



The Global Fund
To Fight AIDS, Tuberculosis and Malaria

Office of the Inspector General

Inspection of the Processes Underpinning Grant Closure: Principal Recipients in Cameroon, Ghana, Nigeria and Zambia

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20 August 2013

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A. EXECUTIVE SUMMARY

Review assessed adequacy, effectiveness and compliance with grant closure policies	<p><u>A.1 Introduction</u></p>
Inspections in four countries	<p>1. The Audit Unit of the Office of the Inspector General (OIG) conducted an audit of the Global Fund’s grant closure processes. The objective of this review was to assess the adequacy and effectiveness of, as well as compliance with, established closure policies and procedures in ensuring that grants are wound down.</p> <p>2. Four inspections were conducted in April and May 2013 in Cameroon, Ghana, Nigeria and Zambia. They assessed the status of grant closure, and analyzed compliance with laid down procedures for a sample of grants with an end date in 2011 and 2012. The four countries were selected on the basis of the number of grants outstanding for closure and the cash balances held in country at grant-end. Fifty-one grants in these four countries should have been closed by 31 December 2012; we undertook a detailed review of 12 specific grants.</p>
80% of grants due for closure not yet closed	<p><u>A.2 Key Findings</u></p>
Consequences of delays in grant closure	<p>3. At the time of the inspections, 41 of the 51 grants due for closure in the four countries had not been closed. These delays were due to, <i>inter alia</i>, an onerous grant closure process, the lack of prioritization of grant closure and the lack of a final decision on recoverable amounts identified in audits and investigations. The Global Fund remained exposed to risk under these grants well after they should have been closed.</p>
Exact unspent cash balances held in country not known	<p>4. The consequences of not closing grants on a timely basis included, <i>inter alia</i>, the use of bank balances held in country after the grant end date, an increased administrative burden for Secretariat and Principal Recipient staff, and increased costs related to Local Fund Agents due to the need to re-verify bank balances over time.</p>
Bank balances lower than expected	<p>5. The inspections identified USD 4,286,021 still held in Principal Recipient bank accounts for the 12 grants reviewed in detail. Information relating to funds still held by sub-recipients and third parties was not consistently available. The correct cash balance at grant closure can only be determined after an assessment of the unspent cash balance is undertaken at country level.</p>
One of the grants reviewed fully compliant	<p>6. At the time of the inspections, cash balances were lower than at the grant end date due to their having been used for grant activities and for payment of bank charges after the term of the grant. While some expenditure had been pre-approved by the Secretariat, a total of USD 4,437,759 was spent in the four countries after grant end without Secretariat approval.</p>
	<p>7. Only one of the grants reviewed fully complied with the laid down grant closure processes. Areas of non-compliance identified related to failure to: (i) prepare core close-out documents; (ii) return cash held at country level at grant end date; and (iii) meet set timelines for closure.</p>

Close-out plans and budgets prepared late

8. The four inspections showed that close-out plans were prepared late by Principal Recipients. Principal Recipients did not fully comply with the conditions outlined in the grant close-out implementation letters sent to them by the Secretariat.

9. The following initiatives were underway at the Global Fund Secretariat at the time of the inspections to resolve some of the weaknesses identified:

- Inclusion of grant closure-related objectives in staff key performance indicators to ensure that the process is prioritized;
- The Finance “Step-Up” project which aims to, *inter alia*, streamline and automate financial information workflows, procedures, processes and systems. This will include the grant closure process;
- Identification and de-commitment of funds held in grants closed or under closure;
- Recovery of unspent balances at the time of approving the close-out plan instead of waiting for the conclusion of the closure process; and
- Use of the Business Analysis and Reporting Tool to provide grant closure-related information by region. This system can be used to flag to management grants due for closure.

A.3 Conclusion

Major improvements required in controls over grant closure

10. The OIG concludes that the controls evaluated require **major improvement** to ensure that grants are wound down. This means that “Numerous control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.”¹

Expedite closure of long-outstanding grants

11. Key issues noted from the inspections include the need to expedite the closure of long-outstanding grants and ensure compliance with laid-down grant closure processes. The audit team thanks the Country Coordinating Mechanisms and Principal Recipients in Cameroon, Ghana, Nigeria and Zambia, as well as the Global Fund Secretariat, for their collaboration in this work.

