

Board Chair Cover Note**Audit & Investigation Reports issued by the Global Fund's
Office of the Inspector General on 1 November 2011**

Dear Reader,

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

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

The reports are:

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

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

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

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

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

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

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

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

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

Best regards,

Simon Bland
Board Chair



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Audit of Global Fund Grants to Population Services International Madagascar

Audit Report GF-OIG-10-020
31 October 2011

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Abbreviations

ACT	Artemisinin-based Combination Therapy
BCC	Behavior Change Communication
CCM	Country Coordinating Mechanism
CR	Country Representative
DDMF	Disbursement Decision Making Form
DQA	Data Quality Audit
FPM	Fund Portfolio Manager
HIV	Human Immunodeficiency Virus
IEC	Information, Education, Communication
ITN	Insecticide-Treated Nets
LFA	Local Fund Agent
LLIN	Long Lasting Insecticide-Treated Nets
M&E	Monitoring and Evaluation
MIS	Malaria Indicator Survey
NGO	Non-Governmental Organization
OFOG	Overseas Financial Operations
OIG	Office of the Inspector General
OSDV	Onsite Data Verification
PLWHA	People Living with HIV and AIDS
PQR	Price and Quality Reporting
PR	Principal Recipient
PSI	Population Services International
PSI MDG	PSI Madagascar
PSM	Procurement and Supply Management
PUDR	Progress Update and Disbursement Request
RBM	Roll Back Malaria
RCC	Rolling Continuation Channel
SDP	Service Delivery Points
SR	Sub-Recipient
SSR	Sub-Sub-Recipient
STI	Sexually Transmitted Infection
TOR	Terms of Reference
TVA	Value Added Tax
US\$	US Dollar

Executive Summary

1. In 2010, the OIG undertook an audit of Global Fund grants managed by PSI Madagascar. The purpose of the audit was to assess the adequacy of PSI's internal control systems in managing the Global Fund grants in Madagascar and where necessary make recommendations to strengthen the management of the grants. The audit covered transactions related to five grants from 2003 to March 2010 amounting US\$ 117,858,236 of which US\$ 38,651,025 had been disbursed.

2. This section briefly highlights the findings and conclusions arising from the audit and the detailed findings are contained in the rest of the report.

Program related aspects

3. PSI Madagascar recorded a number of achievements including (i) distributing 2.4 million bed nets; (ii) distributing 7.75 million pre-packaged malaria treatment kits (ACTs) for children under five were distributed; (iii) treating 606,309 cases of uncomplicated malaria cases in under five children; (iv) running behavior change communication messages through different forums; (v) training some 7,303 health workers malaria treatment and control; (vi) distributing 10.2 million condoms; (vii) providing sexually transmitted infection (STI) treatment to some 10,055 clients; and (viii) training 27 service deliverers in youth education.

4. The indicators are generally in line with national objectives as well as in line with the top ten indicators. While the indicators were appropriately set, PSI's interpretation was different from the interpretations of the Global Fund and other stakeholders e.g. RBM and PNLP indicator interpretations. PSI's definition of distribution of products was to intermediary points and not to final users yet the Global Fund and other stakeholders required results reported to final user. In consequence, the numbers that were reported to the Global Fund were not to the end user but to the distributor.

5. The indicators involved related to (i) number of LLINs/ ITNs/bet nets distributed; (ii) number of condoms distributed; (iii) number of pre-packaged pre-dosed malaria treatment kits for children under 5 distributed; and (iv) number of pre-packaged malaria treatment kits with Chloroquine for children under 5 provided. PSI could not confirm whether and when the products actually reached the intended beneficiaries. This resulted in differences noted by the OIG between the drugs reported as "distributed" and the reported number of cases of Malaria treated.

6. When reporting the numbers distributed to intermediaries the OIG noted that the numbers reported by PSI did not reflect the bed nets that remained in the intermediaries' stores e.g. bed nets and ACTs. In the case of anti-malaria drugs, PSI did not adjust the numbers reported to the Global Fund to reflect the products that remained unsold or those that expired and were to PSI's warehouses. In consequence, the results reported to the Global Fund were overstated and the basis on which decisions were made at the Global Fund was flawed.

7. The OIG found that the data collection process was sometimes not operational i.e. the flow of data from the community to the service delivery points (SDPs) to the SRs and then to PSI. The data available at SDP level was sometimes not available at SR level. The OIG also noted inconsistencies in the data collected e.g. failure to match the number of drugs distributed to the fever cases prescribed and treatment offered. Some of the data collected and reported to the Global Fund contained errors e.g. the net results reported to the Global Fund included UNITAID LLINs (and yet the indicator results were tied to funding) and the number of people trained were not only for Global Fund programs but included people trained in selling products not related to the program.

8. There was also no price control mechanism in place to ensure that PSI's distributors sold the products at the intended price. The OIG noted that there had been reports over the years of excessive prices charged to the end beneficiaries of Global Fund products e.g. of up to 5 times the recommended price on the package.

9. There were several instances of non-compliance to the grant agreement that were noted. The key areas of non-compliance included (i) use of grant funds for activities that were not related to program activities; (ii) use of program funds to pay taxes even though the program was exempt from taxes; and (iii) incorrect apportionments of interest to the grant which arose from PSI allocating interest to grants at rates lower than those earned and computational errors. All this should be corrected.

10. None of the audit reports submitted by PSI met the Global Fund audit requirements. The OIG also noted that despite the fact that two thirds of the grant expenditure was expended at the Head Office level, there were no arrangements in place to have specific audits covering funds expended at this level.

Financial management aspects

11. The OIG's review of expenditure revealed:

- (a) Costs charged to the Global Fund that were not program related. The total funds that should be refunded relate to ineligible costs i.e. expenditure that was not in line with the budget and work plan approved by the Global Fund which amounted to US\$ 215,066.
- (b) PSI did not follow the defined policy on the allocation of common costs across donors and this sometimes resulted in an overcharge to the Global Fund.
- (c) PSI charged the total cost of activities for all common activities e.g. activities undertaken for the social marketing products. The Global Fund products were only 4 out of the 17 products covered by PSI and there was sometimes no apportionment of costs to reflect this.
- (d) Instances where value for money was not obtained e.g. the purchase of 4 vehicles some two months before grant closure. The budget only provided for one vehicle and eight months later these vehicles were reallocated to

the implementation of USAID programs. Within a year, PSI procured other new vehicles under the Round 4 grant.

- (e) Program funds were used to pay commissions and bonuses, staff parties and staff fringes such as house rental, gardening, housekeeping, private vehicle costs, private gas, small household appliances, school fees etc. The OIG noted that these details were also not disclosed to the Global Fund during grant negotiations and amounted almost \$ 1 million between 2003 and 2009. While these benefits may be part of PSI's remuneration package, the extent of the benefits seems excessive most especially when set against the purpose for which funds were provided i.e. to fight the diseases. The Global Fund cannot dictate what PSI staff should be paid. However, program funds should only be used to pay for what is reasonable so that program funds are used maximally to fighting the diseases.

Procurement and supply chain management

12. The review of PSI's PSM activities revealed:

- i. There were shortages noted in the deliveries effected on nets with bales containing 40 instead of 50 nets and in some instances bales containing different types of nets. There was no evidence seen of action taken to follow up these issues;
- ii. There were differences between the bed net quantities invoiced and those delivered. While the largest variance of some 25,000 nets was rectified, they were allocated to USAID supported programs when received and not to those supported by the Global Fund;
- iii. Thresholds set for procurement methods were not respected;
- iv. There were bed net losses noted in the distribution chain; and
- v. There were expired drugs still held in the stores at the time of the audit. These drugs had not been quarantined.

13. In conclusion, the OIG noted significant control weaknesses and unmitigated risks that were prevalent in PSI's management of Global Fund supported grants in Madagascar. Implementation of the OIG's recommendations should help to considerably strengthen PSI's effectiveness. The following costs should be refunded to the programs:

Description	Total US\$
LLINs shortages noted	143,738
Hire of aircrafts	32,925
TVA paid although TVA exemption granted	30,710
Products distributed for sale which no payment was received and credited to the Global Fund account	26,000
CCM's costs charged to the Program	15,000
CRESAN project costs charged to the Global Fund	17,550
Expenses related to the sale of PSI's own products or other donors' activities.	17,000
	282,923

Oversight

14. The CCM was affected by political crisis that started in 2009 and was still ongoing at the time of the audit. Although there had been various interactions between the Secretariat and the CCM, the CCM members that the OIG met expressed concern that the Global Fund had not offered assistance to resolve the problems. This crisis has affected the CCM's ability to effectively provide oversight over the Global Fund grants.

15. The Local Fund Agent, PricewaterhouseCoopers had undertaken verification of expenditure and had prepared a separate report entitled 'Key financial and programmatic information'. The LFA was expected to identify some key weaknesses inherent in program implementation. The areas where the LFA's work can be further strengthened are detailed in the report.

16. Alongside the PUDR, the LFA raised issues pertinent to the PSI grants in Madagascar in a report entitled "Key financial and programmatic information" but there was no evidence seen that these issues had been addressed by the Secretariat or taken into account during the decision making process. The Global Fund oversight over the grants in Madagascar should be strengthened by taking timely actions to address identified grant related issues.

Events subsequent to the audit

17. After the audit field work and on the basis of preliminary findings, the Global Fund Secretariat developed action plans to address key reported weaknesses. Since the OIG oral de-brief in Madagascar in June 2010, the Secretariat has already identified and commenced on the implementation of measures to address the findings and risks identified during the audit. These changes have not been reviewed by the OIG to assess whether they mitigate the risks identified in the audit, however, key changes in implementation arrangements are detailed below.

18. The Phase 2 evaluation of the Round 7 grant in November/ December 2010 and 2010 Data Quality Audit (DQA) both revealed that PSI's system was unable to provide results in line with the agreed upon indicators. PSI subsequently developed an action plan to address 2010 DQA findings. This action plan, together with the updated M&E systems strengthening action plan (submitted by all PRs implementing malaria programs in February 2011), addresses recommendations in the OIG report with regards to M&E. Implementation of these documents will be closely monitored through future PU/DRs. This will also be addressed as part of the Round 7 Phase 2 grant negotiations.

Introduction

Country Context

19. Madagascar is a small island nation in the Indian Ocean just off the south eastern coast of Africa, with a population of about 18 million in 2005. Madagascar, the world's fourth largest island, is classified as a least developed country. Madagascar's general health indicators are poor as characterized by a high infant mortality rate of 76.83 deaths per 1,000 live births and a life expectancy of 56.9 years. The World Bank estimates that 70% of Malagasy live on less than US\$ 1 per day. Poverty has been an issue for Madagascar, and the political crisis has deepened this situation.

20. Madagascar has been in a political crisis since January 2009, and this led to a change of government. The crisis affected every aspect of daily life in Madagascar and inevitably impacted donor funding and disease interventions. Relationships between the largest de facto authorities and the international community were severely constrained, with a 50% decrease in aid flows in 2008 and 2009¹.

21. Malaria remains a major public health issue in Madagascar and is the second cause of morbidity recorded in health facilities and the first cause of mortality in health facilities. There are more than one million presumed Malaria cases reported each year². Although the majority of the population is at risk of malaria in Madagascar, children under five and pregnant women are the most affected by the disease.

22. The HIV prevalence in the adult population is low i.e. below 1%³. The Government is working hard to keep the rate down through intensive prevention efforts targeting key populations at higher risk. While reported HIV prevalence is relatively low with adult prevalence rates estimated to be between 0.2 to 0.3%⁴, Madagascar has one of the highest sexually transmitted infections (STI) rates in the world⁵. This makes the country a prime candidate for spurring HIV/AIDS infections. Other factors that could contribute to the spread of HIV include widespread poverty, low literacy, limited access to health and social services, and an increasingly transient population.

PSI

23. PSI Madagascar (PSI MDG) was registered in Madagascar as an international Non-Governmental Organization on 17 May 2000. It is registered under the name "Association Malgache de Marketing Social. PSI is a subsidiary of PSI Washington DC and has its central office in Antananarivo with two regional offices in Diego and Toamasina. PSI Madagascar was founded to help vulnerable and low-income people

¹ <http://www.aideffectiveness.org/Country-Madagascar.html>

² <http://www.theglobalfund.org/en/savinglives/madagascar/malaria1/>

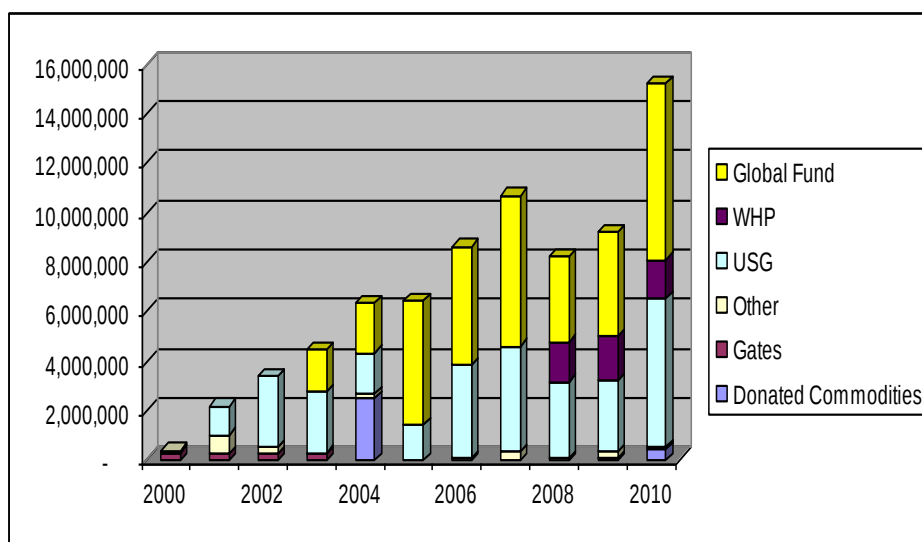
³ USAID Madagascar HIV/AIDS health profile

⁴ UNAIDS report on the global AIDS epidemic (2010)

⁵ USAID Madagascar HIV/AIDS health profile

gain access to essential health products, services and information. Its activities have expanded since then to include programs in HIV/AIDS, malaria, reproductive health and child survival.

24. PSI Madagascar receives funding from a number of donors such as the Women's Health Partnership (WHP), the US government (USG), the Bill Gates Foundation etc. The proportions of funding are illustrated in the graph below:



25. PSI has worked for approximately 12 years in the social marketing arena in Madagascar. PSI has been on the forefront of social marketing and works as a wholesaler specializing in selling or distributing health products related to HIV prevention, Malaria and safe water programs, to intermediary points. At the time of the audit, PSI was undertaking social marketing for 17 different types of health products, 4 of which were Global Fund related. The two types of bed nets and two types of Anti-Malarial drugs were distributed to national wholesalers, retailers, NGOs, pharmacies and health facilities. Besides a strong and well developed communication strategy, part of its sales strategy had been to train people/organizations that could sell those products.

Objectives of the audit

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

27. The purpose of this audit was to assess the adequacy of PSI's internal control systems in managing the Global Fund grants and where necessary make recommendations to strengthen the management of the grants. The audit objectives were to:

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

Scope of the audit

28. The audit covered the Global Fund grants where PSI is the PR. The audit also covered PSI's interactions with the Country Coordinating Mechanism (CCM), Local Fund Agent (LFA) and its Sub-Recipients (SRs). The audit did not cover other PRs in Madagascar.

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

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

30. The audit covered the grants managed by PSI Madagascar at the time of the audit i.e. April 2010 as listed in the table below:

Grant agreement	Status of the grant	Grant amount US\$	Disbursed US\$
MDG-102-G01-M-00	Closed	2,008,063	1,872,363
MDG-202-G03-H-00	Closed	5,024,116	4,992,128
MDG-405-G07-M	Ongoing	74,939,490	28,070,175
MDG-708-G10-M	Ongoing	26,095,449	2,150,644
MDG-809-G12-H	Ongoing	9,799,118	1,565,715
		117,858,236	38,651,025

Achievements up to December 2009

31. PSI reported good results for the malaria programs as detailed below:

- (a) 2.4 million bed nets were distributed;

- (b) 98% of households had been informed about the effectiveness of LLINs in preventing malaria;
- (c) Some 7.75 million pre-packaged malaria treatment kits (ACTs) for children under five were distributed;
- (d) Some 606,309 cases of uncomplicated malaria in under five children were treated;
- (e) There were 1,332 radio spots run related to malaria BCC messages;
- (f) The number of people reached by community based BCC messages were 568,560;
- (g) The number of people reached by the Mobile Video Unit with IEC/BCC messages were 379,316; and
- (h) The number of health workers trained in treatment and control of malaria was 7,303.

32. The Round 8 HIV grant only started in November 2009. At the time of the audit i.e. May 2010, the program was just starting. PSI's registered achievements under the HIV under the Round 2 grant were:

- (a) 10.2 million condoms were distributed;
- (b) 203,523 people were reached by Mobile Video Units;
- (c) 191,506 youths were reached by peer educators annually;
- (d) 10,055 clients received STI treatment; and
- (e) 27 service deliverers were trained in youth education.

The report

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

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

- (a) *High priority:* Material concern, fundamental control weakness or non-compliance, which if not effectively managed, presents material risk and will be highly detrimental to the organization's interests, significantly erodes internal control, or jeopardizes achievement of aims and objectives. It requires immediate attention by senior management;
- (b) *Significant priority:* There is a control weakness or noncompliance within the system, which presents a significant risk and management attention is

required to remedy the situation within a reasonable period. If this is not managed, it could adversely affect the organization's interests, weaken internal control, or undermine achievement of aims and objectives; and

- (c) *Requires attention:* There is minor control weakness or noncompliance within systems and remedial action is required within an appropriate timescale. Here the adoption of best practice would improve or enhance systems, procedures and risk management for the benefit of the management of the grant programs.

Institutional arrangements

PSI oversight

35. PSI, based in Washington, D.C, was founded in 1970 to improve reproductive health using commercial marketing strategies. PSI has a Board of Directors that provides oversight over the whole organization's business. PSI Madagascar's management structure is strongly directed by its headquarters.

36. PSI Madagascar is headed by a resident Country Representative (CR). The CR reports to a Regional Director who is based in Washington DC. There are also reporting linkages by function between PSI Madagascar and the Head office e.g. the financial and programmatic reports are sent to the Financial Analyst and Program Manager in Washington who consolidates the country results.

37. The government of Madagascar has experienced frequent turnover in leadership positions i.e. three Ministers having been appointed since March 2009. All new ministers who were automatically the Chairs of the CCM had to acquaint themselves with the working arrangements of the Global Fund funded programs.

Compliance with the grant agreement

38. The conditions stipulated in the grant agreement ensure that the control environment is adequate to safeguard Global Fund investments. PRs are required to comply with the grant agreement and the laws and regulations of the relevant country. The OIG's review of PSI's compliance with the grant agreement identified some instances of non-compliance with the Global Fund grant agreement as detailed in the paragraphs below.

39. Contrary to the grant agreement:

- (a) Taxes were paid from grant funds by PSI yet the programs managed by PSI had tax exemption status. The use of program funds to pay taxes reduces the funds available for fighting the diseases.
- (b) PSI's books of account were not audited in line with the audit guidelines issued by the Global Fund. The OIG did not see the SR audit plan as stipulated in the grant agreement.
- (c) PSI did not comply with some applicable country laws, such as the deduction of taxes and social security deductions from all staff remuneration, payment of US dollars to national entities, and payments to individual off shore bank accounts.
- (d) Instances were noted where program funds were used for activities that were not program related. Details are covered in the financial management section.

