

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 the Global Fund Grants to Population Services International Togo

Audit Report GF-OIG-10-021
31 October 2011

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Abbreviations

ARV	Antiretroviral
ARVT	Antiretroviral Treatment
AVTC	Anonymous Voluntary Testing Centre
BCC	Behavior Change Communication
CBA	Community-Based Association
CCM	Country Coordinating Mechanism
CNLS	National AIDS Control Committee (Comité National de Lutte contre le Sida)
CR	Cost Recovery
DFID	UK Department for International Development
DOD	US Department Of Defense
ETC	External Technical Committee
GTZ	German Department for International Development
HC	Health Centre
HD	Health District
HIV	Human Immunodeficiency Virus
HIS	Health Information System
IDU	Injecting Drug Users
LFA	Local Fund Agent
M&E	Monitoring and Evaluation
MSM	Men who have sex with men
MSP	Ministry of Public Health (Ministère de la Santé Publique)
NACP	National AIDS Control Program
NGO	Non-Governmental Organization
NMCP	National Malaria Control Program
NTCP	National Tuberculosis Control Program
OI	Opportunistic Infection
OIG	Office of the Inspector General
OVC	Orphans and Vulnerable Children
PFM	Portfolio Manager
PH	Primary Health Care
PLWHA	People Living with HIV/AIDS
PMTCT	Prevention of Mother to Child Transmission
PR	Principal Recipient
PSI	Population Services International
QC	Quality Control
RAS+ Togo	Network of Association of People Living with HIV in Togo (Réseau des Associations des Personnes vivant avec le VIH au Togo)
SDA	Service Delivery Area
SM	Social Marketing

Audit of Global Fund Grants to PSI Togo

SR	Sub-Recipient
SSR	Sub-Sub-Recipient
SW	Sex Worker
TB	Tuberculosis
TB/HIV	Tuberculosis-HIV Co-Infection
ToR	Terms of Reference
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	US Dollar
WB	World Bank
WHO	World Health Organization

Executive Summary

1. In 2010, the OIG undertook an audit of Global Fund grants managed by PSI Togo. The purpose of the audit was to assess the adequacy of PSI's internal control systems in managing the Global Fund grants in Togo and where necessary make recommendations to strengthen the management of the grants. The audit focused on the transactions related to two grants from 2005 to March 2010 amounting US\$ 40,589,537 of which US\$ 30,982,546 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.

Achievements

3. Despite the challenges of operating in a post war conflict country, PSI has had commendable achievements in the implementation of the Round 4 grant. These included:

- i. PSI had established over 8,000 distribution points throughout the country with some 3,500 in Lomé. 48 million condoms were released from the warehouse for distribution through the private, pharmaceutical, public health and community sectors;
- ii. With regard to the Anonymous Voluntary Testing Centers (AVTCs), more than 100,000 people had been counseled and tested. This was mainly through the PSI's mobile service;
- iii. The "Operation High Protection" that begun in 2001 targeting the military showed a decreased HIV prevalence rate from 14.7% in 2002 to 9.7% in 2006¹;
- iv. There was clear evidence of the BCC campaign with numerous highly-visible billboards and continuous media, radio and television advertisements seen;
- v. There was an increase in access to behavior change communication information through highly-visible advertisements in the form of numerous billboards with messages directed at the targets regarding abstinence, usage of condoms and fidelity;
- vi. PSI undertook several behavioral diagnostic studies to verify the effectiveness of its campaigns; and
- vii. PSI had a real-time document management system that enabled it to obtain timely data for decision making.

Program-related aspects

4. Contrary to Global Fund principles and the Paris declaration, the Round 4 grant as designed was not aligned to the priority areas listed in the

1 All recruits are tested, and those who are HIV-positive are no longer allowed to join the army.

National Strategic Framework². It was designed along the lines of a similar USAID project and gave emphasis to different target groups from those in the framework. With the exception of identifying new mobile screening sites, there was no evidence of the involvement of government structures in the program.

5. PSI set up mobile testing units which contributed to the country's target of having at least 80% of its population know their HIV status. However there was no documentation in place to show how the work of these units linked to the national structures e.g. the follow up of patients identified through the mobile units. Unless people testing positive are effectively followed up, there is also a risk that the resources allocated for the pre-treatment evaluation and subsequent treatment and PLWHA support would be inadequate.

6. The products that were sold under the Global Fund supported program helped address a public health problem but also mobilized additional resources to help sustain the program. However there are concerns that poor people may not be able to afford the goods and services offered under social marketing. For example the rationale behind selling condoms to some target groups was questionable e.g. sex workers and youth may not have income to buy the products. The influx of people that came for testing when PSI had promotional periods when tests were provided free of charge, is evidence that the fee charged is an impediment to people getting HIV testing.

7. With regard to social marketing, the OIG also noted the following areas that need to be addressed in order to make the program more effective:

- i. Once USAID funding ended, PSI used grant funds to purchase condoms which were then sold at twice the price of condoms supplied by USAID and other stakeholders. Although PSI justified its decision on the basis of quality, it was questionable whether this decision represented value for money in a country that had shortages of condoms.
- ii. Between 2003 and 2007, over 48 million condoms were distributed from PSI warehouses. However PSI did not have a condom distribution plan in place. There were shortages in state centres that distributed condoms for free for over a year yet there were condoms available for sale.
- iii. There was no product differentiation between the condoms that were to be given away for free and those that were to be sold. This raised the risk of condoms that should have been distributed free of charge being sold.
- iv. PSI did not have any price control mechanisms in place to ensure that the products reached the intended beneficiaries at their intended

² National strategic framework for the fight against AIDS: Broad guidelines and key areas of the national strategic framework and summary of the national institutional framework in the fight against HIV/AIDS

price. PSI left the market to regulate itself and the shortage of condoms pushed prices up.

8. PSI was also involved in HIV related behavior change communication (BCC). The program was established in line with industry best practice with the exception of involving key stakeholders in its formative stage and the lack of a communication plan. The Ministry of Education subsequently established a BCC program targeting youth and there was limited collaboration with the program run by PSI. Efforts should be made to increase collaboration of the two programs.

9. At the time of the audit there was no national strategy or plan for the implementation of activities targeting PLWHA i.e. income-generating activities, nutritional support, meals etc. The LFA recommendations for the strengthening the program had not been implemented at the time of the audit. A strategy should be developed to guide implementation of this important intervention.

10. With regard to monitoring and evaluation, the OIG identified the following areas that needed strengthening:

- i. PSI's interpretation of the number of condoms distributed was not in line with the Global Fund's interpretation. PSI's definition of distribution of products was to intermediary points and not to final users. In consequence, the numbers that were reported to the Global Fund were not to the end user but to the distributor.
- ii. The OIG was not provided with the basis of targets set for some indicators and some targets did not reflect realities on the ground.
- iii. There were some indicators for which the results reported by PSI had different interpretations from the Global Fund indicator definitions e.g. number of persons trained and number of condoms distributed.

11. PSI was involved in the drafting of the Round 4 HIV grant, was responsible for its implementation and also undertook evaluations of the programs implemented. It is essential that an independent assessment of the implementation and the achievement of the grant targets is undertaken.

Financial management

12. A review of PSI's financial records revealed the following:

- i. The requirement in the grant agreement that all income incidental to program activities be recorded and reported to the Global Fund was not complied with.
- ii. Ineligible costs amounting to US\$ 250,000 were transferred to government institutions without a work plan, budget and sub grant agreement in place and were not accounted for.
- iii. PSI's grant administration costs for Round 4 grant were some 34% of the total budget. This covered human resources, planning and administration and overheads costs. There were concerns raised by a number of stakeholders e.g. the TRP, CCM etc. about the

administration related charges being unreasonably high but there was no evidence that these concerns were addressed.

- iv. PSI did not have a mechanism in place for the allocation of common costs across donors. The Global Fund supported program was charged with most of the common costs.

Sub grant management

13. One of the causes of the delay in the startup of the Round 8 was the SR selection process. An independent CCM appointed panel reviewed the process and found it to be flawed due to (i) the vague terms of reference provided to bidders; (ii) not all the defined eligibility criteria were applied in the selection process; and (iii) evaluators did not receive adequate guidance on the criteria to be applied resulting in large variations in the marks allocated by evaluators. The OIG also noted PSI assisted some but not all NGOs obtain registration with the government.

14. The Round 8 grant agreement was supported to cater for strengthening of NGOs. The number of NGOs that were supposed to receive capacity building was cut from six to three and, even then, the extent of the capacity building significantly reduced. PSI explained that this was in order to achieve cost savings as required by the Global Fund although a review of the budget showed that there had not been any budget cuts in this area.

Conclusion

15. The implementation of the OIG's recommendations should help to considerably strengthen PSI's effectiveness in implementing the Global Fund grants and would help the Global Fund Secretariat to monitor and oversee the program implementation to ensure that the funds were used for grant purposes. The following costs should be refunded to the grant program:

Description	US\$
Unbudgeted funds disbursed to the PNLS, CNLS and MoH without legal basis (No contract/MOU, no budget, no work plan)	248,539
Income generated from the sale of condoms donated by USAID and distributed using the Global Fund funds under round 4 not reported to the Global Fund.	431,939
Equipment procured from the income generated from the social marketing without the Global Fund approval.	55,883
Expenses related to the SRs overhead cost	128,508
Total	864,869

Oversight

Country Coordinating Mechanism

16. There was evidence seen of the CCM undertaking its roles as detailed in the CCM guidelines. The effectiveness of these roles can be strengthened by:

- i. Defining the criteria used in the selection of PRs. Mechanisms should also be put in place to address conflicts of interest when potential PRs are involved in the proposal writing process.
- ii. Appointing sub committees and developing an oversight plan in order to strengthen oversight.
- iii. Ensuring that all programs are aligned and linked with the national programs and the programs run by other stakeholders.

Local Fund Agent

17. The LFA had limitation on accessing information/ documentation related to the transactions incurred by PSI/Washington which impacted its ability to effectively execute its mandate. This issue was brought to the attention of the Secretariat and was not resolved.

Secretariat

18. Although a lot of reliance was placed on inputs from PSI headquarters to address country specific risks and the fact that significant amounts were spent at headquarters, there were no mechanisms in place to enable the LFA to verify the work done by the headquarters. The LFA and audit arrangements only covered transactions at country level. Errors at PSI's headquarters sometimes went undetected e.g. the computation of bank interest.

19. The Secretariat should:

- i. Address limitations in the LFA's access to information and measures should be instituted to ensure that all expenditure incurred by PSI Washington is verified in accordance with the signed grant agreement.
- ii. Review the description of PSI's program indicators related to distribution.

Overview

Country context

20. Togo is one of the least developed countries, with annual per capita income estimated at US\$ 330³. Togo's population in 2007 was estimated at 5.5 million with an annual growth rate of 2.4%⁴. Togo's socio-political crisis between 1990-2005 adversely affected its economy and this has made difficult to conduct health related service delivery in the country.

21. A joint WHO/UNAIDS working group⁵ estimated Togo's HIV/AIDS prevalence to be 3.2% in 2008. The prevalence rate has remained stable since 2005. However there are variations in the prevalence rates across regions with the rate in Lomé at 8% and the northern savannah region at 1.8%. The prevalence rate in female sex workers in Lomé was estimated at 29.5%.

22. The national HIV/AIDS response is coordinated by the National AIDS Control Committee (CNLS) and managed by the National HIV/AIDS Control Program (NACP). CNLS' coordination role as detailed in the 2007-2010 National Strategic AIDS plan covers (i) promoting the multi-sectoral implementation of the strategic framework; (ii) coordinating the resources available; (iii) promoting access to treatment; (iv) promoting and coordinating research; (v) issuing biannual performance reports; and (vi) holding periodic meetings with partners.

23. NACP is responsible for the implementation of the policies, standards, and procedures set by CNLS relating to access to treatment and care. Multi-lateral institutions including the Global Fund funded 86% of HIV related costs in 2006 and 76% in 2007.

PSI

24. PSI is an international non-governmental organization with its headquarters in Washington DC. PSI works in more than 70 countries worldwide including 25 in Africa in malaria, reproductive health and HIV/AIDS programs.

25. PSI launched operations in Togo in 1996 when it implemented the regional USAID funded Family Health and AIDS Prevention Project (SFPS). PSI/Togo works with a wide range of funders including UNICEF, the U.S. Department of Defense (DOD), Department for International Development United Kingdom (DfID) and the Dutch Bilateral Cooperation.

3 The Togolese General Statistics and Accounting Office (Direction Générale de la Statistique et de la Comptabilité Nationale)

4 Baseline indicators report, UNGASS 2008, CNLS

5 Financial resources and expenses to fight HIV and AIDS in 2006 and 2007 in Togo (REDES - Togo 2006 and 2007)

26. PSI/Togo has been involved in the following Global Fund Rounds:

Round	Component	Grant Number	Grant amount US\$	Disbursed US\$
4	HIV	TGO-405-G04-H	30,559,938	28,098,692
8	HIV	TGO-809-G09-H	10,029,599	2,883,854
Grand Total			40,589,537	30,982,546

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

27. PSI/Togo was supported by various partnerships in the implementation of Global Fund programs, particularly with the Peace Corps, the German Development Service (DED), a network of 37 sub-contracted Non-Governmental Organizations (NGOs), 11 VCT centres, eight STI clinics and mass media including three television stations and 23 radios stations.

Objectives of the audit

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

29. The audit objectives were to:

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

Scope of the audit

30. The audit covered the two active Global Fund grants managed by PSI Togo during the period 2005-2010. The coverage of the Round 8 grant was more limited because it only started in late 2009. The audit covered all aspects of the management and operations of the grant programs with the exception of transactions that were incurred by PSI/Washington. The audit also covered PSI's interactions with the Country Coordinating Mechanism (CCM), Local Fund Agent (LFA) and its Sub-Recipients (SRs).

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

- i. PSI complied with policies and procedures laid down by the Global Fund and the country and its own guidelines;
- ii. the established internal control structures and systems were adequate to provide assurance that grant assets were safeguarded against loss, misuse and abuse;
- iii. value for money was obtained from the funds that were spent; and
- iv. the systems, processes and controls in place were sufficient in supporting the achievement of grant objectives.

32. At the time of the audit, the Round 8 grant did not have as many achievements to report because of the delay in startup. Implementation now needs to be accelerated.

The report

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

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.

Program-related Aspects

The Global Fund supported programs

Round 2

35. PSI initially received funding from the Global Fund under Round 2⁶ as an SR to UNDP. The grant's objective was to intensify the fight against HIV/AIDS mainly through prevention activities i.e. (i) training for health personnel and associations; (ii) STI/HIV/AIDS education in secondary and higher education institutions; (iii) promotion and free distribution of condoms; and (iv) behavior change communication focusing on peer-educator networks. The targeted population was young people aged 10-25 years, school going children, and female sex workers (SWs).

Round 4

36. PSI was initially funded by USAID to distribute condoms through its social marketing program. When USAID funding ended, PSI sought to continue this program from Round 2 funds. The CCM objected to this proposal and opted to submit a separate proposal to the Global Fund for funding under Round 4. Under the Round 4 Phase 1 grant, USAID contributed the condoms and the Global Fund paid the distribution costs. Grant funds were only used to purchase condoms under the Round 4 Phase 2.

37. The objective of the Round 4⁷ grant was to reduce transmission of HIV/AIDS in Togo by:

- i. Raising awareness among high risk target groups through interpersonal communication and mass communication activities i.e. vulnerable youth aged 15-24 years, commercial sex workers, truckers, the army, workers, rural population, men having sex with men and injecting drug users;
- ii. Promoting and distributing condoms among adults ages 15-45; and
- iii. Disseminating messages on HIV prevention and fighting HIV related stigmatization through mass media campaigns.

Round 8

38. The goal of the Round 8 grant was to reduce HIV transmission and ensure universal access for PLWHA to anti-retroviral treatment in Togo. Key program components from the national strategy e.g. medical and psychosocial care for PLWHA that were not covered under previous grants were included in the Round 8 grant. This program was implemented primarily by the Ministry of Health which was responsible for the ART

6 R2 TGO-202-G01-H-00: intensification of the fight against HIV/AIDS

7 R4 TGO-405-G04-H: bridging the gaps, an integrated approach to HIV/AIDS prevention in Togo

component and PSI which covered community mobilization and non-medical care.