¹ See Annex 2 for the classification of our audit findings and recommendations.

B. MESSAGE FROM THE EXECUTIVE DIRECTOR OF THE GLOBAL FUND



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13th August 2013

MESSAGE FROM THE EXECUTIVE DIRECTOR

Audit of Grant closure processes

I would like to thank the Office of the Inspector General for its thorough and insightful work of the Global Fund's grant closure processes.

The Office of the Inspector General made a number of general recommendations in a consolidated audit report.

Specific observations are included in individual surveys of five regions and in a report based on inspections carried out in April and May of grant closures in four countries: Cameroon, Ghana, Nigeria and Zambia.

The audit was conducted from 4 March to 17 May 2013. It analyzed patterns in all 498 grants that should have been closed as at 31 December 2012 and undertook a detailed analysis of a sample of 50 grants from 30 countries across the five geographical regions in grant management.

The Office of the Inspector General's 2012 audit of "Processes Underpinning the Request to the World Bank to Disburse Funds and for Recording Income Received" identified US \$251 million as still committed for grants that had closed before 31 December 2011.

At the time of the audit, the Secretariat reported that this balance had reduced to US \$41 million.

Only one of the grants reviewed had a complete set of the documents that should have been collected as part of the closure process under the grant closure policy.

The audit noted that stakeholders at Secretariat and country level found the grant closure processes to be onerous, specifically due to the number of steps in the closure process and the number of documents that had to be completed.

The audit report also stated the Office of the Inspector General believes that not all the steps and documents are necessary for the closure process.

Changes in the way the Global Fund does business, through the new funding model and the single stream of funding will reduce the number of anticipated grant closures in future.

The audit contains four recommendations, of which one is "very high" priority and calls on the Secretariat to close all long outstanding grants, particularly those due for closure before 2012.

It also said consideration should be given to simplifying the process for completing long-outstanding grant closures and to setting up a one-time task force to support country teams in reducing the backlog of grant closures.

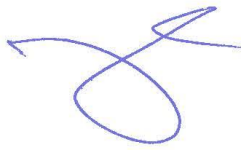
A number of steps were already being taken at the time of the audit to resolve some of the weaknesses identified.



Among these was inclusion of grant closure-related objectives in staff key performance indicators to ensure that the process is prioritized; embedding grant closure processes in the Finance “Step-Up” project which aims to streamline and automate financial information workflows; identification and de-commitment of funds held in grants closed or under closure on a quarterly basis (started April 2013); and recovery of unspent balances at the time of approving the close-out plan instead of waiting for the conclusion of the closure process.

The Office of the Inspector General provides an essential form of quality control for the Global Fund. It plays an indispensable role in helping us all achieve our mission of effectively investing the world’s money to save lives.

Sincerely



C. OVERVIEW

C.1 Introduction

Global Fund grants are time-bound and should be closed

12. Global Fund grants to countries are time-bound and should be closed no later than nine months after the end of their implementation period (anticipated closure) or when circumstances dictate their closure, e.g., when grants are terminated (unanticipated closure).

13. The Audit Unit conducted an audit of the Global Fund’s grant closure process. This report documents findings related to the inspections of the grant closure process in Cameroon, Ghana, Nigeria and Zambia.

C.2 Review Objective, Scope and Methodology

Inspection assessed adequacy and effectiveness of the grant closure process

14. The objective of this inspection was to assess the adequacy and effectiveness of as well as compliance with established closure policies and procedures at country level in ensuring that grants are wound down “effectively, efficiently, ethically and in a timely manner”.²

Cameroon, Ghana, Nigeria and Zambia

15. The inspection comprised field visits to Cameroon, Ghana, Nigeria and Zambia to verify the extent to which critical closure processes had been conducted. Specifically, we considered:

- Execution of grant close-out plans (including expenditures);
- Confirmation of cash balances held by the PR, SRs and other third parties; and,
- The disposal of assets in accordance with the close-out plan.