- (e) While program funds were deposited in a bank account that is interest bearing, the interest was not apportioned among donors including the Global Fund. There were issues noted with the interest earned on funds held in Washington DC i.e. the rates that were applied were lower than the rates earned.
- (f) Assessments of SR capacity were not undertaken prior to signing contracts with them.
- (g) Contrary to the grant agreement, PSI did not apply best procurement practices for local procurements and there was no evidence that the Global Fund quality assurance requirements were complied with. PSI did not comply with the requirement that the tests be undertaken in a pre-qualified laboratory and that it is not only at the point of entry but throughout the supply chain system.

Recommendation 1 (High)

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

- (a) Not use Global Fund resources to pay taxes and this should be communicated to all implementers. Efforts should be made to recover taxes paid so far from the tax authorities;*
- (b) Strengthen controls over SR management and procurement; and*
- (c) Ensure that external audits are planned and undertaken in a timely manner ensuring that TORs comply with the Global Fund guidelines.*

Audits

40. The grant agreement stipulates that PSI and its SRs should have its books of account audited and a report presented to the Global Fund within six months of the year end. None of the audit reports submitted by the PR to the Global Fund met the audit requirements. Specifically, the statement of income and expenditure did not disclose the sources and uses of Global Fund funds for each program. Furthermore, the audit reports submitted for two years were not for PSI Madagascar, but for the corporate audit of PSI International. These audits reports did not meet the guidelines for audits and should not have been accepted by the Secretariat.

41. The OIG also noted that two thirds of the grant expenditure was expended at the Head Office level and that related documentation and other evidence were not available in Madagascar. The audits undertaken at the country level therefore did not cover the expenditure that was expended at the Headquarters level. There was also no provision in place to have Headquarters expenditure audited. The audits undertaken at the HQ level did not necessarily cover Global Fund supported program activities but covered PSI at a corporate level.

42. The OIG noted that PSI's organizational structure provided for an internal auditor post and this position had been funded by the Global Fund since 2006. However, this position had not been filled at the time of the audit although the funding had been provided to PSI. The filling of this position would help strengthen the internal control environment within which grants are being implemented.

43. PSI's Overseas Financial Operations Group (OFOG) undertakes activities that are akin to an internal audit. OFOG periodically visits field offices with its objectives being to determine compliance to PSI finance policies and procedures and donor agreements. It also evaluates the existing internal control systems over fund disbursements and revenues. The frequency and length of a review is determined by PSI/W and is dependent on a risk-based prioritization model. There have been five reviews undertaken since the inception of the grants.

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

Recommendation 2 (High):

- (a) *In accordance with the grant agreement, PSI should undertake audits that comply with the Global Fund audit guidelines. PSI should ensure that all SRs are audited in accordance with the grant agreement.*
- (b) *The internal auditor post should be filled as soon as possible in order to strengthen the control environment within which the grants are implemented.*
- (c) *PSI should share its OFOG reports with the Global Fund. PSI should consider extending the OFOG mandate to cover Global Fund specific program areas identified as risky e.g. SR management.*
- (d) *PSI should institute audits that cover the funds expended on behalf of the country at the Head Office. The Global Fund should ensure that the audit plans submitted for approval provide for the audit of the transactions incurred at the HQ.*

Policies and procedures

45. PSI has a procedures manual that has been in use since the inception of the Global Fund grants. PSI's operations have grown significantly since 2003 which calls for an equivalent capacity increase to handle the growth. This growth has resulted in the need to change policies so that they remain relevant in addressing emerging risks. For example the manual provided for five levels of approval before a

payment could be effected which lengthened the administrative process. At the time of the audit, PSI had embarked on a process of updating its manual.

46. The control environment within which grants are implemented will be only as strong as the implementation of the laid down policies. The OIG noted that many of the guidelines stipulated in the manual were not complied with. The OFOG report contained numerous recommendations covering policies that had not been implemented.

Recommendation 3 (Significant):

The revision of the manual should be expedited. PSI should ensure that the resultant policies and procedures adequately address the risks identified in the control environment within which the grants are implemented and provide adequate guidance to all stakeholders involved in program implementation. The policies should be enforced in order to strengthen the control environment within which the programs are being implemented.

Program Related Aspects

Malaria in Madagascar

47. Malaria is a major public health issue in Madagascar with 92% of the population at risk. The remaining population, estimated to be 1.2 million, lives in three towns of the central highlands where risk is nil. Thirty-two percent (32%) of the population lives in unstable transmission zones i.e. where there is irregular transmission of malaria, the other 68% lives in stable transmission zones where presumed malaria cases make up an estimated 25% of outpatient consultations.

48. Historically, Madagascar has achieved a stage of malaria pre-elimination in the central highlands and a significant reduction in the coastal areas. At the time of the audit, all prerequisite conditions were in place to achieve elimination by 2012 in the central highlands i.e. (i) commitment at the highest level of the Government; (ii) availability of new and more efficient techniques; (iii) the availability of new and more effective drugs; and (iv) ability to leverage financial and technical resources.

49. The support of the various funding agencies, including the Global Fund, the PMI and the World Bank, has significantly reduced malaria-related morbidity and mortality in Madagascar. The CCM reported a sharp decrease in the number of malaria cases and deaths reflecting a change in the face of the epidemic in Madagascar. This was linked to an increase in the number of malaria interventions. In the highland and marginal level regions where Indoor Residual Spraying (IRS) interventions took place, fewer Malaria epidemics were noted.

HIV in Madagascar

50. Madagascar has a low HIV prevalence. The general targets of the national strategies primarily are:

- (i) the adoption of responsible and amenable behaviors of reducing the transmission of sexually transmitted infections (STIs) and of HIV by key populations most exposed to risks of infection;
- (ii) increased use of preventative clinical and therapeutic services for the population most exposed to risks of infection;
- (iii) the supporting of the rights of PLWHA within society, particularly in the management of access to care and participation in social and economic life; and
- (iv) the protection of Malagasy suffering from HIV.

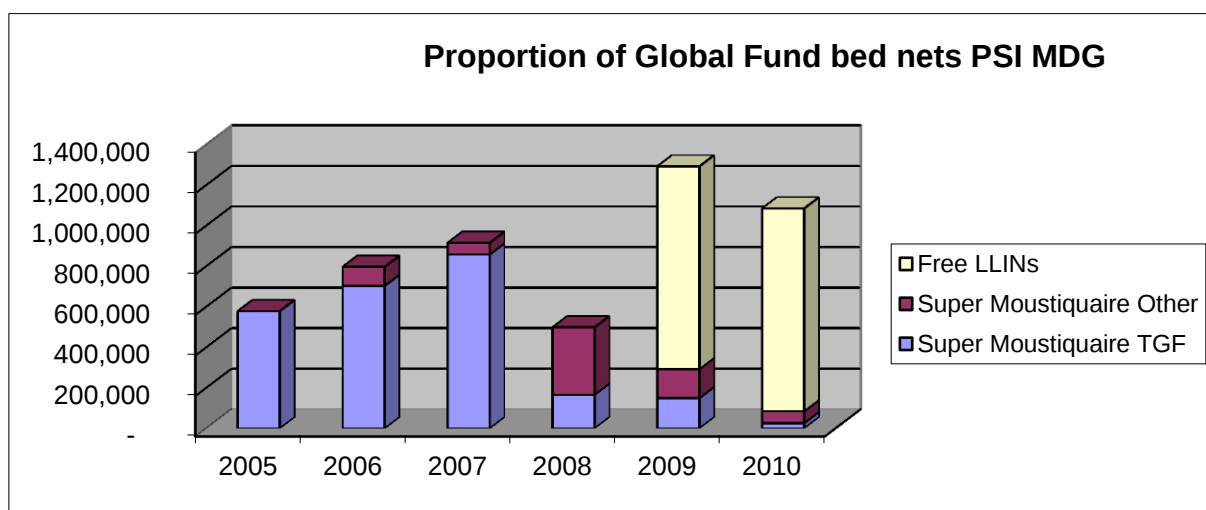
51. Madagascar has developed an action plan i.e. the Madagascar Action Plan which is a five year plan which establishes direction and priorities for the country from 2007 to 2012. It states the commitments, strategies and actions that will ignite rapid growth, lead to the reduction of poverty, and ensure that the country develops in order to meet the UN Millennium Development Goals.

52. Madagascar also has a strategic plan, the, which stipulates the country's response to HIV and AIDS for the period of 2007-2012. The Plan has three areas of emphasis i.e. (i) a reduction in the incidence of HIV, which is measured by the reduction of the prevalence of STIs in key populations most exposed to risks of infection; (ii) the continuation of the low prevalence of HIV in groups most exposed to risks and less than 1% of the general population; (iii) the improvement of the quality of life of PLWHA, measured by the service coverage of "friendly" clinical and psychosocial support of PLWHA and the existence of instruments protecting their rights.

PSI and the Global Fund

53. PSI initially only undertook social marketing activities but under the Round 7 grant was also involved in free bed net distribution. At the time of the audit, 23% of the health products under PSI's social marketing program were for the Global Fund supported programs.

54. A comparison of the nets sold on behalf of the Global Fund supported program compared to other nets sold by PSI is provided in the graph below. It is noteworthy that in 2009 PSI started distributing free nets.



Monitoring and Evaluation

55. PSI has a strong M&E structure, system and processes. The HIV and Malaria programs managed by PSI follow national strategies and use national HIV & malaria curricula as source documents. Monitoring tools are available for each program. The M&E system is populated with information from various departments i.e. accounting, sales, distribution and commercial departments as well as network data. All this information is integrated in a dashboard decision making form, which is used for producing various quantitative and qualitative reports. However, the results related to certain activities performed by PSI are not included in this integrated tool e.g. data on net sales and sensitization activities.

56. The M&E system was primarily designed for routine data collection on sales of all products sold by PSI as detailed below:

- (a) PSI's Distribution Unit reported on the products distributed to commercial and pharmaceutical outlets, through monthly sales reports from PSI's commercial representatives based throughout the country.
- (b) The central MVU department prepared monthly reports that tracked the number of events and number of target groups reached by the MVU field teams based throughout the country.
- (c) The training department prepared monthly reports on training events conducted and number of participants reported at the central level every month and verified by a national coordinator who conducts reviews of the data collected by partner organizations.
- (d) Reports on supervisory visits were also provided by the relevant responsible staff.

57. The OIG noted that some of the staff that held key M&E positions did not have the requisite qualifications stipulated in the terms of reference developed for the position. This may have affected the department's effectiveness in data collection and analysis for decision making. In September 2009, PSI also reassigned the important data collection role from the M&E department to the finance department because the IT staff were based in the finance department. This reallocation is likely to impact on data collection.

58. PSI developed monitoring tools for its SRs with the exception of tools for monitoring sensitization activities and bed net sales which do not exist. SRs' M&E staff were trained in using these monitoring tools. PSI's M&E department developed an SR quarterly plan to guide SR visits.

59. The programs i.e. disease component departments were involved in the follow up of activities implemented. For example, the HIV department supervises and follows up HIV programs. Other departments also undertook supervision activities e.g. the coordinator of social marketing (private clinics) and the distribution supervisor also undertook supervision visits to ensure that the products were available and visible. However PSI did not undertake integrated supervisory activities i.e. programmatic staff with distribution and M&E staff. This would potentially create synergies in the different functional reviews and also reduce costs associated with the supervisions reviews.

Recommendation 4 (Significant)

- (a) *PSI should consider updating its M&E integrated tool to cover all key activities performed by PSI e.g. to enable PSI to collect data on net sales and sensitization activities.*
- (b) *PSI should consider undertaking integrated supervisory activities between all the departments that undertake supervision activities i.e. program, distribution and M&E staff. This would create synergies in the different functional reviews and also reduce costs associated with supervisory visits.*

- (c) *The M&E function should be staffed with people with appropriate qualifications.*

Indicators and targets

60. The indicators used were generally in line with national objectives. Indicators in all grants related to training, behavior change and people reached with messages were appropriate and with good results. The indicators for nets and drug distribution were also in line with the top ten indicators.

61. PSI lacked an indicators user guide that defined the indicators i.e. indicator numerators and denominators (ideally using standard definitions) to avoid having different interpretations during their measurement and/or double counting. For example the indicators that measured service supplied and products distributed to a population did not have the denominators defined. The indicators were however defined in the M&E plans for some of the later grants e.g. Round 4 RCC and Round 7 Malaria grants and the Round 8 HIV grant.

62. While the indicator were appropriate, their interpretation by PSI was different and not in line with the top ten indicator interpretation. PSI's definition of distribution of products was to intermediary points and not to final users yet the other stakeholders required results reported to be at final user level. In consequence, the numbers that were reported to the Global Fund were not to the end user but to the distributor.

63. PSI reported the numbers distributed to intermediaries instead of reporting the numbers distributed through the various intermediaries to the final user. The OIG work confirmed that the delivery of products to intermediary level did not mean that the products had reached end users.

64. This situation was reported to the Global Fund in January 2007. For example, while PSI had reported all nets distributed to intermediaries as results, the OIG found that some nets 'distributed' in the November 2009 mass distribution campaign were still held in warehouses in Catholic Relief Services, Brickaville and Vatomandy. In consequence, the results were overstated by some 473 bales of bed nets. There were an additional 9,309 nets held at the PSI Toamasina warehouse, most of these from the 2009 mass campaign.

65. PSI was also not in a position to say what, whether and when the products actually reached the intended end beneficiaries. Because the social marketing was targeted at certain populations, PSI could also not confirm that the products got to the targeted populations at the recommended price. For example, there were nets that were on sale in Antananarivo yet this was not a targeted region. Even then the prices at which the nets were being sold were higher than the recommended prices.

66. In the case of anti-malaria drugs, PSI still only reported drugs distributed to intermediary points. PSI did not adjust the numbers reported to the Global Fund to

reflect the products that remained unsold or those that had expired. This resulted in differences noted by the OIG between the drugs reported as “distributed” and the reported number of cases of Malaria treated.

67. In consequence, the results reported to the Global Fund were overstated. The affected indicators for the various grants were:

- Number of LLINs/ ITNs/bet nets distributed;
- Number of condoms distributed;
- Number of pre-packaged pre-dosed malaria treatment kits for children under 5 distributed; and
- Number of pre-packaged malaria treatment kits with Chloroquine for children under 5 provided.

68. In the case of the HIV Round 8 grant, the OIG reviewed the performance framework and noted that the results that will be reported will be condoms sales at intermediate levels and not at consumer level. PSI was collecting its data from the sales reports to wholesalers and retailers. Where condoms are distributed for free, the number reported will be the condoms distributed to the health center and NGOs, and not distributed by them to the end user.

Recommendation 5 (High)

- (a) *PSI should align its indicators with the Global Fund top ten indicators. An indicator user guide should be developed to ensure that all stakeholders have the same understanding of the indicators to aid data collection and analysis. PSI's strategy and monitoring tools will need to be adjusted to provide for the collection of data to final user, including price verification and control. PSI should adhere to the requirement to report to end users.*
- (b) *The Secretariat should not accept any different interpretations of indicators and should put in place a system to ensure that all concerned actors are sensitized accordingly.*

Data collection

69. A key element of PSI Madagascar's monitoring is strategic level research and studies. The studies are designed and implemented by PSI's research team with the support of PSI Washington e.g. the report that stated that 98% of households have been informed about LLIN effectiveness in preventing malaria. However, at the time of the audit, all studies and surveys showing that PSI's activities impact results are undertaken by PSI Madagascar itself, with no participation of external parties or technical partners in their design, implementation and validation of results. This represents a potential conflict of interest and poses questions on the validity of the information in those reports.

70. With regard to one Malaria Round 7 indicator (the number of uncomplicated malaria cases under five treated at community level with ACT), the OIG noted that the accuracy of data could not be guaranteed at community level. An independent review of the data collected revealed some inconsistencies e.g. in Antsiatsiaka, the

numbers of fever cases could not be matched with the number of ACTs prescribed. The records showed that 25 cases of fever had been identified but only 20 ACT doses distributed. The OIG noted that this was also reported in the 2007 Malaria onsite data verification (OSDV) undertaken by the LFA that could not reconcile the malaria cases to the number of ACTs distributed.

71. The LFA in this 2007 OSDV noted that the monitoring tools from the MOH and PSI were not properly filled in and as a result the data was not reliable. The data collected was also not comprehensive i.e. it did not cover key program activities that should have been reported e.g. the movement of net stocks and the number of people reached by the sensitization activities.

72. The data collection process as defined in the M&E plan was in some cases not operational i.e. the flow of data from the community to the service delivery points (SDPs) to the SRs and then to PSI. The data is available at SDP level was sometimes not available at SR level. For example for two indicators i.e. the number of LLINs distributed to the targeted population and the number of people reached by community based BCC activities, the data collected from community sites was not sent to the health centers. In cases where the data was collected at that level, it was not analyzed. Consequently, this data did not flow through to PSI.

73. A review of the M&E technical reports identified the following areas that can be further strengthened:

- (a) Some delivery points did not have a complete set of data.
- (b) The data collected and reported by PSI was limited to their distribution to wholesalers and retailers. There was no information collected post distributor level that shows how products were distributed to target groups.
- (c) There were delays in the receipt of reports from the distributors and this affected the timely analysis of data at PSI.
- (d) PSI's M&E systems were unable to provide timely and accurate data at the frequency that the Global Fund requires.
- (e) The OIG noted during field visits that training materials provided were not suitable for the illiterate community agents. A high proportion of the population is illiterate and so materials for training should have been reflective of this.

74. The OIG noted instances where the data collected was not analyzed. There was also a limited follow up of issues identified at the SR level. PSI attributed this to a shortage of staff in the M&E department. The OIG also noted that some SRs e.g. Zetra and AFSA were not reporting their results despite having the necessary monitoring tools.

Recommendation 6 (Significant)

- (a) *PSI should strengthen its data quality assurance system to ensure the collection of accurate and comprehensive data for decision making.*
- (b) *PSI should strive to align its systems to the national systems. It should consider using surveys undertaken by independent organizations or use the national systems as mechanisms to validate the results it reports.*

- (c) *PSI should develop SR capacity to complete the monitoring tools and report appropriately. PSI should also strengthen its monitoring of SRs. Feedback from the visits should be provided to the SRs with follow up of agreed upon actions in subsequent visits.*

75. The HIV/AIDS program's effect measurement or estimation is not possible because there are no demographic and health surveys or HIV/AIDS mortality rate estimation undertaken because the epidemic is low.

Reporting

76. The OIG reviewed the reporting process to the Global Fund. As already mentioned, the differing interpretations of indicators by PSI and the Global Fund resulted in a distortion of the information that was reported to the Global Fund. The information provided was therefore inaccurate for decision making. This affected all results reported that related to nets, condoms and anti-malarials sold under the social marketing program.

77. Some of the data collected and reported to the Global Fund contained errors. Examples include the net results reported to the Global Fund including UNITAID LLINs. In this case the indicator results were tied to funding and so it was inappropriate to have these nets reported as Global Fund results.

78. With regard to training, the numbers reported to the Global Fund of people trained did not only represent people trained for selling the four program products, but also PSI's other 13 products. While it may be more cost effective to undertake one training for all the products under PSI's mandate, only the people that will be responsible for selling the four program products should be reported to the Global Fund and only the proportional expenditure charged to the Program.

Reporting for the RCC

79. The Rolling Continuation Channel (RCC) was established by the Global Fund to facilitate streamlined access to continued funding for strong performing grants that reach the end of Phase 2. The grant is extendable beyond its initial term under the RCC for a maximum of another six years. The criteria for acceptance under the RCC was strong performance, evidence of potential for impact and sustainability of the activities under the grant. The qualification of the grants managed by PSI was based on the PSI's reported and LFA's verified results and as already demonstrated the high results reported were only up to intermediary points and not end user as required by the indicator. In consequence, the basis of this grant qualifying for the RCC was flawed.