39. The Round 8 grant was supposed to have been started in mid-November 2009. However, six months after the grant started, the PR did not start the implementation of the grant and no activity was carried out, which is concerning since the grants are time bound. The delay was caused by the SR selection process.

Alignment to national programs

40. The Round 4 grant as designed was not aligned to the priority areas listed in the National Strategic Framework⁸. The Round 4 grant was designed along the lines of a USAID project and gave emphasis to different target groups than those in the framework. This is contrary to the Paris declaration principle of alignment, i.e. where donor support should be aligned to national strategies. For example, Round 4 did not cover women, young people aged 10-14 as called for in the framework. The TRP also recommended additional target groups not in the framework be included in the program, e.g. men having sex with men (MSM), IDUs and prisoners. MSM were introduced later in the program.

41. The design of the Round 4 program and its implementation and monitoring was vertical to the national systems. With the exception of identifying new mobile screening sites, which was undertaken in collaboration with the NACP and its decentralized regional and peripheral health-care facilities, there was no evidence of the involvement of government structures in the program. The involvement of the national education system focal point⁹ was not evident under Round 4 and only became evident under Round 8.

42. Other evidence noted of the program not having been aligned to the national systems included:

- i. program activities were not integrated in the annual district management team action plans;
- ii. medical outposts were not involved in program interventions at the peripheral level;
- iii. PSI implemented a parallel system for data collection, analysis and processing which could not be accessed or used by the national systems;
- iv. With the exception of the army, the integrated educational supervision missions were carried out without the involvement of the responsible government structures, i.e. the Ministry of Health or National Education; and

⁸ National strategic framework for the fight against AIDS: Broad guidelines and key areas of the national strategic framework and summary of the national institutional framework in the fight against HIV/AIDS

⁹ Ministry of Primary and Secondary Education and Literacy

- v. The commercial distribution channel used was a parallel system that was only used by the social marketing program run by PSI.
43. PSI established 10 AVTCs with funding from the US Department of Defense (DOD) and DFID. PSI used grant resources to run these centers and the mobile testing unit once the support from their initial funders ran out. PSI also hired staff from the local medical outposts to run the AVTCs. These staff had been trained by the NACP and followed national guidelines for testing and counseling. With the exception of the mobile units, the medical post staff were directly supervised by PSI without any involvement of the NACP, which was a missed opportunity for monitoring by the national structures. In consequence, staff were drawn away from their responsibilities under the national structures.
44. PSI set up mobile testing units help meet the country's target of having at least 80% of its population knowing their HIV status. This resulted in a sharp increase in the number of people tested with the rate of seropositivity ranged between 11 and 17%¹⁰. The OIG was not provided with any documentation relating to the setting up of the mobile units, how the work of these units would be collaborated with the work of the AVTCs and how the work could impact the national program.
45. The work of the mobile testing units was likely to impact the national program in the following ways:
- i. The patients identified by the mobile units did not fall under the scope of the stationary AVTCs and there was no documentation to explain how the patients identified by the mobile units would be linked to the AVTCs for follow up. At the time of the audit, the State was only establishing a network of community health workers (CHWs) to work with people tested.
 - ii. Unless planned effectively with the NACP to ensure that people testing positive are effectively followed up, there was also a risk that the resources allocated for the pre-treatment evaluation and subsequent treatment and PLWHA support may be inadequate. At the time of the audit, the NACP was evaluating the pilot phase of the rapid testing program.
46. The creation of parallel systems also had implications for the sustainability of interventions post Global Fund funding. For example:
- i. All AVTCs that were not integrated within Social Medical Centers (CMSs) would subsequently close;
 - ii. There would be no continuity of services provided in the schools nor in the PSI testing centers i.e. both stationary and mobile, outside the three national Social Medical Centers;
 - iii. Trained peer educators at all intervention levels would not continue their activities; and

¹⁰ Analysis by CMS of Adidogome

- iv. BCC would not continue i.e. where advertisements were on privately owned billboards that were leased to the programs. Once the funding ended, the advertisements would be taken down.

Recommendation 1 (High)

In line with the Paris declaration and the Global Fund core principles, PSI should to the extent possible align its programs to the national programs. This will ensure the program remains relevant to the country's priorities and is sustainable post funding. The provision of top up allowances to government staff should be discouraged since it is not sustainable. It also destabilizes the sector with regard to motivating staff that do not get the allowances and sets a precedent for those receiving allowances which is hard to break from without affecting program implementation.

Social marketing of condoms

47. Social marketing¹¹ of condoms in Togo was initially implemented by Care International and subsequently taken over by PSI. The products that were sold under the Global Fund supported program helped address a public health problem but also mobilized additional resources to help sustain the program. Under the Global Fund supported program, PSI sold condoms, lubricants and HIV screening tests.

48. Across the globe, there have been concerns that poor people may not be able to afford goods and services offered under social marketing. For PSI Togo, two instances were noted where consideration should have been given to providing goods and/or services free of charge:

- i. The rationale behind selling condoms to some target groups was questionable given that they were unlikely to have the income to pay for condoms i.e. sex workers and youth who ordinarily were school going children with no source of income.
- ii. The price for the HIV screening tests was CFAs 1000 with half the costs going to the center's staff. During promotional periods when tests were provided free of charge, there was a massive increase in the demand for tests which suggests that the charge was an impediment to the number of people that wanted to take the test. Consideration should be given to providing this important service free of charge.

Products sold

Change in the specification of condoms sold

11 According to PSI social marketing uses pure marketing techniques that are adapted to the health context to provide products and services that promote healthy behavior changes.

49. Initially USAID supplied condoms for sale and the distribution costs were covered from grant resources. It was only when USAID condoms ran out that grant funds were then used to purchase the condoms. At this point, the specifications for the condoms were changed to conform to the condoms that PSI distributes elsewhere in the world.

50. PSI explained that the change of specifications was due to the poor quality of condoms that were supplied under the USAID project. PSI did not provide the OIG with any empirical data to support this. There was also no evidence that the specifications were aligned to the condom technical specifications set forth by the Togolese Office of Pharmacies and Laboratories (Direction des Pharmacies et Laboratoires).

51. Until 2007, condoms from USAID arrived in country in bulk packaging and were packed into small packages in country. From Round 4 Phase 2, the products were procured by PSI DC and were pre-packed before they arrived in country. The condom price under Round 4 orders was US\$ 0.07. The total cost of shipping, testing, packaging etc. amounted to US\$ 10,000 per year. The condoms were airlifted to Togo which further increased the cost of the condoms. The PSI price was twice the price of condoms supplied by other partners e.g. the Togolese Family Health Office (Direction de la Santé de la Famille), UNFPA etc. This observation was confirmed in a report on Togolese condom management¹².

52. The change of the product brings into question whether value for money was attained. While PSI states that the new condom was of better quality, it came at double the price which meant that with the fixed budget there were less condoms available. This is against the background that no condoms had been distributed to state AVTCs for almost one and a half years at the time of the audit.

Promotion of PSI brands

53. The grant funds were used to promote and distribute products that were PSI brands. The products that were provided were Protector+ brand which was replaced by Protector+ Banane, Rebel targeting the youth, Protective which is a female condom and a lubricant called Intimate. In Togo, the PSI brand dominates the local market with 92% of male condom sales in Togo in 2008 being sold by PSI¹³.

54. The emphasis of the promotion campaigns was on providing PSI brands e.g. Protector condoms. The promotion of commodities e.g. condoms meant that emphasis was given to the benefits of the products without making drawing their attention to any difference between versions of the product.

12 Study on the management of condoms in Togo, final report, April 2009

13 2008 report, R4, PSI

55. The promotion of a commodity generally instead of a brand would target behavior change without drawing attention to a particular brand and the targeted population would appreciate the commodity irrespective of brand. Other interventions e.g. the condom distribution by the Ministry of Health would also derive benefits from promotion. The promotion of a brand instead of a commodity raises the risk that where there are shortages in the supply of the branded products and the targeted community may not know of the alternatives available.

56. If a brand is promoted, then the brand should be a national brand. The risk of promoting privately owned brands is that the country has limited control over key aspects of the product e.g. product type, price, availability etc. In one country, program funds were used to promote a privately owned brand. The government faced challenges when it decided to change the product because the population only knew one highly priced brand. The government's other option was to build its own brand which required time and resources and so in the short term it had to continue to purchase the highly priced products. The promotion of a national brand would also address the risk of sustainability. At the time of the audit, the country did not have a national brand for condoms.

Product differentiation

57. There was confusion between the condoms that were to be given away for free and those that were to be sold at a price since there was no differentiation of product i.e. the condoms all came in the same packaging. For example when NGOs were supposed ideally to receive and distribute condoms free of charge but when the supply allotted to them was insufficient, they were required to buy condoms from PSI.

Recommendation 2 (Significant)

- (i) *Significant program changes should only be made in consultation with the national entities and with the approval of the CCM e.g. in the case where the change of a product resulted in the doubling of unit costs. PSI should ensure that condoms distributed are compliant with the national condom specifications.*
- (ii) *The CCM in coordination with the national authorities and the development partners in the country should create a national condoms brand and encourage PRs to promote commodities as opposed to own brands. Because the objective of the communication campaigns is to increase demand for and adoption of safer sexual practices, PSI's communication campaign should promote all condoms and not just its brands. In the event that a decision is made to promote a brand, consideration should be given to promoting a national brand.*
- (iii) *PSI should consider product differentiation between the products that are distributed for free and those for which a charge is levied. This will serve as a control to identifying products that should be distributed free of charge that are otherwise sold on the market.*

Distribution

58. Between 2003 and 2007, over 48 million condoms were released for distribution from PSI warehouses. PSI's distribution networks covered the private, community, pharmaceutical and public sectors. These in total comprised of more than 8,000 distribution points throughout the country. PSI is commended for the initiatives that it has taken to provide wide distribution which included allowing credit sales. However the appropriateness of some of its strategies was in the OIG's view, questionable e.g. having peer educators who were often students and young adolescents as condom distributors, effectively turning them into distributors or dealers/vendors that were bound by contracts and quotas.

59. There was no detailed condom distribution plan at the national level, and orders did not follow a projection that is based on operational needs and monitored by the CNLS/NACP. At the time of the audit, the OIG noted that condoms had not been received in the state AVTCs managed by the NACP since November 2008¹⁴. In consequence, free condoms were only available from NGOs and in the event that they ran out of the free condoms, the NGOs had to buy condoms from PSI. At the time of the audit i.e. May 2010, PSI informed the OIG that there had been a shortage of condoms for free distribution since October 2009.

60. Condoms were distributed to truck drivers and sex workers in coastal areas as part of the Abidjan-Lagos Corridor (ALCO) project. Free condoms were distributed in this region alongside those distributed for sale by PSI. The free distribution of approximately 1.4 million condoms per year by the Corridor/ALCO project affected PSI's ability to sell condoms¹⁵ in this area and this impacted the effectiveness of the social marketing program in this area. At the time of the audit, there were no formal coordination mechanisms worked out between the social marketing and free condom distribution interventions to ensure that the objectives of these complementary projects were met.

Recommendation 3 (Significant)

- (i) *A distribution plan should be prepared at the national level that distinguishes between products that will be distributed at a cost and those that will be distributed free of charge. This plan should be based on independent available data to ensure that there is an appropriate balance between condoms for sale and those for free distribution, with no barrier to access for the population most at risk and the poor. The activities of the two components should be complementary.*

¹⁴ PSI distribution report

¹⁵ PSI-Togo programme review report, 1 April 2008 to 31 March 2009, Kekar-Amase, August 2009

- (ii) *PSI should establish formal coordination mechanisms with other stakeholders in the ALCO project area to ensure that the program remains relevant in this area.*

Pricing of the condoms

61. The pricing strategy comprised of multiple prices for different sectors i.e. PSI distributed condoms (i) free of charge to NGOs; (ii) at CFA 50 for four to the general public; (iii) at CFA 7.5 for four to sex workers; and (iv) at CFA 20 for four for the brand developed for the youth. This strategy was overly complicated since it was difficult to enforce across the different sectors. The matrix pricing strategy and proliferation of middlemen also reduced any controls PSI had over prices and in consequence resulted in high prices.

62. PSI's pricing strategy was not aligned to the official recommended condom price i.e. CFA 25 for each Protector+ condom¹⁶. In reality, a pack of four condoms was unpacked and each condom sold separately at CFA 50 per condom. The OIG noted that in Lomé the prices varied considerably from set prices. All were in excess of the recommended prices and these variations increased the further down the distribution chain one went. The ability to sell condoms at higher prices also shows demand exceeded supply.

63. PSI did not have any price control mechanisms in place to ensure that the products reached the intended beneficiaries at their intended price. PSI left the market to regulate itself and the shortage of condoms pushed prices up. The distributors also stated that condoms were sold at higher prices because they considered the recommended profit margins to be very low.

Recommendation 4 (High priority)

- (i) *PSI should establish measures to control the prices charged by their clients. 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 using a mystery buyer.*
- (ii) *Because the objective of the program is saving lives and not making a profit, PSI should consider revising the price charged its agents in order to ensure that condoms are available at reasonable prices to the intended beneficiaries.*

16 Ministry of Health, 2004

Raising awareness among target groups through Behavior Change Communication (BCC) and Information Education Communication (IEC)

64. BCC and IEC interventions are key to HIV prevention. PSI has a communication department that manages targeted interpersonal communication (IPC), mass media and provide stakeholder training. This department also trains peer educators and develops and broadcasts advertisements aimed at influencing behavior. BCC in Togo is one of PSI's largest expenditure categories US\$ 10,629,786.00 representing 37% of total expenditures.

65. PSI's IEC and BCC interventions are customized to target audiences and the advertisements are focused on behavior change within the vulnerable groups. PSI undertakes studies that identify the behaviors to target e.g. multiple partners, early sexual relations among young people etc. and develops relevant campaigns and mass media operations to address them. Advertisements are pre-tested using a panel of target members and approved by CNLS before they are rolled out. A media checker ensures that advertisements are in practice run but this checker is not responsible for validating the quality of the advertisements run.

66. The BCC interventions under the Round 4 grant were designed along those used under a USAID project and were not fully aligned to the national strategic framework. The strategic frameworks (2001-5 and 2007-10) focused on strengthening IEC/BCC within specific target groups. However the interventions undertaken by PSI targeted different groups from those in the framework. The Technical Review Panel (TRP) also requested that men having sex with men (MSM), IDUs and prisoners be incorporated in the program but these too fell outside the scope of the strategic frameworks and were not covered in PSI's interventions.

67. Contrary to best practice, the development of the Round 4 BCC initiatives PSI did not involve key stakeholders e.g. the health promotion departments of the ministries of education or health. This changed under the Round 8 grant. The failure to involve stakeholders in the process resulted in missed opportunities to address issues that may be unique to Togo. For example there was no BCC strategy targeting women (except for sex workers and those in school) yet they represented the largest percentage of PLWHA in Togo and were vulnerable due to prevalent polygamy, their low economic status etc.

68. The lack of collaboration with stakeholders contributed to the concerns raised at a Ministry of Education HIV program workshop held by the Ministry of Education¹⁷ about the quality of program run by PSI namely:

17 Training workshop for middle school teachers from the central region on HIV, AIDS, and STI prevention education Tsévié, 18-22 May 2010, attended by the directors of the schools of PSI Vogan (The CEGs of Bafougbe, Wogba, Amoussimé)

- i. Some school directors felt that some Peer Educators and community health workers¹⁸ lacked the requisite skills to carry out the activities assigned to them e.g. the interviews, sensitization, report writing etc.
- ii. Concerns were also raised about the selection process of Peer Educators since they were not always the role models they were required to be e.g. with regard to not getting pregnant or not having multiple partners;
- iii. There were also disparities in messages given by different NGOs e.g. with regard to condom use and certain messages disseminated by the Peer Educators ran counter to the objectives of the program e.g. giving very young children demonstrations on condom use; and
- iv. The workshop also raised concerns about the distribution of condoms after demonstrations on condom use, to young children which dismayed many parents.

69. BCC cannot be undertaken in isolation but should be part and parcel of the national HIV program goals and specific objectives. Because it is an essential element of HIV/AIDS prevention, care and support programs, it should move beyond individual communication products to a careful use of many different interventions, products and channels applying a broad community approach. There was no evidence that this was the case for the program managed by PSI whose focus was exclusive to its products and did not provide linkages to other related programs with similar objectives.