Review covered 12 grants across four countries

16. The inspection covered a sample of 12 grants in the four countries visited. The four countries were selected on the basis of the number of grants outstanding for closure and the cash balances held in country at grant-end. The grants reviewed are listed in the table below:

Portfolio	Grant End Date	Grant Number
Cameroon	31 December 2011	CMR-304-G01-H
	31 December 2009	CMR-304-G03-T
	31 December 2009	CMR-404-G04-H
	31 July 2011	CMR-506-G05-H
Ghana	30 April 2011	GHN-506-G05-T
	31 December 2012	NGA-H-CiSHAN
Nigeria	30 June 2010	NGA-407-G10-M
	14 February 2009	ZAM-102-G02-M
	25 July 2008	ZAM-102-G06-T
	31 December 2010	ZAM-405-G10-H
Zambia	31 December 2010	ZAM-405-G14-M
	31 December 2010	ZAM-708-G16-T

Table 1: Summary of grants reviewed

Review included document review, data analysis, interviews

17. The methodology of the review covered:

- Analysis of grant closure related data;
- Review of key policies and procedures and related documents;

² Grant closure guidelines

- Interview of relevant stakeholders at Secretariat and country level;
- Review of a sample of 12 grants in order to assess the extent of adherence to policy; and
- Verification of critical closure activities at country level.

C.3 Process improvements put in place by the Secretariat

Initiatives underway to strengthen closure process

18. We identified the following process improvements already underway within the Secretariat to strengthen the control environment around grant closure:

- Inclusion of grant closure related objectives in staff key performance indicators in order to ensure that the process is prioritized;
- Identification and de-commitment of funds held in grants closed or under closure;
- The Finance “Step-Up” project which aims to, *inter alia*, streamline and automate financial information workflows, procedures, processes and systems. This will include the grant closure process;
- Recovery of unspent balances at the time of approving the close-out plan instead of waiting for the conclusion of the closure process; and
- Maintenance of an online tracker system (the Business Analysis and Reporting Tool), which provides, *inter alia*, grant closure-related information by region. This includes data on grants closed, in closure and in progress, committed undisbursed amount, and the time elapsed since the grant end date. This system can be used to flag grants due for closure to management.

C.4 Reporting

Formal debrief held, after which a draft report was shared for comment

19. Exit debrief meetings were held at the end of the inspections with senior management in country and in Geneva to discuss all findings in detail, to ensure that the findings reported were factual and proposed recommendations were appropriate. A draft of this report was shared with Country Coordinating Mechanisms (CCMs), Principal Recipients (PRs) and the Global Fund Secretariat. Feedback received was incorporated in this report.

D. GRANT CLOSURE STATUS

Not satisfactory	At the time of the review, 80% of the grants in the four countries visited due for closure at 31 December 2012 had not been closed. The Global Fund remains exposed to risk under these grants well after they should have been closed.
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80% of grant due for closure not closed

D.1 Analysis of grant closure data

20. We reviewed the grant closure status at 31 December 2012 by identifying the number of grants that should have been closed since the inception of the Global Fund. This section gives an analysis of the total grant portfolio that should have been closed.

21. Forty-one (80%) of the 51 grants due for closure in the four countries inspected had not been closed at 31 December 2012 as reflected in the table below:³

Portfolio	Total grants signed	Due for closure	Closed	Outstanding
Cameroon	11	6	0	6
Ghana	14	6	2	4
Nigeria	22	15	5	10
Zambia	31	24	3	21
	78	51	10	41

Table 2: Ageing analysis of grants in closure

D.3 Contributors to delayed grant closure

Grant closures were delayed due to:

- Lack of incentives
- Onerous processes
- Late initiation

22. Through interviews with key stakeholders at Secretariat and country level, we sought to understand the underlying causes of delays and noted the following:

- *Grant closure not prioritized:* In-country stakeholders did not have incentives to close grants, i.e., the time allocated to closure was in their view better used to manage ongoing grants.
- *Onerous grant closure process:* Three quarters of interviewees described the closure process as onerous.
- *Late initiation of the process:* The initiation of the grant closure process often started later than required which affected the timely review, approval and implementation of grant closure activities.

³ I.e., grants with end dates of 31 March 2012 and earlier.

