders and goods received notes; and should ensure segregation of duties to improve control and reduce risk.*
- (n) *Expenses should be incurred in line with the approved Sub Grant budget. In case of any deviation, a prior approval should be obtained from the PR as required.*

The following amounts should be reimbursed to the Grant (see Annexure 3).

- *Unbudgeted expenses for total of USD 219,390 (NCAO for USD 40,688 (PGK 103,796), JTAI for USD 865 (PGK 2,206); and Budget overruns of USD 177,837 (PGK 453,667) by NCAO;*
- *Unsupported payroll expenses by HWW, amounting to USD 74,715 (PGK 190,599);*
- *Unsupported vendor invoices or proof of delivery for total of USD 78,013 (PGK 199,012 consisted of HWW for USD 15,286 (PGK 38,995), NCAO for USD 54,125 (PGK 138,074) and JTAI for USD 8,602 (PGK 199,012); and*
- *Absence of supporting documents for USD 16,295 (PGK 41,570) for HWW.*

Procurement and Supply Chain Management

104. Given the lack of pharmaceutical procurement capacity in the Principal Recipient, major procurements (with the exception of LLINs) have been undertaken with the assistance of international agencies such as UNICEF and WHO, with proven procurement capacity and detailed policies, procedures and systems which are generally considered acceptable. LLINs were procured through Rotary Against Malaria from approved suppliers.

105. None of the drugs used in the Global Fund's TB, malaria and HIV programs, except for Artesunate tablets and artemether injections, were on the national approved drug list/catalogue. To enable these drugs to be under the government umbrella from a sustainability point of view, it is highly desirable that all these drugs appear on the national Essential Medicines List /catalogue. OIG was informed by the Global Fund Secretariat that a workshop to validate the updated Essential Medicines List and National Formulary was scheduled for May 2011 with the participation of the WHO/Essential Medicines Advisor.

106. Serious deficiencies and inaccuracies have been reported in forecasting due to irregular data from stores and health facilities, leading to very frequent stock outs, near stock outs and expiry of drugs. Another factor is the geographical situation where the most of population live in rural areas in widely scattered communities that are often inaccessible by road.

107. Poor reporting of consumption and requisitions was leading to inaccurate estimating, coupled with the fact that staff at health facilities were not sufficiently skilled in inventory management. The OIG noted that, generally, no store records of receipts and issues were kept at clinics in health facilities. Clinics which maintained records reflected many anomalies with respect to book keeping, records and physical stock. Discrepancies noticed during physical verification were ignored and inaccurate balances were carried forward. Physical stock checks were only carried out at the time of sending requisitions for fresh supplies.

Recommendation 21 - High Priority

The National Department of Health should take appropriate steps to:

- (a) *Improve the quality of input data used for quantifying drug needs, by introducing standardized stock records in health facilities, regular monitoring and coaching of health facility pharmacies, ensuring that health facility data on drugs and medical supplies are transmitted timely and accurately to the intermediate level, and ensuring timely*

transmission of data from the intermediate to the national level with cross checking of data;

- (b) Improve the tools used in the quantification of drug requirements, by including information such as past and current numbers of patients, the expected growth in the number of patients, shelf life and required buffer stocks based on estimated lead times and stock in hand. The quantification tool should be validated by an independent organization; and*
- (c) Carry out a complete review of forecasting techniques and methods. Periodic review and monitoring of stock records at Area Medical Stores as well as Health Facilities is required to ensure a degree of accuracy in forecasting. There is a need to provide adequate training in inventory management at health facilities and stores. Examples of good inventory management systems like the HIV Heduru Clinic should be replicated.*

108. Since major procurement has been undertaken with the involvement of other agencies such as UNICEF and WHO, with correspondingly longer lead times of on average approximately 6 months, there have been emergency situations resulting in local procurement, often on a single source basis at highly unreasonable prices.

109. Most of the local procurement has been done by the respective program managers. Prices are invited by fax or e-mail, or by visiting local vendors. There are no technical specialists for evaluating the specifications and tender submissions. Polyester LLINs had been subject to a single source award for the duration of the Malaria Round 3 program, over some 5 years.

Recommendation 22 - High Priority

The OIG considers there would be merit in establishing an independent procurement committee to strengthen the purchasing activities of the National Department of Health, to collaborate with other health partners' procurement units to share good practices and price information, and to adopt good tendering practices to obtain improved value for money through transparent and competitive bidding.

110. Review of the PR's existing procurement processes revealed that the following requirements listed in the grant agreement and the Global Fund procurement guidelines were not being followed:

- The PR did not maintain a purchase register to record relevant details of purchases, such as requisition details, purchase order/contract references, confirmation of satisfactory receipt, and payments made to suppliers;
- In three instances amounting to USD 1,150,600 under the Round 3 Malaria grant, purchase requisitions were created after the date of payment and receipt of goods. No tender documents were available to support the vendor selection process;
- The PR failed to report on prices and quality for Long Lasting Insecticide Treated Nets through the Price and Quality Reporting (PQR) mechanism on the Global Fund's website. (The LFA is required to review and verify accuracy of purchase data entered by the PR in the PQR on a sample basis); and
- There was no evidence of monitoring or periodic evaluation of the performance of suppliers in relation to the quality of goods and services supplied.

Recommendation 23 – Priority significant

- (a) The PR should maintain a purchase register to record all purchases made under the program and keep detailed records indicating receipt and use of goods and services, the nature and extent of solicitations of prospective suppliers of goods and services acquired, and the basis of award of contracts and orders;*
- (b) The PR should conduct periodic evaluations of vendors based on defined parameters; and*

- (c) *The PR should periodically report on the price and quality of health products procured under the program through the Global Fund's website. The LFA should regularly verify details uploaded on the PQR information system.*

111. Procurement and distribution of long-lasting insecticide-treated bed nets (LLINs) to district offices during the Round 3 Malaria grant was outsourced to Rotary Against Malaria (RAM), a division of the Rotary Club, Port Moresby. District offices were responsible for distributing LLINs to the beneficiaries (households). The OIG's review of bed net distribution procedures showed that:

- The PR had not established any process for monitoring LLINs purchased by RAM, dispatched to district offices and distributed to the beneficiaries. The PR had not reconciled quantities of LLINs received by the district offices and the quantity of nets distributed to each household under the program.
- The OIG reviewed the total quantity of LLINs purchased by RAM under Round 3 and reconciled it with delivery notes available with RAM. The OIG found no supporting delivery notes for 28,412 bed nets amounting to USD 120,723 in value.
- Acknowledgments slips confirming the number of LLINs received from RAM under Round 3 Malaria grant were not provided by 9 of 85 districts.
- There were instances where the quantity of LLINs specified on acknowledgement slips received from the district offices did not match with the quantity of LLINs specified on delivery notes.

112. The OIG noted that 80,000 bed nets valued at USD 384,000 had been stolen from Tari district in the Southern Highland Province. The incident was reported to the Global Fund although the cost of these bed nets had not been reimbursed to the program. The NDOH, however, considers this incident as 'force majeure' situation and therefore contends that the agreement article 20 should not be applied.

Recommendation 24 – Priority significant

The PR should carry out periodic reconciliation of LLINs supplied by RAM to district offices against quantities distributed to beneficiaries. The PR should maintain a list of beneficiaries with acknowledgements of receipt.

Following the country comment, OIG encourages the Global Fund Legal unit to provide opinion on the OIG recommendation whether the PR (NDOH) should replace 80,000 bed nets having purchase value of USD 384,000.

113. There had been long delays in the distribution of LLINs due to logistics problems in PNG, and reported delays in the transfer of funds to districts for distribution. NDOH did not have specific responsibilities for monitoring and obtaining reports of the distribution of LLINs. Potentially some 1.1 million LLINs remain unaccounted for. In the absence of reports on distribution, the OIG attempted to verify the LLIN distribution by visiting communities.

114. The OIG's field visits to verify distribution of LLINs in Mt Hagen, South Waghi and Port Moresby produced mixed results. Whereas in Mt Hagen and South Waghi the OIG was satisfied with the process for distribution of LLINs, in Port Moresby, the OIG could not obtain adequate assurance that nets had reached the intended beneficiaries, since recipients of LLINs from a selected audit random sample could not be identified. The OIG visited a number of villages and verified distribution using a population and household survey. However in several locations the OIG could not identify receivers as no family addresses had been recorded in any of the survey forms and when the nets had been distributed, no signatures were obtained.

Recommendation 25 - High Priority

The National Department of Health needs to strengthen monitoring of distribution of LLINs to ensure that grant aid is deployed effectively.

115. The OIG observed that most local procurement had been carried out on a single source basis, resulting in questionable value for money; and there had been no quality assurance mechanism to ensure that drugs and LLINs procured were of the required quality. In eight of 12 instances reviewed by the OIG (purchase value USD 2,105,796), no certification of quality had been obtained from the vendors for medicines purchased under the Round 3 Malaria and Round 4 HIV/AIDS grants. There had been no system of pre- and post-shipment inspection, nor any batch testing carried out at the warehouse. There has been no system of tracking batch numbers at Area Medical Stores or health facilities.

116. The OIG found that drugs Inventory systems could not be relied on. During the field visits to Area Medical stores the OIG found that there were large discrepancies between book and physical stock. The OIG field visits to health facilities revealed that bookkeeping was generally very poor, with no proper records of receipt and issue or usage being maintained; and – where records were kept - anomalies in the recording of receipts and issues were noted, with discrepancies between book and physical stock.

Recommendation 26 – Priority significant

- (a) There is a clear need to improve value for money in product selection by greater use of competitive tendering, perhaps by bundling together annual requirements and following competitive procurement processes; and*
- (b) The PR should institute independent quality inspection of drugs procured under Global Fund grants in line with the Global Fund Quality Assurance policy, obtain quality certificates from suppliers, and strengthen tracking and inventory management systems in Area Medical Stores and health facilities, for example to facilitate monitoring stock by batch numbers.*

ROTARY CLUB OF PORT MORESBY, INC.

Background

117. The Rotary Club of Port Moresby Inc. is one of the Principal Recipients for the Global Fund grant under Round 8 of the malaria program. The PR has a separate division, Rotary Against Malaria ('RAM'), which was initially set up to assist the National Department of Health in developing a workable and sustainable bed net procurement program. RAM provides LLINs to various government departments, plantations, mine sites and any organization that has a requirement for bed nets.

118. Prior to appointment as a Principal Recipient (Round 8), RAM assisted the NDOH during the Round 3 Malaria grant in procuring nets. The provincial/district health authorities were responsible for distribution, and the NDOH as PR was responsible for the reporting and monitoring the supply chain management. RAM's specific responsibilities under Round 8 comprise LLIN Procurement, micro-planning, LLIN distribution to households, and the training of health staff on new diagnostic and treatment protocols.

Human Resource Issues

119. The PR had outsourced its payroll function to a third party vendor, Nelson Lee and Associates Limited (NLA). The OIG noted significant variations in the management fees charged by NLA in relation to the actual costs (salary cost and recruitment expenses) incurred. The management fee was more than 60% of the employee cost in a sample of cases reviewed by the OIG.

Recommendation 27 - High Priority

The RAM should revisit its existing payroll arrangement with NLA to ensure that the amounts charged by NLA are a reasonable representation of the actual costs and effort involved in managing the HR engagement.

Procurement, inventory and supply chain management

120. Under PNG's National Malaria Control Strategic Plan for 2009-2013, the government's goal is to reduce malaria in line with Millennium Development Goals on morbidity and mortality. Under this plan, and in accordance with the Global Fund's guidelines, the provision of approved LLIN's to the entire population of PNG, with a particular emphasis on vulnerable groups, has been undertaken in Round 8.

121. The PR's procurement and supply chain activities and distribution of LLINs in the whole country are well defined and supporting rules and procedures are set out in the PSM plan and procurement manual.

122. Forecasting has been carried out based on an assumption of three years being the life of a LLIN, and covering the entire population of the country. However, the OIG noted that there were almost 1.1 million LLINs relating to Round 3 that were still to be accounted for, and for which no distribution report was available.

123. Studies conducted in the country concluded that 37.2% of LLINs distributed in 2005 were still in use in 2008-09. The OIG's own field verification revealed that LLINs were in good condition, and there may be some risk of oversupply and providing LLINs to households which

are already in possession of nets in good condition. However, it is acknowledged that the good condition of LLINs does not necessarily mean that the concentration of insecticide is sufficient to kill mosquitoes.

Recommendation 28 – Priority significant

- (a) *Forecasting of LLIN requirements needs to be reviewed, taking into account studies on longevity of the LLINs and assessments of distribution achieved. If appropriate, consideration could also be given to staggering the release of new LLINs to mitigate the risk of oversupply.*
- (b) *Given the discrepancy of 1.1 million between the number of LLINs received at districts and number of LLINs distributed, a stock taking of LLINs available at districts should be taken into consideration to support future forecasting. The PR may wish to consider whether any further procurement of LLINs should be reconsidered until such time that 1.1 million bed nets have been fully reconciled and accounted for.*

124. The OIG's review of the PR's purchasing arrangements gave rise to some reservations over the PR's capacity to undertake procurement of LLINs in a competitive and transparent manner.

- i. Quotations from approved suppliers had been solicited by e-mail at different times without providing any instructions to bidders or indicating the evaluation criteria to be applied by the purchaser.
- ii. Notional costs for many variables, which were not communicated to the bidders, such as freight were added to bid prices in reaching final prices for evaluation.
- iii. Normal practice for procurements of the size concerned would be to seek sealed bids against deadlines, with public opening of the bids.
- iv. Tender invitations or requests for proposals should clearly stipulate the instructions to bidders on submission of tenders, evaluation criteria, award arrangements and conditions of contract.
- v. Usual conditions to protect buyers' interests such as bid security, performance requirements, penalties for late deliveries, etc., were not utilized.
- vi. Basic policies, procedures and systems have been established but there is a need to adhere more rigorously to procurement standards and the policies described in PSM plans.
- vii. There is a need to standardize bid documents, evaluation templates and the form of agreements.

Recommendation 29 - High Priority

The RAM should adopt more competitive and transparent methods for the procurement of LLINs. Given some limitations in the PR's procurement capacity, consideration could be given to procuring LLINs using voluntary pooled procurement, a procurement agent, or with assistance from the newly appointed Procurement Manager in the National Department of Health through a system of multi-stage approvals to cover approval of tender documents, approval of bidders lists, approval of minutes of tender opening, approval of independent committee evaluation reports and approval of contracts.

125. No documentary evidence was available to confirm any periodic physical verification of the bed net inventory conducted by the PR.