70. PSI Togo did not have a communication plan and ran its program mostly through advertisements. There was no evidence seen of other communication avenues being explored. Using a variety of communication channels is recommended as being more effective than relying on any one channel since it increases the impact of communication messages and has varying levels of impact on different audiences.

71. Different channels have also been shown to be more effective at different stages of the continuum and for achieving different goals. For example research has shown that mass media can raise awareness of specific facts, because the mass media are assumed to carry a certain authority and reliability. However later on in the process, target populations appear less interested in media authority and interpersonal communication seems more effective with mass media only playing a supporting role.

72. Media impact studies were undertaken by PSI which as was the case with social marketing were not independent and raised the risk of lack of objectivity and conflict of interest. The data collected from these studies was privy to only PSI and its headquarters and was not made available at national level to aid decision making. There was no information available to national stakeholders that the BCC undertaken was effective in as far as the

18 Programmatic activity monitoring report, Eurafrique Conseil, July 2008

creation of a demand for information and services, and spurring action to reduce risk, vulnerability and stigma.

Recommendation 5 (Significant)

- (i) PSI should align its BCC programs to the national strategic plan especially with regard to the prioritizing the target groups to focus on. In cases where the national plan may not be reflective of the country needs and where other areas should be considered e.g. MSM, IDUs, prisoners etc. deviations to the national strategy should be planned in collaboration with the CNLS.*
- (ii) PSI should develop a communication strategy which should be aligned to the CNLS/NACP communication strategy.*

BCC targeted at youth

73. The PSI program targeting youth was established long before the Ministry of Education launched a similar program. The Ministry of Education launched a similar program in the 2009-10 school year through its established education structures in place. The activities within this intervention were undertaken by students under the supervision of teachers and coordinated and supported technically by 20 NGOs^{19,20}. At the time of the audit, there was no evidence of PSI aligning or integrating its program to the one run by the Ministry of Education.

74. The initial PSI program sought authorization from the Ministry of Education but did not consult and/or involve the national structures e.g. the Ministries of Health and Education nor stakeholders e.g. students' parents, religious leaders etc. in the development of the program. On the other hand, the program run by the Ministry was developed in collaboration with key stakeholders e.g. the Ministry of Health and training models were customized to the situation in Togo. The Ministry has a central pool of trainers as well as a pool of trainers in each region.

75. PSI supported 78 out of the 1,046 secondary schools in Togo i.e. some 7% at the end of Phase II. 3,433 peer educators, leaders, and supervisors were trained during this period. The number of students reached was unknown. The activities set up by PSI did not continue once the funding to the NGOs stopped e.g. as the case to CEG Tsévié Ville IV School in 2007. On the other hand, in one year, the Ministry of Education integrated peer education in 215 secondary schools which was three times more than PSI did over five years.

76. The PSI program provided for peer educators to hold discussions with their classmates during their free time under the supervision of the

19 2008 Annual Report, R4, PSI

20 PSI-Togo programme review report, 1 April 2008 to 31 March 2009, Kekar-Amase, August 2009

teachers. The sessions were organized around the teacher's free time and it was sometimes a challenge when the teacher could not make the time. The national program on the other hand viewed the training not as an extra-curricular activity but as being part and parcel of the school curriculum. It would be therefore considered a basic school subject just like arithmetic or French.

77. Contrary to the national program, the PSI program did not have quality control mechanisms imbedded in the program design. The Ministry on the other hand had a quality assurance mechanism in its program i.e. clearly defined teacher and student roles that were subject to monitoring. The NGOs used by PSI were required to carry out a large number of sessions, repeating a number of segment-specific messages and sessions to the same people. The indicator and targets focused on numbers reached rather than the quality of the service delivered;

78. PSI paid incentives to the teachers and Peer Educators/Girl Leaders involved in the program for activities undertaken under the program. In the case of the Ministry, there was no need to give teachers and other stakeholders incentives because the program was incorporated in the Ministry curriculum. The payment of incentives should be discouraged because it is usually not sustainable once the funding runs out and also because it creates a bad precedent for future programs.

79. The issues above should be considered by the CCM in developing future programs. Similar programs should to the extent possible be aligned to and undertaken in collaboration with national programs in order to ensure they remain relevant in the light of the country strategies and at the same time can be sustained post grant funding.

Recommendation 6 (Significant)

Consideration should be given to aligning the BCC programs run by PSI to the programs run by the national programs in order to ensure that there are synergies in the two programs and are sustainable.

Medical and psychosocial care for PLWHA

80. At the time of the audit there was no national strategy or plan for the implementation of activities targeting PLWHA i.e. income-generating activities, nutritional support, meals etc. The LFA²¹ made some recommendations for the strengthening of the program which had not been implemented at the time of the audit namely:

- i. a database of care givers should be developed;
- ii. there should be defined procedures developed for activity monitoring;
- iii. PSI should define a process to evaluate SRs and caregiver performance;

21 PSI report assessment, June 2009

- iv. A database should be created to collect and process community data.

Recommendation 7 (Significant)

PSI should work with the CNLS to develop a strategy for the support to the PLWHA i.e. income-generating activities, nutritional support, mutual aid and solidarity funds etc. PSI should draft, disseminate and formulate an operational plan for the implementation of PLWHA activities. This plan should establish a participatory approach that includes local stakeholders, provide guidance to service providers etc.

Monitoring & evaluation

81. CNLS with the support of the Monitoring and Evaluation Reference Group has a functional monitoring and evaluation unit in place. The national system has developed a national M&E and operational plan which includes a standardized set of indicators. PSI set up a parallel system to the national system for the data collection and reporting because the national system capacity could not be relied on provide complete and timely data. There was no evidence seen of PSI working with the government to identify ways through which the national system could be strengthened.

82. This parallel system resulted in agents having to capture data twice i.e. for national reporting and for PSI. The data that was collected by PSI was not available to in country stakeholders and was sent to PSI DC who had not provided feedback to the country office.

83. In accordance with the 2010 Global Fund M&E guidelines, PSI was not required to submit a Round 8 M&E plan because there had been an approved national monitoring and evaluation plan in place since 2007. This plan had to be amended to cater for the Round 8 grant peculiarities. The amendment had not been approved at the time of the audit.

84. A review of the Round 8 performance frameworks revealed the following:

- i. The indicators in the performance framework were different from those in Attachment A of the proposal approved by the TRP;
- ii. At the time of the audit, the last version of PSI's M&E plan had 33 indicators, which were more than the indicators set forth in the national M&E plan;
- iii. The adaptation of the PR's original M&E plan to suit the Round 8 grant required strengthening to cover of community psychosocial and nutritional support services; and
- iv. The performance monitoring plan (paragraph 5.2.1) mentioned some indicators which did not have specific targets agreed for the five-year period during which the grant would be implemented. Under these circumstances, the performance of these indicators could not be monitored during the R8 project²².

22 Comments from the M&E team of the Global Fund, March 2010

85. A key element of PSI's monitoring was the Measuring Access and Performance (MAP) studies to measure coverage and equality regarding access to condoms. The studies were designed and implemented by PSI i.e. without the participation of external parties or technical partners in their design, implementation and validation of results. This represented a conflict of interest and brought into question the validity of the information in those reports. These types of studies have been criticized for lacking independence where the program managers define the process and evaluation rules²³.

Definition of indicators

86. As already highlighted, the interpretation of indicators by PSI was different and not in line with the Global Fund top ten indicator interpretations. PSI's definition of distribution of products was to intermediary points and not to final users. In consequence, the numbers that were reported to the Global Fund were inaccurate because the numbers reported did not take into account the condoms that were still held by distributors.

87. PSI's Round 4 M&E plan did not have an indicator 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. The redefinition of indicators under Phase 2 created further confusion with regard to the interpretations to the indicators. PSI did not provide M&E training to its NGOs and to the various people involved in the data collection process. The plan also lacked a detailed work plan that described how the M&E process would be undertaken.

88. The OIG could not identify the basis of results reported under the Round 4 Phase I grants. The process employed in reporting the numbers of people trained resulted in duplication in the number of people reported as educated. The same people were counted each time they attended a training session rather than attending the whole set of topics that constituted a training package. This resulted in the multiplication of the small number of people that attended a number of related sessions.

Targets

89. PSI could not provide the OIG with the basis against which set baselines and targets for the Round 4 grant were computed. The underlying

23 Les obstacles liés à l'évaluation des programmes VIH/SIDA AU TOGO : Cas de l'étude sur les Connaissances, Attitudes et Pratiques en matière du VIH/SIDA en milieu du travail au TOGO, 2007 (Obstacles related to the evaluation of the HIV/AIDS programmes in Togo: case study on HIV/AIDS knowledge, attitudes, and practices in the workplace in Togo, 2007). Paul Koffi. B. TEKOU Cabinet d'Expertise en Recherche-Action (CERA)

assumptions to the target computations were not clear with relationships between the proposed numbers not clearly defined. For example at the time PSI set targets it had not identified which schools it would undertake campaigns in and in consequence PSI could not elaborate the assumptions behind the numbers targeted in the school campaigns for the different quarters i.e. 400,000 students in 20 schools for Q2, 880,588 students in 60 schools for Q3, 1,043,530 in 65 schools for Q4 and 1,379,487 students in 70 schools.

90. The set targets were not reflective of the local realities. This was evidenced by the implementation quotas allocated to NGOs not reflecting the population size in intervention zones and targeted population²⁴. For example some NGOs were required to reach 60,984 people per year in six villages. However the six villages in only had a population of 60,984.

91. The targets set for the NGOs in some cases were unrealistically high. For example the calculation of the number of students to be reached via mass events was based on the number of students in the schools covered by the NGO multiplied by the number of times that the NGO would carry out a mass event. For example, an NGO expected to organize two mass media campaigns in four schools with 600 children had a target of 4,800 i.e. 600 students*4 schools*2 campaigns.²⁵ This represented double counting since the number of students reached was 2,400 and at the time of the audit, the number of students reported as reached in 75 schools was almost 5 million which almost the total population of Togo.

92. The evidence that the targets set were not reasonable lay in the results that were reported which although commendable reflected weaknesses in the program's ability to formulate reliable, reasonably and accurate targets. For example:

- i. The target for the number of people tested and counseled was 36,000 but the reported people tested were 100,000 at the end of grant. PSI explained that at the time the targets were established, consideration was not given to the fact that PSI would set up mobile units to undertake these tests.
- ii. The number of young people exposed to HIV/AIDS messages in schools (indicator 1.3) registered an achievement of 750% above targets.

Recommendation 8 (High priority)

- (a) *The performance framework should be revised in light of the Round 8 delays with targets adjusted to take account of the realities on ground. An attachment to the national plan should be prepared providing the exceptions for the Round 8 grant in accordance with the recommendations of the Global Fund M&E team and following CNLS guidelines.*

²⁴ Programmatic activity monitoring report, Eurafrique Conseil, July 2008

²⁵ Idem, Eurafrique Conseil

- (b) *The PR should develop a national operational manual that defines each indicator, as well as a work plan and detailed budget.*
- (c) *PSI should work with the reference group to identify ways in which the national system can be strengthened in terms of data collection, timeliness, and completeness.*

Results reported

93. PSI reported the numbers distributed *to* intermediaries instead of reporting the numbers distributed *through* the various intermediaries to the final user. The delivery of products to intermediary level did not represent the products reaching end users. The results reported should have been adjusted to deduct the inventory still held at the points of sale at the time of reporting which was not done. PSI did not have a record of the inventories held by its intermediaries and worked on the assumption that all condoms distributed were sold which was not always the case. In consequence, the data reported was not accurate.

94. It is the PR's responsibility to ensure that there is a mechanism in place at all levels that capture key data to ensure accurate reporting to the Global Fund. PSI undertook monitoring and support visits semi-annually and gathered information about the status of the supplies procured by the NGOs. PSI admitted that most intermediaries did not maintain proper records and it was therefore impossible to determine the stock status at any point in time.

95. With regard to the accuracy of the numbers reported, the audit revealed instances of double counting. For example, in a mass event hosted by a group of Girl Leaders or Peer Educators, each Girl Leader or Peer Educator counted the same participants as their own thus inflating the reported number of people reached. This issue was also reported in a 2007 audit. PSI could not provide assurance on whether the reported these activities had actually taken place since there were no mechanisms in place to verify the source data provided.

96. The NGOs were required to carry out many sessions and at these sessions a number of segment-specific messages were repeated to the same people. The indicator measured the number of sessions run and did not take account of the quality of the sessions held and the number of people in each session.

97. The two grants i.e. Round 2 and 4 focused on prevention activities with similar interventions. However the two grants were implemented as two separate grants without evidence of much coordination between them. Certain common indicators such as the number of students educated, the number of peer educators in schools and the number of sex workers educated were treated in isolation. This brought into question the accuracy of the results with reported mainly because of the risk of double-counting of the same results under the two grants.

98. The LFA raised the risk about the similarity of the Round 4 and 8 grant interventions and indicators creating opportunities for duplication of results with regard to advertisements broadcast, peer educators trained, vulnerable people reached by the advertisements etc. At the time of the audit, nothing had been done to address this issue.

99. There were no mechanisms in place to verify the data that was collected and reported to the Global Fund²⁶. The attendance sheets provided by the peers and the results reported by the NGOs were not independently verified. The verification of data was important especially because NGOs were paid according to their performance.

100. The OIG reviewed a sample of the data reported by AVTCs to PSI and found it to be accurate. There were also no significant issues noted with the consolidation of data from NGOs into the reports PSI submitted to the Global Fund. However while PSI could provide supporting documentation for the results that were reported to the Global Fund, the NGOs did not have records to support the results reported to PSI. The NGOs only had summary reports i.e. monthly, quarterly and annual reports and so an operational audit could not verify the accuracy of data reported²⁷.

Recommendation 9 (High priority)

- (a) PSI should identify independent organizations to undertake some of the evaluations and studies undertaken internally by PSI.*
- (b) PSI should institute mechanisms that track product distribution throughout the system in order to ensure accurate results reporting to the Global Fund.*

Quality of services

101. PSI undertook supervisory visits to the NGOs and other entities undertaking implementation. With the exception of the activities of the mobile testing units, the supervision was undertaken exclusively by PSI without the involvement of other stakeholders e.g. relevant national entities. The OIG also noted that PSI did not inform the regional health or education offices of its visits to regions and also did not provide feedback on its observations. This represented a missed opportunity to get independent feedback on program activities from the local national officers.

Recommendation 10 (Significant)

PSI should consider undertaking its supervision visits with national officers.

26 Report from the operational audit of the programme, 1 April 2005 to 31 March 2006, Kekar-Amase, January 2007

27 idem

Financial Management

Compliance with the grant agreement

102. The Global Fund signed grant agreements with the PSI and these agreements require PSI to comply not only with the conditions in the grant agreement as well as with the laws and regulations of the Togo. This ensures that the measures put in place to safeguard the Global Fund assets are operational and therefore reduce the risks to which Global Fund resources may be exposed. The instances of non-compliance noted related were:

- i. The agreement provided for program funds to be maintained in an interest bearing bank account. However the PSI bank account in Ecobank in Lomé was not interest bearing and this represented a missed opportunity to generate additional income.
- ii. The grant agreement requires that PR's activities are in compliance with country laws. The OIG noted that statutory deductions were not made from the salaries of expatriate salaries which should follow the country law.

103. The grant agreement mentions that the PR should fulfill the Conditions Precedent (CPs) as indicated in the Annex A or in the management letters. The OIG noted that disbursements were made without meeting the CP relating to the recording and reporting of income incidental to program activities under the Round 4 grant i.e. "Provide evidence of the revenues of the PR and the sub-recipients have received from social marketing activities (making a distinction between condoms financed by USAID and those financed by GF) the "revenues". PSI only submitted provisional income figures at the beginning of the Phase II grant and did not report the income generated from the sale of condoms under the social marketing program. There was no evidence that alternative measures were instituted to address the risk the CP was meant to address in the first place.

Recommendation 11 (High)

PSI should comply with the grant agreement. All CPs should be complied with prior to disbursement. Alternatively other measures should be instituted to mitigate identified risks.

Cash management

Fund held offshore

104. The grant agreement is signed with PSI Washington and not Togo and therefore the funds were received and managed by PSI Washington. Most of the grant funds were held in Washington DC. PSI Washington maintained one bank account that was interest bearing for all grant funds for different countries and donors.