E. COMPLIANCE WITH GRANT CLOSURE POLICY AT THE COUNTRY LEVEL

<p>Major improvement needed</p>	<p>Only one of the 12 grant closures selected for review fully complied with policy and guidelines.</p>																		
<p>Conditions stipulated in grant agreement</p>	<p>23. We examined the 12 grants selected across the four countries to ascertain the extent of compliance at country level with policy. This was against the following key activities defined in Article 26 of the standard grant agreement and reflected in the operational policy note on grant closure:⁴</p> <ul style="list-style-type: none"> • Execution of grant close-out plans (including expenditures); • Confirmation of cash balances held by the PR, SRs and other third parties; and • The disposal of assets in accordance with the close-out plan. 																		
<p>Cash not returned to the Global Fund in a timely manner</p>	<p><u>E.1 Return of cash</u></p> <p>24. Cash balances were not transferred to the Global Fund immediately all commitments had been paid. The inspections identified the following cash balances at country level at the time of the inspections:</p> <table border="1" data-bbox="440 931 1294 1122"> <thead> <tr> <th>Portfolio</th> <th>Date of country visit</th> <th>Amount (USD)</th> </tr> </thead> <tbody> <tr> <td>Cameroon</td> <td>April 2013</td> <td>832,000</td> </tr> <tr> <td>Ghana</td> <td>May 2013</td> <td>743,596</td> </tr> <tr> <td>Nigeria</td> <td>May 2013</td> <td>539,912</td> </tr> <tr> <td>Zambia</td> <td>April 2013</td> <td>2,170,513</td> </tr> <tr> <td>Total</td> <td></td> <td>4,286,021</td> </tr> </tbody> </table>	Portfolio	Date of country visit	Amount (USD)	Cameroon	April 2013	832,000	Ghana	May 2013	743,596	Nigeria	May 2013	539,912	Zambia	April 2013	2,170,513	Total		4,286,021
Portfolio	Date of country visit	Amount (USD)																	
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Nigeria	May 2013	539,912																	
Zambia	April 2013	2,170,513																	
Total		4,286,021																	
<p>Information at SR level not available</p>	<p>Table 3: Cash at country level from 12 grants reviewed</p> <p>25. Information was not consistently available about funds held by sub-recipients (SRs) and third parties. The audit identified SR balances at grant end date amounting to USD 1,551,978 and USD 29,564 for two PRs in Zambia and Nigeria respectively. The actual cash balances at grant closure can only be determined after a detailed assessment of the unspent cash balances at country level, which was not within the scope of the inspections.</p>																		
<p>Close-out plans</p>	<p><u>E.2 Preparation, approval and execution of the close-out plan</u></p> <p>26. Global Fund policy requires that close-out plans be prepared to guide the grant closure process. Our review of the close-out plans showed the following:</p> <ul style="list-style-type: none"> • The activities listed in the close-out plans were typically part of good day-to-day grant management and should not have been isolated at grant closure, e.g., verifying assets and commitments; • The close-out plans were in most cases submitted late; and • Approved plans were not always complied with. 																		
<p>Consequences of delays in closures</p>	<p>27. With the exception of one grant,⁵ none of the 12 grants reviewed had been closed within nine months of grant end date. The consequences noted at the country level for not closing grants on a timely basis included:</p>																		

⁴ The requirements differ for grants to United Nations organizations.

⁵ The grant closure date for NGA-H-CiSHAN is 30 June 2013.

- Draw-down of bank balances by bank charges in all four countries. Bank accounts became dormant due to inactivity (Zambia), which raises the risk of loss of funds;
- Utilization of cash balances after grant end date, e.g., to buy medicines. In all cases analyzed, these activities were program-related, but did not always have prior approval from the Global Fund (see details below);
- Increased administrative load on PRs who had to maintain accounting records for these grants (Cameroon, Ghana, Nigeria and Zambia); and
- Increased Local Fund Agent (LFA) related costs since LFAs were requested to re-verify balances over time for grants that remained open (Nigeria, Ghana and Zambia).

Funds spent post grant end date

28. Expenses incurred after grant-end were typically program-related; however, they were not always approved by the Global Fund. The table below provides a summary of non-approved expenses identified at the time of the inspection:

Portfolio	Amount (USD)
Cameroon ⁶	240,538
Ghana	919,805
Nigeria	3,277,416
Total	4,437,759

Table 4: Expenditure incurred without Global Fund approval

E. 3 Use, transfer or sale of non-cash assets

Lists of non-cash assets not prepared

29. Lists of fixed assets and pharmaceutical products were not consistently prepared as required. PRs identified this requirement as one of the major road blocks to the grant closure process since it was time consuming and perceived as not adding value.