126. During the Round 8 Malaria grant, the PR had purchased 1,136,650 LLINs from Vestergaard at a Free on Board (FOB) price. The logistical costs of transporting these LLINs from the port of shipment to the target districts were paid by the PR using other funds, which were later invoiced to the Global Fund grant. The OIG reviewed the total landed cost of purchase and shipment of LLINs to the target district and noted that the PR had charged USD 270,947

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(PGK 691,191) to the grant as an overhead fee for managing the logistics, without adequate supporting documentation. The details of these costs were as follows:

Particulars	Amount (USD)	Amount (PGK)
Total landed costs charged to the grant	5,363,320	13,681,936.58
<i>Analysis of landed costs:</i>		
(i) Purchase of LLINs	4,535,865	11,571,082.33
(ii) Shipping costs	428,393	1092,839.11
(iii) Costs of containers	118,059	301,170.87
(iv) Insurance costs	10,056	25,653.05
(v) Overhead fee (unapproved)	270,947	691,191.21

Recommendation 30 - High Priority

- (a) *RAM should introduce a process for conducting periodic physical verification of inventory; and retain documentary evidence of physical counts.*
- (b) *The PR should ensure that all expenses charged to Global Fund grants are in compliance with grant budgets and the terms of the PSM plan approved by the Global Fund. The PR should obtain prior approval from the Global Fund for any deviations from grant terms and conditions.*
- (c) *The Global Fund Legal Unit to provide opinion on whether the overhead fees of USD 270,947 charged to the grant should be reimbursed to the program.*

127. The OIG's review of procurement and inventory management also revealed the absence of a system for pre- or post-shipment inspection or testing of purchased goods. In practice, shipments of LLINs had been received in closed and locked containers and are transported to districts, where they have been distributed to the population after a considerable delay and after payment to the supplier has been released. The OIG noted 60,000 LLINs relating to a Round 3 procurement undistributed in the National Capital District of Port Moresby, and 1.1 million LLINs from Round 3 which were unaccounted for.

Recommendation 31 – Priority significant

Quality and quantity assurance for LLINs should be strengthened by conducting pre-shipment inspections and testing, and random testing at local level. To reduce the risk of oversupply of LLINs, consideration should be given to monitoring the survivorship and durability of existing LLINs based on the Guidelines for Monitoring the Durability of LLINs under Operational Conditions recently published by WHO.

128. The approved procurement plan requires RAM to count stock at the end of each month, and to provide reports on distribution rates and stock remaining to allow the PR to complete all planned LLIN deliveries as specified in the Round 8 distribution plan. Stock reporting should be aggregated from sub-district and district-level up to country-level. Damaged items are required to be replaced by the LLIN supplier at no cost to RAM or the Global Fund.

129. For Round 3, the OIG found that no documentation was available for audit assurance on these arrangements and the OIG was unable to verify the authenticity of distribution, since the names of recipients were not recorded on distribution forms. The OIG was therefore unable to gain adequate assurance that LLINs had reached the beneficiaries. There had been reported cases of theft of LLINs during Round 3; and unconfirmed reports that the same LLINs were being sold in the open market. There were other reported cases of theft, the last being in the Tari District of

the Southern Highland Province in September 2010, where six containers full of LLINs had been stolen.

Recommendation 32 - Priority significant

- a) *More rigorous adherence to procedures and practices in conformity with the approved PSM plan is urgently needed. To safeguard against theft and sale in the open market of LLINs, the OIG recommends prominent labeling of bales and LLIN packs to indicate that they are government supplied and not for re-sale.*
- b) *Physical security needs to be strengthened immediately at all storage sites and the PR should explore options for using Area Medical Stores for the interim storage of LLIN containers.*

POPULATION SERVICES INTERNATIONAL

Background

130. Population Services International (PSI) is an international non-governmental organization based in Washington, D.C. (USA) implementing programs worldwide to promote healthy behavior and increase the availability and use of health products in low-income settings. PSI's primary interventions focus on malaria, HIV prevention, family planning, diarrhea diseases, micro-nutrient deficiencies and waterborne diseases. PSI has prior experience of implementing large grant programs as a Principal Recipient of the Global Fund grants in six countries.

131. PSI is primarily responsible for providing intensive capacity building to the National Malaria Control Program (NMCP) and the Health Promotion Branch in PNG to raise the profile of the disease and the activities of these units within the National Department of Health and broader government institutions.

Financial Management

132. The PR has a primary responsibility to prudently manage grant funds and take all necessary action to ensure that Global Fund resources are used solely for program purposes. The OIG found that the PR's global policy requires all payments to be signed by joint signatories irrespective of the amounts involved, yet during March to August 2010 all payments (153 transactions) - amounting to USD 433,111 (PGK 1,104,875) - had been signed by only one of the joint signatories. The OIG noted that the PR had submitted a formal letter to the bank delegating check signing authority to one signatory. Furthermore, checks issued by the PR were not crossed as 'not negotiable' to guard against misuse.

Recommendation 33 – Priority significant

The PR should ensure that the global policy of the organization is adhered to and, in case of any deviation, prior approval should be obtained from senior management. Checks should be crossed and signed by two signatories as required by the PR's policies.

Procurement and Inventory Management

133. The OIG identified instances of weaknesses in tendering procedures, where the PR had initiated purchases without obtaining a sufficient number of competitive quotations. In one instance, a contract had been awarded to a vendor from whom no quotation had been obtained.

134. Audit review of the PR's procurement processes revealed instances of inadequate supporting evidence to confirm that contracts had been awarded with due consideration to transparency and open competition, and the OIG noted the following:

- i. Under the provisions of the PR's Finance Manual, a minimum of three quotations are required before selecting a vendor. The OIG identified 12 cases amounting to USD 107,858 (PGK 277,325) where sufficient competitive quotations had not been requested from eligible vendors; and
- ii. In one instance, a contract had been awarded to a vendor from whom no quotation had been received.

Recommendation 34 - High Priority

- (a) The PR should ensure that all contracts are awarded on a transparent and competitive basis and should retain supporting documentation of the procurement and decision processes; and*
- (b) The PR should comply with requirements cited in the grant agreement and adhere to the Global Fund's procurement guidelines.*

SERVICE DELIVERY, MONITORING AND REPORTING

Institutional arrangements

135. The National Department of Health (NDOH) is the primary Principal Recipient for the 3 diseases. NDOH through the Central Public Health Laboratory is responsible for the External Quality Assurance for malaria and TB microscopy and CD4 cell counting, and provides technical support to all diagnostic facilities. The Monitoring, Evaluation and Research Branch (MERB) of NDOH is responsible for the reporting process. The Health Sector Improvement Program (HSIP) and The National Department of Finances are responsible for the financial management. The Medical Supply Branch of NDOH is in charge of procurement through Area Medical Stores.

136. Since Round 8, particularly for the malaria program, there have been three PRs: the NDOH, responsible for ACT procurement and distribution, increasing malaria diagnosis and management and strengthening M&E for the malaria control program; Population Services International (PSI) responsible for community and advocacy activities; and Rotary Against Malaria (RAM) responsible for the procurement and distribution of Long Lasting Insecticide-Treated Nets (LLINs).

137. World Vision International (WV) provided technical assistance to the NDOH and provinces for advocacy, communication and social mobilization and community-based Directly Observed Treatment Short Course (DOTS) activities under the Stop TB Strategy.

138. The success of the Global Fund TB program under the NDOH has been highly reliant on technical assistance contributions.

Service delivery

139. Malaria has remained an intractable problem in PNG and was the second most common cause of admission to hospital after acute respiratory tract infections. With tuberculosis, there has been increasing concern over the increase of MDR-TB and HIV co-infection, where the past decade has seen a rapid dissemination of HIV throughout the country, reaching into every province in both urban and rural areas.

140. The NDOH has managed provincial hospitals, while provincial and local governments have been responsible for all other services, known collectively as rural health services. Medical and paramedical staff from the public sector have been insufficient to fill all posts⁹ and the majority of medical doctors were in Port Moresby. Consequently, civil society organizations i.e. FBOs or Churches have been very involved in the country health system, especially in rural areas.

141. A decline in PNG's national health budget has resulted in a chronic deterioration in the availability of laboratory services to support health programs. Laboratory services in PNG have been heavily dependent on donor funding. Challenges at all levels and for all three diseases are severe and capacity limited.

142. Based on its review of the circumstances in PNG, the OIG formulated a number of recommendations intended to help improve service delivery impact.

⁹The nurse-to-population ratio is estimated at 1:2271 populations; the doctor-to-population ratio is estimated at 1:19 399 populations (PNG-National Health Plan 2010-2020)

Recommendation 35 - High Priority

- (a) *Given the increase of MDR-TB, there is a need to conduct studies to review the magnitude of MDR-TB in PNG, and second-line therapies should be provided based on the increase of MDR-TB. Consideration should be given to the integration of HIV services with TB services. A TB/HIV co-infection and a MDR-TB management policy with regular and reliable TB and HIV drugs supply should be elaborated.*
- (b) *The training and refresher training of community health workers in charge of TB patients should be carried out regularly through on-site training or other formal training.*

Recommendation 36 - High Priority

- (a) *Although HIV testing is one of the major successes in PNG's responses, the quality of service delivery in all sites should be strengthened in relation to: the availability of rapid diagnostic HIV test kits and reagents for laboratory testing; an effective system of referral and linkages are in place and regular on-site formative monitoring; expansion of HCT beyond fixed stand-alone VCT facilities by implementation of mobile HIV testing; and increasing the coverage of HCT at the local government level, particularly in rural areas.*
- (b) *STI/HIV BCC activities in HIV testing, use of condoms and pregnant women testing in VCT centres should be strengthened in collaboration with groups of people living with HIV, local NGOs, community groups, community and faith-based organizations.*
- (c) *As rape victims are becoming more and more numerous in PNG, and it is known that sexual violence has been clearly demonstrated as a risk factor for HIV/AIDS, friendly and easy access to post-rape care needs to be made available at all HIV clinics, by establishing comprehensive post-rape care protocols which include post-exposure prophylaxis and social mobilization activities.*

Data collection, Data Quality Assurance and Monitoring & Evaluation

Tuberculosis

143. In relation to tuberculosis, the OIG confirmed that an M&E plan, updated in March 2010, was available, which had been developed according to the Country Strategic Plan to Stop TB (2006-2010) and which correctly described the data collection process and that TB monitoring tools were available. Indicators were well formulated and in line with the Global Fund's top ten indicators, Millennium Development Goals and the PNG National Strategic Plan.

144. The OIG noted that involvement of technical assistance support has been a key success in implementing this strategy. The TA had been trained and was available at regional and provincial level for assisting data with compilation and checking for accuracy, and also for assistance with procurement and supply chain management.

145. The Directly Observed Treatment Short course strategy incorporated a robust monitoring and accountability system, with follow-up of the patients under DOTS.

146. Although postal and telephone systems are very limited in PNG, there were robust health radio networks in all provinces, which were utilized very effectively for reporting as well as for providing regular feedback to the peripheral health facilities.

147. With support of the Global Fund grant, the National TB Program prioritized to enhance linkages between the peripheral health system and provincial and national authorities in order to

reinforce supervisory support, M&E and feedback on performance. Coordinators at Provincial Health Office level conducted data quality control and Provincial Health information Officers or Provincial M&E Officers (hired by JTAI) carried out final data verification in accordance with the M&E plan.

148. Data collected by the National Health Information System was not adequate to track progress against all the Global Fund's program indicators and data were collected through monthly and quarterly reporting.

HIV/AIDS

149. For HIV/AIDS, the OIG found that the framework for M&E incorporated all key documents and the system is designed to be integrated into the existing PNG HIV and AIDS systems. There will be one national M&E system from which the Global Fund will get information.¹⁰ The Sexually Transmitted Infection and HIV/AIDS country-reporting system is well detailed within the M&E framework document, and is currently managed by the National Department of Health and National Aids Council Secretariat. It consists of quarterly routine case reporting and periodic sentinel site surveillance. The flow of data is well described; and in theory follows the national health information system data flow, and M&E tools are available.

150. According to the HIV/AIDS M&E Plan and work plans, all partners and stakeholders involved in the implementation of the Global Fund program have targets to achieve and progress has been made in data collection and the scaling up of Voluntary Counseling and Testing centres.

151. Despite resource constraints, at least one quarterly supervisory visit had been conducted at provincial level where data collection was verified and patient cards were sufficient to verify the accuracy of data. This monitoring tool was well used by health workers. In-service training was provided, which became good practice to encourage health workers in building their capacities and allow them to discuss clinical and other management issues as a daily practice. There has been better networking within regions, more people tested and more VCT sites providing reports. In-service training for rapid tests has been conducted and rapid tests have been made available within HIV clinics.

152. All indicators were listed and baseline data were provided in the HIV/Aids M&E Plan. Global Fund reporting requires quarterly reports, while some data were collected only on a semi- or annual basis. The OIG found that the consistency of reporting and accuracy of data were issues and need to be improved.

Malaria

153. In relation to the malaria program, the OIG found that there was a common M&E plan for the three Principal Recipients, integrated with the National Department of Health's implementation and monitoring and evaluation processes. In term of follow-up of field activities, there was good collaboration between and commitment from all partners for monitoring benchmarks, achievements, overall program performance and so on.

¹⁰Monitoring and Evaluation Plan for the GFATM Project – October 2008

154. The OIG noted that the work plan of each PR was linked with the completion of indicators and was well formulated. The National Department of Health's data collection mechanism was well described and, since the availability of technical assistance, data collection has improved. The data collection provides most of the accurate performance data to The Global Fund for decision-making. The malaria program uses NHIS monitoring tools for data collection and data are reported monthly by health facilities under the National Health Information System, and are provided at the frequency expected by The Global Fund.

155. The OIG found, however, that the grant's M&E plan was too generic and needs to be more specific in terms of the description of routine data collection and routine follow-up of program activities for each PR¹¹.

156. The fact that some areas are difficult or impossible to reach due to a lack of road or impracticable conditions, and the lack of communications infrastructure that can delay reporting, needs to be taken into account during activity planning.

157. The OIG observed some limitations in the NHIS regular reporting against Global Fund indicators. For example, information required by two Global Fund indicators were not reported by the NHIS monthly report, in relation to the number of insecticide-treated nets distributed to people (mass distribution is not reported by NHIS monthly report) and for the number of children below 5 years age who slept under LLINs the previous night. Information on the number of pregnant women who slept under LLINs the previous night was not directly available through the NHIS report and is available only in register books for pregnant women in clinics.

Recommendation 37 – Priority significant

The HIV/AIDS monitoring plan should be supported with a guideline on indicators calculation, descriptions of monitoring tools and a written procedure guide concerning their use, appropriate data quality assurance, and data entry and back-up.