80. The initial submission for consideration for Malaria Round 4 RCC grant in February 2008 was not successful with the Secretariat stating that *"despite an attempt to describe relevant disease indicators from both health facility statistics and population-based surveys, the presented evidence was not compelling enough"*. The CCM resubmitted its application supported by a preliminary report

from a population-based survey on ITN ownership and use conducted in April 2008 by the Madagascar Ministry of Health and Family Planning, Healthbridge and the CDC.

81. The report evaluated the impact of the October 2007 free distribution campaign by MOH and supported by IRC and UNICEF. Free campaigns were undertaken in all the country with the exception of the Haute Terre Central regions which is a mountainous area known to be malaria non-endemic area and so not part of the national malaria strategy. The table below demonstrates that the impact of the nets distribution was much higher in the districts covered by the free net campaign then those without the mass campaign. The same report also analyzed the impact by economic status and noted that in the districts where no mass campaign was undertaken, the richer population sectors had a greater coverage of bed nets.

Indicators	National (a)	Only the districts with mass campaign (b)	Districts without mass campaign (c)	Reported by PSI (d)
% of pregnant women who used any net the previous night (endemic districts)	63.7 +/- 8%	76.0 +/- 6.2%	45.0 +/- 14.0%	77.50%
% of children under 5 who used any net the previous night (endemic districts)	65.5 +/- 6.7%	82.1 +/- 3.3%	47.4 +/- 10.6%	83.50%
% of pregnant women who used an ITN the previous night (endemic districts)	54.7 +/- 8.1%	65.0 +/- 7.7%	37.1 +/- 13.5%	64.20%
% of children under 5 who used an ITN the previous night (endemic districts)	59.5 +/- 6.6%	75.3 +/- 4.1%	40.1 +/- 9.8	74.40%

82. The results presented by the CCM as being attributable to PSI to the Global Fund (column d) were the areas where the national free mass campaign had been undertaken (column b). The results submitted by the CCM to support its RCC submission greatly benefited from the 2007 free distribution campaign and so while PSI contributed to the national results reported in the districts covered by the mass campaigns, these results cannot be totally attributed to the program implemented by PSI.

83. The extent of the impact of the mass campaign can be seen by making a comparison of the coverage between the districts where mass campaigns took place (column b) and those where mass campaigns did not take place (column c). In conclusion, the information that was submitted by the CCM as it related to the program that was implemented by PSI was inaccurate and the basis on which decisions were made by the Secretariat was thus affected.

Quality of service delivery

Framework within which activities are undertaken

84. For all HIV/AIDS and STD activities and Malaria activities, Ministry of Health documents are used as source documents. The social marketing program follows the national treatment guidelines and treatment flowchart. Medical staff are trained according to national curricula. Service delivery points (private clinics) receive kits that provide the minimum standard for health care i.e. the business model, clients register, infections prevention, consulting room, waiting room, IEC/BCC material and health products availed by the Global Fund and other donors.

85. Peer educator activities were well structured. Peer educators were recruited following strict criteria. They were trained on by PSI after which they receive a two year contract with clear terms of reference. Their activities were being monitored regularly and this monitoring was guided by a specific form. An animation format was used for communicating their activities and there was a functional referral system. The OIG confirmed during a field visit that the MVU, Top Réseau clinics, and peer educators' activities follow PSI's policies.

86. However, there was no system in place for checking the exact number of clients referred to Top Réseau clinics by peer educators. There was also no control in place to control the prices really charged to final users for the Global Fund's subsidized products. The field PSI staff were aware that products are sold at prices much higher than the recommended subsidized prices but there was no evidence of any action being taken to address this problem.

Promotional activities

87. An effective communication plan is the foundation for any successful social marketing campaign. PSI had six promoter-trainers who were responsible for promoting the products to PSI's clients within health centers and pharmacies, identifying clients i.e. wholesalers, retailers, NGO, pharmacies etc., training vendors and community agents on the use of the products, and responding to client requests. The training was based on a curriculum that is compliant to the national curriculum. The training events were planned annually and appropriate supervision undertaken.

88. The OIG noted during field visits that training and reporting materials were not available for illiterate community agents and the targeted population. This is significant because a high proportion of the population is illiterate and therefore cannot be reached with the current materials.

89. The promotion of products is done by the Mobile Video Unit. This unit consists of the 14 staff that develop promotional events. The OIG attended a show in Toamasina and it was professionally run and effective in creating awareness of the products. However, the OIG noted that the population was not sensitized about the recommended prices at which the products could be obtained.

90. The OIG was informed through interviews at PSI and with community agents that Actipal, PSI's branded ACT, was not well received and accepted by the community agents and the medical staff. One of the identified causes for this lukewarm acceptance was that community agents were not well informed about Actipal. The OIG learnt that the medical staff were not prepared to prescribe medicine other than quinine. This reflected badly on the effectiveness of the communication plan at the time of launching Actipal.

Prices charged

91. PSI set price thresholds for the products in its social marketing range and those prices were marked on the packages. Prices applied for bed nets and ACTs at community level did not address the needs of those targeted. Some of the prices recommended were quite high and were beyond the Malagasy population's purchasing power. To illustrate this, the Deep South of Madagascar was recovering from a hurricane and a bad drought and the people's main concern in this region was finding food. Such areas should probably be beneficiaries of a free net campaign as opposed to a social marketing campaign. However, they can still have a successful social marketing program if they have right strategy and controls.

92. PSI at one point reduced the prices charged to its wholesalers but there was no price control mechanism in place to guarantee that the reduction was passed on to the end user. It is also noteworthy that a price cut may not necessarily cause people to buy the products. The costs are not only monetary but may also include the cost of leaving the behaviors that the target audience is accustomed to.

93. There was also no price control mechanism in place to ensure that PSI's clients sold the products at the intended price. PSI did not have any mechanisms in place to verify that what prices were actually applied by wholesalers to retailers and by retailers to the final users. The OIG noted that there had been reports over the years of excessive prices charged to the population on Global Fund products e.g. of up to 5 times the recommended price on the package.

Availability of products

94. A review of monitoring visit reports undertaken by the Supervisor of distribution revealed that the quantities of LLINs supplied to intermediaries was inadequate and could not meet the demand resulting in stock-outs e.g. in Fort Dauphin. Because of LLIN stock-outs, prices applied by wholesalers rose above the recommended price.

95. The M&E reports stated that prices applied by wholesalers to retailers were very high i.e. much higher than the recommended price and also higher than the price at which retailers could get the products from PSI. In consequence when retailers ran out of stock, they were unwilling to restock from wholesalers and had to wait for when PSI was next in town. This too impacted on the availability of the product.

96. The carrying out of the free bed nets mass campaign alongside the social marketing activities affected the net sales. Sellers interviewed were therefore unwilling to hold large stocks because they thought they may get stuck with the products.

Recommendation 7 (High)

- (a) PSI should consider instituting measures to control the prices charged by distributors and retailers. This can take on different forms e.g. having promotion drives emphasize the recommended product price, monitoring suppliers, requiring sellers to display the recommended price, informing the population during public events, etc. In addition monitoring should be undertaken and this can take many forms including having a mystery buyer.*
- (b) Training and reporting material should be enhanced in order to ensure that the illiterate community agents are able to capture data and report it accurately to PSI. They should also be suitable for reaching the illiterate population.*
- (c) In order to assess the effectiveness of peer educators, PSI should consider reconciling the stub cards prepared by the educators to the clinical records to identify the number of resultant referrals that occurred.*

Financial Management

Cash management

Fund held offshore

97. The grant agreements are signed with PSI Washington and not Madagascar and therefore the funds were received and managed by PSI Washington. Most of the grant funds are held in Washington DC. PSI Washington maintains one bank account that is interest bearing for all grant funds for different countries and donors. The Washington office apportions interest to country grants using US federal treasury interest rates on the balance of funds each month for each individual grant i.e. total received from Global Fund less reported expenditures for the month. The interest reported to the Global Fund is therefore not the actual interest earned but a manual calculation and allocation of interest by PSI. The resultant computed interest is reported in the PUDR and available for program implementation.

98. The OIG reviewed the interest computation and noted that the US federal rates that are applied to the Global Fund program funds are lower than the rates that are actually earned on the PSI bank account. As a result, the program income that is recorded and accredited to the country grant is lower than the interest earned by PSI on grant funds and actually attributable to the program. There were also computational errors noted in the schedules provided to the OIG.

99. The OIG noted that there were delays in refunding grant monies after the grant closure process. For example the fund balance from the Round 1 Malaria funds (US\$ 128,000) and Round 2 HIV funds (US\$ 42,000) were repaid to the Global Fund three and four years respectively after grant closure. There was no interest generated on these amounts over the time period in which the funds were held.

Funds managed by the country office

100. PSI Madagascar maintained common accounts for the funds received from all donors. PSI also had accounts for its branches in Diego and Toamasina. PSI also maintained one account into which program income is kept. PSI's operations manual permits the opening individual bank accounts upon a donor's request e.g. a bank account was opened of Japanese cooperation funds.

101. Global Fund disburses grant funds directly to PSI Washington's bank account. PSI Madagascar submits a request to head office, which then issues the disbursement upon receipt of approval. The requests do not set out requirements per grant and per funding agency and the funds sent on a quarterly basis are not differentiated by donor. In consequence, it was not possible to reconcile the cash balances held in the bank account by donor.

102. The Global Fund requires that the balance of funds held at the end of each period, as reported in the PUDR, should be agreed to a bank balance. The LFA confirmed that they were unable to confirm the bank balances and verify the

expenditure that was incurred at the Headquarters and included in the PUDR. This was because PSI's accounting system does not split the bank balance by donor.

103. In cases where pool bank accounts are maintained for different donors, the accounting system in place should be able to split the income, expenditure and balances by donor. Commingling of donor funds without a proper supporting accounting system raises the risk that Global Fund resources will be used to fund activities that are not related to its programs.

Funds from sale of products

104. All income from the sale of products is maintained in one bank account. This income is monitored by product and funder through the records that are maintained. On a monthly basis, funds are transferred from the income account to the PSI current account where they are used to meet operational costs.

105. The interest generated on program income was not reported or refunded to the Global Fund. The grant agreement requires that project funds be maintained in an interest bearing account. PSI explained that the interest generated on the program income bank account is not split across donors because the amounts are very small.

Recommendation 8 (High)

- (a) *Global Fund resources should not be commingled with funds from other donors. In the event that this happens, proper books of account should be maintained and reconciliations prepared that show what Global Fund monies have been spent on, outstanding balances at any point in time and a reconciliation of bank balances to show what balances relate to the Global Fund.*
- (b) *PSI should report interest from all bank accounts where Global Fund resources are included, at the rate obtained from the bank. PSI should calculate and reimburse the interest generated on the Round 1 and 2 funds held for over three years.*
- (c) *PSI should comply with the conditions stipulated in the grant agreement regarding the recording and use of interest. PSI should recalculate and reimburse the interest generated on program income as well as that held in the Washington bank accounts.*

Accounting system

106. PSI's head office uses Lawson as its accounting system. PSI Madagascar uses QuickBooks Pro software for recording, accounting and financial reporting. Each program has a separate project code so that transactions can be classified and separately tracked for fund accounting purposes. QuickBooks is compatible with Lawson. PSI Madagascar on a monthly basis uploads into PSI Washington's financial system its financial data for review and consolidation. The Lawson has online

capabilities which allow PSI Madagascar to view and generate reports but not input data or make changes to transactions.

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

108. QuickBooks is not well suited to the size of PSI activities, and it is not possible to make entries for amounts bigger than MGA100 million. The only way that large numbers can be recorded is by breaking the figures down under several lines. PSI in 2009 had to record their figures in thousands of MGA. PSI will be introducing the Lawson accounting system from 2011 which should resolve some of the problems noted above.

109. The accounting software is not linked to Business Vision, the sales software. The data is therefore manually transferred and this creates room for error. To illustrate this, the OIG noted discrepancies between data from sales reports and data taken from the accounts, as shown by the table below.

Round	Sales report MGAs	Accounts MGAs	Difference MGAs
1	119,400,200	56,192,297	63,207,903,
4	976,707,200	879,540,702	97,166,498,

Recommendation 9 (Requires attention):

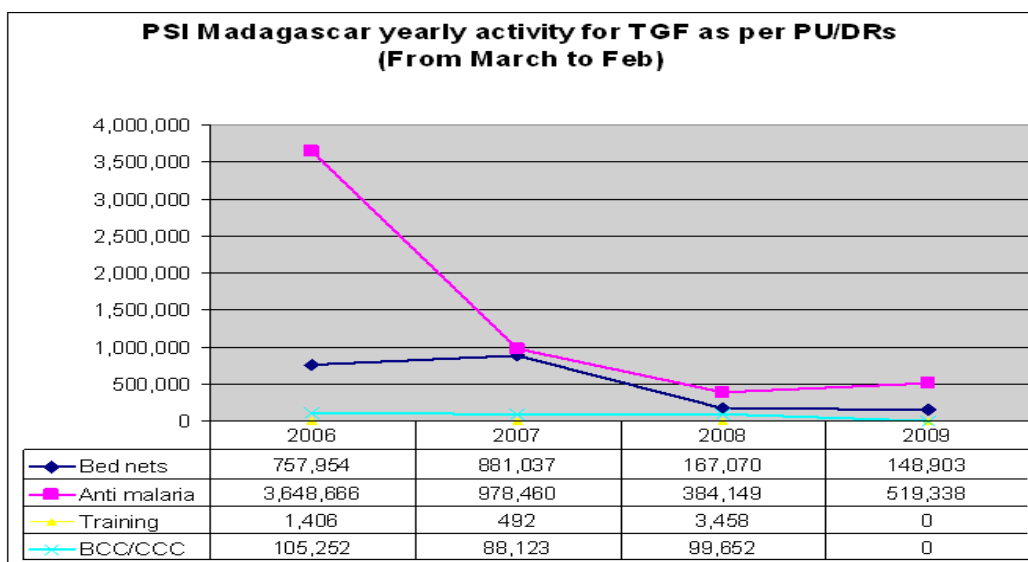
PSI should consider linking the various data from different systems e.g. accounting and sales systems to ensure sharing of information and reconciliation of records maintained. The reconciliations of records maintained by the different departments will assure the accuracy of records maintained.

Sales

110. The sales of Global Fund-supported program-related products have dropped sharply since 2008 as reflected in the graph below.

111. The fall in sales of bed nets arose from the change of strategy from social marketing to the free distribution of nets. For the drugs, there was a change of treatment policy and there were still challenges with creating awareness among the population.

112. PSI sells on credit terms to some of its clients. The manual provides the policies that define the terms and conditions under which credit should be extended to clients. The OIG noted however that this policy does not take into account the selling on credit to public bodies. The manual should be amended to reflect this aspect.



113. Although the policy relating to private organizations is in itself well written, it is not applied consistently. For example, while the policy provides for the maximum credit term as 60 days, FARMAD was allowed 90 days as its credit term. The OIG also noted that FARMAD had significant payments that were overdue but continued to benefit from the credit line. The implementation of laid down policies will strengthen the control environment within which the credit sales are made.

114. The failure to comply with the laid down credit policies resulted in outstanding payments amounting to 53 million MDAs (US\$ 26,000) at the time of the audit, some of which dated as far back as 2006. It is therefore necessary that PSI follow up these debts since they represent program income under the Global Fund.

115. The OIG noted that PSI gives away bed nets as “promotions”. The percentage in 2008, compared to the total number of nets sold in the year was 12% that is some 17,000 bed nets. The process for giving away promotional items is not well defined i.e. the percentages of products that can be distributed as promotional items, the justification process for such promotions and processes that should be followed for approval. This is especially important to reduce the risk of abuse.

116. Under the Round 8 HIV grant, the proposal provided for all male and female condoms to be sold through social marketing would be provided by USAID. The Global Fund is required to support the stocking, promotion and distribution costs of these commodities to beneficiaries. The OIG noted that although the charges covered by The Global Fund were much higher than the unit cost of the condoms, the revenues from the sale of the condoms were entirely allocated to USAID.

Recommendation 10 (Requires attention):

(a) *PSI should consider updating its manual to cover credit extended to public sector entities. The process for identifying and approving the distribution of promotional items should be clearly defined and complied with. The*

implementation of laid down policies should be strengthened in order to ensure that program funds are not lost.

- (b) Monthly reconciliations of amounts receivable should be carried out. All outstanding payments should be followed up.*
- (c) PSI should allocate the income to the Global Fund program in proportion to the investment. This income should be accounted for as required in the grant agreement and used for program purposes.*

Expenses

117. The Global Fund requires that all the funds it provides be used only for program related activities i.e. those in the approved work plan and budget. The OIG noted instances where program funds were used for activities that were not in the approved work plan and budget and directly benefited other donors' activities. Costs that were not related to the Global Fund supported program were charged to the Global Fund account e.g. US\$ 17,000 relating to Genicure. There was no evidence that this amount was refunded to the program.

118. The OIG noted that there were inter-grant and inter-donor borrowings. This is contrary to the signed grant agreement. In consequence, there is a risk that program funds will not be available when needed for program implementation.

119. PSI's financial guidelines provide for the allocation of common costs across donors. The basis of allocation of costs is the percentage of the project to the overall budget adjusted for significant one-off items. While the allocation basis in the policy manual is reasonable, the OIG noted that PSI Madagascar did not consistently apply the policy. For example, the fixed charges were allocated based on budgets while expenses relating to variable charges (activities) were based on the size of each funding agency by activity. The OIG was not therefore able to provide assurance that the allocation of common costs across donors was reasonable.

120. The rationale behind the allocation of costs according to the budgeted activities was also unfair in as far as the costs were not fairly distributed. For example vehicles, fuel and insurance were allocated based on the number of vehicles assigned to a donor. However, the vehicles were not solely used for the activities of the donor to whom they were allocated but supported activities for other donors.

121. The OIG also noted that even after the computations were made, they were not followed when it came to making the relevant entries in the accounting system. For example, PSI allocated 14 cars to the Global Fund supported program and the related costs were MDA 56.9 million. However, PSI allocated MDA 81.2 million as vehicle related costs to the program for this period. PSI could not explain how the additional 43% paid above the computed costs arose and why they were charged to the Global Fund account.

122. The OIG noted that common trainings for their distributors were held i.e. for all PSI's other lines of business not just those financed by the Global Fund. However, some times the costs for the trainings were all charged to the Global Fund account e.g. training in Toamasina region that was all charged to the Global Fund yet it was also for a purified water's product and ACTs.

Recommendation 11 (Significant)

The PR should ensure that common cost allocation formulae stipulated in the employee manual is adhered to so that there is a reasonable allocation of shared costs including relevant training costs.

123. PSI procured four Toyota Land Cruisers 1.5 months before the end of the Round 2 grant. The OIG noted that only one vehicle had been budgeted for in the approved budget with the extra three vehicles being procured from the grant savings. These vehicles arrived after the grant was closed and eight months later were reallocated to the implementation of USAID's programs. Within a year, PSI requested for and received approval for the purchase of new vehicles under the Round 4 grant. This does not represent value for money since the vehicles transferred to the USAID could have been used for the Round 4 grant.

124. PSI hired two aircrafts at MDAs 8.6 million to transport their staff for the launch of the mid 2009 campaign. There were two additional invoices amounting to MDA 21.2 million relating to the charter of planes. The hire of aircrafts was not in the original approved budget. It is also noteworthy that the aircraft was hired to transport six PSI staff for the opening of the campaign, while the national officers including the Vice-President and Minister of Health drove to the opening. Taxes worth MDA 3.1 million were also paid on these expenditures and this represents ineligible expenditure since PSI has tax exemption status. These funds should be refunded since those activities were not budgeted for and did not represent value for money.