105. The Washington office apportioned interest to country grants using US federal treasury interest rates based 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 was therefore not the actual interest earned but a manual calculation and allocation of interest by PSI. The interest computed was reported in the PUDR and available for program implementation.

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

Funds managed by the country office

107. PSI Togo maintained one bank account in Lomé i.e. Ecobank for the funds received from all donors (the Global Fund, DFID, US DOD, US Ambassadors' Fund, the USAID AWARE-HIV/AIDS project and PSI's own funds). This account was also used to record all program income.

108. The Global Fund disburses grant funds directly to PSI Washington's bank account. PSI Togo submits a request to Washington, 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.

109. 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.

110. 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 was unable to confirm the bank balances and verify the expenditure that was incurred in Washington and included in the PUDR. This was because PSI's accounting system did not split the bank balance by donor. This had been brought to the attention of Global Fund by the LFA on several occasions and no action had been taken to correct this position.

Recommendation 12 (High)

(a) Global Fund resources should not be commingled with funds from other donors. A separate bank account should be for all Global Fund resources received by PSI in Washington. In the country where the Global Fund grants are implemented, PSI should allocate a separate

bank account for Global Fund grants. 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) The Global Fund Secretariat should initiate an annual financial review to provide an assurance for all PSI grant cash balances for which funds are maintained in both Washington and in country bank accounts.*
- (c) In both Washington and in the implementing countries, PSI should ensure that all bank accounts bear interest at a reasonable commercial rate and should report interest from all bank accounts where Global Fund resources are included, at the commercial bank rate. PSI should calculate the interest generated on the Round 4 funds. The calculation should be checked by the LFA based on the actual interest rate as stated in the bank statements with variances refunded or reimbursed.*

Accounting system

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

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

113. The OIG noted that there was a lack of interface between the different software programs used. The accounting software, QuickBooks, was not linked to (i) "Business Vision", the sales software; (ii) "pay", the human resources management software; and (iii) "My queries" the purchase management software. Data had to be manually transferred in order to undertake any analyses or reconciliations and this created room for error.

114. The segregation of duties was inadequate to safeguard program resources. For example, the OIG noted that in the Distributions Department, one person prepared the invoices, collected the money from sales,

deposited sales monies in the bank and was responsible for following up clients for payments.

Recommendation 13 (Requires attention):

PSI should link 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. Staff functions should be aligned to ensure proper segregation of duties.

Expenditure

Ineligible expenditure

115. The OIG's review of expenditure revealed ineligible expenditure that related to disbursements of funds without relevant supporting documents amounting to US\$ 248,539. This related to transfers effected by PSI to three entities namely the National AIDS Control Program (US\$ 50,580), the National AIDS Control Committee (US\$ 85,459) and the Ministry of Health (US\$112,500). The payments were effected without sub grant agreements, budgets or work plans. The funds had not been accounted for. There was also no evidence that this support was provided to institutions below the national level or that the support provided to national levels trickled down to lower levels.

116. PSI explained that these transfers were effected on the instructions of the FPM and were meant to strengthen the institutional capacity of the three entities. The OIG was not provided with documentary evidence to support this. However, the responsibility to institute appropriate controls to ensure that the funds are spent appropriately lies with the PR. These funds should be refunded.

Overheads

117. The percentage for PSI overheads was 5% for Round 4 and 8% for Round 8. On top of the overheads, there were administration costs that were charged directly to the program. These amounted to almost 34% of budget and this reduced the funds that were available to fight the disease. The CCM members had also raised concerns about the overhead costs being too high. This had also been noted by the TRP when reviewing the Round 4²⁸ proposal and the RCC proposal. The OIG raises concern that despite various stakeholders highlighting the high overhead/administration costs, this issue was not adequately addressed.

118. All SR budgets levied a 5% administrative charge in their budgets and this was irrespective of whether there is a need for administration or not or whether the activities to be undertaken warranted a 5% fee. Some SRs

28 TRP Clarifications, 2010

charged the programs with administrative related costs on top of charging the 5% overhead. The OIG was not provided with the rationale for the 5% overhead charge and the SRs visited did not have documentation to support how these funds were utilized. The amount expended on overheads by the sub-recipients is estimated at US\$ 128,508 for which there was no show and which should be refunded in the absence of support to show how it was spent.

119. The Global Fund has recently put in place a policy on overheads for international NGOs that are PRs and once applied should address most of the issues noted above.

Allocation of common costs

120. Some of the grant funds were used to meet common administration costs e.g. salaries which should typically be shared with other funders. The sample of expenditure revealed that PSI did not have a system for allocating common costs among donors. For example, the salaries and the benefits of the PSI Country Director, all administrative staff salaries and administrative related expenditures, consultant missions, OFOG²⁹ visits etc. were wholly charged to the Global Fund grant. The records maintained did not isolate transactions by donor. The OIG was not able to provide assurance that the allocation of common costs across donors was reasonable.

121. The OIG noted that the allocation of common costs was discussed at a meeting between the Global Fund Secretariat, LFA and PSI at the end of 2008. It was agreed at this meeting that PSI would provide the Global Fund with the basis for allocating joint/shared costs to different sources of funding. This issue was however never followed up and the problem remained unresolved at the time of the audit i.e. in May 2010. In consequence the OIG concluded that program funds had financed the activities of others and this was not in line with the grant agreement.

Recommendation 14 (Significant Priority):

- (a) In line with the Global Fund guidelines, PSI should prepare and submit to the Global Fund through the LFA a basis for the allocation of common costs. Once approved, this should be applied consistently to all future budgets and costs.*
- (b) PSI should refund the funds that were not accounted for related to the overhead cost and to disbursements issued to the national entities.*

Funds from sale of condoms

122. Under the Round 4 Phase 1 grant, condoms donated by USAID were packaged, promoted and distributed, using the Global Fund grant funds.

29 Overseas Financial Operations Group (OFOG)

This activity was not in the original proposal but was agreed upon during grant negotiations and incorporated in Annex A of the grant agreement.

123. The grant agreement requires that income incidental to grant programs should be reported to the Global Fund and used for program activities. The program income from the sale of condoms amounting to US\$ 431,939 was not reported to the Global Fund or to USAID. PSI explained that this was because the funds were refunded to USAID but they could not provide documentary evidence to support this. In line with the grant agreement, unless evidence that the funds were refunded to USAID, these funds should be refunded to the Global Fund.

124. At the beginning of the Round 4 Phase II grant in 2007, PSI made presentations to the CCM that the income from the social marketing program would be US\$ 621,022. Subsequent to this, PSI did not report to the Global Fund the real income generated from the social marketing activities. At the time of the audit, the income from social marketing amounted to FCA 502 million (US\$ 1,004,775) which comprised of the condoms donated by USAID and funding from the Global Fund for their distribution.

125. At the beginning of the Round 4 Phase II grant, PSI presented to the CCM and received approval on how the program income should be spent i.e. US\$ 621,022. However, PSI did not get the Global Fund's authorization on how to spend the income e.g. PSI incurred expenditure of US\$ 55,883 on the purchase of computers, laptops, vehicles and also deducted 5% for management fees from program income without the approval of the Global Fund.

Recommendations 15 (High Priority)

- (a) *PSI should prepare a report for the Global Fund of program income incurred and expended. All expenditures incurred contrary to the approval should be refunded and all balances undeclared should also be refunded.*
- (b) *PSI should provide confirmation that the incomes generated from the sale of condoms donated by USAID have been refunded to USAID. Otherwise, in the absence of such confirmation, PSI should refund this amount to the grant program.*

Sub-Recipient Management

126. PSI Togo, under the Round 4 grant, contracted 51 SRs to implement the program with a budget of US\$ 2.7 million. The 12 SRs covered in this audit were CNLS, PNLs, Arc-En-Ciel, Appui aux Développement et à la Santé Communautaire (ADESCO), Cercle des Amis pour le Développement Humain (CADH), Femmes en Action pour le Mieux-être de la Mère et de l'Enfant (FAMME), Action Le Contre Sida, Fédération des Bureaux des Conseils Diocésains (FBCD), Union Musulmane du Togo (UMT), Centre de Dépistage volontaire anonyme (CDVA), Centre Médical de Santé Adidogome (CMS) and the Service Sante Armée. These SRs were largely involved in peer education and screening.

Identification of SRs

127. PSI initially appointed an external firm to select its SRs. The initial process was undertaken in line with PSI's manual for SR contract management and resulted in the selection of 12 SRs. However, PSI directly appointed another 39 SRs without following the process stipulated in its manual. 18 out of the 39 were to mandated organizations like the Ministries, PLWHA etc. PSI attributed their failure to follow the stipulated selection process to the embezzlement of funds they identified in three entities. However the decision not to outsource the process did not mean that the defined process should be flaunted.

128. With regard to the Round 8 grant, PSI called for bids for NGO networks in accordance with its grant manual. The civil society criticized the process followed, as PSI did not use a participatory approach to develop the ToRs. The CCM established an External Technical Commission (ETC) to analyze PSI's selection process. The ETC identified weaknesses in the procedure applied by PSI in selecting SRs. The committee raised the following concerns:

- i. The terms of reference in the call for proposal were confusing and did not specify the selection process and related timelines. Applicants were also not required to indicate whether they were applying to become SRs or Implementing Agents;
- ii. PSI did not apply the eligibility criteria related to applicants needing to show evidence of registration with the Togolese authorities. Out of 10 entities shortlisted, only six presented evidence of being registered with the Togolese authorities; and
- iii. The evaluation tools used by PSI were not defined in the user manual. This created confusion during the evaluation stage and the need to adjust tools as well as resulting in large variations between the different evaluators.

129. The OIG's review of the process confirmed the issues raised by the committee. The OIG also noted that the PSI country director had requested the Ministry of Decentralization to deliver legal registration to two NGOs networks because they were mandatory for the selection process. This was

an indication that the process was not impartial since registration was only sought for two and not all applicants that did not have registration papers.

Strengthening the capacity of SRs

130. The Round 8 grant provided for PSI to strengthen the capacity of six NGO networks to enable them to effectively implement program activities.³⁰ This "strengthening" provided for office equipment and materials, supporting their human resource functions and providing an operating budget for them. In response to the Global Fund requirement to have 10% cost savings, PSI reduced the number of SRs it would support from six to three SRs. The support provided to the three SRs was also reduced to cover only basic equipment and services.

131. The OIG however noted that this was not in line with the spirit of cost savings which has nothing to do with cutting back on approved activities. The audit also revealed that the budget was not reduced and so the reduction in the number of SRs and the support to the SRs was not justified. Because capacity building is a priority area in the Round 8 grant, PSI should rectify the reallocation of funding from SR capacity building.

The OIG visits to SRs

132. The OIG visits to the selected SRs named in the paragraph 125 revealed that the SRs did not submit monthly financial reports as stipulated in the SR manual. Some SRs submitted quarterly reports while others only submitted reports at the end of each disbursement. Some financial reports submitted by some beneficiaries were not in compliance with the reporting template provided by PSI-TOGO. There was no evidence seen of PSI following up the outstanding reports.

133. PSI's monitoring of SRs varied with evidence of visits available for some SRs and none for others. The manual stipulates that final audits would be conducted at the end of each contract but these were not performed. However, the OIG noted that PSI's visits to some SRs unearthed misappropriated funds amounting to US\$ 67,000. At the time of the audit, the Togolese Red Cross had not refunded US\$ 25,232. This should be followed up and recovered.

Recommendation 16 (Significant):

- (i) *PSI should reallocate the funding that was meant to cover additional SR capacity building back to this grant component.*
- (ii) *PSI should strengthen its SR management by following laid down policy in the identification of SRs ensuring that all SRs submit periodic reports and undertaking periodic monitoring visits to its SRs.*

30 Attachment No. 25, R8 proposal

Oversight

Country Coordinating Mechanism

134. The CCM Togo was chaired by the Minister of Cooperation, Development and Planning. The Togo CCM is comprised of 38 members with voting power and three other members who are observers. The membership is broken down as follows: 11 (29%) from government; 5 from the NGO sector; 9 from multi/bilateral development partners; 4 from religious faith-based organizations; 4 from people living with the diseases; 2 from the academic or education sector; 3 from private sectors; and 3 observers representing the three national control programs.

Roles of the PR

135. The OIG reviewed the CCM's performance against its role as defined in the Global Fund CCM guidelines i.e.:

- i. Coordinating the development of grant proposals to the Global Fund based on priority needs at the national level;
- ii. Selecting one or more appropriate organization(s) to act as the Principal Recipient(s) (PR) for the Global Fund grant;
- iii. Monitoring the implementation of activities under Global Fund approved programs, including approving major changes in implementation plans as necessary;
- iv. Evaluating the performance of these programs, including of PRs in implementing a program, and submitting a request for continued funding prior to the end of the two years of initially approved financing from the Global Fund; and
- v. Ensuring linkages and consistency between Global Fund assistance and other development and health assistance programs in support of national priorities.

Proposal writing process

136. PSI was involved in proposal writing for grants for which it subsequently became PR. This represents a conflict of interest. For example, the Round 4 proposal process was run by PSI.

137. While it can be argued that stakeholders should be involved in proposal writing, the OIG notes the extent of involvement was excessive i.e. PSI proposed the project, financed the drafting of the proposal, was involved in the proposal drafting process and applied to be the PR. Definitely PSI's involvement in the proposal writing process gave it competitive advantage over the other applicants.

Selection of PRs

138. The OIG's review of the PR selection process revealed that the TORs did not detail the evaluation criteria against which the selection process

would be undertaken. There were no detailed criteria against which to guide the evaluation members on how to assess the applicants. This resulted in significant variances between the evaluation marks allocated by different evaluators e.g. one organization received 5 and 17 marks out of 20 from two evaluators on grant management capacity. The PR nomination process should be strengthened in the CCM manual.

Oversight of program activities

139. There was evidence that the CCM exercised reasonable oversight over program implementation. The CCM members that the OIG met during this assignment were knowledgeable of their role. However, the oversight undertaken by the CCM can be strengthened further by formalizing the processes employed in undertaking oversight e.g. through preparation of an oversight plan, establishing formats for financial and periodic reporting by PRs and establishing sub committees.

140. One of the causes of the delays in the start of the Round 8 grant was a delay in the selection of SRs. It is commendable that the CCM instituted an ad hoc committee to review the selection process which identified areas in which the process could have been compromised. There was however no action taken to correct the problems identified in the process.

Monitoring the implementation of activities against approved plans

141. The OIG noted instances noted where the CCM should have been notified and taken a decision of actions taken by PSI:

- i. The OIG noted that subsequent to the nomination of PSI as PR, PSI changed its overhead cost from the 5% indicated in the Round 8 ToRs to 8%. The OIG did not see justification of the change for the rate and subsequent approval by the CCM (and the Secretariat).
- ii. The reduction in the number of SRs and the extent to which capacity building was to be provided for selected SRs under the Round 8 grant.
- iii. The reporting and use of income incidental to program activities.
- iv. PSI opting to purchase condoms at twice the price of the condoms originally purchased yet there were shortages of condoms in the national run AVTCs.

Ensuring linkages and consistency with national priorities and other programs

142. As already highlighted, the OIG raised concerns that the charge under social marketing can be a deterrent to people accessing critical goods and services. The CCM should consider the relevance of social marketing to its local country context i.e. in identifying those services that should be offered free of charge and those that can be charged. This should be in light of goods and services that can save lives and/or better align ongoing programs to the country priorities e.g. having target groups receiving free goods etc.

143. The OIG noted that there were shortages of condoms for free distribution while the condoms for sale were available. In cases where social marketing is undertaken, there should be proper planning to ensure that there is equitable distribution of products for sale and free distribution.

144. The OIG noted missed opportunities that the CCM should have identified to align the programs run by PSI to the national priorities. Examples include:

- i. Some of the interventions were not aligned to the priorities set out in the national HIV strategic plan.
- ii. The BCC programs that were set up without adequate consultation and in isolation of national programs. The programs run by PSI were not sustainable post grant funding but this situation may have been averted if they had been run as national programs
- iii. There was no collaboration between the social marketing and the free condom distribution interventions in the ALCO project.
- iv. Ensuring that national brands are promoted.