- (a) Due to the inconsistency and inaccuracy of data reported, supervisory visits with in-service training to health facilities from provincial level should be organized on regular basis, perhaps quarterly. (Visits should be based on a supervisory framework and should give priority to monitoring tools, verification and data accuracy.) Health facilities that face reporting issues should benefit from more frequent supervisory visits.*
- (b) During supervisory visits, specific attention should be given to ensuring that ART sites clearly understand what data need to be reported against the number of adults/patients under anti-retroviral treatment.*
- (c) The Human Resource plan for enhancing the management capacity of the National Department of Health and National Aids Council Secretariat should be developed, and M&E technical assistance recruited to strengthen the provincial level.*

Recommendation 38 – Priority significant

- a) Because the Global Fund Malaria grant M&E plan is too generic, each PR should describe their own data flow, data verification system and arrangements for supervisory visits. The Department of Health should develop a system for verification of data supported by procedural guidelines which can be used at all levels.*

¹¹ According to the Country, the Malaria M&E plan has been significantly strengthened and improved as part of the Phase II application.

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- b) Because the consistency of reporting and accuracy of data are issues, more frequent supervisory visits should be provided at provincial level with technical assistance. Within the context of M&E system improvement, the malaria computer system should be strengthened.*
- c) The M&E technical assistance should continue, to give more technical support to health facilities for improving their reporting.*

OVERSIGHT AND GOVERNANCE

Background

158. The Global Fund programs are overseen by a Country Coordinating Mechanism (CCM) established in each country and a Local Fund Agent (LFA) provides assurance to the Global Fund Secretariat concerning the implementation of grant programs.

Country Coordinating Mechanism

159. The Country Coordinating Mechanism is a country-level public-private partnership composed of all key stakeholders in a country's response to the three diseases. The CCM coordinates the development of grant proposals to the Global Fund based on priority needs at the national level; selects appropriate organizations to act as Principal Recipient(s) for the Global Fund grants; monitors the implementation of activities, including approving major changes in implementation plans as necessary; evaluates the performance of programs and PRs, and submits a requests for continued funding; and ensures consistency with other development and health assistance programs in support of national priorities.

160. The composition of the CCM PNG was in line with the Global Fund policy recommendation to comprise at least 40% representation of the non-government sector, such as NGOs/community based organizations, people living with the diseases, key affected populations, religious/faith-based organizations, private sector and academic institutions. The CCM PNG is comprised of 26 members with representation from the constituencies required by the Global Fund.

161. Some 81% of the CCM PNG was represented by non-governmental bodies. A benefit of this composition is that it offers a wide range of knowledge in the health sectors. At the same time it is also important to ensure adequate representation of governmental bodies or multilateral and bilateral organizations, in order to secure the role of the public sector in CCM governance.

162. The CCM PNG has a conflict of interest policy and management plan which need to be implemented consistently. The current composition where some CCM members were representatives of PRs or SRs (including the CCM Vice-Chair, who was from the PR) can present inherent conflict of interest risks, for example if the CCM Vice Chair is present and involved in decision making relating to the PR's operational activity.

163. Appropriate tools and techniques are needed to support the CCM's oversight function. In 2008-2009, the CCM PNG received substantive support from USAID through Grant Management Solutions consultants to establish some of these tools and training. However, the OIG noted that these tools have not been consistently implemented and further work needs to be carried out to establish an oversight plan, a site visit plan, further guidelines for field visits, a CCM "dashboard" and a communications strategy. It should be noted that at the time of the OIG's audit, the CCM's secretariat was not yet fully staffed.

164. The OIG found little evidence that the CCM had regularly conducted site visits as one of the mechanisms to fulfill its oversight role. This may have been due to constraints such as the availability of CCM members and funds. Nevertheless, without this activity it is difficult for the CCM ensure that the program has achieved its intended objectives. Civil society communities might be used more widely for this, given their closeness to the population and their role in society.

Recommendation 39 - High Priority

The CCM's arrangements should be strengthened by completing the establishment of a full range of tools, techniques and activities - including completion of the manual and the implementation of field visits - to consolidate the effectiveness of the CCM's oversight role.

Local Fund Agent

165. The LFA is the 'eyes and ears' of the Global Fund and represents a crucial element in the Global Fund's system of oversight and risk management. The LFA's key roles are to: assess PRs' capacities and systems before and during grant implementation; provide independent and continuous oversight through verification of implementation by grant recipients; carry out on-site data verification visits; review requests for continued funding; provide country updates on key issues and events that affect grant implementation; and carry out other services at the request of the Global Fund, such as support for country visits by the Global Fund staff and consultants, grant consolidation and closeout.

166. Cardno Emerging Markets USA Ltd had acted as LFA for PNG since 2008, in succession to KPMG, and had reviewed 30 PU/DR reports, carried out four Principal Recipient assessments, and conducted eight on-site data verification exercises.

167. In May 2010, the Global Fund Secretariat had asked the LFA to improve the quality of its LFA services, fully staff the LFA activity, and provide training and orientation to the LFA team, against which the LFA provided an action plan. The OIG's audit findings confirmed the areas requiring improvement noted by the Global Fund Secretariat, and that capacity gaps in the LFA's work appeared to be systemic. In response to this, the Secretariat terminated the LFA service contract with Cardno EM on 9 November 2010 and appointed PwC as the interim LFA in PNG from December 2010 through 31 December 2011.

168. The Cardno staffing issues have had implications for delivery of services due to the delay and underperformance of reports submitted to the Global Fund. In the OIG's view, the most serious problem has been the lack of country presence of the LFA in PNG. The need for the LFA to have adequate in-country presence arises from the complexity of the grant and the lack of capacity of PRs and SRs. The LFA's approach that has focused on desk review was not adequate given the risk of manipulation of information and documentation. Reliance on desk review also caused a delay in review processes because of communications problems, and did not conform to the original LFA service proposal. The OIG noted that the LFA had not established a country risk profile to identify priorities.

169. Procurement and supply chain management is another significant area in terms of risk and program budget allocation and should have been given greater focus by the Local Fund Agent. The OIG noted emerging issues in PSM areas which should have been prioritized by the LFA, including for example the inability to verify bed net data; the failure to use drugs on the national approved drug list/catalogue; the incidence of stock outs, near stock outs and expired drugs; local single source procurement at unreasonable rates; and the need for quality assurance for health and non-health sector products to be strengthened by conducting pre and post shipment tests and random testing. The LFA demonstrated that some of the issues observed by the OIG had been brought to the attention of the Global Fund Secretariat in various reports.

Role of development partners

170. Strong commitment and support from development partners in PNG was evident not only in participation in the CCM but also through support with in-kind contributions which enable the CCM to carry out its responsibilities. The OIG noted that various development partners displayed considerable good will towards the Global Fund–supported programs and were committed to working with stakeholders to ensure that the Global Fund achieved its goals. Some development partners were willing to provide input or collaboration through the provision of technical support, staff costs, etc., and the Global Fund Secretariat should continue to nurture these good relationships.

The Global Fund Secretariat

171. The complexity of operating in PNG requires a strong effort from the oversight body to ensure the achievement of Global Fund program objectives, and the Global Fund Secretariat has devoted special attention to PNG such as in visits by Global Fund senior management, including the Executive Director in 2009, and other regular visits to the country to provide advice and feedback.

172. The LFA claimed that some of the deficiencies and areas for improvement noted by the OIG had been brought to the attention of the Global Fund Secretariat but that there had been a lack of follow-up action. Since 2009, the Global Fund Secretariat has improved its processes by communicating its recommendations formally, through implementation letters. There is still a need for the regular review of this arrangement to ensure that necessary actions are implemented in a timely manner.

173. The OIG noted that following its audit, prompt action was taken by the Global Fund to address emerging risks in relation to: the LFA's performance by terminating the LFA service contract with Cardno EM; invoking an Additional Safeguards Policy and action plan for PNG; the disbursement of active grants being limited to allow the continuation of key services like procurement of health products and pharmaceuticals critical to program implementation and public health interests; and the temporary suspension of local procurement.

Recommendation 40 - Priority significant

To improve the effectiveness and impact of grant oversight, the OIG recommend that, as part of the reform agenda initiated by the Global Fund Secretariat in 2011, consideration be given to establishing improved procedures for tracking and following up recommendations arising from the Secretariat's missions and LFA reviews.



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Annexes

Annex 1: Abbreviations

AAP	:	Annual Activity Plan
ACT	:	Artemisinin-based combination therapy
ART	:	Antiretroviral Therapy
ASP	:	Additional Safeguards Policy
BCC	:	Behavior Change Communication
CBO	:	Community-Based Organization
CCM	:	Country Coordinating Mechanism
CD4	:	Cluster of Differentiation 4
CHW	:	Community Health Worker
DOTS	:	Directly Observed Treatment Short course
EFR	:	Enhanced Financial Reporting
FBO	:	Faith based Organization
GST	:	Goods and Services Tax
HCT	:	HIV Counseling and Testing
HSIP	:	Health Sector Improvement Program
HIV	:	Human Immunodeficiency Virus
HWW	:	Hope World Wide
JTAI	:	Jane Thomason & Associates International
LFA	:	Local Funding Agent
LLINs	:	Long Lasting Insecticide- Treated Nets
MDR-TB:		Multi-drug resistance to tuberculosis
M&E	:	Monitoring and Evaluation
MOU	:	Memorandum of Understanding
NCAO	:	National Catholic AIDS Office
NDOH:		National Department of Health
NGO	:	Non-Governmental Organization
NHIS	:	National Health Information System
NMCP	:	National Malaria Control Program
NSP	:	National Strategic Plan
OIG	:	Office of Inspector General
PGK	:	Papua New Guinean Kina
PNG	:	Papua New Guinea
PQR	:	Price and Quality Reporting
PR	:	Principal Recipient
PSI	:	Population Services International
PSM	:	Procurement and Supply Chain
PU/DRs:		Progress Update and Disbursement Requests
RAM	:	Rotary Against Malaria
SDA	:	Service Delivery Area
SR	:	Sub Recipient
STI	:	Sexual and Transmitted Infection
SWAp	:	Sector Wide Approach
TA	:	Technical Assistance
TB	:	Tuberculosis

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TOR : Term of Reference
USAID: United States Agency for International Development
VCT : Voluntary Counseling and Testing
WHO : World Health Organization
WV : World Vision

Annex 2: Audit Recommendations and Management Action Plan

Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p>Recommendation 1 - High Priority</p> <p><i>Principal Recipients should comply with all conditions stipulated in grant agreements and in particular should ensure that all financial reports, required information and supporting documents, and audit reports are submitted to the Global Fund on time.</i></p>	<p>NDOH: Accepts this recommendation; future grant negotiations will be conducted with a greater awareness of the penalties for even the suggestion of non-compliance. PSI: acknowledges the importance of complying with all terms and conditions stipulated in the grant agreement. RAM: Acknowledges the importance of complying with all terms and conditions stipulated in the grant agreement</p> <p>Teams of legal, operational and programmatic personnel will carefully scrutinize future contracts for unfair, impractical or overly restrictive clauses or conditions.</p>	<p>NDoH Secretary, PSI, RAM, World Vision International and Oil Search Health Foundation</p>	<p>Immediate and at time of future grant negotiation</p>	
<p>Recommendation 2 - High Priority</p> <p><i>To achieve an acceptable level of internal control:</i></p> <p>(a) <i>Principal Recipients should ensure that grant funds are used solely for program purposes and consistent with the requirements of grant agreements;</i></p> <p>(b) <i>The Global Fund Secretariat should discuss with the Government of PNG the</i></p>	<p>2 (a) All PRs accept this recommendation Greater resources will be made available for budget management in future GFATM funded programs</p> <p>2 (b) NDOH: does not accept this recommendation. It would appear that the OIG is attempting to redefine the agreement between the PR and GFATM. However, NDOH has changed the manner in</p>	<p>2 (a) Proposal Teams, Oversight Committee of CCM, Finance Personnel of Grant, and Grant managers</p> <p>2 (b) Finance Analyst, Finance Manager</p>	<p>2 (a) Ongoing</p> <p>2 (b) By March 2012 PSI/PNG will</p>	<p>For NDOH and RAM: GST payment made by the PRs has been removed from the recovery table and recommendation has been modified.</p>

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>possibility of requesting refund to the programs of the amount of grant funds utilized by Global Fund supported programs to pay Goods and Services Tax; and</i></p> <p><i>(c) PRs should make efforts to obtain an exemption from payment of taxes and duties on purchase of goods and services under the Global Fund grants; and</i></p> <p><i>(d) Other donor charges and expenses should be reviewed to identify improper charges for reimbursement to the program.</i></p> <p><i>Furthermore, the expenses relating to the programs of other donors amounting to USD 80,499 should be reimbursed to the program.</i></p>	<p>which Sub-recipients report expenditure to ensure that GST is eliminated where the entity concerned is GST registered</p> <p>PSI: In accordance with the GF’s strong encouragement for PRs to seek tax exemption, PSI is committed to making best efforts to ensure that its purchases of any goods and services using GF funds are tax-exempt. As such, PSI applied for GST exemption with the Internal Revenue Commission (IRC) on March 5, 2010. Subsequently, in March 2011, PSI was granted the GST exemption status (<i>Annex B</i>) and will no longer pay GST (with certain exceptions). Before the exemption was granted, GST was paid and charged as an expense to GF; the GF Fund Portfolio Manager at the time was aware of this. However, at the OIG Auditor’s suggestion, the GST was re-classed and accounted as an amount recoverable from the PNG’s Internal Revenue Commission, despite the fact that this is an allowable expense under Article 12 of our GF Agreement. GST-free status is strongly recommended, but is not obligatory. PSI’s own funds were used for meeting the cash needs. A copy of the journal voucher is attached herewith – <i>Annex C</i>. PSI is currently working on compiling information on the GST paid to submit to the IRC through the GST Return Document form.</p>	<p>RAM has adhered to the GST requirements since the time of the OIG audit</p> <p>2 c HSIP Finance Manager</p> <p>2 (d) Secretariat to discuss with PR</p>	<p>have the GST Return submitted from Nov 2009 through Apr 2011 to the Internal Revenue Commission</p>	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
	<p>However PSI retains the right per our Agreement to have these funds covered by GF if we are unsuccessful in their recovery from the IRC. The Secretariat’s support will be sought in the event that the IRC refuses our initial request for reimbursement. RAM: Acknowledges the recommendations</p> <p>2 c NDOH: In future, expenditures will be reviewed more carefully and any found to be incorrectly charged to GFATM will be recoded. Immediate implementation of rule</p> <p>2 (d) NDOH: Rejects the recommendation for the GST related amounts. NDOH will seek retroactive approvals from the Secretariat for what is deemed to be ‘other donor’ expenses. These were incurred by the program and clearly fall within both the term program expenses and the summary budget.</p>			
<p>Recommendation 3 - High Priority</p> <p><i>To improve accounting practice and support an adequate level of internal control, the PR should document all basic policies</i></p>	<p>NDOH: Accepts this recommendation but rejects the assertion that policies and procedures did not exist at NDoH. PSI: Noted RAM: Accepts this recommendation</p> <p>NDOH: All procedural documentation will be reissued to relevant staff. New-staff induction</p>			<p>Finding has been modified based on the policies documents provided by the PR.</p>