125. A review of a sample of expenditure items also revealed other instances where payments were not in line with the Global Fund grant agreement:

- (a) Although the Global Fund received TVA exemption from the Malagasy authorities, TVA on invoices was sometimes paid and not recovered from the Authorities e.g. the three invoices from HK Jurifisc.
- (b) There were significant budget overruns, especially in the closed grants, facilitated by transfer of funds between budget categories. For example under the Round 2 grant, although the overall budget had been adhered to, actual expenditure exceeded the budget by some 77 % e.g. for other direct costs. The OIG did not see evidence of CCM or Global Fund prior approval for the reallocations.
- (c) PSI paid some US\$ 15,000 towards a trip made by CCM members in 2009 and Ministry of Health staff. The Global Fund prohibits the payment of CCM

related costs from program funds. Moreover, 7 days per diems were paid for a 2 day meeting. These funds should be refunded.

- (d) PSI had held annual new year and farewell parties for employees leaving PSI. The costs for these parties had been charged to the Global Fund. However, they were not provided for in the initial budget proposal, and cannot be considered to be program related. The costs identified i.e. US\$ 22,000 should be refunded.
- (e) A payment of US\$ 17,550 relating to the Apex Drug House for the freight of Palustop blisters under the CRESAN project was wrongly charged to the Global Fund. The transaction was not related to the Global Fund supported program. This amount should be refunded.

126. The OIG's review of expenditure revealed some payments that reflected weaknesses in the internal control environment within which expenses were incurred:

- (a) PSI received two invoices from the Ministry of Communications totaling MDAs 2.9 million for radio advertisements run on behalf of PSI. The payment for public services offered was, however, made into the bank account of an individual i.e. the communications delegate for the area in question. This was based on a request in a letter written and signed by the same communications delegate.
- (b) FARMAD SA delivered medicines on behalf of PSI and was paid a commission for deliveries. The commission payment was supposed to be based on the sales terms clearly set out in the contract. The OIG noted that the commission rate applied varied from the contract and there was no justification provided for the variation. The payments were effected in foreign currency to the Managing Director's personal account in France, which is contrary to regulations in Madagascar.

Recommendation 12 (High):

- (a) All significant budget reallocations should be approved by the CCM and Global Fund.*
- (b) All ineligible expenditure should be refunded i.e. CCM related costs, vehicle related costs, freight costs, aircraft hiring costs and the annual parties.*
- (c) PSI should strengthen its internal controls around the payments system. Specifically, payments should be effected to actual service providers and in line with the country laws. Tax should not be paid and activities not approved in the budgets should not be funded without prior Global Fund written approval.*

Human resources

127. PSI Madagascar has 179 staff, down from 229 staff after a restructuring exercise in September 2009. The OIG noted that the 23% reduction in staff numbers between 2008 and 2009 did not result in a reduction in human resource costs. Instead the HR costs increased by 22%. The significant individual salary increases (22%) were attributed by PSI to Madagascar's high annual inflation rate. However the inflation rate was only about 10%.

128. Between 2003 and 2009, the staff numbers increased by 36% but the payroll cost increased by 290%. However when compared to the level of Global Fund related activity, the OIG noted that the Global Fund activities had dropped in inverse proportions (the graph on page 24 shows the reduction in activity).

129. A review of a sample of five employees revealed that two out of the five were not in the approved budget. The salary increases for the five employees between 2003 and 2009 are shown in the table below.

Employees	Basic monthly salary in 2003 MGAs	Basic monthly salary in 2009 MGAs	Increase %age
A	898,400	3,018,700	236
B	4,453,200	13,150 000	195
C	1 063 800	3 568 700	235
D	1 204 000	4 059 100	237
E	509 813	3 518 100	59

130. The approved budgets provide for fringe benefit. Fringe benefit were 40% of the base salary for expatriates and 41% of the base salary for locals. Fringe benefits comprised of, among other things, annual bonuses and sales commissions given to staff not involved in sales of products and these amounted to MDAs 1.25 billion (US\$ 673,303) between 2003 and 2009.

131. The OIG noted that the composition of the fringe benefits was not disclosed to the Secretariat during budget negotiations. While the payment of salaries can be linked to program activities, it is the OIG's view that the payment of bonuses and commissions cannot be justified in light of the grant agreement. These fringe benefits were also not subject to social security deductions as required by the law which raises the risk of penalties.

132. PSI Madagascar has five expatriate staff out of the 179 staff component. As part of the fringe benefits, expatriate staff are also entitled to benefits such as house rental payment, gardening, housekeeping, private vehicle costs, private gas, small household appliances, school fees etc. The OIG noted that that these details were also not disclosed to the Global Fund during grant negotiations and amounted to some MDAs 500 million (US\$ 250,000) between 2003 and 2009.

133. While these benefits may be part of PSI's remuneration package, the extent of the benefits seems excessive when set against the context of what the funds were provided for i.e. to fight the diseases. The Global Fund cannot dictate what PSI staff should be paid. However, program funds should only be used to pay for what is reasonable so that program funds are used to maximum effect.

134. Employees, after a certain length of service, had become entitled to loans which, were paid out of Global Fund resources and recorded as advances. This was also contrary to what the funds were intended for and raises the risk that funds would not be available to undertake program activities in the work plan.

135. The procedures manual provides for all indicates that assignment costs should be justified within 72 hours of the end of the assignment. An analysis of the general ledger shows that this deadline was not often respected. Supporting documents were handed in very late and there was no evidence that cash balances on advances taken were paid back immediately.

136. The staff files were not up to date. They lacked key information such as resumes, job descriptions, civil status, number of dependents etc. In consequence, the rates paid to staff could not be reconciled to staff contracts or the computations of the social security contributions and income tax.

Recommendation 13 (Significant)

- (a) PSI should provide to the Secretariat a breakdown of the fringe benefits during giant negotiations and a decision made on what payments are acceptable in line with the grant agreement.*
- (b) The use of grant funds to pay staff loans should cease. PSI should recover all grant funds made out as loans as soon as possible.*
- (c) PSI should charge the Global Fund for only those positions stipulated in the approved budgets. Replacement of any position for other positions should be justified and approved by the Global Fund. Salary payments should be in line with the staff contracts and aligned to approved budgets. Staff files should also be updated.*
- (d) PSI should ensure that advances are liquidated on time. Furthermore, staff with outstanding accountabilities should not receive additional advances.*

Assets

137. The OIG reviewed the management of assets by PSI in accordance with its policies and best practice and noted instances where controls should be strengthened. PSI procured a large number of assets but did not maintain a comprehensive register of all the assets procured. PSI had only developed a summary table of assets. The labeling of assets of identification was not comprehensively done and some assets had numbers that differed from those that

were on the assets list. PSI attributed some of the discrepancies noted to the moving of the office to new premises.

138. The OIG noted that vehicles procured using Global Fund resources were registered in the name of PSI / USAID. PSI could not explain this anomaly. In line with the grant agreement, these vehicles should be registered as program vehicles until the grant closure when a decision will be made on what to do with the vehicles.

Recommendation 14 (Requires attention)

- (a) The PR should maintain a comprehensive register of all the assets purchased with Global Fund grants. A physical verification exercise should be conducted periodically to ascertain the existence and condition of program assets. The register should be updated to reflect the results of the verification exercise.*
- (b) All assets should be registered in the names of the funding body.*

Procurement and Supply Chain Management

139. Procurement of health and pharmaceutical products was undertaken by PSI Washington while infrastructure, equipment and other non-health products were purchased locally by PSI Madagascar. Over the period under review, almost two thirds of PSI's budget covered procurement health products by Washington DC. The OIG reviewed the procurement activities of PSI Madagascar for non-health products.

140. The Roll Back Malaria (RBM) technical working group is responsible for forecasting LLINs and ACT needs. The OIG noted that the warehouses contained significant amounts of expired ACTs. This could be a reflection of forecasting, a poor inventory management system etc. PSI should review and obtain explanations for the expiries. This information should be passed on the relevant structures for future decision making to address the causes of the expiries.

141. PSI Madagascar subcontracts the customs clearance of the goods to a forwarding agent i.e. Auximad. Once cleared the products are quality assured by the Agence du Médicament de Madagascar (the Malagasy Pharmaceutical Regulatory Authority). LLINs and Actipal are tested before distribution to regional warehouses.

Procurement undertaken by PSI Headquarters

142. There were instances noted where there were significant delays in the procurement of products for program activities. The country office did not have a system through which information on the progress of the procurement can be obtained. Madagascar received limited or no documentation from PSI Washington with regard to the progress of their orders and conversely, information was not sent back to the Head office on deliveries in order to support the payment process.

143. The OIG noted that sometimes orders involved several deliveries. However the OIG did not see evidence that PSI Madagascar reconciled the different batches received to the overall amount ordered and paid for. The documentation on file as evidence of receipt of products were goods received notes that were not pre-numbered and did not have the supplier delivery notes attached.

144. PSI Washington effected payment to the supplier without obtaining confirmation that all the goods had been delivered. Discrepancies were noted between the numbers reported as received and what was billed by the supplier. For example a comparison of purchase invoices for mosquito nets and actual deliveries revealed the following discrepancies:

Order N°	Quantity invoiced	Quantity delivered	Difference	Value US\$
3500 (2488 ITN)	96,000	95,950	50	286.5
3229 (2488 ITN)	96,000	95,950	50	284
17 (P 2488 ITN)	172,000	147,000	25,000	141,750
20 (2488 ITN)	96,000	95,900	100	566
20 (2488 ITN)	103,000	102,850	150	852
			25,350	143,738

145. The OIG was informed 25,000 mosquito nets were received at a later date. However, these were allocated to a USAID program as opposed to the Global Fund program. PSI should therefore refund the monies relating to the nets that were not used for Global Fund program purposes i.e. US\$ 143,738.

Recommendation 15 (High)

- (a) *The flow of procurement related information between PSI headquarters and the field should be regularized. Purchase requests should be referenced and goods receipt confirmations should be pre-numbered and include the corresponding delivery note number.*
- (b) *Each receipt confirmation document should be sent to PSI Washington before the supplier is paid. It should indicate specifically the number of missing and /or damaged products. Damaged products should be claimed from the insurer.*
- (c) *PSI should refund the value of the missing nets.*

Local procurement

146. The OIG reviewed the process followed in undertaking local procurement. PSI established thresholds for the type of procurement process that should be followed i.e. a competitive process had to be followed for all procurements above US\$ 250.

147. A review of the procurement processes undertaken revealed processes undertaken that were not in line with the defined thresholds for procurements. Breaching laid down policies should be discouraged and in cases where it occurs, proper justification should be prepared with management approval being obtained before the process starts:

- (a) PSI hired a consultant to provide logistical support to an autonomous campaign for universal coverage in 2009 worth US\$ 35,000 by obtaining three quotations. However based on the thresholds, the “invitation to tender” process should have been undertaken.
- (b) PSI hired a consultant for 300 days to support a 10 days campaign for US\$ 66,050 without following the “invitation to tender” process. In this case, the justification provided for sole source i.e. the failure by another consultant that was previously hired to take the offer was inadequate.

- (c) A contract to manufacture banners worth US\$ 40,851 was awarded by comparing three quotations as opposed to the open invitation to tender. The award was only based on a financial comparison with technical evaluation being undertaken. The evaluation memo was signed by three people but did not state their names or titles. It was also not dated.

148. The OIG noted some instances where PSI did not comply with its policy in that it did not select the lowest bidder. For example the bid to install a telephone network amounting to US\$ 19,851 had the following:

- i. The procurement method that was employed was not appropriate given the funding involved. INS was appointed following the restricted invitation to tender procedure instead of an invitation to bid.
- ii. The bidders were only given 5 days to respond which was inadequate given the procurement method that should have been followed.
- iii. The bidders were also not provided with the evaluation criteria. PSI awarded the contract on the basis of cost, experience and the deadline for completion and this was not the lowest bidder. Because the criteria was not defined beforehand, this raised the risk that the criteria could not be set to favor a particular supplier.
- iv. The supplier subsequently received an extension to their contract amounting to US\$ 5,368 and received total payment for services before they completed the work.

149. The OIG noted that on 8 December 2005, the purchase of 12 computers was split into two procurements. One procurement process should have been undertaken and this represented the splitting of orders to avoid following due process.

150. The OIG noted that in most cases suppliers were not required to provide technical proposals. Contrary to the PSI procedures manual, there was also no approved criteria against which the technical aspects of the bids were evaluated. Proposals were therefore evaluated only on the basis of their financial submissions.

151. PSI requires bidders to provide information about the bidding company. These documents are mandatory to enable bidders to be considered for the technical evaluation. The OIG noted that in several cases amounting to some US\$ 143,872, bidders did not provide a complete set of required documents but they were not disqualified and their bids were considered for the evaluation.

Recommendation 16 (Significant):

PSI should operationalize its procurement related policies. Specifically PSI should respect the thresholds for the different types of procurement. The evaluation criteria defined as part of the bidding process should in practice be adhered to during evaluations.

Storage

152. PSI has three warehouses i.e. two in Antananarivo (Andavamamba and Tanjombato-SDV) and one in Toamasina. Andavamamba is the main PSI warehouse with the one at Tanjombato dedicated to LLINs storage. Generally, the OIG noted some good practice namely:

- (a) The warehouses were secured well. There were fire extinguishers within all the warehouses;
- (b) Appropriate shelving was in place as well as thermometers for ensuring appropriate temperatures are maintained.
- (c) Appropriate policies for managing the stock i.e. First In, First Out (FIFO) for products that don't expire and First Expiry, First Out (FEFO) for products subject to expiry; and
- (d) Proper records were maintained with monthly stock takes undertaken. Stocks are clearly labeled showing expiry dates.

153. The OIG's visit to the Andavamamba warehouse revealed the following areas that needed strengthening:

- (a) The roof was leaking which raised the risk of contaminating the products in the warehouse.
- (b) The warehouse keys were held by all the storekeepers which defeated the purpose of securing the warehouses since many people could access to the warehouses.
- (c) The warehouse was not clean and had pests.
- (d) There was no air conditioning or temperature control. This is especially important because ACTs should be kept in temperature regulated stores.
- (e) Some expired ACTs were still in the store. These products were not quarantined and this raised the risk of them being distributed.
- (f) The dates of receipt recorded on the stock cards were before the date specified on the official acknowledgement of receipt forms. This suggested that the products were received and stored in the main store before they were quality assured and clearance provided for their storage.

154. The OIG visited the Toamasina warehouse and noted the following:

- (a) The warehouse did not have proper air conditioning in most of the warehouse. Because the roof was made of corrugated iron, it was quite hot which was not ideal for some health products. Some products were directly exposed to sunlight e.g. condoms.
- (b) This warehouse did not have a designated storekeeper. The person in charge of the warehouse was working with the logistics, administrative and financial section.
- (c) Some expired ACT were still in the store. These products were not quarantined and this raised the risk of them being distributed to the population.
- (d) The arrangement of products in the warehouse was not logical with some paper and plastics maintained in the cooler parts of the warehouse and the pharmaceutical products maintained in the hotter parts.

- (e) The OIG noted that some of the bed net bales contained 40 and not 50 units. The warehouse therefore received 20% nets less than the quantity expected. Some bales also were filled up with different types of bed nets. Reports of the shortages had been submitted to the main warehouse but this had not been resolved at the time of the audit.

155. Tanjombato had two warehouses that were separated by a wooden barrier which permitted access from one warehouse to another. The point of weakness had already resulted in theft of products. The products held in the smaller room were placed against the wall/window and this created humidity in the room which put the pharmaceutical products at risk.

156. Inventory sheets were filled in as soon as goods are delivered and not after health inspections had been carried out and in consequence there was a risk of distributing products that had not yet been quality assured. The inventory sheets did not indicate missing products and did not show the expiry date or the batch number for the delivery in question.

Recommendation 17 (Significant)

- (a) *The warehouse security should be enhanced with one person taking responsibility for the warehouse keys. The walls of the Tanjombato warehouse should be reinforced.*
- (b) *The temperature regulatory conditions in the warehouses that hold pharmaceutical products should be strengthened. Temperatures should regularly monitored and corrective action taken in a timely manner.*
- (c) *PSI in consultation with the MOH should put in place a process for destroying expired drugs.*
- (d) *The warehouse lay out should be reconsidered with pharmaceutical products kept away from sunlight and the warmer parts of the warehouse. All expired products should be quarantined away from the rest of the products and should be clearly labeled that they cannot be distributed. Products should not be stored against the walls and some space allowed for aeration.*

Distribution

157. Distribution of products falls within the mandate of PSI's distribution unit which consists of 25 personnel. PSI projects involve social marketing and promotion of health products through four distribution channels i.e. commercial, pharmaceutical and community channels as well as distribution to health facilities.

158. PSI distributes to wholesalers and also distributes to retailers. In fact the retailers stated that they preferred getting products directly from PSI than the wholesalers. This was because PSI offered better prices than the wholesalers. This created a parallel distribution system which disrupts the market in that the two

supply to the same retailers at different prices. When retailers run out of products, they opt to wait for PSI to supply rather than buy from the local wholesaler.

159. The OIG was provided with the 2010 distribution plan of products. However, this plan did not contain any information regarding the quantity of products that should be distributed as well as information on what selling points would be used. It also did not cover the prices at which the intermediaries and final users would be charged.

160. The OIG noted that there were losses in the distribution chain as noted below. These losses were not reported to the Global Fund and no evidence was on file that the losses were made good:

- (a) Some bed nets had been lost between the main warehouse in Antananarivo, and the secondary warehouses. Some bales contained 40 and not 50 nets while other bales contained different types of nets. The secondary warehouses reported the shortages in bales back to the main warehouse but there was no evidence of any action being taken.
- (b) Some 42,000 nets were recorded as having been damaged and the loss was charged to the Global Fund program. There was no report to explain how these nets were damaged and who took responsibility for them. There was no evidence of the damage being recovered from the insurance company.
- (c) There was a further loss of 16,957 bed nets that were stolen from the warehouse in 2010.

Recommendation 18 (Significant)

All losses should be investigated and PSI should refund all bed nets lost or stolen.

Sub-Recipient Management

161. PSI Madagascar was responsible for implementing all the program activities under the first 3 grants signed with the Global Fund. PSI only started working with SRs under the Round 4 RCC and Round 7 grants. At the time of the audit, PSI had identified 12 SRs to work with. The SR budget represented only 3% of the total funding received by PSI.

162. PSI's manual clearly elaborates the policies and processes that are followed in the selection and management of SRs. The OIG noted that the public sector PR also worked with the same SRs and had their own manual. There were some differences noted between the two PR manuals e.g. the payment of allowances and procurement processes followed. Since the two PRs worked with the same SRs, then there is a need to clearly harmonize the policies in order to prevent any confusion.

163. The OIG noted that there was no assessment of the capacity of the SRs prior to working with them. The OIG's review revealed that SRs had significant capacity weaknesses, but no capacity building was undertaken to enable them implement the programs better. The OIG noted that PSI did not have a plan for the audit of its SRs.

164. The OIG found that some SRs did not have the adequate capacity to manage grants. In one instance within the sample selected, that the SR demonstrated serious internal control weaknesses. All the key management functions were filled by family members and could not be considered as having an adequate control environment within which programs could be implemented.

165. The typical issues noted were (i) budgets being imposed on SRs without taking in consideration real needs and capacities, (ii) inconsistencies in the budgets where costs could not be linked to activities, (iii) budgets were not attached to the sub-grant agreements signed, (iv) lack of appropriate documentation to support expenditure, (v) expenditures incurred before contracts were signed, (vi) lack of comprehensive review of SR expenditure by PSI etc.