Recommendation 17 (High)

The CCM should strengthen its functioning by:

- (a) Defining the criteria to be used in the selection of PRs. Mechanisms should also be put in place to address the conflict of interest where potential PRs are involved in the proposal writing process.*
- (b) Appointing sub committees and developing an oversight plan in order to strengthen oversight.*
- (c) Ensuring that all programs are aligned and linked with the national programs and the programs run by other stakeholders.*

Local Fund Agent

145. The LFA is a crucial part of the Global Fund's system of oversight and risk management. PricewaterhouseCoopers (PwC) has been Togo's LFA since the inception of the grants until March 2009. Between April 2009 and January 2010 Hodar Conseil-Senegal was the LFA when PwC again took over the LFA role.

146. The OIG noted that the LFA had limitations on accessing information/documentation from the PR which impacted their ability to effectively execute its mandate. For example, the PR refused to submit to the LFA supporting documents related to the expenditures incurred by PSI Washington. In some instances the LFA received requested documentation very late (procurement done by PSI/ Washington) and for other expenses the requested information was not provided at all (administrative expenses incurred by PSI/Washington).

147. The OIG also noted that in a letter to the Global Fund, dated 13 October 2008 PSI complained about the LFA asking for documentation related to all expenditures incurred by PSI/Washington and that they should only ask for a sample of documents as is the case with audits and in line

with the work undertaken by other LFAs in other countries. This is contrary to the grant agreement that requires that PRs permit the LFA to review program books and records and ensure that all supporting documents are available for any potential review. It is up to the LFA to determine the coverage rate to its verifications.

Secretariat

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

149. Although a lot of reliance was placed on inputs from PSI headquarters to compensate for country specific risks and the fact that significant amounts were spent at headquarters, there the Secretariat should have called for mechanisms to be in place to verify the work done by the headquarters. The LFA and audit arrangements could only cover transactions at country level. Errors at PSI's headquarters sometimes went undetected e.g. the computation of bank interest.

Recommendation 18 (High)

- (a) *All limitations on the LFA's access to information should be addressed by the Secretariat.*
- (b) *The Secretariat should institute measures to ensure that all expenditure incurred by PSI Washington is verified in accordance with the signed grant agreement.*
- (c) *The Secretariat should review the description of PSI's program indicators related to distribution, and ensure they comply with top ten indicators.*

Annex 1: Country Coordinating Mechanism Overall Comments

CCM – TOGO Organisme de coordination nationale des projets Financés par le Fonds Mondial de Lutte contre le Sida, la Tuberculose et le Paludisme ----- SECRETARIAT PERMANENT ----- N° <u>0131</u> /2011/CCM/SP	REPUBLIQUE TOGOLAISE Travail – Liberté – Patrie ----- Lomé, le 30 SEPT 2011. La Ministre auprès du Président de la République, chargée de la Planification, du Développement et de l'Aménagement du Territoire La Présidente du CCM - Togo à Monsieur l'Inspecteur Général du Fonds Mondial
<u>Objet</u> : Commentaires du rapport de l'audit de l'OIG.	
Monsieur l'Inspecteur Général, En réponse à votre lettre réf. OIG/JP_11/113ao du 16 septembre 2011, je vous prie de trouver les commentaires séparés du CCM et du PSI sur le draft 2 du rapport de l'audit de l'OIG. Veuillez agréer, Monsieur l'Inspecteur Général, l'assurance de ma considération distinguée.	
  Dédé Ahoéfa EKOUE	
Secrétariat Permanent du CCM – Togo Tél. : 00 (228) 222 75 03	Quartier administratif, 43 rue des Nations Unies E_mail : spccmtg@yahoo.fr / spccmtg@gmail.com

Résumé des observations du CCM et Actions Préconisées (au Draft 2)

	OIG	CCM (Action à entreprendre)
RECOMMENDATION 2 (Significant) (ii) The CCM and national authorities should create a national condom brand. Also encourage PRs to promote commodities, not brands. PSI's communication campaign should promote the commodity,	The CCM with relevant partners should actively and quickly implement this recommendation and promote a national brand	Le CCM inscrira cette question à l'ordre du jour au cours de ses prochaines réunions, en vue d'approfondir la réflexion avec les autorités nationales et les partenaires au développement dans le pays sur le sujet.
RECOMMENDATION 3 (Significant) (i) A distribution plan should be prepared at the national level that distinguished between free and for sale products, based on independent data.	PSI was unable to share with the auditors the official document issued by CNLS that detailed the strategy for free and for sale products. The document shared with OIG was not on CNLS letterhead and was not signed. CCM with the national entities should be involved in the preparation and the follow up of the national distribution plan	Le CCM partage les observations formulées par l'OIG. En effet, il n'existe effectivement pas de plan de distribution des préservatifs au niveau national. Un comité de gestion des préservatifs composé de l'UNFPA, CNLS, DFS, PSI, etc. est mis en place et travaille actuellement sur la programmation du circuit de distribution. Le CCM chargera le Comité technique de travailler avec ce Comité de gestion pour accélérer le travail et aller vers l'élaboration d'un plan national cohérent par le CNLS.
RECOMMENDATION 4 (High Priority) (ii) Because the program objective is to save lives and not make a profit, PSI should consider revising the price charged its agents to ensure condoms are available at reasonable prices.	Ensure that study should be realized by independent organizations. Ensure also that a national entity is involved in that study.	Le CCM travaillera avec le CNLS et PSI pour s'assurer que les procédures seront prévues pour que les études entreprises dans le cadre des subventions du Fonds mondial soient réalisées par des organisations indépendantes et dans la transparence.
RECOMMENDATION 9 (High Priority) (a) PSI should identify independent organizations to undertake evaluations and studies, which PSI has done internally.	Ensure that all studies should be undertaken by independent entities	idem
RECOMMENDATION 9 (High Priority) (b) PSI should institute a mechanism to track inventory throughout the system to ensure accurate results are reported	The action proposed by PSI is not enough to mitigate the risk of inaccurate figures reported to the Global Fund. PSI should set up a system other than having a contract with the sellers and semi-annual visits to ensure the accuracy of the information reported and also that the products under the social marketing reached the intended population.	Le CCM va approfondir la question par un comité technique, en collaboration avec PSI et le Ministère de la Santé pour identifier des actions plus efficaces pour le système de suivi et de rapportage des données

	OIG	CCM (Action à entreprendre)
RECOMMENDATION 12 (High) (a) GF resources should not be comingled with other donor funds. PSI Washington should have a separate bank account for all GF funds. Each country with GF grants, there should be a separate bank account for GF resources. Proper books of account should be kept and reconciliations prepared to show what GF monies have been spent on, outstanding balances and a reconciliation of bank balances to show what balances relate to the GF.	PSI does not have a system that reconciles the cash balances held in its pooled bank accounts by donor (in Togo and Washington). Therefore, the cash balances reported by PSI at the end of each period remain purely theoretical and cannot be matched to the balances in the bank statements. Both OIG during its review and LFA on several occasions could not certify the cash balances as reported by PSI. In the absence of such system and a valid certification that the cash balances reported by PSI correspond to the cash in hand; and in the absence to ensure that the grant funds are used solely for Program purposes and consistent with the terms of this Agreement (Article 9 of the grant agreement). OIG is not satisfied with the reply provided by the PSI and by the CCM. PSI should quickly implement this recommendation and the Secretariat should ensure compliance with this recommendation which should become a condition precedent to any disbursement.	Le CCM partage les observations de l'OIG sur l'obligation pour PSI de se conformer à la recommandation. Le CCM note par ailleurs que, dans son commentaire, l'OIG dit n'avoir pas été satisfait de la réponse du CCM qui s'inquiète entre autres sur les risques liés à la non séparation de comptes. A cet effet, le CCM souhaite que le commentaire de l'OIG prenne également en compte et de façon précise la question portant sur l'obligation ou non pour PSI d'avoir un compte séparé pour les subventions du Fonds mondial en faveur du Togo, eu égard à sa réponse selon laquelle il n'existait pas d'obligation contractuelle pour lui d'avoir de compte séparé, et que le Secrétariat du Fonds mondial aurait accepté la non séparation de compte.
RECOMMENDATION 12 (High) (b) The GF Secretariat should initiate an annual financial review to provide an assurance for all PSI grant cash balances for which funds are maintained in both DC and in country bank accounts.	See OIG comments for Recommendation 12	
RECOMMENDATION 12 (High) (c) PSI should ensure all bank accounts bear interest at a reasonable commercial rate and report all interest from accounts where GF resources are at the commercial rate. PSI should calculate the interest based on the actual interest rate on R4 funds and shall be checked by the LFA and variances refunded or reimbursed.	As mentioned in the grant agreement (Article 11a), <i>"the Principal Recipient shall ensure that the grant funds in its possession are kept in a bank account which bears interest at a reasonable commercial rate"</i>. PSI has applied the US federal treasury interest rates which is lower than the commercial bank interest rate; and did not report the interests generated from the Social marketing incomes. PSI should fully comply with this recommendation	Le CCM sollicite l'appui du Secrétariat du Fonds mondial dans le suivi et la mise en application de cette recommandation.

Audit of Global Fund Grants to PSI Togo

	<i>OIG</i>	<i>CCM (Action à entreprendre)</i>
RECOMMENDATION 14 (Significant Priority) (b) PSI should refund all funds that were not accounted for related to the overhead cost disbursement issued to	OIG is not satisfied with the PSI comments. The disbursement of funds to the PNLS, CNLS and MoH were issued without legal basis (contracts, sub grant agreements, budgets and work plans) to ensure that the amount disbursed for institutional support is not used for other purposes. Moreover, even if the expenses are justified with supporting documents, PSI could not provide proof that the funds disbursed were used for the program purpose. As OIG during its reviews did not get supporting documents related to the overhead charged by the SRs, PSI should refund the corresponding amount.	Le CCM est satisfait de l'éclairage apporté par l'OIG dans son commentaire ; le CCM réaffirme sa position selon laquelle tous les fonds non éligibles engagés par PSI doivent être remboursés par lui.
RECOMMENDATION 15 (High Priority) PSI should prepare a report for the GF of program income incurred and expended. All expenditures incurred contrary to the approval should be refunded and all balances undeclared should be refunded.	As for the grant budget negotiation, the PR is negotiating the budget only with the Global Fund and seek its approval before starting the grant implementation. Concerning the funds expended by PSI from the revenue of the social marketing, PSI procured only equipment without getting the approval of the Global Fund (computers, laptops and vehicle) while the equipment needed were already negotiated and agreed in the budget of the phase II. PSI should recover the unbudgeted and unauthorized expenses.	Le CCM est satisfait de l'éclairage apporté par l'OIG dans son commentaire ; le CCM réaffirme sa position selon laquelle tous les fonds non éligibles engagés par PSI doivent être remboursés par lui. PSI devra communiquer au CCM à cet effet le plan de recouvrement (remboursement) de ces dépenses.
RECOMMENDATION 15 (High Priority) PSI should provide confirmation that the incomes generated from the sale of the USAID condoms was refunded to USAID, otherwise PSI should refund the amount to the program	As mentioned in the grant agreements (phase I: Special condition 2C and Phase II: Article 11C) Any revenues earned by the Principal Recipient or Sub-recipient from Program activities, including but not limited to revenues from "social marketing" activities, shall be accounted for and used solely for Program purposes). PSI did comply with the grant agreement clause and did not use the revenues generated from the social marketing for the grant purposes as obliged in the grant agreement and without requesting the Global Fund authorization. OIG is not satisfied with PSI reply. PSI should refund the revenues of the social marketing generated during the grant life (Phase I + Phase II)	idem
RECOMMENDATION 16 (Significant) PSI should reallocate funding that was meant to cover additional SR capacity building back to this grant component.	OIG is not satisfied with PSI comments. As similar to the income generated from the Social Marketing PSI should submit a new budget reprogramming to the CCM for approval and after that to the Global Fund for validation.	

Annex 2: Global Fund Secretariat Overall Comments

29 September 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) Togo

The Secretariat would like to thank the Office of the Inspector General (OIG) for its collaboration during the audit of the Global Fund grants managed by Population Service International (PSI) in Togo. This management letter provides a brief contextual background to the Global Fund program in Togo and highlights specific actions the Secretariat and the PR have taken and will take to address the challenges and key risks identified by the OIG

The CCM and the PR, in collaboration with partners and the Secretariat, have already started to implement OIGs recommendations. The focus will be to strengthen program oversight as well as financial and procurement and supply chain management. The Secretariat will continue working closely with the Togo CCM and the LFA to monitor the progress of the agreed –upon audit recommendations.

A. Contextual background

The Global Fund is the main donor financing the fight against HIV/AIDS, tuberculosis and malaria in Togo since Round 2. To date The Global Fund has contracted 4 Principal Recipients (PRs) with a portfolio of 5 active grants and a financial commitment of US\$ 283 million of which US\$121 million has been disbursed. This investment has contributed to achieve significant results. For instance:

- As at 30 June 2011, 23,858 People Living With HIV/AIDS (PLWHA) are under ARV.
- As at 30 June 2011, 6,664 PLWHA taking an ARV treatment received nutritional kits.
- As at 30 June 2010, 52 million condoms have been distributed.
- As at 31 March 2010, 244,575 people suffering from malaria were treated with ACTs and 546,724 Long Lasting Insecticide Treated Nets (LLITN) were distributed.
- 2,679,293 LLITNs have been purchased for an on-going mass distribution campaign for universal coverage.

- The treatment success rate of tuberculosis patients has improved from 71% in 2006 to 82% in 2011.

The CCM Togo and the Togolese government have demonstrated leadership in the fight against frauds and have taken measures to mitigate drugs diversion. Recently, following the embezzlement of ACTs (acquired with the Global Fund financing under another grant) at the Central Medical Drugstore, and at the request of the Secretariat, the CCM adopted a drug safeguard plan. The Togolese government has also fully reimbursed the funds embezzled and convicted the perpetrators of this fraud. Police investigations are on-going to ensure that all involved in the fraudulent transactions are taken to court. The CCM has further created a Technical committee to oversee the programs financed by The Global Fund.