Non-cash assets were transferred as per plan

30. As provided for in the grant closure policy, non-cash assets were transferred as per approved plan.

⁶ The funds were used to procure anti-tuberculosis drugs after the grant end date but within the closure period. Formal justification for this was provided to the Secretariat following our inspection (27 June 2013).

Annex 1: Abbreviations

CT	Country Team
LFA	Local Fund Agent
OIG	Office of the Inspector General
OPN	Operational Policy Note
PR	Principal Recipient
SR	Sub-recipient

Annex 2: Classification of Audit Findings

Rating of Functional Areas

Each functional area reviewed (e.g., compliance) is rated as follows:

Effective	Controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Some Improvement Needed	Some specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Major Improvement Needed	Numerous control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Not Satisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and the Global Fund’s strategic objectives should be met.
Critical	An absence of or fundamental weakness in one or more key controls, or a serious non-compliance. Non-mitigation will jeopardize the achievement of the Global Fund’s strategic objectives. It requires urgent attention.

Annex 3: Inspection of the grant closure process in Cameroon

Background

None of the six grants due for closure closed

1. Out of 11 grants to Cameroon signed since the inception of the Global Fund, six grants were due for closure. None of these grants had been closed at the time of the inspection. The Cameroon inspection focused on four grants under closure:

Four grants in Cameroon inspected

Grant Number	Program End Date	Principal Recipient
CMR-304-G01-H	31/12/2011	Ministry of Public Health of Cameroon
CMR-304-G03-T	31/12/2009	Ministry of Public Health of Cameroon
CMR-404-G04-H	31/12/2009	CARE International in Cameroon
CMR-506-G05-H	31/07/2011	Ministry of Public Health of Cameroon

Table 5 :Summary of grants inspected in Cameroon

Preparation, review and execution of the close-out plans

One of four plans approved

2. Close-out plans had been prepared for all grants selected for review. Only one of the four plans had received approval from the Secretariat.

Close-out plans

3. A review of the close-out plans showed that:

- Although the Global Fund did not approve three of the four plans, closure activities, including asset disposal, took place in line with the drafted plans, with the exception of the final evaluation and printing of the lessons learned report (due to lack of funds);
- The Country Team undertook a review of the closure process for open grants during a country visit in February 2013;
- Most of the activities budgeted for under the close-out plans were part of regular PR grant management;
- The plans did not provide all the information required by the Secretariat, e.g., lists of pharmaceuticals, and commitments at grant-end; and,
- The final reports prepared contained the same information as the preceding PUDR, raising questions about the added value of such reports.

Multiple layers of review

4. The close-out plans were subject to three layers of review, by the CCM, the LFA and the Secretariat. These multiple layers of review were perceived by PRs to be duplicative and thereby unnecessarily lengthening the process.

Return of unused cash

USD 832,000 still held in country for one grant reviewed

5. At the time of the inspection, the cash balances (cash available at the bank minus outstanding commitment and closeout budget) held in country at PR level for one grant (HIV Round 5) reviewed amounted to USD 832,000. The three other grants had insignificant cash balances.

Consequences of holding large funds in country

6. Cash balances were not transferred to the Global Fund immediately all commitments had been paid. The consequences of not closing grants on a timely basis included, *inter alia*, the use of bank balances to fund program activities after the grant end date. For example, the TB Round 3 program had

used USD 240,538 of the cash balance at grant-end to purchase drugs.⁷ This procurement had been planned before the grant end date but was undertaken during the closeout period. A detailed justification was provided to the Secretariat on 27 June 2013. Other consequences included the increased administrative load on PRs, which had to maintain accounting records.

⁷ Communication on this with the Secretariat had begun prior to grant-end; approval had not been received.