Recommendation 19 (Significant)

- (a) *All SRs should be assessed for both programmatic and financial management capacity in order to ensure that selected SRs have adequate capacity to implement programs.*
- (b) *In line with the grant agreement, PSI should develop and submit to the Global Fund a plan for the audits of its SRs.*
- (c) *PSI should harmonize the operational policies for its SRs with other PRs e.g. in areas like payment of allowances. This is especially important where SRs are implementing programs for the two PRs.*

- (d) *The PR should determine its total budget taking into account SR needs in order to attain program objectives and that charges are related to programmatic results. The budgeting process should not be top down. SRs apply the same rule for SSR's budgets.*
- (e) *PSI should undertake a comprehensive review of SR expenditure before subsequent disbursements are effected.*

166. The OIG visited three SRs i.e. the National Malaria Program, Voahary Salama (an SR for Malaria and HIV under the Round 8 grant) and AFSA under the HIV grant. Their combined budgets represented 64% of the total SR budget.

The Malaria National Program (SLP)

167. The Malaria National Program is a department of the Ministry of Health and it has worked with PSI under Rounds 4 and 7. This SR receives funds from the Ministry of Health and is financed by several other funding agencies. Under the Round 4 grant, SLP coordinates the mass campaigns, undertakes the free distribution of nets within public health facilities, trains the public health agents in the routine distribution of nets at district level and is responsible for undertaking the Malaria Indicator Survey (MIS).

168. The OIG noted several instances of inter grant borrowings. This SR received prior approval for the inter grant borrowings from PSI. This however raised the risk that funds may not be available when needed to implement program activities.

169. The National Program did not follow the procurement regulations laid down in the PMU procedures manual. For example there was no invitation to tender for expenditure greater than MDAs 2 million. The SLP explained that they followed the government procurement guidelines as opposed to those in the PMU.

170. The OIG noted that certain advances were made to the personal bank accounts of staff members which created the opportunity to misuse the funds. The advances were not liquidated within the timeframes specified in the procedures manual. For example an advance was made for activities in November 2009 but accountability was only submitted in May 2010. The accountabilities were not supported with appropriate documentation.

171. For the "2010 World Malaria Day", the SLP requested US\$ 20,000. The approved budget was for US\$ 8,000. The OIG noted that 53% of the requested amount was for the payment of daily allowances. The number of days budgeted appeared high i.e. up to five days for a one day activity. Moreover, each official had their own vehicle, a driver and an assistant. This resulted in 10 people travelling in five cars for this event.

Recommendation 20 (Requires attention)

- (a) *SLP should use grant funds exclusively for implementing program activities. Significant budget reallocations should be only with prior PR approval.*

- (b) *Payment of program funds into personal staff bank accounts should stop.*
- (c) *Inter grant borrowings should cease because they can interrupt program implementation. Any outstanding inter grant borrowings should be refunded with immediate effect.*

VOHARY SALAMA (VS)

172. The organization was set up in 2002 and works with several funding agencies like CNLS and USAID. The organization is an SR for Rounds 7 and 8. VS has a procedures manual which dates as far back as 2004. At the time of the audit, VS had updated its manual although it had not yet been approved by management.

173. The OIG's review of VS revealed the following as areas that need strengthening:

- (a) Program funds were maintained in an account that belonged to a closed project. The OIG did not see evidence that the last project had been effectively closed off and the account was no longer in use by this project.
- (b) Expenses were apportioned according to the number of projects and not according to actual expenses for each project. This basis of allocation of common costs may not be equitable across the relevant donors.
- (c) There were instances noted where the actual expenditure exceeded budget and there was no evidence of approval by PSI. For example at the time of the audit, salaries paid exceeded budget by 44%.
- (d) VS stored all stocks together and did not have a system of recording stocks by donor.
- (e) VS signed blank checks when their managers were not around. Checks were also not crossed.

Recommendation 21 (Requires attention):

- (a) *All key budget reallocations should be undertaken only with the approval of the PR. In some cases reallocations may not only require prior PR approval but also CCM endorsement and Global Fund approval.*
- (b) *VS should reconsider its policy for allocating common costs across donors. This is with the aim of ensuring that the allocation of costs is equitable among donors.*
- (c) *VS should develop a system that records and reports stocks by funding source.*
- (d) *VS management should not sign blank checks and all checks should be crossed.*

AFSA

174. AFSA was registered in 1995 and signed a contract with PSI in February 2010. At the time of the audit, AFSA had not yet started implementing program activities. A review of the expenditure incurred revealed expenses worth MDAs 4,444,091 that were incurred before the grant agreement was signed were not eligible. The payments related to the payment of salaries and installation of a

telephone system should be refunded. Furthermore, the SR was charging the Global Fund for non-program related expenditures for example the rent for a warehouse rent which did not have any program commodities stored i.e. MDAs 240,000 for the three month period reviewed.

175. The OIG noted that the finance and administration manager did not have the requisite qualifications to maintain proper books of account. At the time of the audit, AFSA's financial records were not up to date. Salaries paid were not subject to deductions for income tax and social security which raises the risk of penalties.

Recommendation 22 (Requires attention):

The financial management system should be strengthened by appointing a suitably qualified accountant and maintaining up to date financial records. Management should ensure that payments are effected in accordance with the approved budget.

Oversight

Background

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

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

Country Coordination Mechanism

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

- (a) Coordinates the development and submission of national proposals;
- (b) Nominates the PR;
- (c) Oversees the implementation of the approved grants;
- (d) Approves any reprogramming and submission of requests for continued funding; and
- (e) Ensures linkages and consistency between Global Fund grants and other national health and development programs.

178. The OIG did not have access to the CCM during the audit and as a result was not able to review the functionality of the CCM. At the time of the audit, the CCM was having leadership problems and CCM members were not available to meet nor provide documentation. The OIG only met with some CCM members i.e. the Vice Chairmen and development partners at the close of the audit to present the audit findings. The CCM members in attendance expressed two concerns i.e.

- i. that they were not aware that the grant was signed with the PSI Head Office and not Madagascar. This was despite the fact that the CCM was signatory to the grant agreement; and
- ii. the lack of Global Fund Secretariat support during the CCM political crisis in 2009/2010. This was despite the fact that there had been interactions between the CCM and the Secretariat between 2009 and 2010 during which the functioning of the CCM, Global Fund requirements and concerns and possibilities for technical assistance were discussed.

Local Fund Agent

179. The LFA for Madagascar is PricewaterhouseCoopers. The LFA as 'eyes and ears' of the Global Fund locally play a crucial part in the Global Fund's system of oversight and risk management. The LFA's key roles are to:

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

180. The OIG noted that the LFA prepared a separate report referred to it as the 'Key financial and programmatic information'. The OIG noted that the LFA verified all the expenditures reported by PSI and presented key findings such as the LFA's inability to verify bank account cash balances, expenditures incurred in Washington DC etc. Because this information was in a separate document and not the official documentation i.e. the PUDR, this information may have been missed when making decisions.

181. The OIG noted instances where the work of the LFA could be strengthened. The work undertaken by the LFA was normally based on a desk review. There were instances where the work of the LFA could have been strengthened through a field visit. For example the LFA assessment of PSI's PSM systems was only undertaken based on a desk review of documents. The PSM expert had not visited the stores at the regional, provincial, municipal, city and barangay (city) levels.

182. In the assessment reports the LFA presented the recruitment of additional staff as a positive contribution to the grant management process without reviewing the effectiveness of the new staff in addressing the underlying weaknesses previously identified. For example, the staff numbers in the Antananarivo's office were not commensurate with the type of work PSI had been performing there i.e. as a wholesaler.

183. With regard to the exchange rates, the LFA was reporting that the exchange used in the PUDR was not applicable because the financial report was expressed in US\$. This was an oversight by the LFA because some 30% of all expenditures were incurred in MDAs. The LFA also in some cases did not verify that the PRM/PQR was completed as required by the Global Fund.

Secretariat

184. The oversight work of the Global Fund Secretariat in-country is coordinated by the Fund Portfolio Manager. The FPM interacts with country structures including the CCM, the LFA, CPs and other stakeholders to facilitate smooth program implementation. Since the Global Fund has no direct in-country presence, the FPM

relies heavily on the work of the LFA and feedback from the other in-country stakeholders to make grant decisions. The OIG reviewed the oversight provided by the Secretariat and noted instances where it was less than optimal.

185. The LFA has since January 2007⁶ reported to the Secretariat that PSI was reporting results up to intermediary points. The Secretariat however kept classifying the results as top ten indicator results i.e. as if they were up to final users for Round 4 and 7 which was a misrepresentation of information. As a result of this, the basis on which decisions were made within the Secretariat was flawed. The Strategy Performance and Evaluation Cluster was not aware that PSI was only reporting up to intermediary points.

186. The OIG also noted that the audit reports that were received and reviewed by the FPM did not meet the Global Fund guidance on audit arrangements. The disbursement decision making forms (DDMF) stated that the audits had been undertaken, even though, as already mentioned, none of the audits met the conditions set by the Secretariat.

187. The OIG noted that some of the key findings that were highlighted by the LFA in a separate document were not always reflected in the DDMF. This information was also not attached to the set of documents accompanying the DDMF. In some cases, the PQR was not completed although the DDMF incorrectly misrepresented that it was.

188. The OIG noted instances where the approvals granted by the Secretariat did not result in value for money. The regional team authorized the purchase of four cars (worth US\$ 120,000 approximately) 1.5 months before the end of a grant when three of them were not in the original approved budget. The team then approved their reallocation to USAID's program and the subsequent purchase of new cars in a new grant, instead of requesting PSI to utilize the old vehicles.

189. The OIG noted that the funds from the closure of the Rounds 2 and 3 grants were only returned to the Global Fund 3 and 4 years after the respective grants were closed. PSI stated that the delays were caused by the Secretariat's failure to advise them on how to handle the balances.

190. The OIG noted that the PSI had not prepared the Enhanced Financial Report for 2009. PSI explained that this was upon the instruction of the regional team. The OIG was not provided with justification on the contravention of policy.

191. The OIG also noted an instance where PSI had been granted a "no cost extension" in 15 August 2008 to distribute 288,000 nets during Q17 (Mar-May 09) and Q18 (Jun-Aug 09). The Global Fund however approved an additional extension for the distribution of these nets in the RCC performance framework to happen by 31 December 2010 (P20). This defeats the performance based funding principle that provides for set targets to be met within a specified period of time.

⁶ LFA verification on-site (Fort Dauphin) January 2007

Annex 1: The Country Coordinating Mechanism's Overall Comments

by email

25 October 2011

As agreed, please find below the response of the CCM:

The CCM notes the findings and recommendations from the audit of the Global Fund grants to PSI Madagascar.

The CCM has no particular comment on the results of that audit, but expresses its commitment to monitor (in close collaboration with the LFA) the implementation of all recommendations to allow assessment of the performance of programs ran by PSI Madagascar on the one hand, and facilitate decision making regarding the management of grants on the other.

With apologies for the delay,
Good reception

Best regards
Dr Dominique Rakotomanga
Vice Chair CCM

Annex 2: The Global Fund Secretariat's Overall Comments

7 October 2011

John Parsons
Inspector General
Office of the Inspector General
The Global Fund
Chemin de Blandonnet 8
1214 Vernier
Switzerland

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

The secretariat would like to thank the Office of the Inspector General (OIG) for its collaboration during the audit of the five grants managed by PSI in Madagascar. This letter provides a brief summary of the contextual background and key achievement by PSI Madagascar and also highlights specific actions the Secretariat and PSI have taken or will take to address key risks in the Global Fund Portfolio. Together with PSI, the Secretariat has already started implementing key recommendations and these will help strengthen financial, programmatic, procurement and supply chain management. The Secretariat will continue working closely with CCM Madagascar and the LFA to monitor the implementation of agreed upon audit recommendations.

A. Contextual background

The PSI program covers both Malaria and HIV and a total of US\$ 38 Million has been disbursed. As at the time of the audit, the PSI Program had contributed to the achievements of goals and objectives of both the national malaria and HIV/AIDS programs, through implementation of various activities a few of which are:

- PSI had delivered 2.4 million insecticide treated nets to help prevent malaria and helped treat over 600,000 malaria cases at the community level. In Madagascar, malaria cases have reduced significantly since the early 2000s. The recent malaria indicator survey (MIS 2011) shows prevalence in children aged 6-59 months at low levels of 9.7%.
- PSI had distributed 10 million condoms, and helped to treat 10,000 STI cases with Global Fund support. The HIV epidemic in Madagascar is stable, prevalence is below 1% in adults but, STIs though still high, are reducing among pregnant women attending antenatal care as indicated in the recent biological surveillance study (ESB 2010).

B. Summary of key recommendations and actions by the Secretariat

Challenges and key risks identified by the OIG	Secretariat comments and measures to address the identified risks
1. PSI Madagascar maintains a Pooled Bank Account for all donors. PSI Head Quarters (PSI HQ) in Washington do not disburse per grant and or funding agency and Global Fund income received each quarter is commingled with funds from other donors. It's therefore not possible to reconcile the cash balances held in the bank account by donor.	The Secretariat has taken note of this concern and has already raised it with PSI. The following has been agreed: - PSI Madagascar will ensure Global Fund disbursements from PSI HQ are earmarked and PSI HQ's has committed to indicate in their transfer the funds for Global Fund activities. - This requirement is a condition precedent for both RCC Round 4 malaria and Round 8 HIV grants Phase 2 extensions and the PR is obliged to report on progress. The Secretariat and the LFA will follow up to determine if this has been implemented satisfactorily going forward. In addition this has been highlighted as a common issue across all grants managed by PSI and the Secretariat has engaged with PSI HQ to resolve this issue of commingling of funds.
2. External audit reports submitted by PSI did not meet Global Fund audit requirements. The OIG also noted that despite the fact that two thirds of the grant expenditure was expended at the Head Quarters level, there were no arrangements in place to have HQ expenditure and income audited.	The Secretariat recognised the gap in external audits and since the OIG debrief, the team has actively sought to address this weakness. As a result the 2010 audit report (August 2011) for all active grants (Round 4 RCC, Round 7 and Round 8) identifies Global Fund specific income, expenditures and balances as at the end of audit period. The Secretariat's has also engaged PSI HQ to strengthen audit arrangement at both the country level and at the Head Quarters in Washington.
3. Monitoring of program activities to ensure that services reach the beneficiaries and other M&E weaknesses.	The Secretariat, starting with the Round 7 phase 2 performance framework in July 2011 clearly differentiated indicators for beneficiaries at community level from those related to social marketing channel, where results are reported at intermediary points. The Secretariat has also started reviewing social marketing indicators in order to standardise their use across the portfolio. The action plan prepared after the 2010 DQA identified strengthening measures for M& E that address general weaknesses noted in the audit. The final action plan (March 2011) is planned to be updated each year. It has also been agreed that from 2011 onwards

	only standard surveys will be carried out, this will help enhance data quality and integrity.
4. Ineligible amounts to be recovered following the OIG audit of PSI's expenses according to table under paragraph 13 the audit report.	The Secretariat has taken note of the OIG comments on ineligible expenditure. In their response to the draft audit PSI has, however, challenged some of the findings and the basis on which they were computed. To facilitate the follow up and recovery the Secretariat will engage the LFA to carry out a review of contested items for which PSI claims to have supporting documentation. These include: ▪ US\$141,750 related to the 25,000 bed nets as in paragraph 144. ▪ US\$15,000 CCM supervision costs in paragraph 125(c) The Secretariat will seek refunds in all other cases that are not listed above.
5. PSI staff costs and benefits charged to the Global Fund grants.	The Secretariat has already taken the necessary steps and has requested full disclosure of all PSI staff charges to the different grants during the Phase 2 evaluation of Round 8 HIV in August 2011. Going forward, all the staff charges and fringe benefits will be reviewed for reasonableness during grant negotiations. Additional spot checks by the LFA will ensure that the PR complies with the budgeted payroll and staff costs.

The Secretariat thanks the Office of the Inspector General for its draft report and is looking forward to constructive engagement during follow up on recommendations and on matters raised in this letter.

Sincerely,

Mark Eldon-Edington
Director of Country Programs

Annex 3: PR and CCM Responses to the Recommendations and Management Action Plan

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
1	Compliance with the grant agreement (HIGH)	The PR should comply with the conditions stipulated in the grant agreement. This will strengthen the control environment within which Global Fund programs are implemented. Specifically, the PR should:				
1a		Not use Global Fund resources to pay taxes and this should be communicated to all implementers. Efforts should be made to recover taxes paid so far from the tax authorities;	PSI/M understands the concern and is committed to assuring that GFATM resources are not taxed. The current " <i>lettre de prise en charge des taxes par l'Etat</i> " for current projects was not received until December 2009. VAT paid was limited to certain operating expenses primarily related to certain companies unwilling to grant exoneration. As a result, PSI/M had to seek reimbursement for these taxes after the transaction was made. PSI/M has submitted requests for reimbursement from the GOM for any VAT paid every two months to the Ministry of Finance. However, with the current political crisis, it is unclear if and when those taxes will be recovered. See Annex 1a for supporting documentation.	PSI		

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			In addition, PSI/M has collaborated with the varying PRs and SRs to address the problems of tax exemption and refunds for GFATM funded projects as this issue is not limited to PSI/M.			
1b		Strengthen controls over SR management and procurement; and	An SR supervision strengthening plan was submitted to the GFATM on April 5, 2011 in collaboration with NSA PRs for malaria grants. The PR is also working with SE/CNLS on developing a plan to strengthen SRs on the Rd8 HIV grant. PSI procures all equipment for Round 8 SRs in order to benefit from economies of scale and to ensure proper controls on procurements are maintained.	PSI		
1c		(d) Ensure that external audits are planned and undertaken in a timely manner ensuring that TORs comply with the Global Fund guidelines.	PSI submitted its external audit plan for 2010 to LFA in May 2011 and received provisional clearance on June 17. The external audit will occur in July 2011.	PSI	External Audit planned 7/2011	This has been addressed by the Global Fund Secretariat comment on the PSI Headquarters report that requires that grants have independent audit arrangements.

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
2a	Audits (HIGH)	(a) In accordance with the grant agreement, PSI should undertake audits that comply with the Global Fund audit guidelines. PSI should ensure that all SRs are audited in accordance with the grant agreement.	PSI submitted its external audit plan for 2010 to the LFA in May 2011 PSI acknowledges the recommendation to institute audits that cover the October 2010 Global Fund audit guidelines. On January 7, 2011 PSI submitted correspondence to Mr. Jonathan Brown, GFATM Director of Country Programs (a.i.) to propose audit procedures that would provide consistently and completeness throughout PSI's GF grants. We are awaiting comment and approval of our audit procedure recommendations Additional comment In addition to our June response, and as discussed previously with the OIG, PSI has several layers of financial and donor audits. Country platforms have local financial audits as a control feature, as well as local donor cost audits whenever a donor requires this. Since the Global Fund's publication of new audit	PSI	External Audit plan submitted to GFATM May 2011.	