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>procedures and communicate them to the employees involved in the review and approval of expenses and implementation of program activities.</i></p>	<p>procedures will be reviewed to ensure adequate coverage of procedures and policies is included. PSI: PSI understands the importance of implementing and adhering to financial processes and procedures, as well as the need to ensure that staff members are trained appropriately. PSI is committed to ensuring strong internal control mechanisms and a robust financial system. RAM: This has now been addressed and a financial management manual has been submitted to the LFA. Comments have been received from the GF Secretariat (31 August 2011) and recommendations are being addressed</p>			
<p>Recommendation 4 - Priority Significant <i>(a) To strengthen internal control over the recording of financial information, Principal Recipients should explore the possibility of enabling all appropriate features and controls available in accounting software necessary to facilitate accurate recording and reporting of program expenses.</i> <i>(b) Expenses (USD 2,481) in excess of PO value should be reimbursed</i></p>	<p>4 (a) NDOH: Accepts this recommendation but recognizes that it may involve a significant investment in new or upgraded systems. PSI notes that its current computerized accounting software system addresses all the OIG’s recommendations regarding the need to facilitate accurate recording and reporting of program expenses. RAM: Accepts this recommendation and notes that the accounting software system in use addresses this recommendation for accurate recording and reporting.</p> <p>4(b) NDOH: Rejects this recommendation. Differences between POs and final payments of the magnitude indicated are relatively minor clerical issues and require only a new PO to be issued</p>			<p>4(a) For NDOH: Since NDOH has resigned from its role as the PR of the Global Fund Grants, the Secretariat may consider PR’s request for additional funds to upgrade the accounting software.</p> <p>For PSI: OIG review had indicated that the accounting software did not facilitate review of transactions</p>

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>to the Program. Any other similar cases should be identified and reimbursement made.</i></p>	<p>PSI: This recommendation is not applicable to PSI. RAM: This recommendation is not applicable to RAM</p>			<p>prior to posting to the ledgers; did not restrict posting of transactions in the previous day or month and allowed changes/ deleting the posted transactions; and did not automatically generate a unique transaction number. LFA to review the accounting software again to validate PR's assertion.</p> <p>4 (b) FOR NDOH: OIG maintains its recommendation since no documentation is provided by the PR to evidence that excess payment was legitimate and made against the services provided by the vendor. LFA will validate these expenses if additional documents are</p>

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
				provided by the PR during the OIG recommendation follow up.
<p>Recommendation 5 - High Priority</p> <p><i>PRs should ensure adequate segregation of duties by reassigning existing roles and responsibilities wherever appropriate.</i></p>	<p>NDOH: Accepts this recommendation, subject to manpower and capacity constraints Immediate implementation</p> <p>PSI: The instance referred by the OIG in paragraph 51 occurred during the period when PSI did not have adequate number of staff in the Finance Department for the necessary segregation of duties. PSI has since rectified that situation, with the hiring of the Finance Manager in January 2011. As a result, PSI's current structure and policies ensure adequate segregation of duties, with appropriate role and responsibility delineation. Completed and implemented RAM: Noted</p>			
<p>Recommendation 6 - High Priority</p> <p><i>(a)-Given that in some instances, multiple versions of the annual grant budget were available and there was no mechanism to ensure that a final approved budget was used, the Global Fund Secretariat should establish</i></p>	<p>6 (a) NDOH: Accepts this recommendation. This recommendation will be addressed with the GF Secretariat in any future grant negotiations.</p> <p>6 (b) NDOH: Accepts this recommendation. However as discussed in the narrative response, AAPs and GFATM budgets will never reflect the exact amounts at the periods due to carry over of funds; non-alignment of fiscal year cycle during those</p>	<p>Secretariat</p> <p>Finance Manager</p>	<p>With NDOH resigning as PR, this will</p>	<p>6 (b) FOR NDOH OIG understands that AAPs and the Global Fund budget will not match due to carry forward of funds. However, mapping of the Global Fund budget line items with the AAPs is due of</p>

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>a mechanism to formalize the process of annual budget approval, for example by signing a final approved budget to be distinguished from a draft annual budget which may have been changed;</i> <i>(b)-PRs should establish a mechanism to facilitate mapping of the Global Fund approved budgets and work plans with approved annual activity plans. (Budgets initially entered in the accounting software should be verified against the approved Annual Activity Plan and any changes made to the budgets in the system thereafter should be periodically verified.) PRs should maintain all budgets approved by the Global Fund in a central repository;</i></p>	<p>reviewed periods and the differences in the types of documents that they are. AAPs are not a detailed work plan and budget, they are a management tool. NDOH: The accounting system will be upgraded and the recommendation will be applied to all future grants where possible. Copies of grant budgets will be also stored with Finance Branch, and the Planning and Monitoring Branch. PSI: PSI acknowledges the importance of monitoring actual versus planned expenditures, and ensuring that transactions are reported correctly, as per the approved GF budget. With respect to paragraph 55, PSI confirms that the cited instance was corrected on October 2010. Furthermore, PSI has strengthened its budget management procedures by introducing the requirement to specify the expense code on the purchase requisition form. 6 (c) NDOH: Accepts this recommendation RAM: Accepts this recommendation 6 (d)</p>		<p>no longer be applicable from 2012.</p>	<p>following reasons:</p> <ol style="list-style-type: none"> 1. Expense approval and budget monitoring is performed through the accounting software using AAPs 2. Budget vs. actual analysis specific to the Global Fund grants should be performed at activity level and not only at SDA level, which is not possible using existing AAP 3. To ensure accuracy and completeness of EFR 4. To ensure that Global Fund budgets are accurately and completely considered while preparing AAPs
<p><i>(c)-All PRs should define adequate procedures for monitoring actual expenses against the budget approved by the Global Fund at</i></p>	<p>NDOH/RAM: Reject this recommendation with respect to the CCM. Under the PR contracts with GF, budget amendments are not subject to the prior approval of the CCM. NDOH/RAM also request clarification of what is meant by ‘approved grant budget’. The grant budget is, in</p>			

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>program activity level; and</i></p> <p><i>(d)-Expenses should be incurred only in accordance with the approved grant budget, any deviations being the subject of prior approval from the Country Coordinating Mechanism and the Global Fund. The amount of USD 127,092 should be refunded (NDOH USD 117,416 and RAM USD 9,676).</i></p>	<p>fact, the summary budgets contained in Annex A of the agreements. The budget level indicated as having been breached in para. 54 iii. is in fact a sub activity. The budget is set at the Objective/Service Delivery Area level. Neither of these budget lines have been exceeded with this expenditure.</p>	<p>Support from Finance Adviser to Finance Branch</p>		<p>6 (d) For RAM: The total value of purchases was within the budgeted amount; however the total number of units purchased by the PR was in excess of the budgeted units, such as a) Two desktops were budgeted but 9 desktops were procured b) One laptop was budgeted but four laptops were procured c) No GPS was budgeted but in actual 15 GPS were procured</p>
<p>Recommendation 7 - High Priority</p> <p><i>To reduce the risk of losses due to non-recovery of advance payments:</i></p> <p><i>a) PRs should strengthen the tracking and</i></p>	<p>7 (a) NDOH: Accepts this recommendation PSI/RAM: Noted. NDOH: New procedures implemented immediately. Further training and re-training exercises scheduled over coming months</p> <p>7 (b) NDOH: Regarding advances to individuals,</p>			<p>For NDOH: Employee and vendor advances of PGK 1,177 and PGK 18,270 have been removed from the recovery table based on the documents provided.</p>

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<p><i>monitoring procedures for advances. All program advances should be recorded in tracking sheets and be monitored against the expected settlement date.</i></p> <p><i>b) PRs should ensure that no fresh advances are disbursed prior to settlement of previous advances. In case it is necessary to disburse the fresh advance prior to settlement of previous advance, an exception approval should be obtained from the appropriate authority.</i></p> <p><i>Balance unsettled advances in the case of NDOH (USD 587,082) should be reimbursed to the Grant.</i></p>	<p>NDOH does not accept the assertion that individuals should not automatically receive an advance if they have a prior outstanding advance. NDOH reserves the right to determine its own policy on this issue in line with its own operational and logistical realities. NDOH would prefer to set a limit for the length of time an advance may be outstanding before acquittal and impose a requirement for senior management approval for any deviation. NDOH has however revised its policy and now pays only 60% of the per diem payable prior to travel.</p> <p>PSI: In April 2011, PSI introduced a policy which disallows the provision of an advance to an employee until the settlement/liquidation of the previous advance. However, due to the need for PSI staff to undertake multiple trips within a short timeframe, the policy includes provisions to allow for limited exceptions. Under the policy, requests for these exceptions must receive prior approval, which is only granted after a thorough review of the circumstances.</p> <p>NDOH: Immediate implementation of revised policy</p> <p>7(c) NDOH: Some of the amount noted has already been recovered as detailed in the Table and documentation provided. NDOH requests more time to recover outstanding advances and/or to utilize other methods to determine if it is reasonable to assume that the related activities</p>			<p><i>Inadequate additional supporting documents:</i></p> <p><u>Reference no. T12.1.62 (PGK 1,785):</u> OIG could not find the reversal entry (JV dated Aug-10) in the transaction listing provided by the PR to during OIG’s review.</p> <p>OIG recommends that the LFA should validate the authenticity of reversal voucher and verify that the amount has been reversed from the Global Fund Grant.</p> <p><u>Reference no. T11 (D15.22); T11 (D15.26); T11 (D15.15); T11 (D15.158); T11 (D15.13); T11 (D15.14); T11 (D15.151); T11 (D15.163); T11</u></p>

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	<p>actually took place and, if necessary, the value of those activities.</p> <p>Immediate implementation- NDOH has already begun extensive recovery work on these documents with high level support from the Secretary.</p>			<p><u>(D15.215)</u>:</p> <p>The supporting documents provided by NDOH do not support the settlement of advances by the employees since following documents were not available to validate the expense:</p> <ol style="list-style-type: none"> 1. Vendor invoices; 2. Travel expense report;
<p>Recommendation 8 – Priority Significant</p> <p><i>To strengthen treasury management, PRs should carry out bank reconciliations on a timely basis; ensure adequate controls over wire transfer authorization; and improve procedures over the monitoring of blank checks and petty cash.</i></p>	<p>NDOH: Accepts this recommendation</p> <p>PSI: Acknowledges the need to ensure effective and strong treasury management. PSI’s current system includes the practices of monthly bank reconciliation, dual signatory for authorizing banking (including wire transfer) transactions, physical reviews of the petty cash fund and control over the checks during the monthly financial reporting to PSI/HQ. The system has been in place since October 2010.</p> <p>RAM: Accepts the recommendations in Recommendation 8 and will ensure that Smiths Accountants come to RAM office on the first working day of each month to reconcile all bank accounts. RAM conducts a physical check count after every transaction.</p>			<p>For PSI OIG maintains its recommendation. PSI had implemented these recommendations after OIG audit in October 2010.</p>

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<p>Recommendation 9 - High Priority</p> <p><i>To improve payment process control, PRs should ensure that all payments are processed on the basis of adequate supporting documents and requisite approvals. Proof of delivery of goods or services should be obtained in all cases prior to making payment to the vendor and in case of advance payment, proof of delivery of goods or services should be subsequently obtained and filled along with the payment voucher/expense voucher. All expenses amounting to USD 671,553 (NDOH for USD 646,694 and RAM for USD 24,859) in the transactions identified by the OIG) which are unsupported by vendor invoices and proof of</i></p>	<p>NDOH: The OIG will be familiar with private sector practices in many developing countries which frequently require payment for goods and services before delivery. This is particularly the case where the purchaser is Government. Were NDOH to insist on delivery before payment, the majority of vendors and service providers would simply refuse to provide the goods or service. NDOH finds it unsettling that the OIG has made a high priority recommendation on this issue. Compliance with this recommendation would be practically impossible even in a country such as Switzerland. NDOH therefore requests that the relevant part of the recommendation be reduced to ‘significant’ and the policy recommendation be reworded, perhaps suggesting that “... where possible, payment to vendors should be made only after delivery of goods or supply of service....Where payment is made in advance, clear delivery or service provision arrangements also must be made and form part of a legally binding agreement between the purchaser and vendor.”</p> <p>PSI: acknowledges the importance of ensuring adequate procurement and payment documentation before releasing payment</p> <p>RAM: Whilst RAM appreciates OIG’s recommendation in Recommendation 9, the OIG must understand that if RAM insists on getting this amount of supporting documents there will be no programme. OIG must understand that the majority of vendors will not provide any service</p>			<p>The additional documents provided by the PR evidence the receipt of goods amounting to USD 950,914. This amount has been removed from the recovery table.</p> <p><u>Reference no. T10.1.2:</u></p> <p>For NDOH Supporting documents received subsequently do not support the transaction for the following reasons:</p> <ol style="list-style-type: none"> 1. Training attendance sheet signed by all participants is not available 2. Final invoice is not available: One of the invoices is for the period from 15th to 19th March 2010 whereas, as per the training note the

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<p><i>delivery of goods or services should be reviewed with a view to reimbursement to the program.</i></p>	<p>unless they have been paid up-front. If RAM does not agree to this method then RAM does not receive the service.</p>			<p>training was conducted during 16th to 21st Nov 2009 and the advance was released on 23-Nov-09. The second invoice is a Performa invoice (not a tax invoice) and does not mention any date.</p>
	<p>PSI: In order to strengthen its internal controls, PSI introduced in June 2010 a payment checklist to be followed when releasing payment. The checklist [the Payment Request Form] requires the following supporting documents: purchase requisition forms, copies of quotations, competitive bid summaries, copies of purchase orders and copies of goods received notes. Similarly, when advance payments are required by the vendor, PSI collects the final invoice at the time of the delivery of goods or services as well as a Goods Received Note (GRN).</p>			<p>OIG reemphasizes the importance of collecting necessary documents to evidence subsequent receipt of goods or services in case of advance payment. The recommendation has been reworded to make it clear that in case of advance payment, proof of delivery of goods or services should be subsequently obtained and filled along with the payment voucher/expense voucher.</p>