Annex 4: Inspection of the grant closure process in Ghana

<p>Two out of six grants closed</p> <p>One grant in Ghana inspected</p>	<p><u>Background</u></p> <p>1. Out of 14 grants to Ghana signed since the inception of the Global Fund, six grants were due for closure. Two of these grants had been closed at the time of the inspection. We reviewed the grant closure process for grant GHN-506-G05-T. The PR for this grant was the Ministry of Health of the Republic of Ghana. The grant amounted to USD 31,062,015, had a start date of May 2006 and ended in April 2011.</p>
<p>Plan submitted as required</p>	<p><u>Execution of the close-out plans</u></p> <p>2. In July 2010, the Global Fund Secretariat sent a grant close-out notification letter to the PR. The notification required the PR to submit a close-out plan by 15 February 2011 and finalize the closure process by 30 September 2011. The Ministry of Health submitted the close-out plan on 15 March 2011. The implementation letter for grant closure from the Global Fund outlined the conditions for the grant closure process.</p>
<p>Conditions for closure set out</p> <p>Some conditions met</p>	<p>3. The PR complied with the following closure conditions:</p> <ul style="list-style-type: none"> • The PR conducted an asset verification exercise, with non-cash assets transferred to the Round 10 Tuberculosis grant; • A Progress Update report was submitted by the PR on 25 August 2011; • A final program report was submitted to the Global Fund; and • A stakeholder grant closure meeting was held in January 2012.
<p>Other conditions not met</p>	<p>4. However, the PR did not observe the following closure conditions:</p> <ul style="list-style-type: none"> • No expenditure or commitments should have been charged to the grant after 30 September 2011; • A final cash statement for the period 1 January to 30 September 2011 should have been submitted by 31 March 2012. This was submitted subsequently; • A final Progress Update report for the period 30 April to 30 September 2011 should have been submitted by 31 March 2012. This was submitted subsequently; • A final audit report for the six months from 30 April to 30 September 2011 should have been submitted by 30 June 2012. This has not been submitted; and • Unspent funds were not refunded to the Global Fund by 30 September 2011. These remain in country.
<p>Funds spent after grant end date</p>	<p><u>Cash balances at grant end date</u></p> <p>5. The PR continued to incur expenditures of USD 919,684 after the grant closure date. At the time of the OIG inspection in May 2013, the cash balance per PR records was USD 749,726.</p>
<p>LFA verified cash balances</p>	<p>6. In February 2013, the Global Fund asked the LFA to review the grant closure process for the grant. The LFA reported a grant balance of USD 989,729 at 31 December 2012. The difference between the PR-reported and LFA-verified balance was attributed by the PR to “foreign exchange differences”. The specific amount due for refund is pending resolution by the Global Fund Secretariat working with the LFA and PR to resolve this difference.</p>

Annex 5: Inspection of the grant closure process in Nigeria

Background

Five out of 15 grants closed

1. Out of 22 grants to Nigeria signed since the inception of the Global Fund, 15 grants were due for closure. Five of these grants had been closed at the time of the inspection, leaving ten as pending closure. Of the ten grants, five had been consolidated with ongoing grants; however, they still required formal closure. Stakeholders attributed the delay in the grant closure process *inter alia* to insufficient clarity concerning the guidelines for grant closure before 2009, to commitments made near grant end date that needed to be paid, and to the lack of a final decision on recoverable amounts identified in audits.

Two grants inspected

2. We reviewed the grant closure process for the two grants listed below:

Grant Number	Principal Recipient	Grant End Date
NGA-H-CiSHAN	Civil Society for HIV/AIDS in Nigeria	31 December 2012
NGA-407-G10-M	Society for Family Health	30 June 2010

Table 6: Summary of grants inspected in Nigeria

Execution of the close-out plan

Close-out plan for CiSHAN approved

3. The organization Civil Society for HIV/AIDS in Nigeria (CiSHAN) submitted a close-out plan which was approved by the Global Fund Secretariat. The grant closure period for the CiSHAN grant will end in June 2013.

PR delayed submission of close-out plan

4. The NGA-407-G10-M grant implemented by the Society for Family Health (SFH) ended on 30 June 2010 after a six-month extension. On 23 March 2010, the Global Fund Secretariat had sent SFH a notification on the grant closure procedure. On 8 June 2010 the Nigeria CCM submitted its close-out plan to the Global Fund Secretariat. After iterations with the Secretariat, SFH submitted a revised close-out plan on 8 July 2010, which was reviewed by the LFA. The grant close-out plan submitted by SFH in 2010 was not formally approved by the Global Fund Secretariat.