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			guidelines, PSI HQ has engaged with its country offices to ensure their audits are fully compliant. PSI will continue these efforts. PSI also performs a global financial audit by an internationally recognized public accounting firm and as such, PSI can submit any qualification to the firm, including the need to be independent. This audit provides a consolidated assurance of the financial reporting and controls for all of PSI platforms and HQ operations. In addition to this, PSI has historically provided donors with a donor schedule completed as a part of its annual audit that provides details of its grant funds, cash receipts, expenditures and balances. These reports have been available for a number of years but PSI is open and willing to further refine these donor reports to meet all the needs of the GF. PSI initiated these discussions in early 2011 and is continuing these discussions with the finance team of the Secretariat to come to an agreement of the specific nature of the report and audit coverage			

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			for this report. Since PSI is a global organization with headquarters operations it welcomes a single review of its headquarters operations and a single set of recommendations for improvement annually by an independent third party. PSI does not agree that individual LFA's should all individually review and offer "areas for improvement" to PSI headquarters operations. This could result in 30+ different reviews and perspectives. PSI does however understand and respect that the LFA's need to know if there are areas for improvement, not only at the country level but also at HQ. As such, PSI is confident that a management letter from the global auditors specifically related to GF grants in conjunction with the GF global donor audit will meet these needs, since all HQ operations are standard and a single report on improvements is the most appropriate and cost effective monitoring tool. PSI's expectation is that the details of			

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			the GF donor audit will be agreed on with the staff of the Secretariat by the 4th quarter of 2011. PSI is open to and continues to discuss terms of the donor audit with the GF and looks forward to a rapid conclusion to the discussion.			
2b		(b) The internal auditor post should be filled as soon as possible in order to strengthen the control environment within which the grants are implemented.	Completed. Hired March 2011.	PSI	Completed March 2011	
2c		(c) PSI should share its OFOG reports with the Global Fund. PSI should consider extending the OFOG mandate to cover Global Fund specific program areas identified as risky e.g. SR management.	PSI's Global Internal Audit department (previously OFOG) performs internal assessments of local offices and the intended audience of these reports is senior management and ultimately the Audit Committee. In order to maintain independence and confidentiality, distribution of their reports is specifically restricted and release of a report requires approval from the Director of Global Internal Audit. Sharing of these reports with the Secretariat and the LFA may result in a perceived loss of	PSI		This matter has been picked up at the Secretariat level and a policy is being developed on access to internal audit reports. PSI's response is contrary to article 13 of the grant agreement that regarding access to documentation. This is especially the case when PSI states that it is undertaking Global Fund specific work e.g. visits to SRs and that fact that Global Fund has been

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			internal audit independence, which could result in local management not being willing to share concerns before they become significant. As these internal assessments are performed at a local office level, rather than at a donor specific level, the reports may contain confidential information regarding the office, its staff, or other donors/funders, and therefore PSI does not think it is appropriate to share these reports with the GFATM. The scope of work performed by our Global Internal Audit department is regularly reviewed to ensure that key risks faced by PSI's platforms are covered during the internal assessments, and sub-awardees management was incorporated into the standard scope of work last year. Additional comment The "Overseas Financial Operations Group" (OFOG) has been replaced by the "Global Internal Audit" (GIA) department at PSI, which is responsible for performing internal audit			contributing to the OFOG costs.

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			assessments across the PSI network, including both field and headquarters locations. The GIA mandate includes reviewing management of sub-awardees and visiting sub-awardees if appropriate, as well as following up on the status of previous recommendations. The GIA department applies a risk-based approach to its assessments, which are performed to assess the effectiveness of internal controls as well as compliance with donor, regulatory, PSI and local law requirements. PSI's internal audit approach follows a sample-based testing across the projects managed by a platform. Regarding access to internal audit reports, PSI stands by our June response, and firmly maintains that internal audit reports should remain confidential in order for the internal audit process to remain effective and independent. PSI, along with other members of the Civil Society Principal Recipients Network, continues to work with			

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			the Secretariat regarding the sharing of internal audit reports, and looks forward to finding an approach that meets the needs of both the Global Fund and PRs with an internal audit function.			
2d		(d) PSI should institute audits that cover the funds expended on behalf of the country at the Head Office. The Global Fund should ensure that the audit plans submitted for approval provide for the audit of the transactions incurred at the HQ.	PSI acknowledges the recommendation to institute audits that cover the funds expended on behalf of the country in Washington, DC. On January 7, 2011 PSI submitted correspondence to Mr. Jonathan Brown, GFATM Director of Country Programs (a.i.) to propose audit procedures that would provide assurances on both field and headquarters transactions. We are awaiting comment and approval of our audit procedure recommendations. Additional comment PSI refers to response 2a above. PSI welcomes the conversation and looks forward to finalizing an agreement with GF regarding the auditing of its global records by a single set of external auditors to include specific management	PSI	Letter submitted to GFATM Jan 2011	This has been addressed in the PSI HQ review.

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			letter comments relevant to the GF grants. PSI thinks that this single approach will bring the necessary assurances to all levels of the GF. As stated elsewhere in the response, PSI is open to and continues to discuss terms of the donor audit and looks forward to a rapid conclusion to the discussion.			
3	Policies and procedures (SIGNIFICANT)	The revision of the manual should be expedited. PSI should ensure that the resultant policies and procedures adequately address the risks identified in the control environment within which the grants are implemented and provide adequate guidance to all stakeholders involved in program implementation. The policies should be enforced in order to strengthen the control environment within which the programs are being implemented.	PSI Madagascar's policies and procedures manual was developed in 2003 and has been updated incrementally with a variety of amendments. PSI HQ revised its global guidance for local platforms in early 2011 that address a significant number of the issues raised in this report. PSI will continue to review its guidance and assure that additional revisions are made to address GFATM concerns raised within this report. PSI internal audit function will work with PSI Madagascar to assure that this guidance is being implemented accordingly.	PSI		

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
4a	Monitoring and Evaluation (SIGNIFICANT)	(a) PSI should consider updating its M&E integrated tool to cover all key activities performed by PSI e.g. to enable PSI to collect data on net sales and sensitization activities.	Following recommendations from the OIG audit in 2010, PSI Madagascar began reviewing and making improvements to its M&E system improved to ensure that it is more comprehensive and integrated. A preliminary operational phase is underway and the estimated completion date for the revised system is Q3 2011. All data gathered from field activities are centralized in an intranet based system that can be used for reporting and decision making. Data quality will be assured via systematic cross checks and field office verification visits. Additional comment Since PSI's June response, a new MIS unit has been created in the M&E department, and I responsible for centralizing all data and ensuring data quality. The new MIS intranet will be fully functional by the end of October, 2011.	PSI	Q3 2011	

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
4b		(b) PSI should consider undertaking integrated supervisory activities between all the departments that undertake supervision activities i.e. program, distribution and M&E staff. This would create synergies in the different functional reviews and also reduce costs associated with supervisory visits	Following recommendations from the OIG audit in 2010, a new initiative called "excellence group" is being tested that includes field visits by staff representing the various functional departments at PSI/M (e.g. Finance, Administration, Service Delivery, Human Resources, Programs, Distribution, etc). The idea is to develop crosscutting field visit guidance to oversee all elements of activities when in the field.	PSI	To be initiated Q4 2011	
4c		(c) The M&E function should be staffed with people with appropriate qualifications.	The M&E unit was established after the OIG's visit in October 2010. It now has two proficient nationals developing and supervising data entry teams. An international M&E expert provides technical support to the unit. Their CVs are available upon request.	PSI	M&E unit established Oct 2010	
5a	Indicators and targets (HIGH)	(a) PSI should align its indicators with the Global Fund top ten indicators. An indicator user guide should be developed to ensure that all stakeholders have the same understanding of the indicators to aid data collection and analysis. PSI's strategy and monitoring tools will need to be adjusted to provide for the	PSI is open to collaborating with the GFATM and our partners to identify additional cost effective methods of tracking price and end user data within the private sector. PSI considers reasonable measures to assure price controls but we	PSI		PSI's response does not address the issue at hand. However the Secretariat has committed to take action to correct this shortcoming in the Round 7 Phase 2 negotiations.

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
		collection of data to final user, including price verification and control. PSI should adhere to the requirement to report to end users.	emphasize that our unique approach of harnessing private sector commercial actors to reach the local population has its limitations as we do not control all of the actors in the distribution chain. While our approach does provide an alternative and complementary distribution to the public sector model, it limits our ability to completely control price as well as our ability to track data to the final user. PSI requests that the OIG consider that private sector approaches to distribution may require special consideration in regards to monitoring tools as commercial actors are not paid public servants nor employees of PSI and are under no obligation to report end user data. Insisting upon definitive end user data from commercial actors may preclude implementers from harnessing alternative distribution systems other than the public sector. This is vital considering that roughly half of the population of Madagascar lives more than 5 km from a public health facility			

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			and often relies on private actors for health services and products. Since 2011, PSI/M distribution agents began using PDAs (Personal Digital Assistants) that enable the collection of data from retailers' stock movements, including sales to customers. Even though the system is limited to known and reachable retailers, it allows seeing the trends and supplements the data of bulk sales. PSI historically does track use of products through its TRaC surveys and other national level monitoring tools (DHS, etc).			
5b		(b) The Secretariat should not accept any different interpretations of indicators and should put in place a system to ensure that all concerned actors are sensitized accordingly.	<u>Secretariat comment</u> Taking into account the above, the Secretariat recommends that: • PSI adheres to the requirement of reporting on „end-users receiving services“ (ACTs, ITNs, condoms respectively); and on a more global level. • Request PSI, at a corporate level, to strive to align with national M&E systems. In the case of Madagascar,	GFATM Secretariat		

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			corresponding actions have been defined in the action plan developed by PSI to address DQA findings. In addition, outcome measurement is now fully relying on internationally recognized surveys (MIS, DHS, AIS)			
6a	Data collection (SIGNIFICANT)	(a) PSI should strengthen its data quality assurance system to ensure the collection of accurate and comprehensive data for decision making.	In the development process of its M&E system, and following DQA audits from both GFATM and USAID in 2010 and 2011, PSI Madagascar is putting an emphasis on the quality of its collection process to ensure data quality for reporting and decision making. Preliminary verifications are made in the field and at the central level to spot outliers. The database has been strengthened to ensure quality at data entry and PSI/M will be conducting training of its staff on data collection and management based on a manual developed for that purpose during the Q3 of 2011. The M&E unit supervises data systems and performs a DQA during quarterly visits to SRs and	PSI		PSI's response does not address the issue at hand. This is however addressed in the Secretariat's commitment to only consider internationally recognized surveys (MIS, DHS, AIS).

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			regional offices. Verifications are made at several levels by different people from the field to PSI/M headquarters. SRs are now required to present their consolidated results during a quarterly meeting with PSI/M. Trainings were conducted in February 2011 for SRs to ensure a proper understanding of the indicators, target groups and the data collection tools. A data collection tools harmonization meeting is planned for Q4 2011 in order ensure comparability. Additional comment PSI believes that the OIG's comment is intended for the recommendation 6.b. With respect to recommendation 6.a, PSI believes it has provided adequate detail on how it is strengthening is data quality and collection processes.			

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
6b		(b) PSI should strive to align its systems to the national systems. It should consider using surveys undertaken by independent organizations or use the national systems as mechanisms to validate the results it reports.	PSI/M fully supports the development of Madagascar's national M&E systems. PSI's interventions, research, and technical assistance contribute significantly to the base of data available to the GOM while expanding national capacities. For example, PSI/M assists PNLP in developing the national M&E system for their national malaria program. PSI/M provides studies (ACTWatch, Malaria Indicator Survey, post-LLIN distribution campaign study) to supply the national database. In addition, PSI/M contributes to the Malaria Program Review to set up the baseline data of the national system. PSI/M's efforts to share data and technical expertise with the GOM have and continue to advance the national M&E system. Additional comment As noted in our June response, PSI endeavors to align its systems to the national systems, and to contribute to the base of data available. PSI works closely with	PSI		

Audit of Global Fund Grants to PSI Madagascar

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			the Global Fund and the CCMs to ensure that any proposed research included in proposals and budgets will provide valid and actionable data to support programming decisions. PSI has conducted its own studies as well as used independent organizations to conduct studies on its behalf. This decision is based on numerous factors such as technical quality, speed/efficiency, and cost. When PSI conducts research, it works closely with stakeholders and national entities to ensure that any proposed research will provide valid and actionable data to support programming decisions. Furthermore, PSI maintains that our research and study designs and processes are objective and transparent. PSI uses research methodologies that have been developed internally in collaboration with external experts, as well as methodologies			

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			developed by other organizations that specialize in public health and marketing research. PSI believes that the research that is conducted internally is sound and when reviewed by an independent body will show that our methods produce impartial and unbiased results. As recommended, PSI will continue to involve independent entities to conduct studies when funding allows.			
6c		(c) PSI should develop SR capacity to complete the monitoring tools and report appropriately. PSI should also strengthen its monitoring of SRs. Feedback from the visits should be provided to the SRs with follow up of agreed upon actions in subsequent visits.	By continually refining our tools and approach as we gain experience from our expanding partnerships, PSI/M demonstrates a commitment to the long-term process of SR capacity building. SRs need to show immediate results while increasing their capacity with new skills and methods. Each interaction with the SR is viewed as an opportunity to both assess and train. The review of financial reports represents an opportunity to assess the appropriateness of costs, as well as documentation and related recording and			

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			approval processes. The SR management unit of PSI Madagascar has been strengthened with 3 additional supervisors and 3 voucher examiners in January 2011 for financial monitoring. SR activity monitoring will be fully integrated into PSI's M&E system by Q3 2011, following PSI's reporting and follow-up procedures. PSI is strengthening procedures to better document our follow-up with the SRs. Financial reports and work plans are submitted quarterly. The validation process once a SR receives funds from PSI and incurs costs is as follows: - PSI reviews supporting documents before the end of the quarter according to their approved work plan and budget. - A feedback meeting is held with SR at the end of each review and related reports are shared with SR. - SR has the opportunity to respond to PSI's			

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			recommendations which are followed up during next review. - By the 5th of the month following each quarter, SR sends electronic report and work plan for the next quarter to PSI for review. - By the 20th of the following month, SR sends hard and signed copies of validated reports to PSI. - Between the 5th and the 20th, a coordination meeting is held between programmatic and finance staffs of both PR and SR. Additional comment PSI has detailed manuals at the platform level that clearly elaborate the policies and procedures related to the selection and management of SRs. To strengthen the control and monitoring environment around the management of sub recipients (SR), and ensure that the policies and procedures are adhered to in a consistent			

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			manner, PSI is in the process of implementing several initiatives at the PSI headquarters and platform level. SR management tools are being developed to supplement the existing SR manual, and ongoing trainings are planned for PSI HQ and platform staff. For example, regional trainings on SR Management and Monitoring have been planned for October - November 2011 for Southern Africa, East Africa and Asia/Eastern Europe. These trainings will focus on implementing best practices in the solicitation, selection, assessment, monitoring and closeout of sub recipients. The tools and templates that will be shared at these trainings will complement the guidelines in PSI's SR management manual, and participants will have the opportunity to discuss their application and use in their own platforms/country context. Examples of these tools include a solicitation template, proposal evaluation score sheet, log for			

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			tracking incoming proposals, and negotiation memo. PSI has also developed illustrative special conditions and accompanying guidance that platform staff can use and adapt as determined by the results of a sub recipient's capacity and risk assessment. PSI has also developed guidance on the ongoing monitoring of sub recipients and will be working with platforms to develop monitoring plans to track site-visits, findings and action plans for sub recipients. PSI's Grants and Contracts Department at HQ has begun tracking all sub recipients quarterly to strengthen monitoring. This will help HQ and platforms keep a track of active sub recipients, any amendments/modifications issued and anticipate and plan for a timely and complete closeout in compliance with funder regulations.			

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7a	Quality of service delivery (HIGH)	(a) PSI should consider instituting measures to control the prices charged by distributors and retailers. This can take on different forms e.g. having promotion drives emphasize the recommended product price, monitoring suppliers, requiring sellers to display the recommended price, informing the population during public events, etc. In addition, monitoring should be undertaken and this can take many forms including having mystery buyers.	PSI/M is currently reorganizing its Distribution department and reviewing its marketing tools to better understand the issues of pricing and price monitoring. In addition, PSI/M has revised its M&E system, which now includes the use of PDAs by field personnel, which enhances the timeliness and quality of overall reporting which includes information on deviations from the recommended consumer prices. Additional comment PSI's primary means of price control is derived from MAP research studies, which (among other things) measures the quality of coverage, i.e. how well recommended prices are being adhered to. In addition, to supplement the MAP studies and provide more frequent and actionable data points on pricing and other issues, PSI's sales staff, promoters, and distributors	PSI		PSI does not offer specific actions to address the shortcomings noted. The Global Fund should follow this up and ensure that appropriate actions are instituted to strengthen PSI's pricing under the social marketing program.

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			routinely monitor and verify product prices, placement and promotion, and stock levels during regular visits to outlets. The information collected is used to highlight product trends, but also to identify problems, that require corrective actions. Given the importance of price in ensuring access and equity, PSI will continue to work with its affiliates and partners and in consultation with the Secretariat to identify additional cost effective controls of tracking prices for inclusion in new grant and budget proposals. PSI would also welcome discussing possible modifications to its existing research plans with the Secretariat and CCM. Price controls, however, do incur costs and these must be included in donor budgets.			

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7b		(b) Training and reporting material should be enhanced in order to ensure that the illiterate community agents are able to capture data and report it accurately to PSI. They should also be suitable for reaching the illiterate population.	PSI/M in conjunction with other organizations that work at the community level decided that a basic criterion for all Community Health Workers (CHW) is literacy. The requisite technical knowledge to continue through the recruitment process assures that applicants are literate. This criterion was agreed upon by a consortium of community based actors to ensure the validity and the efficiency of trainings and activities reported. PSI develops all of its IEC materials with low literacy and illiterate populations in mind. These materials are pretested for comprehension and appeal to our target audience. PSI also employs a variety of channels in its communication strategy which are not limited to printed material. In fact, the majority of PSI's behavior change communication messages rely on interpersonal communication agents (peer educators, Mobile Video units, etc) as well as mass media (radio, television) to supplement our	PSI		

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			reach and to assure that low literacy is not a barrier to health information.			
7c		(c) In order to assess the effectiveness of peer educators, PSI should consider reconciling the stub cards prepared by the educators to the clinical records to identify the number of resultant referrals that occurred.	In Q2 of 2011 PSI/M rolled out a new M&E system for field activities so that a systematic comparison can be made between stub cards returned for refund and consultation forms. In case of discrepancies, a PSI/M staff member will return to the clinic to seek clarification from the doctor. The franchised clinics will be trained in Q3 on the importance of voucher reporting integrity. Finally, mystery clients will be sent out to assess the effectiveness of the voucher system in Q4.	PSI	New M&E system revised Q3 2011	
8a		(HIGH) Cash management: (a) Global Fund resources should not be coming-led with funds from other donors. In the event that this happens, proper books of account should be maintained and reconciliations prepared that show what Global Fund monies have been spent on, outstanding balances at any point in time and a reconciliation of bank balances	PSI reconciles donor fund balances monthly. When a pooled donor account is utilized, a donor reconciliation is prepared with a detailed schedule of expenditures by type, interest earned for the period and the resulting balance on account. We discussed the pooled donor	PSI		PSI does not have a system that reconciles the cash balances held in its pooled bank accounts by donor (in Togo and Washington). Therefore, the cash balances reported by PSI at the end of each period remain purely theoretical

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		to show what balances relate to GFATM.	account with the GF Secretariat during our CFO's Global Fund visit in March 2011. The GF Secretariat concurred with this business practice. Additional comment The cash balance reported by PSI is not theoretical, as PSI recognizes that the net amount of any sums received from the Global Fund less expenditures to date is the amount due to/from the Global Fund at any point in time. PSI can and does reconcile all its donor funds through an activity management system within its Lawson Financial system that tracks all receipts from donors on an activity by activity basis, fees and revenue earned, and expenditures. This system was implemented in January 2008. Since the system conversion, additional controls and reports have been developed and implemented to ensure that at any point in time for any award, contract or activity, the system			and cannot be matched to the balances in the bank statements. Both the OIG during its review and the LFA in several instances could not certify the cash balances as reported by PSI. In the absence of such a system and a valid certification that the cash balances reported by PSI correspond to the cash in hand; and in the absence to ensure that the grant funds are used solely for Program purposes and consistent with the terms of this Agreement (Article 9 of the grant agreement) either a separate bank account should be maintained or PSI's accounting system should be able to reconcile the grant fund balances to bank balances held per grant. The Global Fund's Program Finance unit is in

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			can produce reports that identify the exact amount of the outstanding funds held from the GF by PSI on a grant by grant basis. PSI is pleased to work with the Secretariat or individually with the LFA to provide these reports. In addition, PSI's system of controls and the reports are extensively audited by global auditors each year and do provide absolute assurance of the tracking of all funds received from PSI's donors. As the OIG noted, PSI pools its cash funds in its Headquarters' banks and so the accuracy of the donor reports are the controlling factor and assurance of proper accounting for all funds received, spent and all balances for GF grants. PSI's global auditors extensively audit this aspect of our business. Verifying correct balances of funds received and appropriate documentation for expenditures is a main focus of the audit. PSI's global auditors understand fund/activity accounting and			agreement with the OIG position. Additional comment This has been addressed in the Secretariat comments on the PSI HQ report.