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<p>Recommendation 10 - Priority significant</p> <p><i>PRs need to ensure more efficient utilization of grant funds by more effective purchase planning and the purchase of goods and services based on actual program requirements and the observance of basic control procedures.</i></p>	<p>NDOH: Accepts this recommendation PSI: PSI understands the importance of having proper forecasting and effective purchase planning based on programmatic needs to ensure the effective usage of grant funds. RAM: Accepts this recommendation</p> <p>NDOH: Immediate implementation PSI started using Purchase Orders and Goods Received Notes since November 2010.</p>			
<p>Recommendation 11 - Priority significant</p> <p><i>As a matter of routine good practice, PRs should ensure that appropriate statements and assurances in relation to possible conflicts of interest are obtained from members of the Procurement Committee.</i></p>	<p>NDOH: Accepts the importance of obtaining assurances regarding potential conflicts of interest amongst members of the procurement committee. NDOH has made this a requirement of committee membership and will seek to obtain declarations from all members who serve. PSI: Noted RAM: Accepts and acknowledges this recommendation</p> <p>NDOH: Immediate implementation PSI: will develop a conflict of interest statement to ensure the integrity of the procurement process, and will have all employees involved in procurement sign it; the statement will be recorded in the Procurement file. RAM: This recommendation have been complied with</p>	<p>Finance Manager</p> <p>RAM Project Manager/ Finance Manager</p>	<p>December 2010</p> <p>December 2010</p> <p>December 2010</p>	

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	<p>are now submitted. All costs associated with maintenance of the asset are controlled from the head office and are thus correctly recorded. These vehicles are out in the very remotest of areas and it is not always possible to physically access them. RAM has a tight control on motor vehicles and considering the areas of operation is confident that the asset is only being used on Global Fund business.</p>			
<p>Recommendation 13 – Priority significant</p> <p><i>To ensure authorized and effective use of program vehicles:</i></p> <p>a) <i>The PRs (NDOH & RAM) should document guidance on the official usage of vehicles and promulgate these to staff;</i></p> <p>b) <i>The PRs should introduce a standard record format or log book to record vehicle trip details, to be kept with the vehicle and form the basis for management</i></p>	<p>NDOH: Will re-issue guidance on the official use of vehicles including a format and instructions for maintaining vehicle logs. NDOH accepts that performance in this area has not always been tightly monitored. NDOH: Immediate implementation RAM: Accepts and has already implemented this recommendation and regular mileage logs are now submitted. PSI: PSI would like to note that it has had a vehicle policy in place since June 2010. The policy covers authorized usage as well as fuel purchase and consumption, and is designed to ensure proper usage and effective management of vehicles and fuel.</p>			<p>For PSI: Noted that PSI has documented policy on vehicle management. However, OIG noted instances where the log books were incomplete and did not have complete information on number of Kms run by the vehicle. No MIS was being prepared to monitor the fuel consumption of these vehicles</p>

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<p><i>supervision of vehicle use.</i></p>				
<p>Recommendation 14 - High Priority</p> <p><i>To ensure reliability of financial reporting to the Global Fund:</i></p> <p>a) <i>PU/DRs and EFRs should be prepared in accordance with the requirements specified in the grant agreement and in guidelines issued by the Global Fund;</i></p> <p>b) <i>The PR should reconcile expense heads and ledgers to EFR line items to facilitate accurate allocation of expenses, and PU/DRs and EFRs should be prepared using accounting data (such as transactions listings) that facilitate identification of expenses</i></p>	<p>NDOH: Accepts these recommendations and will apply them to all future financial reports. With respect to item “d” the PR had complied with all GFATM dates and submission of close out reports at the required time. The issue is not with the submission and completion of the documents, but the final verification on the final balance of funds. The LFA sent a technical officer for a week to work through all financial records to verify the final figure. The LFA report was submitted to the Global Fund, however the PR had no further communication on the issue, or been informed of a final decision having been reached by the Secretariat at the time of the OIG Audit.</p> <p>NDOH: Grant close-out procedures are being followed for all current grants. Close-out and transition plans will be submitted to the LFA for review in due course. NDOH will produce finance reports in EFR format for the remaining quarters of each of the current grant agreements. This will facilitate the annual EFR which will be submitted according to the agreed timetable for 2011. The allocation method used will be based on an analysis of actual expenditures and will be fully justified.</p>			

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<p><i>by donor and by program;</i></p> <p><i>c) PU/DRs and EFRs should be reviewed by appropriate personnel to ensure that ineligible expenses are excluded from the report and interest income on the unutilized grant funds is credited to the program; and</i></p> <p><i>d) Grant close-out procedures should be carried out on a timely basis and the LFA should ensure that total interest income attributable to the grant is identified and reported to the Global Fund.</i></p>				
<p>Recommendation 15 - High Priority</p> <p><i>To improve financial management and</i></p>	<p>15 (a) NDOH accepts this recommendation Tighter archiving and document control procedures have already been implemented</p> <p>15 (b) Efforts have been made and continue to be made to locate these documents; it will take time to complete this task.</p>			<p>For NDOH: The additional documents provided by the PR evidence the receipt of goods amounting to</p>

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<p><i>accounting to an acceptable level:</i></p> <p>a) <i>The PR should establish an effective archiving system to ensure that the supporting documents are referenced and retained for management review and audit purposes;</i></p> <p>b) <i>Unverified expenses amounting to USD USD 156,683 for which supporting documents were not provided to the OIG should be reimbursed to the grant;</i></p> <p>c) <i>The PR should instigate periodic internal audit reviews of Global Fund grants to strengthen the internal control environment in which programs are</i></p>	<p>Supporting evidence for these expenses with be submitted to the GFATM Secretariat</p> <p>15 c NDOH accepts this recommendation</p> <p>NDOH internal audit department has already incorporated GF grants into its audit planning schedules</p> <p>15 (d) NDOH accepts this recommendation. Immediate implementation.</p> <p>15 (e) NDOH accepts this recommendation A fund coding system has already been established.</p> <p>15 (f) NDOH accepts this recommendation Tighter check register procedures have already been implemented</p> <p>15 (g) NDOH accepts this recommendation. However, due to very poor internet services in PNG, it is not always possible to ensure this is the case. The NDOH has plans to implement a department wide IT policy, however until the restructure of the department is completed it will not be rolled out in full. Currently there is only one IT officer for</p>			<p>USD 1,700,257. This amount has been removed from the recovery table.</p> <p>15 (b) The LFA will review additional documents if provided by NDOH.</p> <p>15 (g) Since NDOH has resigned from its role as the PR of the Global Fund Grants, the Secretariat may consider PR’s request for additional IT support to implement this recommendation.</p>

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<p><i>implemented;</i></p> <p><i>d) The PR should ensure that grant funds are used solely for program purposes consistent with terms of the grant agreement;</i></p> <p><i>e) The PR should take steps to ensure the accurate identification of expenditure by donor within the accounting system, and establish a mechanism to track funds available under each grant in the trust account;</i></p> <p><i>f) The PR should establish and maintain an effective and secure check register and related records; and</i></p> <p><i>g) The use of private e-mail for official purposes should be</i></p>	<p>the department with a limited budget to service over 1200 staff. The GF grants do not provide for additional IT support. Immediate implementation</p>			

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<i>stopped.</i>				
<p>Recommendation 16 – Priority significant</p> <p><i>To ensure more effective management of tangible assets:</i></p> <p>a) <i>Program assets should be tagged with unique item numbers appropriately referenced in the asset register and individual sign offs should be obtained to evidence transfer to the users of program assets;</i></p> <p>b) <i>The PR should ensure that valid legal title to program vehicles is held in the name of the PR, and appropriate insurance cover obtained for critical and high value assets; and</i></p> <p>c) <i>Steps should be taken to</i></p>	<p>NDOH accepts these recommendations</p> <p>Immediate implementation</p> <p>NOH cannot see the fairness in reimbursing the original cost of stolen assets to the program. Logically, the requirement should be to ensure the continued use of a resource of the same or similar specification at a cost up to the ‘depreciated’ value of the original asset. Assets which were lost, stolen or damaged, while in use have a ‘replacement’ value lower than the original cost to reflect the degree to which it has been ‘used up’ in the period prior to its loss, theft or damage. NDoH undertakes to replace stolen assets and there are internal policies regarding this. It can take some time for those internal processes to come to fruition. Asset verification is being carried out as</p>			<p>For NDOH: Recommendation has been modified.</p> <p>As per Article 20 of the contract: "The PR shall be solely liable for the loss or theft of or damage to any and all the items purchased with Grant Funds (including those in the possession of SR), and, immediately upon any such loss, theft or damage, shall replace such items at its own expense in compliance with the procurement requirements set forth in Article 18 & 19."</p> <p>Based on the above clause, the assets should be replaced by the PR. The stolen assets are reported in the recovery table at</p>

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<p><i>ensure that appropriate action is taken in all cases of loss or theft.</i></p> <p><i>Stolen assets amounting to USD 45,147 (USD 30,110 and USD 15,037) should be replaced by the PR.</i></p>	<p>part of the new-PR transition process and efforts will be made to secure replacement assets for those stolen during this time. Also it is important to note that the PR has already been penalized by the GFATM secretariat for stolen vehicle, with the cost of that vehicle being deducted off the grant budget.</p>			<p>the purchase value. The written down value of assets cannot be determined. The PR to provide evidence to the Global Fund Secretariat for the refund of the stolen assets e.g. evidence of fund transfer to the program account. The OIG requests the Global Legal Unit to provide its opinion on how to determine the value or amount to be replaced by the PR</p>
<p>Recommendation 17 – Priority significant</p> <p><i>To strengthen internal control over the payroll system:</i></p> <p>a) <i>The PR should strengthen controls over payroll processing by the third party vendor by establishing a monitoring process. The</i></p>	<p>NDOH accepts these recommendations</p>			<p>For NDOH: OIG maintains its recommendation.</p> <p><i>Excess payment of management fee by USD 57,061: Additional supporting documents submitted by the PR do not provide the basis for computing management fee paid to the payroll vendor.</i></p>

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<p><i>PR should review all monthly reports to ensure accuracy of payroll processed and paid to employees;</i></p> <p><i>b) The existing payroll agreement with the vendor should be reviewed with a view to incorporating necessary clauses for safeguarding the PR's interests; and</i></p> <p><i>c) The PR should ensure that the final selection of an employee is signed off by all panelists, to ensure that all selection criteria have been met.</i></p> <p><i>Following amounts should be reimbursed to the Program: 1) Management fees amounting to USD 57,061 paid on unpaid salaries and allowances; 2) Payment of USD 4,622 to the payroll vendor not</i></p>	<p>NDOH accepts the procedural recommendations but challenges the assertion regarding reimbursement of both management fees and unsupported salary payments. NDOH will endeavor to recover the missing documentation but would argue that the presence of the staff member at his or her place of work as evidenced by the individual's line manager and other available means would provide satisfactory if not ideal justification for the salary payments in question. Should it be found that the staff member did not fulfill their employment responsibilities during that time, NDOH will of course comply with the reimbursement and seek a settlement from the service supplier.</p>			<p><i>Unsupported payroll payment of USD 4,622: The PR has not provided any documentation to support these payments.</i></p>

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<i>supported with necessary documents.</i>				
<p>Recommendation 18 – Priority significant</p> <p><i>To improve internal control at provincial health offices:</i></p> <p>a) <i>The provincial offices should maintain a check register to record the details of checks issued to the employees or vendors; and should establish an advances monitoring system at each office.</i></p> <p>b) <i>Effective backup of financial and programmatic data should be carried out on a regular basis.</i></p> <p>c) <i>Provincial offices should prepare bank reconciliation statements on a prompt and regular</i></p>	<p>NDOH acknowledges serious failings in the management practices of Provincial Health Offices. NDOH has begun a process and discussions with other donors that will see substantial resources directed towards strengthening the management and delivery systems at Provincial level.</p> <p>It needs to be noted that due to the Organic Law which decentralized the health system in PNG, the National Department of Health (which is the PR) does not have line authority over the Provinces. It also must be recognized by the OIG that many Provinces have limited resources, and in most cases the Provincial trust accounts have only one finance officer for the Province. Whilst the NDOH advocates strongly to the Provinces to improve financial management, this is often difficult to implement without the HR resources. Funds charged to the R3 malaria program in excess of or outside of agreed budgets will be reviewed and if OIG findings prove to be accurate NDOH will seek redress from the provincial administration. However, please refer to the response to recommendation 6 d above. The level of budget to which the PR is accountable under the grant is at the objective/SDA level. The figures quoted are in excess of a much lower and detailed level of the budget. NDOH does not believe that detailed budgets to this level represent anything more than</p>			<p>For NDOH: The budget should be monitored at activity level. Therefore, expenses (USD 42,035) that are incurred in excess of the approved budget should be reimbursed to the Program.</p>

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<p><i>basis; and maintain an asset register for proper tracking and monitoring of fixed assets.</i></p> <p><i>d) Vendor invoices and other supporting documents should be cancelled and stamped as 'Paid' after processing payments to avoid duplicate processing and checks should be crossed as 'Not negotiable'.</i></p> <p><i>Expenses (USD 42,035) in excess of the approved budget should be reimbursed to the Program.</i></p>	<p>a strong advisory.</p>			
<p>Recommendation 19 - High Priority</p> <p><i>To improve management and oversight of Sub-Recipients:</i></p> <p><i>a) The PR should maintain records documenting in</i></p>	<p>NDOH accepts these recommendations. NDOH has now advised SRs that all Global Fund reporting must be done net of GST so that delayed reclaims do not affect their reported expenditure. However, it must be recognized that any delays in reclaims could have an impact on SRs' cash position.</p> <p>New procedures have already been implemented. Excess disbursements will be recovered and</p>			<p>19 (d) Acknowledging the important role of WHO to the Global Fund program implementation, there is a need for Global Fund Secretariat to develop and agreement/ template</p>