Revised plan submitted by PR

5. In April 2013, SFH presented a revised close-out plan to the Global Fund for approval. This was after closure activities had been undertaken. There were significant differences between the two plans as shown in the table below. The Global Fund had not approved the plan at the time of the inspection.

	Initial Close-out Plan (March 2010) USD	Revised Plan (April 2013) USD
Budget after LFA Validation	610,475	3,277,416
Commitments validated by LFA	3,502,396	89,344
Total Close-out budget	4,112,871	3,456,104

Table 7: Differences between the initial and revised close-out plans in Nigeria

Cash balances at grant end date

Grant closure activities implemented by the PR

6. Although the grant close-out plan was not approved by the Secretariat, the PR implemented grant closure activities and continued to incur expenses against the grant balances. Round 8 funds were used to finance Round 4 closure activities/commitments as shown in the table below:

	Amount USD
Cash in bank at grant end	2,277,338
Program income	22,440
Refund of program income	526,296
Available for grant closure	2,826,074
Expenses in grant closure period ⁸	3,277,416
Deficit	(451,341)
Deficit funded by:	
Borrowings from Round 8 ⁹	991,253
Net balance of funds on Round 4 grant	539,912

Table 8: Cash balances held at the time of the inspection in Nigeria

USD 539,912 refundable to the Global Fund

7. As reflected in the table above, the revised close-out budget showed a balance of USD 539,912 refundable to the Global Fund. This plan has been reviewed by the LFA and was pending Secretariat approval at the time of our review.

Reported grant balances did not include SR cash balances

8. The SFH reported cash balances did not include SR cash balances. The SR balances at the time of the inspection were USD 29,564, comprising USD 21,024 at Planned Parenthood Federation of Nigeria and USD 8,540 at AFRICARE.

Non-Cash Assets at grant closure date

Non-cash assets were transferred to newly signed grants.

9. As provided in the closure policy, non-cash assets were transferred to newly signed grants. CiSHAN transferred assets to another PR, the Association for Reproductive and Family Health, while SFH transferred the Round 4 assets to the Round 8 Malaria grant.

⁸ The bulk of this related to procurement of medicines and commodities for warehouses and cold chain.

⁹ The Global Fund Secretariat approved inter-grant borrowing of USD 200,000.

Annex 6: Inspection of the grant closure process in Zambia

Background

Three closed out of 24 grants that are in closure

1. Out of 31 grants to Zambia signed since the inception of the Global Fund, 24 grants were due for closure. Three of these grants had been closed at the time of the inspection.¹⁰ The grant closures were both anticipated, i.e. arising from the expiry of the grant period, and unanticipated, due to a change of PR.

Five grants in Zambia selected for inspection

2. The Zambia inspection focused on five grants under closure:

Grant Number	Program End Date	Principal Recipient
ZAM-102-G02-M	14/02/2009	Ministry of Health
ZAM-102-G06-T	25/07/2008	Churches Health Association of Zambia
ZAM-405-G10-H	31/12/2010	Churches Health Association of Zambia
ZAM-405-G14-M	31/12/2010	Churches Health Association of Zambia
ZAM-708-G16-T	31/12/2010	Ministry of Health

Table 9 :Summary of grants inspected in Zambia

Scope limitation

3. We did not review the ZAM-708-G16-T grant since the only expenditure incurred against this grant was the purchase of drugs through the Global Drug Facility. No funds had been disbursed directly to the PR for this grant.

Delays mainly caused by pending PR commitments

4. The four grants reviewed were more than two years beyond their closure due date. In-country stakeholders attributed the tardiness of the process to:

- An audit in 2009 which had identified amounts for recovery to the Global Fund. Thirteen grants related to the Zambia National AIDS Network (ZNAN), the Ministry of Health (MOH) and the Ministry of Finance grants were not closed, largely due to the lack of a final decision regarding the recoverables identified in this and other audits.
- In light of other pressing grant priorities, the closure process was de-prioritized.