B. Summary of key recommendations and actions by the Secretariat

Challenges and key risks noted by the OIG	Secretariat comments, measures to address the identified risks
1. Alignment to national program <i>In line with the Paris declaration and the Global Fund core principles, PSI should to the extent possible align its programs to the national programs. This will ensure the program remains relevant to the country's priorities and is sustainable post funding.</i>	This recommendation is relevant and applies to PSI and many other international organizations that tend to set up their own parallel systems to facilitate data collection and cope with the reporting cycle of the Global Fund. The Secretariat has repeatedly discouraged this approach and will continue to work closely with the CCM and PR to ensure alignment to national programs.
2. Provision of top up allowances to government staff <i>The provision of top up allowances to government staff should be discouraged since it is not sustainable. It also destabilizes the sector with regard to motivating staff that do not get the allowances and sets a precedent for those receiving allowances which is hard to break from without affecting program implementation</i>	The Secretariat has noted that PSI has decided to suspend the payment of incentives to government staff as mentioned in the CCM's response to OIG first draft. The Secretariat will monitor the application of this decision with the support of the LFA. Furthermore, the CCM Togo has rejected a policy of incentives to health government staff submitted by the Ministry of Health in the framework of the HIV round 8.
3. Monitoring & evaluation <i>a-The performance framework should be revised in light of the Round 8</i>	Regarding the delay encountered at the beginning of the grant, PSI submitted an acceleration plan to the Secretariat. This

<i>delays with targets adjusted to take account of the realities on ground. An attachment to the national plan should be prepared providing the exceptions for the Round 8 grant in accordance with the recommendations of the Global Fund M&E team and following CNLS guidelines.</i> <i>b-PSI should work with the reference group to identify ways in which the national system can be strengthened in terms of data collection, timeliness, and completeness.</i>	plan has helped to catch up partially as of Period 6. The cumulative performance at Period 6 is B1 and there is room for improvement before end of Phase 1. In addition, the HIV round 8 is in the process of review for Phase 2. A revised performance framework might be adopted for Phase 2 based on the actual performance. Regarding the strengthening of the national monitoring and evaluation system, the Secretariat has noted that PSI has planned to work with the reference group.
4. Global Funds managed in pool bank accounts <i>a- Global Fund resources should not be commingled with funds from other donors. A separate bank account should be set up for all Global Fund resources received by PSI in Washington. In the country where the Global Fund grants are implemented, PSI should allocate a separate bank account for Global Fund grants. 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.</i>	The Secretariat is aware of this weakness and had already engaged with PSI to resolve the problem. This is a common issue to all grants managed by PSI and the Secretariat will work towards resolving the situation with PSI at a corporate level.
<i>b-The Global Fund Secretariat should initiate an annual financial review to provide an assurance for all PSI grant cash balances for which funds are maintained in both Washington and in country bank accounts.</i>	The Secretariat is aware of this situation and has already engaged with PSI to find a solution. This is a common issue to all grants managed by PSI and the Secretariat will work with PSI and come up with a corporate position on how to take this forward.
<i>c- In both Washington and in the implementing countries, PSI should</i>	The Secretariat is aware of this situation and has already engaged with PSI to find a

<i>ensure that all bank accounts bear interest at a reasonable commercial rate and should report interest from all bank accounts where Global Fund resources are included, at the commercial bank rate. PSI should calculate the interest generated on the Round 4 funds. The calculation should be checked by the LFA based on the actual interest rate as stated in the bank statements with variances refunded or reimbursed.</i>	solution. This is a common issue to all grants managed by PSI and the Secretariat will work with PSI and come up with a corporate position on how to take this forward.
5. Ineligible expenditure <i>a-All SR budgets levied a 5% administrative charge in their budgets and this was irrespective of whether there is a need for administration or not or whether the activities to be undertaken warranted a 5% fee. Some SRs charged the programs with administrative related costs on top of charging the 5% overhead. The OIG was not provided with the rationale for the 5% overhead charge and the SRs visited did not have documentation to support how these funds were utilized. The amount expended on overheads by the sub-recipients is estimated at US\$ 128,508 for which there was no show and which should be refunded in the absence of support to show how it was spent.</i>	The Secretariat takes note of the OIG's recommendation and will work with the OIG to establish the basis and the actual amount to be recovered.
<i>b- The OIG noted that PSI transferred US\$ 248,539 to three entities (The National AIDS Control Committee, the National AIDS Control Program and the Ministry of Health) without sub-grant agreements, budgets and work plan. The OIG is requesting the reimbursement of this amount by PSI in absence of evidence that these expenditures were made in the purpose of the program.</i>	The Secretariat noted in PSI's responses to the draft report that supporting documents of these expenditures were made available to the auditors. However, OIG responded that "even if the expenses are justified with supporting documents, PSI could not provide proof that the funds disbursed were used for program purpose." The Secretariat will work with the OIG to provide the PR with clarification on the nature of the documents expected from PSI to prove that these expenditures were made for program purposes. The Secretariat will thereafter take appropriate actions.
6. Income from sale of condoms	

used without donor's approval <i>a-Funds from the Round 4 were used to package condoms donated by USAID to PSI during Phase 1. OIG noted that funds generated from the sale of these condoms (US\$ 431,939) were not reported to The Global Fund or USAID. OIG did not obtain proof that these funds were refunded to one of these donors. OIG is therefore requesting PSI to reimburse these funds to The Global Fund.</i> <i>b-At the beginning of the Round 4 Phase II grant, PSI presented to the CCM and received approval on how the program income should be spent i.e. US\$ 621,022. However, PSI did not get the Global Fund's authorization on how to spend the income e.g. PSI incurred expenditure of US\$ 55,883 on the purchase of computers, laptops, vehicles and also deducted 5% for management fees from program income without the approval of the Global Fund.</i>	a&b-The Secretariat takes note of the OIG's finding and comment provided by PSI in response. The Secretariat will further review the social marketing revenues at issue and the use of these revenues by the PR. The Secretariat will adopt a position on the basis of this further review. In this view, The Secretariat would like to receive clarification from the OIG regarding the breakdown of the amount related to the sales of condoms (US\$ 431,939).
7. Recommendations to the Secretariat and LFA <i>a- All limitations on the LFA's access to information should be addressed by the Secretariat.</i> <i>b-The Secretariat should institute measures to ensure that all expenditure incurred by PSI Washington is verified in accordance with the signed grant agreement.</i> <i>c-The Secretariat should review the description of PSI's program indicators related to distribution, and ensure they comply with top ten indicators.</i>	(a)and (b) As this issue has been identified with other PRs (UNDP, and INGOs), the Secretariat is preparing new guidelines. As soon as these guidelines are finalized, appropriate actions will be taken. (c) The Secretariat has been aware of the issue related to the indicator on condom distribution and is currently addressing this systematically. The changes will be reflected in the updated M&E toolkit. There is also currently a process to update the top ten indicators to better reflect key program outcomes and impact. In the meantime the country team will review the program indicators related to distribution to reflect these new changes.

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

Sincerely,

Mark Eldon-Edington
Director of Country Programs

Annex 3: Population Services International Overall Comments



1120 19th Street, NW, Suite 600
Washington, DC 20036
psi.org

September 30, 2011

Mr. John Parsons
Inspector General
The Global Fund to Fight AIDS, TB and Malaria
Chemin de Blandonnet 8
1214 Vernier-Geneva, Switzerland

Dear Mr. Parsons, *Dear John,*

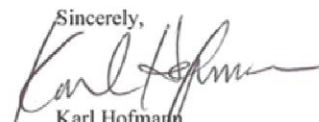
Population Services International (PSI) is pleased to provide you with a copy of the response we provided to the President of the CCM in Togo on September 29, 2011, for consideration of and inclusion in the CCM's final responses to the draft OIG audit report on PSI/Togo.

As PSI indicated to the CCM, by and large, PSI is satisfied with the final responses and recommendations presented by the OIG with a few notable exceptions. PSI takes the findings of the OIG very seriously, and in the time since the first draft of the report was issued, PSI has taken concrete action to address many of the recommendations, and will continue to do so. To date, solid progress has been made in Togo in the areas of Sub Recipient (SR) management and capacity building, program monitoring and evaluation and data collection, and strategic collaboration with national entities.

PSI is committed to working collaboratively with the CCM and the Global Fund to ensure alignment with national strategies and priorities, adherence to grant terms and conditions, and implementation of strong financial and procurement policies and practices. As we informed the CCM, while we acknowledge many valid points presented by the OIG in the audit report, there are a few observations concerning questioned costs where we continue to disagree with the report findings. PSI stands by our assertions that the costs in question were reasonable and allowable, and we look forward to working closely with the OIG and the Secretariat to resolve these issues.

Please note that PSI provided responses in both an English and a French version. Should there be any inconsistencies or discrepancies between the two documents, the version in English should be considered the controlling version.

PSI appreciates the OIG's continued support as we continue to improve grant implementation and achieve health impact in Togo.

Sincerely,

Karl Hofmann
President/CEO

cc: Dr. Michel Kazatchkine, Executive Director, Global Fund Secretariat
Dr. Debrework Zewdie, Deputy Executive, Director, Global Fund

Annex 4: Action Plan

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
Recommendation 1 (High): In line with the Paris declaration and the Global Fund core principles, PSI should to the extent possible align its programs to the national programs. This will ensure the program remains relevant to the country's priorities and is sustainable post funding. The provision of top up allowances to government staff should be discouraged since it is not sustainable. It also destabilizes the sector with regard to motivating staff that do not get the allowances and sets a precedent for those receiving allowances which is hard to break from without affecting program implementation.	PSI Comments: PSI works on prevention activities that form part of the main strategic bases of the 2001-2005 Strategic Framework and the 2007-2010 National Strategy Plan (attach copy of the Round 4 proposal, strategic framework and national plan). The additional allowances (incentives) that were provided to government staff were done so in compliance with the grant agreement approved and signed by the Global Fund (enclosed 4.2 & 4.3).	PSI will inform the CCM, as the Ministry of Health has done, of its undertaking to no longer provide such incentives.	PSI	Immediately	Noted		<u>The Global Fund Secretariat Comments:</u> This recommendation is relevant and applies to PSI and many other international organizations that tend to set up their own parallel systems to facilitate data collection and cope with the reporting cycle of the Global Fund. The Secretariat has repeatedly discouraged this approach and will continue to work closely with the CCM and PR to ensure alignment to national programs. The Secretariat has noted that PSI has decided to suspend the payment of incentives to government staff as mentioned in the CCM's response to OIG first

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
							draft. The Secretariat will monitor the application of this decision with the support of the LFA. Furthermore, the CCM Togo has rejected a policy of incentives to health government staff submitted by the Ministry of Health in the framework of the HIV round 8.
Recommendation 2 (Significant): i. Significant program changes should only be made in consultation with the national entities and with the approval of the CCM e.g. in the case where the change of a product resulted in the doubling of unit costs. PSI should ensure that condoms distributed are compliant with the national condom specifications.	PSI Comments: (i) PSI has informed the Ministry of Health and the supervisory structures (NACP and the CNLS). PSI did not get CCM approval for the changes. However, studies were carried out to ascertain the acceptability of condoms and the results were reported to the relevant national bodies (CCM, NGO activity reports and during partners' activity week as part of universal access measures). PSI made the changes in response to users' desires to improve the quality and	(i) Better inventory management to avoid having to place urgent orders. Improve communication with the CCM. Devise a consultation framework between the Togolese Family Health Office,	PSI, CCM and national entities	Immediately	The CCM with relevant partners should actively and quickly implement this recommendation and promote a national brand	(ii) CCM will need to respond on this. However, PSI offers the following comment: PSI stands ready to work with national entities and provide technical expertise on any and all feasibility studies for the development and promotion of a national brand in Togo.	<u>CCM Comments:</u> (ii) The CCM will include this item on the agenda of its next meetings in order to find an appropriate solution with national authorities and development partners in the country.

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
ii. The CCM in coordination with the national authorities and the development partners in the country should create a national condoms brand and encourage PRs to promote commodities as opposed to own brands. Because the objective of the communication campaigns is to increase demand for and adoption of safer sexual practices, PSI's communication campaign should promote all condoms and not just its brands. In the event that a decision is made to promote a brand, consideration should be given to	acceptability of condoms (cf. pre-test report). The change of product did not lead to a price increase (price of previous product = 0.06 USD; price of new product = 0.023 USD). In 2007, the unit price of the initial arrivals of the first consignment was 0.07 USD because they were transported by air in order to overcome an inventory shortage. The rest of the first consignment was shipped in the same year at a unit price of \$0.023. In the absence of national standards, PSI aligned itself with WHO. The condoms are managed by the Togolese Family Health Office and significant changes are made during the workshops (TAC) organized by the Togolese Family Health Office, of which PSI is an associate. The various surveys of target people, in which complaints about old condoms were made, were reported.	NACP, SM, PSI and other partners coordinated by the CNLS. PSI will consult this framework on all significant changes in condom management before seeking CCM approval for the proposed changes. (ii) PSI will actively participate in discussions		Dec 2012 Already			

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
<i>promoting a national brand.</i> iii. <i>PSI should consider product differentiation between the products that are distributed for free and those for which a charge is levied. This will serve as a control to identifying products that should be distributed free of charge that are otherwise sold on the market.</i>	(ii) <i>PSI created a brand that has enjoyed very wide recognition among the population for 15 years and will continue to oversee its promotion and distribution. These years of investment enabled PSI to get better distribution results, as reported to the CCM and supervisory structures.</i> (iii) <i>There already is differentiation between “free” and “sold” products (sold products are packaged, while free ones are in bulk). Discussions are in progress as to how to identify the products without users being stigmatized.</i>	<i>between partners (SM, CNLS, Togolese Family Health Office, NACP, etc.) on the development and promotion of a national brand.</i> <i>(iii) Condoms distributed for free will bear marking such as, for example, “free” or “Donated by the CNLS”. Implementation of a documentation system for wholesalers and specific groups.</i>		<i>done Dec 2011</i>			

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
		<i>Consider, under CNLS supervision, appropriate measures for better identifying the two types of condoms, with the participation of other partners.</i>					
Recommendation 3 (Significant): <i>i. A distribution plan should be prepared at the national level that distinguishes between products that will be distributed at a cost and those that will be distributed free of charge. This plan should be based on independent available data to ensure that there is an appropriate balance between condoms for sale</i>	PSI Comments: <i>(i) There is no distribution plan for national level. However, PSI has marketing plans that detail distribution strategies.</i>	<i>Implement a national distribution plan organized by the national authorities with the participation of PSI.</i>	PSI	Already done	<i>PSI was unable to share with the auditors the official document issued by CNLS that detailed the strategy for free and for sale products. The document shared with the OIG was not on CNLS letterhead and was not signed. CCM with the</i>	<i>(i) The development of an official national condom distribution strategy was not part of PSI's mandate within the context of the Round 4 and Round 8 Global Fund grants. PSI did develop a condom distribution strategy within the framework of the Round 4 and Round 8 grant activities, which was included in the marketing plan and shared with the PNLs, SRs, and</i>	<u>CCM Comments:</u> <i>(i) The CCM shares the concerns raised by the OIG. Indeed, there is no condom distribution plan at a National level. A condoms management committee composed from UNFPA, CNLS, DFS, PSI, etc. has been established and is currently working on a distribution plan. The CCM will assign the Technical Committee to work with this management committee</i>

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
and those for free distribution, with no barrier to access for the population most at risk and the poor. The activities of the two components should be complementary. ii. PSI should establish formal coordination mechanisms with other stakeholders in the ALCO project area to ensure that the program remains relevant in this area.	(ii) Several efforts have been made to achieve more synergy, ensure actions complement each other more and facilitate greater communication between the projects coordinated by CNLS and NACP. These efforts lead to the establishment of a Memorandum that, unfortunately, has not been signed (copy of Memorandum enclosed).	ii) PSI will seek the support of the CCM to expedite the signature of the memorandum of understanding between PSI and ALCO with a view to harmonizing the condom distribution strategy in the country.		Sep 2011	national entities should be involved in the preparation and the follow up of the national distribution plan.	other NGOs associated with Round 4 and Round 8 grant activities. PSI is ready and willing to work with the national entities to devise an official national condom distribution plan. (ii) Subsequent to our comments provided in June 2011, a meeting was held in July 2011 amongst all partners of ALCO to discuss the issue of improved coordination. Based on these discussions, an MOU is under development and it is expected that a final document will be signed no later than December 2011.	to accelerate the work towards the development of a coherent national plan by NAC.

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
Recommendation 4 (High) i. PSI should establish a mechanism to control the prices charged by their clients. It can take different forms eg promotion drives with the recommended price, monitoring of suppliers, requiring sellers to display the recommended price, public education of recommended prices. ii. Because the objective of the	PSI Comments: (i) The price control mechanism is the MAP. The MAP tool is used to measure extent of coverage, the quality of coverage in given geographic zones, access and equality of access to condoms for each target group. The coverage quality measurement allows us to gauge the extent to which prices and inventory guidelines are respected and the products' visibility. The fact that prices are respected in 94% of hot zones (MAP 2008) proves that the tool is effective. This finding was confirmed in 2009 by CNLS through a study on condom management: the target groups indicated that the price of the product was 25 francs. Furthermore, the prevailing prices are highlighted on most "Protector +" promotional tools (giant billboards, TV and radio	(i) Continue conducting MAP studies every two years. Continue monitoring and controlling prices in sales outlets at least once per year. Continue indicating prices on all condom promotion tools. (ii) Carry out a study to gauge how much users would be willing to	PSI	Dec 2012	the study should be undertaken by independent organizations. A national entity should be involved in that study.	(i) As included in PSI's earlier response, its primary means of price control is derived from MAP research studies. The MAP tool is used to measure coverage and quality of coverage by geographical zones, and access and equity of access to condoms by the target groups. The quality of coverage measures how well recommended prices are being adhered to, as well as the visibility of products, and the adherence to standard stock management procedures. PSI platforms conduct a MAP study every 2 years, or as allowed by funding, which enables PSI to	CCM Comments: (ii) The CCM will work with the CNLS and PSI to ensure that the procedures are in place to ensure that studies undertaken in are carried out by independent organizations and with transparency.