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<p><i>detail the results of assessments of the capacity of existing and potential SRs; and strengthen the existing monitoring arrangements for effective monitoring of expenses charged by the SR and their performance. Ineligible expenses should not be charged to the sub grant.</i></p> <p><i>b) The PR should maintain a central repository of all SR-related documents. Sub-grant agreements should be consistent with the overall grant agreement and the duration of sub-grant agreements should not exceed the term of the grant agreement.</i></p> <p><i>c) The PR should establish effective arrangements to monitor the funds</i></p>	<p>returned to GFATM. GST related over-reporting of expenditure will be rectified in future EFRs.</p>			<p>considering compliance to the rules and regulations of both the organizations.</p> <p>In addition, since WHO is a UN agency and is guided by its internal accounting and auditing arrangements, OIG recommended the PR to review its existing arrangement with the WHO and not to treat WHO as sub recipient This exception will not apply to other sub recipients.</p> <p>19 (e) For SRs: GST payment made by the SRs has been removed from the recovery table and recommendation has been modified.</p> <p>The PRs should make</p>

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<p><i>disbursed to SRs and the amounts liquidated by them. The PR should ensure that disbursements are not made prior to liquidation of previous advances and total disbursements should not exceed the budgeted amounts.</i></p> <p>d) <i>The PR should review the existing Sub-Recipient arrangement with WHO, keeping in view the fact that the WHO is guided by its internal accounting and auditing arrangements and may not be able to comply with the accounting, auditing and reporting requirements which are applicable to other SRs under the grant.</i></p> <p>e) <i>PRs should make efforts to obtain an exemption from payment of taxes</i></p>	<p>NDOH finds this recommendation to be somewhat contradictory. The draft report appears to be proposing that NDOH make an exception for WHO after finding fault with NDoH for signing the SR agreement with WHO and for not obtaining the supporting documentation and auditing rights required under the PR agreement. NDOH believes the exceptionality might fairly be extended to other recipients.</p> <p>Discussions with WHO and the GFATM Secretariat will see provisions in the future for WHO to be made a service provider rather than a sub-recipient, whilst GFATM and WHO continue discussions at the highest level around these issues between grant agreement terms and conditions, and WHO’s audit policies. This is beyond the control of any PR, and an internal matter for GFATM to rectify.</p>			<p>continuous efforts to obtain an exemption from payment of taxes and duties on purchase of goods and services under the Global Fund grants.</p> <p><i>Unsupported disbursement to SR (USD 154,235):</i></p> <p>NDOH has not provided supporting document to evidence that excess amount has been credited back to the Global Funds program.</p> <p>The excess disbursement of USD 154,235 made to the SR should be reimbursed to the program.</p>

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<p><i>and duties on purchase of goods and services under the Global fund Grants.</i></p> <p><i>The excess disbursement of USD 154,235 made to the SR should be reimbursed to the program.</i></p>				
<p>Recommendation 20 - High Priority</p> <p><i>To improve SRs' financial management performance:</i></p> <p><i>a) SRs should carry out periodic internal audit review of sub grants to strengthen the internal control environment in which they operate;</i></p> <p><i>b) SRs should comply with the conditions stipulated in sub-grant agreements, including requirements for the submission of reports;</i></p>	<p>20 (a) to 20 n NDOH accepts all the recommendations and are taking steps to either provide justifications or seek reimbursement from those SRs referred to in Annex 2.</p> <p>20 (o) NDOH has taken steps to recover unbudgeted expenses from SRs. However, in the case of NCAO, it should be pointed out that the proposed reimbursement has resulted in considerable anguish and reluctance on the part of the organization, which is an important provider of HIV treatment and other services in PNG, to engage with GF grants again in the future.</p> <p>NCAO does acknowledge that there were limitations to its accounting systems which it is taking steps to rectify. The expenses audited were incurred several years ago when NCAO's systems were not well established and when</p>			<p>For NDOH and NCAO: 20 (o) The PRs and SRs should maintain adequate documentation to support the expenses incurred under the Program. Ineligible expenses identified by the OIG should be reimbursed to the program.</p> <p><i>Additional supporting documents:</i> <u>Reference no. T13.6:</u></p> <p>The bank statement provided by the SR</p>

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<p>c) <i>SRs should follow generally accepted accounting practices for the recording of income and expenditure. Necessary policies and procedures should be defined and circulated to employees involved in implementation of the sub grants;</i></p> <p>d) <i>SRs should define appropriate procedures for monitoring expenses against the budgets approved by the PRs, including arrangements and responsibilities for identifying the reasons for variances and verifying accuracy of the reported information;</i></p> <p>e) <i>Expenses should be incurred in conformity with the approved sub-grant budget and in case of any deviation, prior</i></p>	<p>administrative staffing was limited. The situation is complex as each diocese accounts for its own income receipts and expenditures, so NCAO is reliant on each diocese supplying and retaining copies of the correct documentation. NCAO also has no control over the remuneration paid to workers by each diocese.</p> <p>It is also the case that NCAO never received a copy of a detailed line-item budget from NDOH, so could be said to be completely innocent of the charge that it incurred “unbudgeted” or “ineligible” expenses.</p> <p>The fact is the money given to NCAO under the Round 4 grant was spent honestly, wisely and to great effect. NCAO has been an important player in the response to HIV in PNG and has clearly demonstrated the capacity to deliver services to the most remote areas. NCAO is responsible for scaling up services in treatment, testing, counseling and care and PNG’s achievements in this area are largely due to the dedication of staff at facilities and the commitment of the national coordinator to ensure that services are available and that quality is maintained.</p> <p>In order to achieve this high success rate in service delivery NCAO has operated largely in an emergency mode, without understanding the need to pay sufficient attention to many of the processes required for auditing purposes. They also operate in remote areas where there are</p>			<p>evidences transfer of funds from JTAI to WV. However, the SR has not provided the documentation that substantiate expenses incurred by World Vision on behalf of JTAI such as fuel invoices, salary slips of drivers, timesheets of drivers and other supporting documents</p> <p>The proof of payment of expenses incurred by WV is not available. In addition, there is no approval from the Global Fund Secretariat for such arrangement i.e. the funds and activity allocated to JTAI however being performed by World Vision.</p> <p>The Secretariat should clarify if such arrangement was approved by them.</p>

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<p><i>approval should be obtained from the PR;</i></p> <p><i>f) Checks should be signed by at least two authorized bank signatories and bank reconciliations should be prepared on a monthly basis and reviewed by an independent person;</i></p> <p><i>g) Invoices should be cancelled as 'Paid' after payment processing;</i></p> <p><i>h) Disbursement and settlement of advances should be monitored systematically effectively;</i></p> <p><i>i) SRs should put in place systems to tag appropriate assets with a unique identification number and details of assets should be recorded in the fixed</i></p>	<p>limited suppliers and they rely on local people within parishes to support building and other activities. The period of NCAO activities that OIG auditors reviewed is very much the early stage of their operations. As NCAO has grown, their systems have had to be reviewed and AusAID is actively supporting NCAO to improve their financial and HR systems to meet donor requirements.</p> <p>NDOH has taken steps to recover unbudgeted expenses from NCAO. CCM View: HOWEVER the CCM submits that it is unreasonable to request reimbursement from NCAO. CCM is confident that all monies were used appropriately in carrying out the activities approved under the grant, even though the correct documentation for audit purposes may be absent.</p> <p>NDOH is seeking further justification of these expenses from Hope Worldwide. As with NCAO, the output and effect of Hope Worldwide's work in the TB and HIV programs need to be acknowledged. The CCM and NDOH have no doubt that all the money received by HWW was put to good use and for the intended purpose. NDOH is seeking further justification of these expenses from the SRs concerned.</p>			<p><u>Reference no. R5.6.1:</u></p> <p>There is no change in the finding since no documentation has been provided by the SR for payment of drivers salary.</p>

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<p><i>assets register. The SR should carry out physical verification of program assets on periodic basis;</i></p> <p><i>j) Where appropriate, annual maintenance contracts for critical assets should be established once manufacturers' warranty periods are over;</i></p> <p><i>k) Month-on-month payroll reconciliations should be prepared by the SR to identify significant variations, if any, in payroll related payments;</i></p> <p><i>l) SRs should retain appropriate documentation for all staff-related payments made to dioceses; and</i></p> <p><i>m) SRs should establish a</i></p>	<p>NDOH is seeking further justification of these expenses from Hope Worldwide. Negotiations are taking place with the SRs concerned to recover the unbudgeted amounts.</p> <p>Negotiations are taking place with HWW concerned to provide adequate justifications for unsupported expenses</p>			

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<p><i>process for preparing and using purchase requisitions, purchase orders and goods received notes; and should ensure segregation of duties where appropriate to improve control and reduce risk.</i></p> <p><i>n) Expenses should be incurred in line with the approved Sub Grant budget. In case of any deviation, a prior approval should be obtained from the PR, if required.</i></p> <p><i>o) The following amount should be reimbursed to the Grant (see Annex 2).</i></p> <ul style="list-style-type: none"> <i>• Unbudgeted expenses for total of USD 219,390 (NCAO for USD 40,688 (PGK 103,796), JTAI</i> 				

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<p><i>for USD 865 (PGK 2,206);</i></p> <ul style="list-style-type: none"> <i>• Budget overruns of USD 177,837 (PGK 453,667) by NCAO;</i> <i>• Unsupported payroll expenses by HWW, amounting to USD 74,715 (PGK 190,599);</i> <i>• Unsupported vendor invoices or proof of delivery for total of USD 78,013 (PGK 199,012 consisted of HWW for USD 15,286 (PGK 38,995), NCAO for USD 54,125 (PGK 138,074) and JTAI for USD 8,602 (PGK 199,012); and</i> <i>• Absence of supporting</i> 				

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<p><i>documents for USD 16,295 (PGK41,570) for HWW</i></p>				
<p>Recommendation 21 - High Priority</p> <p><i>The National Department of Health should take appropriate steps to:</i></p> <p><i>a) Improve the quality of input data used for quantifying drug needs, by introducing standardized stock records in health facilities, regular monitoring and coaching of health facility pharmacies, ensuring that health facility data on drugs and medical supplies are transmitted timely and accurately to the intermediate level, and ensuring timely transmission of data</i></p>	<p>NDOH accepts these recommendations although the capacity challenges in this area are real. The Minister and Acting Secretary for Health are determined to reform the Medical Supplies Branch and improve the Department’s capacity in forecasting and drug inventory management. Weaknesses in the administrative capacity of Provincial Health Divisions exacerbate this problem.</p> <p>Significant reforms are beginning to take place in Procurement. A number of suspensions and charges have been laid within the last two months, including personnel who have previously been involved in the procurement committee. AusAID is supporting the NDOH to outsource the procurement of 100% kits and distribution for the next 3 years, to support the significant changes that are required in the area of procurement.</p>			

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<p><i>from the intermediate to the national level with cross checking of data;</i></p> <p>b) <i>Improve the tools used in the quantification of drug requirements, by including information such as past and current numbers of patients, the expected growth in the number of patients, shelf life and required buffer stocks based on estimated lead times and stock in hand. The quantification tool should be validated by an independent organization; and</i></p> <p>c) <i>Carry out a complete review of forecasting techniques and methods. Periodic review and monitoring of stock records at Area Medical Stores as well as Health Facilities is required to</i></p>				

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<p><i>ensure a degree of accuracy in forecasting. There is a need to provide adequate training in inventory management at health facilities and stores. Examples of good inventory management systems like the HIV Heduru Clinic should be replicated.</i></p>				
<p>Recommendation 22 - High Priority</p> <p><i>The OIG considers there would be merit in establishing an independent procurement committee to strengthen the purchasing activities of the National Department of Health, to collaborate with other health partners' procurement units to share good practices and price information, and to adopt good tendering practices to</i></p>	<p>NDOH accepts this recommendation. Significant reforms are beginning to take place in Procurement. A number of suspensions and charges have been laid within the last two months, including personnel who have previously been involved in the procurement committee. AusAID is supporting the NDOH to outsource the procurement of 100% kits and distribution for the next 3 years, to support the significant changes that are required in the area of procurement.</p>			

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<i>obtain improved value for money through transparent and competitive bidding.</i>				
<p>Recommendation 23 – Priority significant</p> <p>a) <i>The PR should maintain a purchase register to record all purchases made under the program and keep detailed records indicating receipt and use of goods and services, the nature and extent of solicitations of prospective suppliers of goods and services acquired, and the basis of award of contracts and orders;</i></p> <p>b) <i>The PR should conduct periodic evaluations of vendors based on defined parameters; and</i></p> <p>c) <i>The PR should</i></p>	<p>NDOH accepts these recommendations Immediate implementation</p>			

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>periodically report on the price and quality of health products procured under the program through the Global Fund's website. The LFA should regularly verify details uploaded on the PQR information system.</i></p>				
<p>Recommendation 24 – Priority significant</p> <p><i>The PR should carry out periodic reconciliation of LLINs supplied by RAM to district offices against quantities distributed to beneficiaries. The PR should maintain a list of beneficiaries with acknowledgements of receipt.</i></p> <p><i>The PR should replace 80,000 bed nets having purchase value of USD 384,000.</i></p>	<p>NDOH accepts these recommendations Immediate implementation</p> <p>NDOH and RAM reject the recommendation that the full cost of the stolen bed nets (\$384,000) be reimbursed or that the bed nets be replaced. Justification for this position is set out below and also discussed in the Narrative.</p> <p>a) These items were stolen during an aggravated attack on the provincial store by a large number of local residents.</p> <p>b) Given the security situation in Papua New Guinea, it was not advisable for provincial health staff to obstruct the mob in any way. Staff should not have put their own safety in jeopardy to protect the nets.</p> <p>c) It is clear that this is a case of ‘force majeure’ and although the grant agreement might be unequivocal on the issue of lost or stolen items, NDOH and RAM are confident that any court or</p>			<p><i>Stolen bed nets: For NDOH & RAM</i></p> <p>Based on the country comments, OIG requests the Global Legal Unit to provide its opinion on the need to of NDOH to replace the 80,000 stolen bed nets amounting to USD 384,000 based on the following:</p> <p>As per Article 20 of the grant agreement: "The PR shall be solely liable for the loss or theft of or damage to any and all</p>

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	<p>arbitration service would agree with the country assessment and rule the OIG recommendation for 100% reimbursement unjust.</p> <p>d) There is no evidence that the people who took the nets profiteered from the theft. In fact there is strong evidence that, far from attempting to sell the nets, they were actually distributed amongst the local population and were very quickly being used for the purposes intended within the communities intended.</p>			<p>the items purchased with Grant Funds (including those in the possession of SR), and, immediately upon any such loss, theft or damage, shall replace such items at its own expense in compliance with the procurement requirements set forth in Article 18 & 19."</p> <p>OIG is of the opinion that this is not covered under the clause of 'force majeure' since this is an incidence of theft and not a natural and unavoidable catastrophe.</p> <p>Given the security situation, the PR should obtain adequate/ comprehensive general liability insurance with financially sound and</p>