Execution of the close-out plans

Relevance of close-out plans questioned

5. With the exception of grant ZAM-708-G16-T, close-out plans were prepared for the four grants sampled. A review of the close-out plans showed that:

- Most of the activities budgeted for under the close-out plans were part of regular PR grant management. This led to the Secretariat’s refusal to approve the plans;
- The plans did not provide all the information required by the Secretariat, e.g., lists of pharmaceuticals and commitments at grant-end; and
- The final reports prepared contained the same information as the preceding PUDR, thus raising questions about the added value of these reports.

¹⁰ The Secretariat reports that three additional grants have been closed subsequent to the inspection.

Review and approval of close-out plans

Multiple layers of review

6. The close-out plans were subject to three layers of review, by the Country Coordinating Mechanism, the LFA and the Secretariat. These multiple layers of review were perceived by PRs to be duplicative and thereby unnecessarily lengthening the process.

Delays in approval of plans

7. The LFA review typically happened more than a year after the grant end date. These delays rendered planned activities redundant.

Return of unused cash

Over USD 2m held in country for grants reviewed

8. The reported cash balances at grant end date did not take into account cash held by SRs. The MOH was unable to follow up on outstanding advances made to SRs at grant closure amounting to almost USD 1 million. The cash balances held in country at PR level at 31 March 2013 are detailed below.¹¹

Grant	Grant end date	ZMK Account (in thousands)	ZMK translated USD	USD Account	Total cash USD
Ministry of Health					
R1 Malaria	28 Feb. 2009	5,150,299	995,035	488,190	1,483,225
Churches Health Association of Zambia					
R1 TB	31 Oct.2008	395,301	76,372	11,134	87,506
R4 HIV	31 Dec.2010	133,466	25,786	42,723	68,509
R4 Malaria	31 Dec.2010	908,932	175,605	355,669	531,274
Total		6,587,998	1,272,798	897,716	2,170,514

Table 10 :Cash balances held at the time of the inspection in Zambia

Consequences of holding large funds in country

9. Cash balances were not transferred to the Global Fund immediately all commitments had been paid. The consequences of holding funds in country after the grant end date were, *inter alia*:

- Use of bank balances to pay bank charges;
- Increased administrative load on PRs who had to maintain accounting records for the opened accounts; and
- The MOH bank accounts were inactive and required special clearance procedures in order to activate them. Such accounts attract special ledger fees and are more susceptible to fraud.

Close-out audit reports

Critical closure information not contained in audit reports

10. All grants under review were audited as part of their annual audit process by the PRs’ respective auditors. Specific terms of reference for close-out audits did not exist. Audit reports therefore did not focus on areas critical to the grant closure process, including cash balances. The audits fell short of providing assurances that would have informed grant closure processes because:

- In some cases (ZAM-102-G02-M, ZAM-102-G06-T), the financial statement year end dates did not match the grant closure dates. Therefore, the information contained in the audit report was different from that at grant end date; and

¹¹ All commitments against these grants had been paid, with the exception of a USD 8,000 commitment on the MOH grant.

Audits do not give assurance on non-cash balances

- The audits were general in nature and did not focus on areas critical to closure, e.g., confirmation of cash balances, commitments, receivables, and the status of non-cash assets on the grant closure date.

Assets and liabilities at grant closure date

11. The inspections highlighted the following:
 - ZMK 5.1 billion (USD 1,551,978) transferred to districts by the MOH prior to grant-end had not been followed up to ascertain balances at grant-end;
 - The advances lists provided were not comprehensive, e.g., a debt relating to the purchase of ARVs by the Churches Health Association of Zambia (CHAZ) on behalf of ZNAN amounting to USD 700,000 had not been recorded in the list of advances and was only identified when payment was received in the CHAZ bank account after grant closure;
 - A list of commitments at grant-end was only prepared for the CHAZ Round HIV 4 grant. Using such a list consistently would ensure that payments after grant-end are eligible for payment, i.e., committed prior to grant closure or after prior Global Fund approval;
 - There were no lists of pharmaceutical products. Since the grants are part of ongoing programs, the status of pharmaceutical products should be followed up, particularly since this area is often one of risk; and,
 - Asset lists were provided as requested but did not take into consideration the value of assets nor their condition at grant end date.