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
program is saving lives and not making a profit, PSI should consider revising the price charged its agents in order to ensure that condoms are available at reasonable prices to the intended beneficiaries.	commercials, magazine ads, etc.) (ii) PSI is a not-for-profit NGO but the price of the products and services is one of the values of social marketing. The price of the condoms is heavily subsidized. The income generated by sales is reinvested in the program in accordance with the clauses of the Round 4 and 8 contracts (contracts and distribution strategies enclosed). Moreover, grants for specific groups are even larger (before 2011: free for people living with HIV, VCT, 12, 5 F for SWs. Since Round 8: free for all vulnerable groups, especially, truckers, injecting drug users, youths, people living with HIV, PTMC sites and VCT in keeping with national requirements). However, a price acceptability study will be conducted to ascertain the percentage of these target	pay for condoms willingness to pay for condoms.				continue to monitor and control prices at the point of sale. 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 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	

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
	<i>groups that consider the unit price of 25 CFA affordable.</i>					<i>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.</i> <i>(ii) Social marketing uses established private sector networks to distribute products. Products are priced for each level within the distribution chain (wholesaler, semi-wholesaler, retail outlet, end consumer), with recommended</i>	

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
						margins built in for each subsequent level within this distribution chain. Prices are established based on a number of factors (end-user ability to pay, GDP, cost of similar products, etc.), and sometimes the price is set by the government. However, just like other commercial products sold through the private sector, prices are sometimes altered by private sector actors at various levels down the chain. PSI makes every effort to ensure that established pricing and margins are respected, and that prices are set at acceptable levels. As such, the Phase 2 proposal for the Round 8 grant	

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
						includes budgeted research to conduct a pricing study, as recommended. Historically, 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. For the aforementioned pricing study, PSI will consider using an independent	

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
						organization when it reviews all available options. PSI will ensure the inclusion of relevant national entities in the design and dissemination of results.	
Recommendation 5 (Significant) i. PSI should align its BCC programs with the national strategic plan, especially in regards to target groups. If the national plan does not reflect country need a plan should be undertaken in collaboration with the CNLS. ii. PSI should develop a communications strategy aligned with strategy of the CNLS/ NACP.	PSI Comments: (i) There was no plan for the education sector nor any guideline documents relating to IEC/BCC. The only guidance that existed for the EP was from the 2001-2005 national strategic framework. The MSM were taken into account for the implementation of Round 4 following the recommendation from the Global Fund's TRP. (ii) There was no national BCC strategy. PSI drew on the experiences and tools of the FHA project, which it has been	(i) PSI will refer to the current NSP for future actions. (ii) PSI will continue to use the national IEC/BCC strategy.	PSI	Already done	Noted		

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
	using since 1997. A national IEC/BCC strategy has now been devised thanks to funding from Round 8 and under the coordination of the CNLS. This is now the reference framework on the issue.						
Recommendation 6 (Significant) Consideration should be given to aligning the BCC programs run by PSI to the national programs to ensure synergies and sustainability.	PSI Comments: PSI's BCC strategy is aligned with national strategies. For example, the peer education strategy is inspired by the national strategic framework. However, the absence of a sectorial plan from the Ministry of Education has made it difficult to factor the Ministry's priorities into our	PSI will continue to align its programs with national programs and, in particular, the sectorial plans of the various national	PSI	Already done	Noted		

Audit of Global Fund Grants to PSI Togo

Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
	activities in schools. In the schools where the project operates, peer educators are trained and equipped to an extent that is appropriate for their level of schooling, to convey messages under the supervision of supervisory teachers. Training and recycling takes place every year in order to fill peer educator vacancies that arise. The peer education and systematic HIV education strategies complement each other and should not be compared. Their sustainability depends on the extent to which the relevant ministry takes ownership of them.	entities, while respecting the contractual provisions for each target group.					
Recommendation 7 (Significant) PSI should work with the CNLS to develop a strategy for the support to the PLWHA i.e. income generating activities, nutritional support, mutual aid and solidarity	PSI Comments: Several national guideline documents were drafted during Round 8 with the involvement of all actors (the mediators guide and training modules for psychological welfare of PLWHA, the implementation	Draft, under the coordination of the CNLS, all the guideline documents planned for Round 8 (coordination	PSI and CNLS		Noted		

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
fund. PSI should draft, disseminate and formulate an operational plan for the implementation of the PLWHA activities. This plan should establish a participatory approach to include stakeholders, guide service providers, etc.	of IGAs, etc.). The documents were compiled by national and international consultants following an invitation to tender and were approved at national level under the coordination of the CNLS. Other documents on the psychological and nutritional welfare of PLWHA were already in operation in the country and were used during the project. By contrast, the mutual aid and solidarity funds were assigned to the IGA fund during the negotiation of the budget for activities. Furthermore, PSI has drafted a guide for the implementation of psychological welfare activities. Information is currently being gathered from secondary recipients (SRs) before the document is finalized at national level.	n of the CNLS, BCC strategy, workplace plan, mediators' training and modules guide, and IGA strategies). Submit the IGA implementation plan to the CCM for approval.					

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Recommendation 8 (High) (a) The performance framework should be revised in light of R8 delays with targets that reflect the realities on the ground. An attachment to the national plan should be prepared providing the exceptions to R8 in accordance with the recommendations of the GF M&E team and the CNLS guidelines. (b) A national operational manual defining indicators, and including a work plan and detailed budget should be developed. (c) PSI should work with the reference group to identify ways the national system can	PSI Comments: In 2005 there was no functional national system for monitoring and evaluation. PSI used its monitoring and evaluation system, which has been validated by the Global Fund. The national system described in the Round 8 national monitoring and evaluation plan, with which PSI is aligned, is based on community-level actions and placed under the responsibility of monitoring & evaluation officers from the Permanent Secretariat of the National AIDS and STI Control Council. However, these bodies are not yet operational. b) These documents already exist and form part of the contractual documents for the Grant.	Strengthen the national monitoring system to make it more effective. For contractual reporting reasons, PSI will use the civil society-based system, which is already in operation and makes it possible to input data into the national system while waiting for the latter to become operational b) Implement the monitoring &	PSI	In progress Q 4 2011	Noted		<u>The Global Fund Secretariat Comments:</u> Regarding the delay encountered at the beginning of the grant, PSI submitted an acceleration plan to the Secretariat. This plan has helped to catch up partially as of Period 6. The cumulative performance at Period 6 is B1 and there is room for improvement before end of Phase 1. In addition, the HIV round 8 is in the process of review for Phase 2. A revised performance framework might be adopted for Phase 2 based on the actual performance. Regarding the strengthening of the national monitoring and evaluation system, the Secretariat has noted that PSI has planned to work with the reference group.

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<i>be strengthened in terms of data collection, timeliness and completeness.</i>		<i>evaluation plan, the action plan and the detailed budget approved for Round 8..</i> <i>(c) PSI will work with the reference group and explain to them the current difficulties with data collection so that together we can find solutions to strengthen the national system and make it more effective.</i>					

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
Recommendation 9 (High) (a) PSI should identify independent organizations to undertake evaluations and studies, which PSI has done internally. (b) PSI should institute a mechanism to track inventory throughout the	PSI Comments: (a) Most of the studies conducted as part of Round 4 were done so with independent experts, including the Demographic Research Unit (DRU) from the University of Lomé. These studies were shared with the NACP/STI (see summary document of studies carried out between 1999 et 2008) and the CNLS/STI (national dissemination of PSI studies in 2006, National AIDS/HIV research day).	(a) PSI will harness the involvement of more national entities and partners when undertaking studies. (b) PSI is going to sign contracts with	PSI		(a) All studies should be undertaken by independent entities (b) The action proposed by PSI is not adequate to mitigate the risk of inaccurate	(a) Historically, PSI has conducted its own studies as well as used independent entities to conduct studies on its behalf. PSI uses research methodologies that have been developed internally in collaboration with external experts, as well as methodologies 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	CCM Comments: (a) The CCM will work with the CNLS and PSI to ensure that the procedures are in place so that the studies are undertaken by independent organizations and with transparency. (b) The CCM's technical committee, will work with PSI and the Ministry of Health to identify more effective actions for the monitoring system and reporting of data.

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system to ensure accurate results are reported to the GF.	(b) We do not have any facility for guaranteeing reliable documentation at all 9,000 sales outlets since these operate in the informal sector. Furthermore, such a mechanism would not make efficient use of resources (human, logistical and financial). Nevertheless, through the inventory studies (MAP) and operational surveys on knowledge, aptitudes and behavior (TRAC), it is possible to ascertain the number of condoms sold, stock depletion rates and levels of usage. During the OIG's visit, the level of	wholesalers so that they can collect information regarding stocks and the distribution of social marketing products and feed it back to PSI. Also, PSI staff is going to conduct semi-annual visits and supervisory checks to ensure the conformity of the information provided by wholesalers and to help them apply rigorous data management standards.			figures reported to the Global Fund. PSI should establish a follow up system, to ensure the accuracy of the information reported and that the products under the social marketing reached the intended population.	entities to conduct studies when funding allows. (b) PSI distributes products through a variety of complementary approaches, including mass campaigns, public sector free distribution, community-based distribution, and social marketing via private commercial agents and distributors. With respect to the latter, 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	

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	<i>social marketing products documentation was confined to where they left the PSI stores (in other words, the products delivered to wholesalers).</i>					<i>obligation to report end-user data. Insisting upon definitive data to final user from commercial actors may preclude implementers from harnessing alternative distribution systems other than the public sector. This is vital when taking in account the context in Togo where the social marketing program has over 9,000 outlets serving end-users. PSI contends that its proposal to continue to use research methodologies such as MAP and TRaC, as well as negotiate contracts with wholesalers regarding information to be collected, and conduct semi-annual supervisory visits are</i>	

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						<i>reasonable solutions given the private sector context.</i>	
Recommendation 10 (Significant) <i>PSI should undertake supervision visits with national officers.</i>	PSI Comments: <i>The PSI joint supervision during Round 4 was not extended to all central services.</i>	<i>PSI will draft a joint supervision plan with supervisory structures and will ensure that it is executed.</i>	PSI	Qtr 3 2011	Noted		
Recommendation 11 (High) <i>PSI should comply with the grant agreement. All CPs should be complied with prior to disbursement. Alternatively other measures should be instituted to mitigate identified risks.</i>		<i>PSI will watch to ensure compliance with all CPs prior to any disbursement.</i>	PSI	Qtr 3 2011	Noted		
Recommendation 12 (High)	PSI Comments:	<i>In keeping with the fact</i>	PSI		<i>PSI does not have a system</i>	<i>(a) The cash balance reported by PSI is</i>	<u>CCM Comments:</u>

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
(a) Global Fund resources should not be commingled with funds from other donors. A separate bank account should be for all Global Fund resources received by PSI in Washington. In the country where the Global Fund grants are implemented, PSI should allocate a separate bank account for Global Fund grants. 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.	(a) Opening a separate bank account is not mandatory under the terms of the agreement. PSI's rule and procedures do not match this recommendation. Furthermore, it would be excessively costly and inefficient to manage several bank accounts. Using its current system PSI is able to produce financial reports detailing the exact balance of every grant. PSI discussed this matter with the Global Fund's Secretariat during the Financial and Administrative Manager's visit in March 2011. The GF Secretariat agreed to allow PSI to continue working without separate bank accounts for each grant received. The rules for the management of bank accounts can be found in Article 11 of the terms and conditions. There is no mention of the need to open separate bank accounts. What is more, the Global Fund's directives do not stipulate that separate	that there is no contractual obligation and the Global Fund Secretariat accepted the current arrangement, PSI will keep its existing account.	The Global Fund		that reconciles the cash balances held in its pooled bank accounts by donor (in Togo and Washington). Therefore, the cash balances reported by PSI at the end of each period remain purely theoretical and cannot be matched to the balances in the bank statements. Both the OIG and LFA could not certify the cash balances as reported by PSI. In the absence of such system and a valid certification that the cash balances reported by	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 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	(a) The CCM shares the concerns of the OIG on the requirement for PSI to comply with the recommendation. The CCM also notes that, in its comment, the OIG said it was not satisfied with CCM response relating to the risks of non-separation of accounts. To this end, the CCM would like the OIG comments also take into account the fact that there is no contractual obligation for PSI to have a separate bank account, and the Global Fund Secretariat has accepted the non-separation of account. (c) The CCM is seeking the support of the Global Fund Secretariat in monitoring and the implementation of this recommendation. <u>The Global Fund Secretariat Comments:</u>

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(b) The Global Fund Secretariat should initiate an annual financial review to provide an assurance for all PSI grant cash balances for which funds are maintained in both Washington and in country bank accounts. (c) In both Washington and in the implementing countries, PSI should ensure that all bank accounts bear interest at a reasonable	accounts must be opened. PSI uses a management system that tracks lodgments and disbursements in a way that complies with contractual provisions. PSI has been working like this ever since Round 1 of the Global Fund. As agreed, the copy of grant 4 signed with the Global Fund or the bank account is PSI Washington's. For security reasons the Global Fund has changed its policy of hosting the bank accounts on its website, which is why Round 8 does not feature the PSI name on the bank account. But the monies are lodged directly into the pooled PSI account in Washington. We enclose a copy of the PU/DR for the first R8 payment. You will see on Page 2 of the copy the details given for the PSI bank account in which the monies are transferred. This account is not separate. (b) Response needed from the Global Fund Secretariat.	PSI will draw up a detailed report on interest generated in R4 as reported in the PUDR, and will submit this for inspection by the LFA.	Secretariat PSI	End of October 2011	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). PSI should quickly implement this recommendation and the Secretariat should ensure compliance with this recommendation. (c) As mentioned in	point in time for any award, contract or activity, the system can produce reports that identify the exact amount of the outstanding funds held from the GF by PSI on a grant by grant basis. PSI is pleased to work with the Secretariat or individually with the LFA to provide these reports. In addition, PSI's system of controls and the reports are extensively audited by global auditors each year and do provide 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	(a) The Secretariat is aware of this weakness and had already engaged with PSI to resolve the problem. This is a common issue to all grants managed by PSI and the Secretariat will work towards resolving the situation with PSI at a corporate level. (b) The Secretariat is aware of this situation and has already engaged with PSI to find a solution. This is a common issue to all grants managed by PSI and the Secretariat will work with PSI and come up with a corporate position on how to take this forward. (c) The Secretariat takes note of the OIG's recommendation and will work with the OIG to establish the basis and the actual amount to be recovered.