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				reputable insurance companies to safeguard the Global Fund resources.
<p>Recommendation 25 - High Priority</p> <p><i>The National Department of Health needs to strengthen distribution monitoring of LLINs to ensure that grant aid is deployed effectively.</i></p>	<p>NDOH accepts these recommendations Immediate implementation</p>			
<p>Recommendation 26 – Priority significant</p> <p><i>(a)-There is a clear need to improve value for money in product selection by greater use of competitive tendering, perhaps by bundling together annual requirements and following competitive procurement processes; and</i></p> <p><i>(b)- The PR should institute independent quality inspection of drugs procured</i></p>	<p>NDOH accepts these recommendations Immediate implementation</p>			

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>under Global Fund grants in line with Global Fund Quality Assurance policy, obtain quality certificates from suppliers, and strengthen tracking and inventory management systems in Area Medical Stores and health facilities, for example to facilitate monitoring stock by batch numbers.</i></p>				
<p>Recommendation 27 - High Priority</p> <p><i>OIG recommend that the RAM should revisit its existing payroll arrangement with NLA to ensure that the amounts charged by NLA are a reasonable representation of the costs and effort involved in managing the HR engagement.</i></p>	<p>RAM accepts this recommendation. The issues raised have been addressed and NLA now provides the service on a cost plus basis by adding 20 per cent to all payments made on behalf of RAM.</p>		<p>December 2010</p>	
<p>Recommendation 28 - Priority significant</p> <p><i>a) Forecasting of LLIN requirements needs to be</i></p>	<p>28 (a) RAM accepts this recommendation</p> <p>28 (b) RAM: was not responsible for the distribution of</p>	<p>M&E Officers, Malaria Project Officer</p>	<p>Ongoing, Implemented in December 2010</p>	<p>OIG recommends that the LFA should verify the reconciliation of bed nets once finalized by the PR.</p>

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<p><i>reviewed, taking into account studies on longevity of the LLINs and assessments of distribution achieved. If appropriate, consideration could also be given to staggering the release of new LLINs to mitigate the risk of oversupply.</i></p> <p>b) <i>Given the discrepancy of 1.1 million between the number of LLINs received at districts and number of LLINs distributed, a stock taking of LLINs available at districts should be taken into consideration to support future forecasting. The PR may wish to consider whether any further procurement of LLINs should be reconsidered until such time that 1.1 million bed nets have been fully reconciled and accounted for.</i></p>	<p>nets to households during this period, only delivery to District level. The NDOH has taken the responsibility to verify the distribution of the Round 3 nets. It must be noted by the OIG that at no time during the implementation of the Rd 3 grant did NDOH receive advice from either the GFATM Secretariat or the LFA that the final reports that the provinces prepared for the NDOH were not sufficient evidence for the Global Fund. This is a very serious error which needs to be rectified by the GFATM Secretariat and communicated to LFAs so that all are clear as to what can be accepted as verified documents. It is also important to highlight that the conditions and expectations under the Round 3 grant were less stringent than the current risk adverse climate that the GF is operating in.</p> <p>The NDOH has carried out a reconciliation of all the bed nets distributed under Round 3, which included contacting provinces without final reports or verification documents to provide a statutory declaration on the number of nets distributed. This exercise has meant that the difference between number of nets procured and distributed has significantly been reduced from the 1.1million nets stated in the OIG draft report to approximately 230,000 (and still reducing). The NDOH is still in the process of verifying the final documents.</p>			
<p>Recommendation 29</p>				

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p>High Priority</p> <p><i>The RAM should adopt more competitive and transparent methods for the procurement of LLINs. Given some limitations in the PR's procurement capacity, consideration could be given to procuring LLINs using voluntary pooled procurement, a procurement agent, or with assistance from the newly appointed Procurement Manager in the National Department of Health through a system of multi-stage approvals to cover approval of tender documents, approval of bidders lists, approval of minutes of tender opening, approval of independent committee evaluation reports and approval of contracts.</i></p>	<p>RAM has already adopted a more competitive and transparent bidding process for the procurement of LLINs in line with recommendations. RAM does not agree that it has any limitations in its procurement capacity. RAM practiced private sector processes in order to get the best possible price for the Global Fund whilst at the same time getting the best possible product for Malaria prevention in Papua New Guinea. RAM has worked closely with the procurement specialist in NDoH. The multi-level approval stages will be adopted in accordance with OIG's recommendations.</p> <p>Implemented immediately</p>		<p>June 2011</p>	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p>Recommendation 30 - High Priority</p> <p>a) <i>RAM should introduce a process for conducting periodic physical verification of inventory and retain documentary evidence of physical counts.</i></p> <p>b) <i>The PR should ensure that all expenses charged to Global Fund grants are in compliance with grant budgets and the terms of the PSM plan approved by the Global Fund. The PR should obtain prior approval from the Global Fund for any deviations from grant terms and conditions.</i></p> <p>c) <i>The acceptability of overhead fees charged to the grant should be</i></p>	<p>RAM agrees with the recommendations made in Recommendation 30(a) and has already included these recommended processes into RAM’s future procurement plans and processes.</p> <p>RAM agrees with the recommendations made in Recommendation 30(b) and reiterates that it has not made any major deviations from the approved budget and has always sought approvals prior to making any changes.</p> <p>30 c. RAM does not agree that the USD 270,947 needs to be reimbursed to Global Fund. This was a legitimate expense that was clearly shown in the approved PSM as an administration fee and thus should not need to be reimbursed. Had it been the case that RAM had unilaterally decided to add the administration fee as an afterthought and it had not been previously approved then RAM would understand the proposal to have this amount reimbursed. As this is not the case, RAM does not believe it should reimburse this amount.</p>			<p>For RAM: 30 (b) Based on the additional documents provided by the PR, OIG has made necessary changes to the report.</p> <p>30 (c) The PR has not provided any documentation to support its assertion that overhead fee was legitimate and was as per the approved PSM plan. The Secretariat should clarify this issue, if this has been approved by them. Furthermore, OIG recommends that opinion should be obtained from the Global Fund Legal Unit.</p>

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<p><i>reviewed with the Global Fund Secretariat and USD 270,947 charged to the Grant as overhead fee should be reimbursed to the Grant.</i></p>				
<p>Recommendation 31 – Priority significant</p> <p><i>Quality and quantity assurance for LLINs should be strengthened by conducting pre-shipment inspections and testing, and random testing at local level. To reduce the risk of oversupply of LLINs, a consideration to monitor the survivorship and durability of existing LLINs based on the Guidelines for Monitoring the Durability of LLINs under Operational Conditions recently published by WHO.</i></p>	<p>RAM acknowledges this recommendation and will ensure that LLINs are subject to pre- and post-delivery inspection and testing once the level of testing has been advised by Global Fund</p>			
<p>Recommendation 32 -</p>	<p>RAM agrees with the recommendations of Recommendation 32(a). Once the phase 2</p>			

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<p>Priority significant</p> <p>a) <i>More rigorous adherence to procedures and practices in conformity with the approved PSM plan is urgently needed. To safeguard against theft and sale in open market of LLINs, OIG recommends prominent labeling of bales and LLIN packs to indicate that they are government supplied and not for re-sale.</i></p> <p>b) <i>Physical security needs to be strengthened immediately at all storage sites and the PR should explore options for using Area Medical Stores for the interim storage of LLIN containers.</i></p>	<p>supplier is known RAM will instruct the supplier to mark all bales in accordance with this recommendation.</p> <p>32 (b) RAM acknowledges that the security issues in PNG make delivering of services and products high risk to the Global Fund. RAM agrees that in a perfect PNG, the Area Medical Stores should be used for the storage of containers of LLINs. However, there are only four Stores in the whole country and they do not have space, and are of very poor condition, as outlined in the Ministerial Medical Supplies Taskforce Report in 2008. Hence the reason why refurbishment of three of the stores has been included in the Round 10 HSS proposal. RAM always ensures that extra reinforcement on containers is in place, and always works with the Provinces and Districts to identify the most secure locations for the LLIN storage. RAM will continue to strive to provide the utmost security for all LLINs procured through GFATM as well as its own additional programmes that are not funded by GFATM, but the Rotarian community at large.</p>			
<p>Recommendation 33 –</p>	<p>PSI acknowledges the importance of the recommendation. PSI/PNG procedures are now</p>	<p>Operations Manager</p>	<p>March 2011</p>	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p>Priority significant</p> <p><i>The PR should ensure that the global policy of the organization is adhered to and, in case of any deviation, prior approval should be obtained from senior management. Checks should be crossed and signed by two signatories as required by the PR's policies.</i></p>	<p>in compliance with PSI's global policy and the system has been strengthened to ensure adherence, as outlined below. In the case of check signing, PSI implemented dual signing in Oct 2010. In addition, PSI has implemented crossing checks worth K500 (i.e. equivalent to US \$200) or more since July 2011. The limit of K500 for crossing checks was established to allow flexibility for cashing checks issued for small values and also to provide flexibility for cashing checks by people who do not have bank accounts. PSI notes that this practice is not documented clearly in the current version of the PSI manual but PSI commits to updating the manual to reflect this practice by March 2012.</p>			
<p>Recommendation 34 - High Priority</p> <p>a) <i>The PR should ensure that all contracts are awarded on a transparent and competitive basis and should retain supporting documentation of the procurement and decision processes; and</i></p> <p>b) <i>The PR should comply with requirements cited in the grant agreement</i></p>	<p>PSI acknowledges the importance of the recommendation and is committed to strengthening its procurement procedures. Currently, the Operations Director provides periodic orientations to its staff in order to inform them of the specific procurement requirements needed to be in compliance with GF (and other donor) grants. There has been a demonstrable improvement in adherence to PSI's procurement policies, e.g. ensuring adequate supporting documentation, the collection of adequate number of quotes, and facilitation of competitive bidding. PSI will continue providing guidance and orientation to staff to ensure compliance and transparency in its procurement practices.</p>	Operations Director	December 2010	

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<p><i>and adhere to the Global Fund's procurement guidelines.</i></p>				
<p>Recommendation 35 - High Priority</p> <p><i>a) Given the increase of MDR-TB, there is a need to conduct studies to review the magnitude of MDR-TB in PNG, and second-line therapies should be provided based on the increase of MDR-TB. Consideration should be given to the integration of HIV services with TB services. A TB/HIV co-infection and a MDR-TB management policy with regular and reliable TB and HIV drugs supply should be elaborated.</i></p> <p><i>The training and refresher training of community health workers in charge of</i></p>	<p>35 (a) NDOH agrees with this recommendation. It is being taken on in the review of the TB programme and subsequent development of the new STOP TB strategy 2011-2015. It is also highlighted as an area of priority in the HIV Strategy.</p> <p>35 (b) The National TB programme agrees that refresher training of CHW is an important activity. However the PR would like to note that the new training plan policy of the GFATM Secretariat is an extreme hindrance to any of this training, with the training plan submitted in April 2011 still not approved by GFATM.</p>	<p>NDOH Secretary and Disease Control Manager</p>		

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<p><i>TB patients should be carried out regularly through on-site training or other formal training.</i></p>				
<p>Recommendation 36 - High Priority</p> <p><i>a) Although HIV testing is one of the major successes in PNG's responses, the quality of service delivery in all sites should be strengthened in relation to the availability of rapid diagnostic HIV tests kits and reagents for laboratory testing; an effective system referral and linkages are in place and regular on-site formative monitoring; expansion of HCT beyond fixed stand-alone VCT facilities by implementation of mobile HIV testing; and</i></p>	<p>NDoH has undertaken a comprehensive participatory planning exercise to develop a 3-year Operational Plan (2011-2013) to guide the implementation of NDoH's responsibilities under the PNG National HIV and AIDS Strategy 2011-2015 (NHS). The specific activities detailed and costed in the Operational Plan, developed prior to the OIG recommendations being made available, are in concert with the recommendations contained in the OIG report.</p> <p>Action Plan:</p> <p>a) Addressing program quality and gaps in service delivery related to the national HIV Counseling & Testing (HCT) program is a priority under the NHS and NDoH's NHS Operational Plan. As such the NDoH Operational Plan 2011-2013 has prioritized the need for a comprehensive independent review of the national HIV Counseling and Testing program (HCT) (refer activity 1.1.1.1). TORs for this independent review are currently being finalised. The aim is to have the TORs finalised and contracting/funding procedures for the independent review to be confirmed and in place before the end of 2011; with the intention of the review commencing mid/late January 2012. NDoH expects the review</p>			

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<p><i>increasing the coverage of HCT at the local government level, particularly in rural areas.</i></p> <p><i>b) STI/HIV BCC activities in HIV testing, use of condoms and pregnant women testing in VCT centres should be strengthened in collaboration with groups of people living with HIV, local NGOs, community groups, community and faith-based organizations.</i></p> <p><i>As rape victims are becoming more and more numerous in PNG, and it is known that sexual violence has been clearly demonstrated as a risk factor for HIV/AIDS, friendly and easy access to post-rape care needs to be made available at all HIV</i></p>	<p>to provide a comprehensive range of recommendations to guide changes to the HCT program to enhance the quality of HIV Testing in PNG to be available by the end of March 2012.</p> <p>NDoH's NHS Operational Plan (OP) has planned for the scale up of HCT services and addressing quality gaps in the program. The range of activities detailed and costed in the OP will commence in the 2nd Quarter 2012, and will be further guided by the recommendations presented by the independent review of the HCT program. Some key features contained in the OP that are related to OIG recommendations include rolling out the Point-of- Care (POC) rapid HIV testing algorithm to all HCT sites, commencing with the nine higher priority provinces; strengthening referral pathways between HCT service and prevention, care, treatment and support services; Adopting the roll-out of Provider Initiated HIV Counseling & testing (PICT) in TB, STI and ANC services as the primary modality for increasing access to testing services in rural areas and moving away from the reliance on stand-alone VCT service sites; and increasing the role of PLHIV as valued service providers in HCT services throughout the country.</p> <p>b) The OP, following priorities established in the NHS, has planned and budgeted for the greater availability of prevention information and</p>			