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			provide assurance though their annual audit of PSI that all cash is properly accounted for and that all donor account balances are accurate. All PSI platforms are required to reconcile bank accounts monthly. This is tested by our Global Internal Audit group regularly and is also monitored monthly at the headquarters level through monthly reporting package reviews. The GF Secretariat has generally approved the in country reconciliations as meeting their needs, and PSI continues to work with the Secretariat to provide additional information requested.			
8b		(b) PSI should report interest from all bank accounts where Global Fund resources are included, at the rate obtained from the bank. PSI should calculate and reimburse the interest generated on the Round 1 and 2 funds held for over three years.	For the period of January 2004 through May of 2011, the difference between the US Federal Rate applied to donor balances and actual interest earned is approximately (.066%). Effectively, PSI has applied more interest to Donor fund balances than actual interest earned on the pooled Donor account. These findings were shared with the Global Fund during the PSI	PSI		The OIG's review revealed that the rates were in some cases higher and others lower. The 0.066% (referred to in the response) was not verified by the OIG. PSI has not addressed the fact that the computations of interest also contained errors and thus the need to

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			Washington OIG audit in June 2010. Additional comment PSI would like to note that after the OIG raised its concern with using the US Federal Reserve rates, PSI reviewed our policy and in response to the GF recommendation has changed to an actual interest rate application starting in 2011 and going forward. While the report referenced the need for PSI to refund money due to computational errors, the report failed to disclose all the grants to which the application of the US federal treasury interest rate actually caused an over application of interest (interest applied to the grant over the interest rate earned by PSI for a particular period). PSI previously provided a schedule to the GF OIG audit staff during their field work that summarized both the over and under application of interest. Given the over and under applications that have occurred over 8 years and			recompute all interest accrued under the grants. At the close of the PSI HQ review, PSI committed to recompute all grant related interest and make the necessary adjustments (positive or negative) to the grants. The Global Fund should ensure that this happens.

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			resulted in more interest applied to the GF grants, PSI maintains there is no repayment of funds due to the GF. PSI will review the computations. Should any corrective entries be required, we will work with the Secretariat to resolve.			
8c		(c) PSI should comply with the conditions stipulated in the grant agreement regarding the recording and use of interest. PSI should recalculate and reimburse the interest generated on program income as well as that held in the Washington bank accounts.	PSI accounts for the interest earned on donor funds by obtaining the rate information from the Federal Reserve based on quarterly Treasury Bill rates. This information is used to calculate the total interest earned by project. Depending on the stipulations in the donor agreement, the interest is either subtracted prior to the submission of the financial report or applied to a separate component associated with the main donor project code in PSI's fund accounting system which is attributable to the specific donor. If the interest earned is applied to the separate component, it is used per the requirements of the donor agreement. The majority of donor funds are	PSI		See comment above

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			managed by PSI Washington to ensure funds are held in stable financial institutions to minimize risk and optimize interest earnings. PSI Washington provides platforms operating funds that average of 2 to 4 weeks of operational expense to maximize the interest earning opportunity in the consolidated donor interest bearing account. PSI/M records monthly bank interests from bank statements after reconciliation. Monthly interests are split between donors code depending on the transaction volume for each donor. Details of those operations are clearly shown in the monthly financial reports (profit and loss) sent to HQ for compilation.			
9		(REQUIRES ATTENTION) Accounting system: PSI should consider linking the various data from different systems e.g. accounting and sales systems to ensure sharing of information and reconciliation of records maintained. The reconciliations of records maintained by the different departments will assure the accuracy of records maintained.	PSI agrees that PSI Madagascar is in need of a systems upgrade to address issues raised in this report. PSI HQ is reviewing accounting software options for PSI Madagascar and will identify a revised system by October 2011 for launch in 2012. PSI Madagascar is currently updating its accounting system to	PSI		

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			<i>Quickbooks</i> 2011 which will offer some improved functionality and expanded support options in the interim.			
10a		(REQUIRES ATTENTION) Sales: (a) PSI should consider updating its manual to cover credit extended to public sector entities. The process for identifying and approving the distribution of promotional items should be clearly defined and complied with. The implementation of laid down policies should be strengthened in order to ensure that program funds are not lost.	Granting credit to public sector partners is handled by the CR and DCR because of the political complexities and sensitivity of the collections process. Promotional articles are distributed to targeted health services providers. Promoters report those promotional actions in daily reports that will be improved with vouchers signed by the beneficiaries to ensure that program funds for promotions are being used as planned.	PSI	Credit policy revised June 2011	
10b		(b) Monthly reconciliations of amounts receivable should be carried out. All outstanding payments should be followed up.	Noted. PSI will actively seek reimbursement for outstanding credit and will assume full responsibility for uncollected balances. Also see Reimbursement and Clarifications section below.	PSI	June 2011	

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10c		(c) PSI should allocate the income to the Global Fund program in proportion to the investment. This income should be accounted for as required in the grant agreement and used for program purposes.	PSI has historically attributed program income accrual to the donor that furnishes the commodity through either donation or funded procurement. Any change to this practice would require negotiations with our other donors and PSI cannot independently comply with this recommendation. In the case cited within this report, PSI would not be able to apportion program income without the approval USAID. Additional comment PSI has managed program income for donated USAID commodities in accordance with the terms of the agreement between PSI and USAID, and does not consider it appropriate to share transaction detail pertaining to other donor funded projects with the GF.	GFATM, PSI, and potentially other donors (e.g. USAID)		PSI stated that the program income was allocated to the USAID program but could not provide evidence of such refunds being effected. In consequence, the OIG recommends that the income be allocated between the relevant donors.

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11		(SIGNIFICANT) Expenses: The PR should ensure that common cost allocation formulae stipulated in the employee manual is adhered to so that there is a reasonable allocation of shared costs including relevant training costs.	PSI acknowledges the common cost allocation recommendation. PSI has developed a methodology for distributing platform (field office) common costs in a fair and reasonable way. This methodology was tested in 5 pilot countries during the first and second quarters of 2011. The proposed methodology, updated procedures, policy and implementation plan will be presented finalized in July 2011. Upon finalization and deployment, common cost will be applied consistently to all future budgets and costs. The approved PSI common cost policy will be provided to the Global Fund. Additional comment Since the last draft of the report, PSI has finalized the common cost allocation methodology and updated related procedures; policy and implementation will be rolled out starting October 3rd, 2011, in a phased implementation schedule to all countries. Upon deployment, common cost will be applied consistently to all future budgets and costs. The	PSI	Q3 2011	

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			approved PSI common cost policy will be provided to the Global Fund upon request.			
12a		(HIGH) (a) All significant budget reallocations should be approved by the CCM and Global Fund.	Noted	PSI		
12b		(b) All ineligible expenditure should be refunded i.e. CCM related costs, vehicle related costs, freight costs, aircraft hiring costs and the annual parties.	See Reimbursement and Clarifications section below See Annex 12b for supporting documentation.	PSI/CCM		
12c		(c) PSI should strengthen its internal controls around the payments system. Specifically, payments should be effected to actual service providers and in line with the country laws. Tax should not be paid and activities not approved in the budgets should not be funded without prior Global Fund written approval.	PSI/M changed the currency in which it pays FARMAD from USD to <i>Ariary</i> after the OIG visit of 2010. PSI ceased working with FARMAD as of September 2010. PSI remains contractually tied to a few payment obligations with terms that dictate payment to offshore accounts. PSI will engage with these entities to examine amending. In some cases, the entity in question may be domiciled offshore making such a change difficult.	PSI	Sept 2010	

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13a	Human resources (SIGNIFICANT)	(a) PSI should provide to the Secretariat a breakdown of the fringe benefits during grant negotiations and a decision made on what payments are acceptable in line with the grant agreement.	The Fringe benefits paid are in line with the grant agreement and with our implemented incentives system. Additional comments PSI requests verification from the OIG regarding the noted discrepancy, and whether it is related to international or local fringe. Regarding the former, PSI has one standardized fringe rate used for all international that was previously provided (Annex 13a in June's submission). At the PSI/M platform level, sales commissions are included in PSI's budget requests to the GF and have been approved in PSI's budgeted fringe rate. Similarly, salary incentives, such as annual bonuses and severance payments, if legally required or common practice, are included in the local fringe line. Please see Annex 13.a.2 for PSI's description of	PSI		The recommendation emerges from a breakdown of fringe benefits provided by PSI to the OIG (in writing). The OIG notes that this list does not tie to the one listed under PSI's Annex 13. On this basis, the Secretariat should as part of grant negotiations ensure that the breakdown of fringe benefits is provided and that what is contained is acceptable under the grant agreement.

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			fringe in the approved budget (budget assumption tab) for RCC Phase 1. PSI is compliant with the GF budget guidelines regarding the payment of incentives which can be funded through GF grants, categorized as performance-based incentives, retention based incentives, task based incentives, and additional effort based incentives. As noted in PSI's previous comments to the draft OIG report, paragraph 130 mistakenly refers to PSI Madagascar as having 50 expatriate staff members out of 179. Expatriate staff levels have varied between three and five in any given year. PSI requests that this be corrected in the final report.			Corrected
13b		(b) The use of grant funds to pay staff loans should cease. PSI should recover	PSI is unaware of any specific GFATM prohibition against	PSI		Grant funds are provided for program activities

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		all grant funds made out as loans as soon as possible.	staff loans. PSI's financial manual allows for the provision of such loans. In the event that a loan is uncollected, the loss would not accrue to any donor, but to PSI as loans are accounted for in balance sheet accounts, and not as expenditures. Additional comment PSI is committed to the GF's requirement that funds are used for program activities, and reiterates that GF grant funds were not used for any staff loans issued to employees. Staff loans are recorded as a PSI/Madagascar receivable and are not attributed to any donor-funded project codes.			(article 9 of the grant agreement) . The Global Fund provides funds in tranches to ensure that program funds are available to meet specific identified activities in any one period. The lending of funds to staff means that funds are not be available for program activities. PSI should recover program funds and apply them to their intended purposes. Loans to staff can be effected from PSI's own funds.

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13c		(c) PSI should charge the Global Fund for only those positions stipulated in the approved budgets. Replacement of any position for other positions should be justified and approved by the Global Fund. Salary payments should be in line with the staff contracts and aligned to approved budgets. Staff files should also be updated.	The salaries paid with GFATM budget concern the positions linked partly or totally with GFATM's activities. This is reflected in the individual employees' timesheets. According to our salary policy, the employees are entitled to performance appraisal and inflation annually. Then, accordingly, the salary changes are well documented by an individual performance appraisal sheet and a memo for the cost of life adjustment. The update of staff files is being completed.	PSI		
13d		(d) PSI should ensure that advances are liquidated on time. Furthermore, staff with outstanding accountabilities should not receive additional advances.	Noted	PSI		
14a	ASSETS (REQUIRES ATTENTION)	(a) The PR should maintain a comprehensive register of all the assets purchased with Global Fund grants. A physical verification exercise should be conducted periodically to ascertain the	PSI/M submits a comprehensive register of assets to PSI/Washington twice a year. PSI acknowledges the recommendation of maintaining	PSI		

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		existence and condition of program assets. The register should be updated to reflect the results of the verification exercise.	a comprehensive register of donor funded assets. Current PSI practice is to maintain a register of all fixed assets with an acquisition value of USD 500 or greater. Bi-annually, the fixed assets register is required to be sent to PSI/W to ensure all changes to the register are recorded in PSI global accounting records. Annually, the platform is required to perform a physical verification of the fixed assets register to ensure the accuracy of PSI's annual financial statements. More specific global policies, procedures, and guidance for fixed assets are currently under development at headquarters as part of the overall effort for updating global accounting policies. We will review current policy and procedures with the appropriate in-country staff to ensure fixed assets policy and procedures are being adhered			

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			to.			
14b		(b) All assets should be registered in the names of the funding body.	This issue is linked to clearance of cars bought with GFATM funds during round 1 and round 2. It was not possible to register the cars in the name of GFATM because GFATM is not registered locally. PSI used USAID tax exemption to register the cars in country and as a result recorded the vehicles in the asset list as USAID property. PSI acknowledges that all assets funded by grants should be registered in the name of the funding donor. Review and corrective measures will be taken on historical purchases. We will review current policy and procedures with the appropriate in-country staff to ensure fixed assets policy and procedures are being adhered to.	PSI	Q2 2011	

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			See Annex 14b for supporting documentation.			
15a		(HIGH) Procurement undertaken by PSI Headquarters: a) The flow of procurement related information between PSI headquarters and the field should be regularized. Purchase requests should be referenced and goods receipt confirmations should be pre-numbered and include the corresponding delivery note number.	PSI headquarters maintains a regular procurement report which is sent to the field every two weeks. In addition staff responsible for procurement is in frequent direct contact with the field to provide procurement updates and answer questions. Confirmations of receipt are completed by field personnel receiving goods.	PSI		
15b		(b) Each receipt confirmation document should be sent to PSI Washington before the supplier is paid. It should indicate specifically the number of missing and /or damaged products. Damaged products should be claimed from the insurer.	In the context of this audit, PSI acknowledges that a number of LLIN contracts were 100% prepaid and as such payment was made before receipt confirmation. At the time of these procurements, demand for LLINs outstripped supply and in order to obtain a production spot to meet the program deliverables schedule PSI had to make a 100% prepayment. Due to the increased number of	PSI		

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			WHOPES Phase II recommended LLINs, PSI no longer makes prepayments in this manner and has the policy of only making final payments once goods are confirmed to have been received. Confirmations of receipt documents note any damaged or missing products. PSI receives confirmation of receipt documents for all goods once received in country.			
15c		(c) PSI should refund the value of the missing nets.	The OIG noted five orders where the number of nets invoiced did not match the number of nets received. In four examples, a small number of nets were missing at delivery: 3500 (2488 ITN) - 50 missing nets 3229 (2488 ITN) - 50 missing nets 20 (2488 ITN) - 100 missing nets 20 (2488 ITN) - 150 missing nets	PSI		PSI's response states that the Global Fund account was charged when the initial nets were ordered.

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			PSI acknowledges the discrepancies related to those Orders. These discrepancies were reported to the vendor but PSI failed to follow up to assure compensation was provided. PSI takes full responsibility for this and will reimburse \$1,988.50 to the GFATM accordingly. Also, PSI will assure that systems are in place to assure completion of vendor reimbursement. (Also see Reimbursement Table below) The OIG also noted a discrepancy of 25,000 nets in the delivery of order 17 (P 2488 ITN). It was noted that "25,000 mosquito nets were received at a later date. However these were allocated to a USAID program as opposed to the Global Fund program". PSI confirms that the 25,000 nets in question were delivered			However once they were received, they charged USAID. The charge to the Global Fund was never adjusted and so is still owed to the Global Fund.

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			to Madagascar at the same time as the other 147,000 nets in this contract. We can also confirm that a separate confirmation of receipt was completed for these nets as they were indeed to be allocated to a USAID program. There was however no error in doing so. This order included 147,000 nets to be charged to Global Fund and 25,000 nets to be charged to USAID. Upon confirmation of receipt of all 172,000 nets, the Procurement department made instructions for payment to be made to the supplier and for the value of 25,000 nets to be charged to USAID. As such the Global Fund was not charged for the 25,000 nets. (also see Reimbursement Table below) Additional comments PSI respectfully disagrees with the OIG's comment, as PSI's			The Secretariat has committed to review the additional documentation and provide a final position to PSI.

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			response does not state the GF account was charged when the initial nets were ordered. The GF and USAID were appropriately charged at the time of payment. PSI is resubmitting supporting documentation which shows that, of the original order of 172,000 nets, no charge was made to GF until payment was made to the vendor. At the time of payment, 25,000 nets were identified as USAID nets, and payment for those nets was allocated to USAID, and the remaining balance to GF.			
16		(SIGNIFICANT) Local procurements: PSI should operationalize its procurement related policies. Specifically PSI should respect the thresholds for the different types of procurement. The evaluation criteria defined as part of the bidding process should in practice be adhered to during evaluations.	Noted	PSI		
17a		(a) The warehouse security should be	The recommendation regarding	PSI		

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
		enhanced with one person taking responsibility for the warehouse keys. The walls of the Tanjombato warehouse should be reinforced.	warehouse security is noted. The Tanjombato warehouse was rented to temporarily store nets for the 2010 mass campaign. PSI is no longer renting this warehouse since the mass campaign was completed.			
17b		(b) The temperature regulatory conditions in the warehouses that hold pharmaceutical products should be strengthened. Temperatures should be regularly monitored and corrective action taken in a timely manner.	The monitoring is done regularly and the process of maintaining manufacturer specified storage temperatures for pharmaceutical products is underway in all PSI warehouses, as part of the standardization of our warehouse management. Thermometers are monitored in each warehouse by warehousing staff to ensure temperature controls. Additionally, PSI's internal auditor checks for warehousing policy compliance during impromptu warehouse reviews. PSI Madagascar complies with the specific guidelines on storage conditions related to pharmaceutical product stated in PSI's Global	PSI		

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			Warehousing Manual, see Annex 17b for supporting documentation.			
17c		(c) PSI in consultation with the MOH should put in place a process for destroying expired drugs.	PSI has taken note of the national MOH policy regarding waste management for pharmaceutical products, the environmental policy, and the donors' policies. On June 17, 2011 PSI disposed of expired products in accordance with this policy. The LFA was invited. Warehouse reviews take place biannually and destruction of expired and quarantined products is scheduled to take place systematically with updates being shared with the LFA.	PSI		

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
17d		(d) The warehouse lay out should be reconsidered with pharmaceutical products kept away from sunlight and the warmer parts of the warehouse. All expired products should be quarantined away from the rest of the products and should be clearly labeled that they cannot be distributed. Products should not be stored against the walls and some space allowed for aeration.	The recommendations for the Toamasina warehouse were followed immediately. Pharmaceutical products are now stored in air conditioned rooms. A separate warehouse is rented in Antananarivo to store all expired product awaiting destruction.	PSI		
18	Distribution	(SIGNIFICANT) All losses should be investigated and PSI should refund all bed nets lost or stolen.	158a - PSI requests additional information from the OIG in order to verify the discrepancies. 158b - PSI requests additional information regarding the assertion that 42,000 Nets were recorded as damaged. We are unable to correlate this finding to our records, so we would like to request additional information in order to better understand the OIG claim. PSI's investigation of this recommendation identified a total of 41,724 nets that were received as damaged as part of	PSI		The 42,000 was the rounding off of 41,724 nets.

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			contract 1618-ITN2488-052. PSI/M's confirmation of receipt noted that 41,724 nets were received damaged. The damage was identified upon first receipt and unrelated to PSI's distribution chain. PSI/W negotiated with BASF for resolution. Upon closer examination the "damage" was only to the net bags and not to the nets. BASF sent an independent inspector to Madagascar to verify this. As a result BASF shipped replacement bags to PSI/M free of charge. PSI/M arranged for repackaging and the labor cost of repackaging was charged back to BASF. BASF issued a credit note in the amount of \$6,907.01 for the cost of labor. The credit note was applied to 2488 (see attached procurement payment request form). 158c - 16,957 bet nets stolen: Following lengthy police action			

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			instigated by PSI/M, the case of stolen nets is in court and regular updates are sent to GFATM. Our legal advisor is also following the case very closely. A detailed account of the process is attached in Annex 18. Additional Comment As per PSI's June response, PSI maintains that we have provided an adequate explanation and supporting documentation regarding the 41,724 nets. The supporting documentation provided in Annex 18.2 shows that we received compensation from BASF for the additional costs associated with resolving the net bag issue, and that this was applied to the GF grant and reported in the PUDR. Therefore, PSI does not consider that any further funds need to be returned to the GF. 158c - 16,957 bed nets stolen:			Additional comment The Secretariat has committed to review the documentation and provide a final position on the matter.

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			Following lengthy police action instigated by PSI/M, the case of stolen nets is in court, with a trial scheduled for November 4, 2011. PSI's legal advisor is also following the case very closely. And PSI provides regular updates to GFATM. PSI continues to work with the Secretariat to determine how this matter should be resolved. A detailed account of the process is attached in Annex 18.1 .			
19a	SR management (SIGNIFICANT)	(a) All SRs should be assessed for both programmatic and financial management capacity in order to ensure that selected SRs have adequate capacity to implement programs.	All SR have been assessed by PSI prior to the signature of each sub-award and program implementation. Both programmatic and financial management capacities are assessed and related reports are available upon request. The SR assessment identifies opportunities for capacity building and areas where increased monitoring may be necessary.	PSI		

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
19b		(b) In line with the grant agreement, PSI should develop and submit to the Global Fund a plan for the audits of its SRs.	PSI has submitted to Global Fund a plan for the audit of its SRs and received provisional clearance on June 17, 2011.	PSI	June 2011	
19c		(c) PSI should harmonize the operational policies for its SRs with other PRs e.g. in areas like payment of allowances. This is especially important where SRs are implementing programs for the two PRs.	PSI/M began this revision process with other PRs in May 2011. In accordance with the other NSA PRs, some relevant actions were defined in the common management plan (e.g. payment of allowances, the use of unique manual procedures, the integration of PSI within the SLP Finances Department and other key issues). In addition, the 5 PRs agreed to hold a monthly meeting with the SRs in order to increase harmonization between all entities (PRs and SRs).	PSI		
19d		(d) The PR should determine its total budget taking into account SR needs in order to attain program objectives and that charges are related to programmatic results. The budgeting process should not be top down. SRs apply the same rule for SSR's	For Rounds 7 and 8, the budgets were determined during the CCM-led proposal process, and PSI had limited ability to revise or approve them. PSI was not involved in the finalization of the SRs' list	PSI		

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
		budgets.	as they were chosen by the CCM. Once selected by the CCM, SRs were involved in the preparation of proposals and related budgets before submission to GFATM. Therefore, all approved budgets by the donor theoretically take into account SR needs. The SRs apply the same rules to SSRs and PSI is working to ensure that SRs are following required procedures to ensure compliance.			
19e		(e) PSI should undertake a comprehensive review of SR expenditure before subsequent disbursements are affected.	Noted- Financial reports and work plans are submitted quarterly. The following list outlines the validation process once a SR receives funds from PSI and incurs costs: - PSI reviews supporting documents before the end of the quarter and compares to the SR's approved work plan and budget. - A feedback meeting is held	PSI		

#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
			with SR at the end of each review and related reports are shared with SR. - SR has the opportunity to respond to PSI's recommendations which are then followed up on during subsequent review. - By the 5th of the month following each quarter, SR sends electronic reports and work plans for the forthcoming quarter to be reviewed by PSI. Comments are shared with SR if necessary. - By the 20th of the following month, SR to provide hard and signed copies of validated reports to PSI. - Between the 5th and the 20th, a coordination meeting is held between programmatic and finance staffs of both PR and SR.			

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
20a		(REQUIRES ATTENTION) The Malaria National Program (PNLP) (a) PNLN should use grant funds exclusively for implementing program activities. Significant budget reallocations should be only with prior PR approval.	PNLP was notified of this in June 2010 after the audit restitution. For the future, expenses not in accordance with program activities will be ineligible for invoicing and reimbursement.	PNLP and PSI		
20b		(b) Payment of program funds into personal staff bank accounts should stop.	Separate bank accounts were opened in September 2010 at the field level to avoid payments into personal staff bank accounts.	PNLP and PSI		
20c		(c) Inter grant borrowings should cease because they can interrupt program implementation. Any outstanding inter grant borrowings should be refunded with immediate effect.	All outstanding inter grant borrowings have been refunded as of September 2010. At that time PNLN was notified of the prohibition.	PNLP and PSI		
21a		(REQUIRES ATTENTION) VOAARY SALAMA (VS) (a) All key budget reallocations should be undertaken only with the approval of the PR. In some cases reallocations may not only require prior PR approval but also CCM endorsement and Global Fund approval.	Noted.	VS and PSI		

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#	Audit Area	Recommendation	Response and action	Responsible official	Completion Date	OIG response
21b		(b) VS should reconsider its policy for allocating common costs across donors. This is with the aim of ensuring that the allocation of costs is equitable among donors.	PSI will assist VS to revise its common cost allocation policy according to actual expenses to reflect equity among donors.	VS and PSI		
21c		(c) VS should develop a system that records and reports stocks by funding source.	PSI will ensure compliance with this recommendation during next financial review of VS.	VS and PSI		
21d		(d) VS management should not sign blank chèques and all chèques should be crossed.	Voahary Salama was notified accordingly during the audit restitution on June 9, 2010. PSI will follow up on this issue during its financial reviews scheduled quarterly.	VS and PSI		
22		(REQUIRES ATTENTION) AFSA The financial management system should be strengthened by appointing a suitably qualified accountant and maintaining up to date financial records. Management should ensure that payments are effected in accordance with the approved budget.	Full review of all supporting documents is done before approving reports and sending subsequent disbursements. Additionally, PSI will require AFSA to replace their current accountant with a qualified one.	AFSA and PSI		

Annex 4: Reimbursement and Clarifications

PSI acknowledges that the Office of the Inspector General makes a number of claims for reimbursement in the draft and final audit reports. Pursuant to the Global Fund Board's decision point GF/B23/DP28, PSI would like to provide some justification for consideration in addition to what has already been provided. PSI stands by its actions on a number of the points below, and requests the Office of the Inspector General to further consider our explanations below.

<u>1. LLIN shortages noted</u> <i>Paragraph 142. PSI Washington effected payment to the supplier without obtaining confirmation that all the goods had been delivered. Discrepancies were noted between the numbers reported as received and what was billed by the supplier. For example a comparison of purchase invoices for mosquito nets and actual deliveries revealed the following discrepancies:</i>					OIG comment	
Order N°	Quantity invoiced	Quantity delivered	Difference	Value US\$	This is addressed under Recommendation 15c above. The explanation provided infact shows that both USAID and the Global Fund were charged for these nets. The PR has not provided evidence that the cost for 25,000 nets charged to the Global Fund supported program was reversed. In the absence of such evidence, the funds remain recoverable.	PSI respectfully disagrees with the OIG’s comment, as PSI’s response does not state the GF account was charged when the initial nets were ordered. The GF and USAID were appropriately charged at the time of payment. PSI is resubmitting supporting documentation which shows that, of the original order of 172,000 nets, no charge was made to GF until payment was made to the vendor. At the time of payment, 25,000 nets were identified as USAID nets, and payment for those nets was allocated to USAID, and the remaining balance to GF. Please see the supporting documentation in Annex 15c to trace this charge.
3500 (2488 ITN)	96,000	95,950	50	286.5		
3229 (2488 ITN)	96,000	95,950	50	284		
17 (P 2488 ITN)	172,000	147,000	25,000	141,750		
20 (2488 ITN)	96,000	95,900	100	566		
20 (2488 ITN)	103,000	102,850	150	852		
		TOTALS	25,350	143,738		
<i>Paragraph 143. The OIG was informed 25,000 mosquito nets were received at a later date. However, these were allocated to a USAID program as opposed to the Global Fund program. PSI should therefore refund the monies relating to the nets that were not used for Global Fund program purposes i.e. US\$ 143,738.</i>						
PSI Response (142 & 143): PSI acknowledges the discrepancies related to						PSI Response (142 & 143): PSI acknowledges the

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	OIG comment	
Order No. 3500 (50 Nets), 3229 (50 Nets), and 20 (100 and 150 nets). These discrepancies were reported to the vendor but PSI failed to follow up to assure compensation was provided. PSI takes full responsibility for this and will reimburse \$1,988.50 to the GFATM accordingly. Furthermore, PSI will assure that systems are in place to assure completion of vendor reimbursement. PSI has investigated the discrepancy related to order number 17 (25,000 nets). This order was made on May 24, 2006 and included 172,000 nets as indicated in the OIG report. While the original order indicated that the nets would be financed by the program income account associated with the Round 4 Malaria grant agreement (P2488), PSI can confirm that the 25,000 difference in nets was actually funded by USAID (PMI) and not GFATM. The attached documentation indicates that 147,000 nets attributed to P2488 were confirmed received by PSI Madagascar on October 3, 2006 and 25,000 nets attributed to USAID (PMI) were also confirmed received on Oct 3, 2006. In essence, there was a mistake in the attribution of donor source funding during the initial order documentation that was later rectified in the receipt of goods and the coding of actual expenses. PSI can confirm that full order of 172,000 nets was fully accounted for and that there is no discrepancy between the orders, amount of goods delivered, and related expenses. Documentation of the order, complete receipt of goods, and corresponding expense reports are available upon request.		discrepancies related to Order No. 3500 (50 Nets), 3229 (50 Nets), and 20 (100 and 150 nets). These discrepancies were reported to the vendor but PSI failed to follow up to assure compensation was provided. PSI takes full responsibility for this and will reimburse \$1,988.50 to the GF accordingly. Furthermore, PSI will assure that systems are in place to assure completion of vendor reimbursement. OIG response The Secretariat will commission the LFA to review the documentation and provide a final position
<i>Paragraph 152. The OIG visited the Toamasina warehouse and noted the following:</i> <i>(e) The OIG noted that some of the bed net bales contained 40 and not 50 units. The warehouse therefore received 20% nets less than the quantity expected. Some bales also were filled up with different types of bed nets. Reports of the shortages had been submitted to the main warehouse but this</i>	Reports on the net shortages were produced by the Toamasini warehouse and submitted to Antananarivo.	

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	OIG comment	
<i>had not been resolved at the time of the audit.</i> PSI Response: PSI requests additional information from the OIG in order to verify the discrepancies. Regarding the amount to be refunded for LLINs, there is a discrepancy between the dollar amount listed in the table on page three of the audit report (\$158,112) and the amount listed in the table on page 34-35 of the audit report (\$143,738). Please, clarify the amount requested for refund.	The discrepancy in amounts has been corrected.	
<u>2. Hire of aircrafts</u> <i>Paragraph 122. PSI hired two aircrafts at MGAs 8.6 million to transport their staff for the launch of the mid 2009 campaign. There were two additional invoices amounting to MGA 21.2 million relating to the charter of planes. The hire of aircrafts was not in the original approved budget. It is also noteworthy that the aircraft was hired to transport six PSI staff for the opening of the campaign, while the national officers including the Vice-President and Minister of Health drove to the opening. Taxes worth MGA 3.1 million were also paid on these expenditures and this represents ineligible expenditure since PSI has tax exemption status. These funds should be refunded since those activities were not budgeted for and did not represent value for money.</i> PSI Response: PSI acknowledges hiring two aircrafts in preparation of the launch of the 2009 campaign that was scheduled to take place in a remote part of Madagascar. One of the planes was hired for PSI and partner organizations and the other for the Vice-Prime Minister of Health and his delegation. Just prior to the planned date of departure, PSI was informed that the Ministry delegation would use alternative transport but it was too late to obtain a refund. PSI is willing to reimburse the GFATM for the costs associated with one of the planes, but we ask the OIG to understand the circumstances related to the hiring of the second aircraft.	Both aircrafts were not in the approved budget and the PR should not have used program funds for this activity.	PSI acknowledges that the aircraft costs were not in the approved budget, and that we could have done a better job of communicating and documenting our plans with the GF. However, we maintain that these were appropriate costs that were program related. The launch site for the 2009 campaign was selected by the RBM committee. The site was in an extremely remote area serviced only by charter planes; there are no regular commercial flights. It was very important to have the VP Minister of Health attend, especially as he is a member of the RBM Committee. PSI hired a plane to facilitate his attendance, and he initially welcomed the plan. However, at the last minute, PSI was

	OIG comment	
		informed that the Minister and his delegation would travel by road instead. At this point, it was too late for a refund from the charter company. Travel by road for the PSI staff would have added four additional days to the trip, owing to the remoteness of the area and the quality of the roads. PSI determined that it was more cost effective to send staff by plane, was a safer way to transport valuable equipment and supplies, and would result if fewer days of work missed due to extended road travel. was more cost effective to send staff by plane, was a safer way to transport valuable equipment and supplies, and would result if fewer days of work missed due to extended road travel. OIG response Program funds should be used to fight the three diseases. An approved work plan and budget is instituted to ensure that this happens and ineligible

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	OIG comment	
		expenditure should be refunded.
<u>3. TVA paid although TVA exemption granted</u> <i>Paragraph 123. A review of a sample of expenditure items also revealed other instances where payments were not in line with the Global Fund grant agreement:</i> <i>Although the Global Fund received TVA exemption from the Malagasy authorities, TVA on invoices was sometimes paid and not recovered from the Authorities e.g. the three invoices from HK Jurifisc.</i> PSI Response: Please see response to recommendation 1a.	See comment under 1a	PSI will make all efforts to avoid paying VAT in the future. Furthermore, PSI continues to make every effort to collect reimbursements related to VAT paid to date. PSI would like to note that this should be considered one of the costs of doing business in the country.
<u>4. Products distributed for sale which no payment was received and credited to the Global Fund account</u> <i>Paragraph 112. The failure to comply with the laid down credit policies resulted in outstanding payments amounting to 53 million MGAs (US\$ 26,000) at the time of the audit, some of which dated as far back as 2006. It is therefore necessary that PSI follow up these debts since they represent program income under the Global Fund.</i> PSI Response: We request an itemization of the \$26,000 in question and commit to actively pursuing reimbursement of these outstanding payments. PSI takes full responsibility for the amount and will reimburse the entire balance regardless of whether or not it is ever collected.	Attached the document with the information relating to the US\$ 26,000.	PSI is actively working on collecting the outstanding credit. PSI takes responsibility for its credit sales, and, if necessary, will write off required balances and make necessary adjustments to the GF billing.
<u>5. CCM's costs charged to the Program</u> <i>Paragraph 123. A review of a sample of expenditure items also revealed other instances where payments were not in line with the Global Fund grant agreement:</i> <i>(c) PSI paid some US\$ 15,000 towards a trip made by CCM members in 2009</i>	Amounts have been	PSI complies with the current GF policy on the prohibition of using program funds to cover CMM costs, but respectfully notes that the exception to the

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	OIG comment	
<i>and Ministry of Health staff. The Global Fund prohibits the payment of CCM related costs from program funds. Moreover, 7 days per diems were paid for a 2 day meeting.</i> PSI Response: We request clarification from the OIG on the discrepancy between the amounts mentioned on page 3 of the audit document (\$22,978). The report text lists \$15,000 of costs in point 123(c). PSI and all of the PRs were instructed to make payment to the CCM in order to cover the operating costs of the CCM. We ask that this matter be addressed to the CCM as well given that PSI is in an awkward position to directly rectify influence this type of situation in the future. Furthermore, we would like to submit that the LFA and at least one prior GFATM portfolio manager (Christine Onyango) were aware that these requests were being made and never gave any indication that it was not consistent with GFATM policy. PSI acknowledges that the policy has now changed. The OIG should note that on at least one instance ,where the CCM requested PSI's financial support, Elizabeth Tung, Program Officer for the East Africa and Indian Ocean Team authorized PSI funding a planned CCM supervisory visit (see attached correspondence and email dated November 5th, 2010).	corrected. The use of grant funds happened after the Global Fund had prohibited the use of grant funds to cover CCM activities. The payments effected were also more than what should have been paid. It is the PR's responsibility to ensure that it complies with Global Fund policies. In the event that the PR is requested not undertake a transaction contrary to policy, then authorization should be provided in writing.	policy was specifically made to PSI by the GF Program Officer for GF. PSI looks forward to working with the Secretariat to resolve this issue. OIG response The Secretariat will commission the LFA to review the documentation and provide a final position of the refunds.
<u>6. CRESAN project costs charged to the Global Fund</u> <i>123....(e) A payment of US\$ 17,550 relating to the Apex Drug House for the freight of Palustop blisters under the CRESAN project was wrongly charged to the Global Fund. The transaction was not related to the Global Fund supported program. This amount should be refunded.</i> PSI Response: PSI received additional support from the World Bank funded CRESAN project to procure <i>Palustop</i> blisters during gaps in supplies furnished by the GFATM. Funding for freight was limited and PSI concluded that since GFATM was also supporting procurement and freight of <i>Palustop</i> then it would not be an issue to co-fund its delivery in order to avert a supply shock. PSI considered the transaction as related to the GFATM supported program	The activities were not within the approved work plan and budget. The amount remains recoverable from the PR.	PSI looks forward to working with the Secretariat to resolve this issue.

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	OIG comment	
because it furthered program objectives. Should the OIG disagree, PSI notes that it would have charged the freight costs to its program income account which has already been reimbursed to the GFATM (for reference see response to 1b). The amounts already reimbursed to GFATM were more than sufficient to cover these costs and PSI would have proposed them as justifiable by furthering program objectives. Additionally, the reported costs within the document are inconsistent and we request further clarification on the amount to be reimbursed.		
<u>7. Expenses related to the sale of PSI's own products or other donors' activities</u> <i>115. The Global Fund requires that all the funds it provides be used only for program related activities i.e. those in the approved work plan and budget. The OIG noted instances where program funds were used for activities that were not in the approved work plan and budget and directly benefited other donors" activities. Costs that were not related to the Global Fund supported program were charged to the Global Fund account e.g. US\$ 17,000 relating to Genicure. There was no evidence that this amount was refunded to the program.</i> PSI Response: We ask the OIG to furnish an itemized list of all questioned expenses that fall into this category. The one example provided refers to the purchase of \$17,000 worth of <i>Genicure</i> ulcerative STI pre-packaged treatment kits. These kits, while not budgeted in the round 2 grant agreement, were considered by both PSI and the SE/CNLS as a critical element in the comprehensive HIV prevention strategy adopted in 2005.⁷Should the OIG disagree, PSI notes that it would have charged the commodity costs to its program income account which has already been reimbursed to the GFATM (for reference see response to 1b). The amounts	The entire US\$ 17,000 relates to use of program funds to cover funds relating to Genicure. The activities were not within the approved work plan and budget. The amount remains recoverable from the PR.	

⁷ "Sexually transmitted infections (STIs) pose a public health problem in Madagascar and are integral to the fight against HIV / AIDS." National HIV policy from 2005 <http://hivinsite.ucsf.edu/pdf/cr09-ma-01.pdf>

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	OIG comment	
already reimbursed to GFATM were more than sufficient to cover these costs and PSI feels it would have been justifiable under our grant agreement as furthering program objectives.		