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<p><i>clinics, by establishing comprehensive post-rape care protocols which include post-exposure prophylaxis and social mobilization activities.</i></p>	<p>commodities (including male and female condoms) in all HCT services. The availability of prevention and information and commodities are also a requirement of the national HCT guidelines and will be monitored and reinforced through a scales-up monitoring and supervision program to all HCT service, commencing in early 2012. A greater emphasis has also been placed on the ensuring HCT services meet the needs of priority target groups, including MSM, sex workers, young people, people exchanging sex, prisoners, and transgendered people.</p> <p>c) Universal access to quality STI and HIV PEP services for sexual assault cases and partners exposed to HIV in sero- discordant relationships, including increased availability in non-health settings, is a priority under both the NHS and the NDoH OP. The OP has planned for the creation of a national Core Working Group (CWG) to review current approaches to the provision of PEP with the view to strengthening and expanding accessibility to PEP services.</p>			
<p>Recommendation 37 – Priority significant</p> <p><i>a) The HIV/AIDS monitoring plan should be supported with a guideline on indicators calculation, descriptions</i></p>	<p>a) NDOH agrees with this recommendation. b) NDOH agrees with this recommendation. c) See point (b) above d) Key development partners are supporting NACS and NDOH in strengthening human resource and management capacity.</p> <p>Action Plan:</p>	<p>NDOH NACS</p>	<p>Ongoing 2011 -</p>	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>of monitoring tools and a written procedure guide concerning their use, appropriate data quality assurance, and data entry and back-up.</i></p> <p><i>b) Due to the inconsistency and inaccuracy of data reported, supervisory visits with in-service training to health facilities from provincial level should be organized on regular basis, perhaps quarterly. (Visits should be based on a supervisory framework and should give priority to monitoring tools, verification and data accuracy.) Health facilities that face reporting issues should benefit from more frequent supervisory visits.</i></p> <p><i>c) During supervisory visits, specific attention should be given to ensuring that ART sites clearly understand what</i></p>	<p>a) The National HIV and AIDS Strategy 2011-2015 Monitoring and Evaluation Framework provide the guidelines for selection of HIV indicators, their definitions, and methodologies. The NDOH Operational Plan 2011-2013 sets out the activities that will strengthen the strategic information systems, including quality assurance and SOPS for HIV indicators. This will be carried out in 2012 in conjunction with NACS and the National M&E Technical Working Group.</p> <p>b) Strengthening the consistence and accuracy of data collection, analysis, reporting and dissemination is a priority under the new National Surveillance Plan 2011-2013</p> <p>c) See point b) above.</p>			

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<p><i>data need to be reported against the number of adults/patients under anti-retroviral treatment.</i></p> <p><i>d) While the HIV/Aids unit uses a parallel reporting system, there will be no link between program data and surveillance, and the monitoring of data coming from facilities at provincial level. The Human Resource plan for enhancing the management capacity of the Department of Health and National Aids Council Secretariat should be developed, and M&E technical assistance recruited to strengthen the provincial level.</i></p>				
<p>Recommendation 38 – Priority significant</p> <p><i>a) Because the Global Fund Malaria grant M&E plan</i></p>	<p>38 (a) This recommendation has been implemented in the Round 8 Malaria Phase II application, and the system for verification of data has been strengthened significantly.</p>		M&E Adviser	Completed August 2011

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>is too generic, each PR should describe their own data flow, data verification system and arrangements for supervisory visits. The Department of Health should develop a system for verification of data supported by procedural guidelines which can be used at all levels.</i></p> <p><i>b) Because the consistency of reporting and accuracy of data are issues, more frequent supervisory visits should be provided at provincial level with technical assistance. Within the context of M&E system improvement, the malaria computer system should be strengthened.</i></p> <p><i>The M&E technical assistance should continue,</i></p>	<p>38 (b) The NDOH agrees with this recommendation and this is being addressed in the Phase II proposal, as described to the right.</p> <p>Action Plan: Completeness of data will be the focus throughout Phase II. To assist in the process, the GFATM Round 8 Phase 2 grant will directly support the MER Branch with a position currently in the IMR structure to work with the MERB selected staff to build the capability of the branch to analyse the data that is being submitted into the National HIS, as well provide comparison of IMR collected data and NHIS reports through modeling and analysis activities including time trends.</p> <p>In addition, this grant will provide training to the Provincial Malaria Supervisors and Provincial Health Information Officers (PHIO) currently employed through the provincial health government permanent health structures. This training will focus on project management, definitions of the indicator and collection methods in the Performance Framework, and supervisory skills that will include an evaluation component. Resources within the grant will be allocated to ensure provincial</p>			

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>to give more technical support to health facilities for improving their reporting.</i></p>	<p>based teams will have access to vehicles either through procurement or hire to permit the coordinators to conduct supportive regular supervision/monitoring visits.</p> <p>Support will continue for the ongoing skills development of M&E staff members currently employed through the Round 8.</p> <p>Additional resources will be directed to members of the malaria management team including the Project Officer, Logistics Coordinator, M&E Coordinator and Regional CPHL officers to ensure high level of supervisory and management skills are gained. This altered direction is supported through the TWG and NDoH NMCP and MERB senior management levels.</p> <p>38 (c) Agreed, ongoing TA for the M&E is budgeted throughout Phase II and will oversight the above activities</p>			
<p>Recommendation 39 - High Priority</p> <p><i>The CCM's arrangements should be strengthened by completing the establishment of a full range of tools, techniques and activities - including</i></p>	<p>The CCM has established an Oversight Committee, and to date the following has been achieved (with the support of TA funded by AusAID):</p> <ol style="list-style-type: none"> 1. Orientation session for members of the Committee, followed by a Workshop conducted by the CCM Manager of the GF Secretariat 2. CCM has endorsed Oversight Committee 	CCM	Completed though an item for ongoing work	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<p><i>completion of the manual and the implementation of field visits - to consolidate the effectiveness of the CCM's oversight role.</i></p>	<p>Terms of Reference; 3. A Draft Oversight Plan is under Review; 4. Proposed Arrangement for Oversight of Financial Management; 5. Scoping Paper for CCM Orientation / Retreat; Draft Revised Position Description for Secretariat Project Officer 6. Potential sources of funding for oversight visits and other activities of the Committee being reviewed 7. CCM Secretariat and PR staff (4 in total) have been trained in use of the Dashboard for implementation in the first quarter of 2012</p>			
<p>Recommendation 40 - Priority significant</p> <p><i>To improve the effectiveness and impact of grant oversight, the OIG recommend that, as part of the reform agenda initiated by the Global Fund Secretariat in 2011, consideration be given to establishing improved procedures for tracking and following up recommendations arising from the Secretariat's</i></p>	<p>The Secretariat has developed Grant Planning Tool (GPT), and that is being implemented by Country Teams in the Grant management Division in a phased manner. This tool essentially helps the Country team in compiling all the recommendations and effectively tracking various deliverables by the PRs.</p>	<p>IT department / FPM</p>	<p>31/12/2012</p>	

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Recommendations	Response and Action Plan	Responsible Person	Expected Completion Date	OIG Comments (where applicable)
<i>missions and LFA reviews.</i>				

Annex 3: Detailed Findings on Visits to Sub-recipients

1. **In relation to compliance with sub-grant agreements**, no independent audit of sub-grants received in Round 4 HIV/AIDS had been conducted by the national catholic AIDS Office or Hope World Wide to assess the efficiency and effectiveness of controls in place to safeguard Global Fund resources.
2. The OIG noted six instances under the Round 6 TB grant where quarterly financial reports had been submitted with delays between 9 and 156 days; and six instances where the quarterly financial reports were not submitted by the SRs. Review of quarterly and annual financial reports submitted by the SRs revealed discrepancies between the expenses reported in the financial reports submitted by NCAO for Round 4 HIV/ AIDS and expenses pertaining to that period according to the program's financial records. However, overall reconciliation of expenses did not indicate any instance of over or under reporting.
3. The OIG's **review of financial management procedures** indicated weak accounting controls at the National Catholic AIDS Office (NCAO) and Hope World Wide (HWW) for managing the sub grants received under Round 4 HIV/ AIDS:
 - HWW did not follow generally accepted accounting principles for recording income and expenditure;
 - NCAO did not have documented guidelines on asset management and payroll processing, and the financial accounting policy required strengthening to cover the approval and posting of financial transactions and travel authorizations;
 - Accounting software used by the NCAO lacked essential features and controls such as approval of transactions prior to posting to the ledger, the generation of unique transaction numbers, restriction of posting of transactions against a previous period or making changes to posted transactions, and controls against the posting of duplicate invoices; and
 - The SR did not close its books on a monthly or quarterly basis.
4. **Concerning budgetary control**, the OIG found that NCAO and HWW did not monitor the approved detailed budget against actual expenses on periodic basis to identify instances of unbudgeted expenses or budget overruns. Further, review of sample of Sub Grant expenses revealed instances of unbudgeted expenses amounting to USD 40,688 (PGK 103,796) in the case of NCAO and USD 865 (PGK 2,206) in the case of JTAI; and instances of budget overruns of USD 177,837 (PGK 453,667).
5. **In relation to treasury, cash and bank management**, OIG's review of banking procedures and controls in place over the bank payments showed that:
 - JTAI's project procedures manual required signature by two signatories on checks although in practice all checks were signed by only a single signatory;

- HWW did not prepare bank reconciliation statements on periodic basis; and
 - In the case of NCAO, there was no process in place for cancelling invoices as 'paid' after releasing payments; for independent review of bank reconciliations, or for monitoring and follow up of advances.
6. The OIG reviewed SR **asset management practices** and noted that:
- In the case of NCAO and JTAI, program assets were not tagged with a unique identification number and none of the assets were insured by the SRs. Additionally, JTAI had not recorded the details of assets purchased prior to 2010 in the fixed assets register;
 - NCAO and HWW did not carry out physical verification on a periodic basis to confirm the continued existence of assets and that assets and equipment were in use by the intended users;
 - NCAO had not established an Annual Maintenance Contract for assets not covered under warranty; and
 - JTAI had purchased IT equipment for USD 7,069 (PGK 18,033) in August 2010 but these assets were not issued to the program staff on timely basis, which can lead to inefficiencies in the implementation of sub-grants. The assets in question were lying unused in the warehouse at the time of the OIG's audit visit in October 2010. The OIG also noted that no safety devices such as fire extinguishers were available in the warehouse visited and assets were simply stacked on the ground.
7. OIG review of **the human resource and payroll function** at SRs revealed that:
- HWW and NCAO did not carry out month-on-month payroll reconciliations to identify and investigate variances;
 - In the case of HWW, payroll payments of USD 74,715 (PGK 190,599) were unsupported by appropriate documentation such as employment contracts, payroll sheets and bank transfer records; and
 - In the case of the NCAO, salary payments to VCT counselors amounting to USD 38,754 (PGK 98,863) were unsupported by corresponding employment contracts, payroll sheets and a Memorandum of Understanding with dioceses. Further, there was no mechanism in place to track leave absences and balances.
8. Concerning **procurement and inventory management**, the NCAO did not have a proper process in place for preparing purchase requisitions, raising purchase orders and goods received notes to evidence actual receipt of goods and supplies. Some incompatible functions, such as requesting quotes, vendor selection, ordering and receipt of goods, were not separated and were assigned to a single employee.

9. **As to verification of expenses**, OIG's review of sub-grant expenditures highlighted the following:

- 20 instances where sub-grant expenses of USD 78,013 (PGK 199,012) were not supported by vendor invoices or proof of delivery of goods and services; (this included USD 15,286 (PGK 38,995) for HWW, USD 54,125 (PGK 138,074) for NCAO and USD 8,602 (PGK 199,012) for JTAI.);
- An absence of supporting documents for expenses amounting to USD 16,295 (PGK 41,570) relating to HWW under Round 4 HIV/AIDS; In the case of JTAI, nine instances amounting to USD 21,183 (PGK 54,039) where the justification for sole source procurement had not been documented; and In case of NCAO, 15 instances amounting to USD 101,776 (PGK 259,632) where single quotations had been obtained without explanation for purchases, even though SR policy requires two quotations for every purchase; and
- Six instances where training expenses amounting to USD 18,625 (PGK 47,514) were not adequately supported by invoices for venue hire, meals or accommodation charges (although the conduct of these training events was confirmed by alternative means).

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Annex 4: Breakdown of Unsupported and Ineligible Expenditure

Particulars		Recovery Details (in USD) ¹²							Total	Ref. report Para #
		NDOH (PR)	RAM (PR)	PSI (PR)	NCAO (SR)	WV (SR)	JTAI (SR)	HWW (SR)		
Ineligible expenses:										
	Other donor charges reported in PU/DRs	11,575	-	-	-	-	-	-	11,575	48
	Other donor expenses charged to the Grant	68,924							68,924	48
Ineligible-Unbudgeted Purchases	Infrastructure and equipment	23,148	9,676	-	-	-	-	-	32,824	58 (i), 58 (ii)
	Payroll expenses	65,250	-	-	-	-	865	-	66,114	58 (i), Annex3 /4
	Training expenses	4,994	-	-	-	-	-	-	4,994	58 (i)
	Expenses relating to medicines and pharmaceuticals, Planning & Admin and PSM	-	-	-	40,688	-	-	-	40,688	101, Annex 3/4
Vouchers not provided for OIG review		156,683	-	-	-	-	-	16,295	172,978	80, Annex3 /9
Inadequate or Unsupported	Payment more than commitment (Payment more than PO value)	2,481	-	-	-	-	-	-	2,481	54
	Proof of delivery of goods/services not obtained (Payments as Advances)	480,052	-	-	-	-	-	-	480,052	65

¹² The original currency in PGK can be found in the report.

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	Unsettled employees advance (acquittal register)	138,782	-	-	-	-	-	-	138,782	61
	Unsettled vendor advances (acquittal register)	448,124							448,124	61
	Proof of delivery of goods/services not obtained (expenses)	166,642	24,859	-	54,125	-	8,602	15,286	269,514	65, Annex 3/9,
	Unaccounted Bed nets	120,723	-	-	-	-	-	-	120,723	109
	Excess management fee paid to JTAI	57,061	-	-	-	-	-	-	57,061	89
	Unapproved overhead fee	-	270,947	-	-	-	-	-	270,947	124
	Disbursement not supported by grant agreement (UNDP)	154,235	-	-	-	-	-	-	154,235	95
	Payroll Expenses	4,622	-	-	-	-	-	74,715	79,337	90, Annex3 /7
Budget overruns	Purchases of Project Vehicles	14,422	-	-	-	-	-	-	14,422	58 (i)
	Payroll expenses	-	-	-	177,837	-	-	-	177,837	Annex3 /4
	Planning and administration (Central Province)	42,035	-	-	-	-	-	-	42,035	92
	Unapproved purchases	9,603	-	-	-	-	-	-	9,603	58 (iv)
Stolen assets	Replace stolen office vehicle and computers (Note 1)	45,147	-	-	-	-	-	-	45,147	88
Stolen bed nets	Replace stolen bed nets	384,000	-	-	-	-	-	-	384,000	110
Total		2,398,503	305,482		272,650		9,467	106,296	3,092,398	

Note 1: The total cost of stolen vehicle and computer charged to the grant has been shown as ineligible. Written down value of these assets cannot be determined.