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commercial rate and should report interest from all bank accounts where Global Fund resources are included, at the commercial bank rate. PSI should calculate the interest generated on the Round 4 funds. The calculation should be checked by the LFA based on the actual interest rate as stated in the bank statements with variances refunded or reimbursed.	(c) PSI records interest earned on donor's funds at the rates applied and produced quarterly by the United States Federal Reserve. This enables us to calculate the interest earned on each project. Depending on the clauses of the contracts, interest is either deducted before the submission of the financial report or applied to a component of the separate account relating to the main code of the relevant donor's project in PSI's accounting system. In the case of the latter option, the interest is used to meet the requirements of the contract with the donor. From the period ranging from January 2004 to May 2011, the difference				the grant agreement (Article 11a), « the Principal Recipient shall ensure that the grant funds in its possession are kept in a bank account which bears interest at a reasonable commercial rate. » PSI has applied the US Federal Treasury interest rates which is lower than the commercial bank interest rate; and did not report the interests generated from the Social marketing incomes. PSI should	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 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	

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	between US Federal Reserve interest rate applied to the actual bank balances and the real interest rate was about (0.066%). It is correct that PSI generated (allocated) more interest on the donors' bank balances than on all of the accounts of all of the donors. This was shared with the OIG during the visit to Washington in June 2010.				fully comply with this recommendation.	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. (b) As stated above, PSI's global financial statement auditors provide assurances that all cash is properly accounted for and that donor account balances are accurate. PSI looks forward to working with the Secretariat in agreeing on an efficient and effective single	

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						<i>audit approach that will address their needs in this area.</i> <i>(c) PSI attempts in all cases to have its funds in interest bearing accounts. For HQ accounts, as noted by the OIG, PSI has historically utilized the US Federal Rates in its interest rate application to all its grants. This policy was instituted in the early 2000's and has been consistently applied. This methodology was used for ease of application and to allow transparency in the interest rate used since US Banking rates are tied to US Treasury rates. Over the timeframe of the OIG audit the Federal rate has been slightly different than the</i>	

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						banks rate (both higher and lower by a few fractions of less than one percent). After the OIG raised its concern with using the US Federal Reserve rates, PSI reviewed its policy and in response to the GF recommendation has change to an actual interest rate application starting in 2011 and going forward. While the report in this section has noted “underreported “ interest income, the report failed to disclose the grants to which the application of the US federal treasury interest rate actually caused over-reported interest income to the Global Fund (interest applied to	

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						<i>the grant over the interest rate earned by PSI for a particular period).</i>	
Recommendation 13 (Requires Attention) <i>PSI should link 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. Staff functions should be aligned to ensure proper segregation of duties.</i>	PSI Comments: <i>PSI recognizes that the management software used during the major expansion of recent years has not been fully integrated.</i>	<i>In the Strategic Plan that is being finalized the IT department has assigned priority importance to identifying the systems and integrating data at Washington and country level. This will include finances/accounting and ancillary solutions</i>	PSI		Noted		

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		<i>(i.e., HR/payroll, sales and supplies). In addition, more effort will be made to integrate these applications and program systems. PSI will re-assess the process currently applied in Togo and put in place appropriate checks to resolve the problem.</i>					

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Recommendation 14 (Significant) (a) In line with the Global Fund guidelines, PSI should prepare and submit to the Global Fund through the LFA a basis for the allocation of common costs. Once approved, this should be applied consistently to all future budgets and costs. (b) PSI should refund the funds that were not accounted for related to the overhead cost and to disbursement issued to the national entities.	PSI Comments: (a) PSI has devised a method for dividing up common costs at country program level in a fair and reasonable way. This was tested in 5 pilot countries during the second quarter of 2011. (b) All disbursements made to NGOs for general costs were accounted for (see financial report of each NGO). PSI Togo acknowledges making disbursements to three state bodies - namely the Ministry of Health, the NCLS and the NACP - in the name of institutional support. This support was not taken into account when the Round 4 proposal was being drafted but, following the suggestions of the team leader, Mr. Mabingue	(a) The method (still in the preliminary stages), procedures (updated), and principles and the implementation will be finalized during 2011 and submitted to the Global Fund. Since the general (b) NGO costs have been accounted for, they cannot be refunded. Given the context and the explanations	PSI	2012	The disbursement of funds to the PNLs, CNLS, and MoH were issued without appropriate supporting documents (contracts, sub grant, agreements, budgets, and work plans). Moreover, even if the expenses are justified with supporting documents, PSI could not provide proof that the funds disbursed were used for the program purpose. The OIG did not get supporting documents	Since the last draft of the report, PSI has finalized the proposed common cost allocation methodology and updated related procedures; policy and implementation will be rolled out starting 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 approved PSI common cost policy will be provided to the Global Fund upon request. (b) PSI acknowledges that it did not have contracts, sub-agreements, budgets, or work plans with the MoH,	CCM comments: (b) The CCM reaffirms its position that all ineligible funds incurred by PSI should be refunded. The Global Fund Secretariat Comments: (a) The Secretariat takes note of the OIG's recommendation and will work with the OIG to establish the basis and the actual amount to be recovered. (b) The Secretariat noted in PSI's responses to the draft report that supporting documents of these expenditures were made available to the auditors. However, OIG responded that "even if the expenses are justified with supporting documents, PSI could not provide proof that the funds disbursed were

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	N"GOM, it was incorporated into the budget during the negotiation of the Grant. PSI informed the CCM about this support (see minutes of CCM meeting of 21 February 2006). In view of the fact that no formal framework was set out in the proposal, PSI Togo did not sign any contract enshrining the terms and conditions of use of these funds. When they were submitted for validation, the LFA expressed reservations about these disbursements and the team leader (Mr. N"GOM) requested that PSI Togo justify them with supporting documents. As things stand, supporting documents have been provided for all of the disbursements issued to the three state bodies and the KPMG team that took part in the inspection visited these institutions and verified their expenditure.	provided here, PSI cannot respond favorably to any request for a refund of the institutional support.			related to the overhead charged by the SRs and this amount should be refunded.	PNLS, or CNLS. PSI notes once again that the Team Leader at the time, Mr. Ngom, as well as the LFA were aware of this fact and continued to authorize distribution of funds and encouraged PSI to offer the institutional support that was requested by the CCM to these national entities and supported programmatically by the Global Fund as a priority for the Round 4 grant. Additional evidence of the CCMs knowledge and support of this funding is found in the minutes of the CCM meeting of February 21, 2006 (see attached). And as noted previously, supporting documentation for the disbursements	used for program purpose." The Secretariat will work with the OIG to provide the PR with clarification on the nature of the documents expected from PSI to prove that these expenditures were made for program purposes. The Secretariat will thereafter take appropriate actions.

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						to these three entities have been presented to the KPMG auditors who subsequently validated these expense. During the implementation of Round 4 and Phase 1 of Round 8, Global Fund policy allowed for Sub recipients to claim and receive a 5% administration fee that was to be attributed to their indirect costs. In April, 2011, the GF issued a new policy on headquarters support costs and the indirect cost rate. This policy mandates that local organizations must direct bill all expenses, which PSI has taken into account in the Round 8 Phase 2 proposal. For Round 4 and Phase 1 of Round 8,	

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						all SR direct costs have been verified and validated both by PSI and the LFA in their invoices and the 5% administrative fee has been applied accordingly. In instances where "double charging" was thought to have occurred, PSI has disallowed costs. The validated costs do not include expenses that would normally be included in the 5% administrative fee. Supporting documents detailing these SR expenses are currently located in the PSI office in Lomé, Togo, and include invoices and supporting receipts. PSI will make available any and all documents upon request.	

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Recommendation 15 (High) (a) PSI should prepare a report for the Global Fund of program income incurred and expended. All expenditures incurred contrary to the approval should be refunded and all balances undeclared should also be refunded.	PSI Comments: a) PSI submitted the expenditure of income from sales in accordance with the CCM budget for approval to the LFA and the Global Fund (cf. budget of use of sales revenue and minutes of the approval by the CCM). This expenditure was reported in the PUDR of August 2007 and November 2007 and submitted to the GF and the LFA, both of whom validated it. Hence this expenditure was incorporated into the PUDR of the main grant. During the review by LFA in November 2007 it was requested that expenditure from sales revenue be re-recorded in a separate PUDR. Since 2008 there has been no expenditure of income from sales of products and services. A final statement was produced during the closure plan submitted to, and approved by, the CCM (see closure plan).	a) Since the budget relating to revenue was approved by the CCM and the expenditure complied with the approved allocations, there can be no refund. PSI included the revenue statement in the closure plan approved by the CCM and submitted to the Global Fund. PSI will submit a revenue usage budget to CCM during the next quarter.	PSI		(a) . Concerning the funds expended by PSI from the revenue of the social marketing, PSI procured only equipment without getting approval of the Global Fund (computers, laptops, and a vehicle) while equipment needed were already in the negotiated budget of the Phase 2. PSI should refund the unbudgeted and unauthorized expenses.	(a) The requirement to obtain specific approval from the Global Fund Secretariat for the items procured from program income in support of the grant was not previously communicated to PSI. Furthermore, according to Article 11(c) of the Standard Terms and Conditions, "Any revenues earned by the Principal Recipient or Sub-Recipients from Program activities, including but not limited to revenues from 'social marketing activities', shall be accounted for and used solely for Program purposes." There is no further guidance on Program Income in the Operational Policy Manual or any other manual we are	CCM comments: (a) The reaffirms its position that all ineligible funds incurred by PSI should be refunded. PSI should provide the CCM with a recovery plan (refund) of these expenditures. (b) idem <u>The Global Fund Secretariat Comments:</u> (a) & (b) The Secretariat takes note of the OIG's finding and comment provided by PSI in response. The Secretariat will further review the social marketing revenues at issue and the use of these revenues by the PR. The Secretariat will adopt a position on the basis of this further review. In this view, The Secretariat would like to receive clarification from the OIG regarding the

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(b) PSI should provide confirmation that the incomes generated from the sale of condoms donated by USAID have been refunded to USAID. Otherwise, in the absence of such confirmation, PSI should refund this amount to the grant program.	Also, Article 12(b) of the Standard Terms and Conditions, which is the contractual tie between the Global Fund and the PR, states that all interest earned on the Global Fund grants by the Principal Recipient, or extended to a Sub-Recipient by the Principal Recipient, shall be accounted for and used solely for the program purposes. This is the only formal provision relating to what the beneficiary must do with revenue. Nevertheless, in the spirit of collaboration cooperation, PSI asked for the CCM's approval to make plans for the income from sales in the implementation of the program. (b) The income generated by the sale of the USAID condoms is kept in a separate account to the Global Fund one. These condoms are donations from USAID. The income is	In view of the comments made in the previous column, PSI does not consider it should refund this amount. (b) In view of the comments made in the previous column, we do not believe PSI should refund these funds to the American government nor to the Global Fund, especially as			(b) As mentioned in the grant agreement (Phase 1: Special condition 2C and Phase II: Article 11C), any revenues earned by the Principal Recipient or Sub-Recipients from Program activities, including but not limited to revenues from « social marketing » activities, shall be accounted for and used solely for	familiar with. Thus, PSI has no requirement to seek permission, although we normally do this. In effect, during the negotiation of Phase 2 of Round 4, the Global Fund and the LFA asked PSI to develop a provisional budget for expenses to be paid for with program income generated from the sale of condoms, lubricants and testing services. This budget was developed and submitted to the CCM, which approved it in June 2007. All subsequent expenses made using program income were in conformity with the budget approved by the CCM and submitted for validation to the LFA, who at the	breakdown of the amount related to the sales of condoms (US\$ 431,939).

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
	documented and used for the social marketing project for purposes such as purchasing packaging, and promoting and distributing condoms. All donations of other products from USAID are dealt with in similar fashion and an operating budget is put in place every year stipulating how the income from sales is used (see PSI operational budgets from 2005, 2006, 2007 and 2008 for these incomes). As for other sales income, when the donor places no restriction on its use, as was the case with USAID, the income is reinvested in the program through a budget that is approved on an annual basis by PSI Washington. This was the same mechanism applied for the sale income generated during Round 4. PSI applies USAID policies for handling program income generated after the closure of a project. According to policy 22 CFR 226.24(e), PSI does not have any obligation towards	these funds have been expended (as explained in our responses) to fund condom social marketing activities in Togo (research, packaging, promotion, etc.).			Program purposes). PSI did not comply with the grant agreement clause since they did not use the revenues generated from the social marketing for the grant purposes and with the requisite Global Fund approval. PSI should refund the revenues of the social marketing generated during the grant life (Phase I + Phase II).	time was PriceWaterhouse Coopers. As part of the negotiation of the Phase 2 Round 4 budget, we were never given any indication that once the budget had been approved by the CCM and sent to the Global Fund and the LFA that PSI should once again request approval from the Global Fund prior to beginning to incur expenses using program income per the approved budget. Furthermore, neither the LFA nor the Global Fund ever raised any concerns about expenses of program income on the basis of not having prior approval from the Global Fund. Therefore, PSI operated under the basis that these	

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	USAID with regard to program incomes generated after the closure of the project in 2005. Donors treat the issue of sales incomes differently. While the Global Fund states that income should be spent on program purposes, as laid down in Article 12(b), the American government (USAID), in clause 22CFR226.24(e), stipulates that the use of income is at the discretion of the recipients. This clause also states that recipients are under no obligation to refund income at the completion of the project.					costs were approved and therefore are allowable. (b) PSI met the special conditions as specified in the Round 4 Phase 1 and Phase 2 grant. The program income that has been identified by the OIG relates to a non-Global Funded donation of commodities made by USAID. As such, PSI disagrees with the OIGs conclusion that PSI should return to the Global Fund the program income generated from non-Global Fund donated commodities. PSI has complied with US-government laws regulating program income and its uses as specified under 22CFR226.4(e), which does not require PSI to refund unused program income at the end of	

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
						a project. Under the USAID-funded project in question, income generated amounted to \$431,939 from the sale of 19,952,939 donated condoms. PSI maintains an accounting system that has separate accounts for donors and the program income generated from its projects. As such, Global Fund program income has been segregated to the commodities sold under Global Fund grants and USAID program income generated under USAID funded grants. As such the \$431,939 associated with the program income generated under the USAID project will continue to be managed by PSI according to USAID rules and	

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
						regulations.	
Recommendation 16 (Significant) i. PSI should reallocate the funding that was meant to cover additional SR capacity building back to this grant component. ii. PSI should strengthen its SR management by following laid down policy in the identification of SRs ensuring that all SRs submit periodic reports and undertaking periodic monitoring visits to its SRs.	PSI Comments: (a) When Round 8 was negotiated with the GF and the LFA, certain activities were scaled back or removed to accommodate the SDA 14 (provide budget negotiation document) following the increase in the number of beneficiaries of these SDA activities (PLWHIV). (b) SR management was strengthened for NGO selection through a participatory and operational approach (see NGO selection document). SRs were also strengthened in terms of administrative, financial, accounting, program and monitoring & evaluation management in December 2010. They are supported through joint (PR/SR)	(a) As the budget was signed by the Global Fund in conformity with these revisions in favor of other activities, it is no longer possible to reallocate these costs. (b) PSI has implemented an operational system according to which monthly and quarterly reports are submitted by the SR. PSI strengthened	PSI		as was the case with the income generated from the Social Marketing, PSI should submit a new budget to the CCM and Global Fund for approval.	(a) The Global Fund approved the reprogramming of these activities through the approval of the Round 8 Phase 1 budget. Prior to submitting the budget to the GF for approval, the two PRs agreed to reduce the number of SRs and SR capacity building activities in order to reallocated funds to be able to serve a greater number of beneficiaries (PLWH) in phase 1. This situation was discussed with the LFA and the GF during the negotiation of the grant. PSI has implemented activities and expensed funds in accordance with this approved budget,	

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	<i>monitoring/supervision missions since most of the staff do not yet have enough experience (capacity building workshop report enclosed, mission report also enclosed).</i>	<i>the capacities of the SRs in terms of accounting, financial management and monitoring & evaluation. PSI runs joint supervision missions with the SRs.</i>				<i>and expenses included in the PUDRs have been validated and approved by the LFA and the GF. As such, it is not possible at this stage to reallocate funding. Therefore, PSI disagrees that this funding should be reallocated as appropriate approvals from the Secretariat and the LFA were obtained.</i> <i>(b) PSI did not receive a response to the OIG, and so understands that its response is acceptable.</i>	
Recommendation 17 (Significant) <i>The CCM should strengthen its functioning by:</i> <i>(a) Defining the criteria to be</i>			CCM				

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
<i>used in the selection of PRs. Mechanisms should also be put in place to address the conflict of interest where potential PRs are involved in the proposal writing process.</i> (b) <i>Appointing sub committees and developing an oversight plan in order to strengthen oversight.</i> (c) <i>Ensuring that all programs are aligned and linked with the national programs and the programs run by other stakeholders.</i>							
Recommendation 18 (High)			The Global Fund Secretar				<u>The Global Fund Secretariat Comments:</u>

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Recommendation	PSI Response - June 2011	Actions	Responsible	Date	OIG Comments	PSI Comments - September, 2011	Management Comments - September 2011
(a) All limitations on the LFA's access to information should be addressed by the Secretariat. (b) The Secretariat should institute measures to ensure that all expenditure incurred by PSI Washington is verified in accordance with the signed grant agreement. (c) The Secretariat should review the description of PSI's program indicators related to distribution, and ensure they comply with top ten indicators.			iat				(a) and (b) As this issue has been identified with other PRs (UNDP, and INGOs), the Secretariat is preparing new guidelines. As soon as these guidelines are finalized, appropriate actions will be taken. (c) The Secretariat has been aware of the issue related to the indicator on condom distribution and is currently addressing this systematically. The changes will be reflected in the updated M&E toolkit. There is also currently a process to update the top ten indicators to better reflect key program outcomes and impact. In the meantime the country team will review the program indicators related to distribution to reflect these new changes.

Annex 5: PSI Response to Financial Issues

Paragraph Number	Item Described	Amount Claimed by OIG	PSI Response	OIG Comments	PSI Comments - September, 2011
111	PSI transferred the following amount to the three government institutions: NACP (US \$50,580), CNLS (85,459) and MoH (112,500). The office of the Inspector General (IG) deems these disbursements to be ineligible.	\$ 248,539	PSI Togo did indeed make these disbursements to three state bodies, namely the Ministry of Health, the CNLS and the NACP, in the name of institutional support. This support was not taken into account when the R4 proposal was being drafted but, following the suggestions of the team leader, Mr. Mabingue N'GOM, it was incorporated into the budget during the negotiation of the Grant. In view of the fact that no formal framework was set out in the proposal, PSI Togo did not sign any contract enshrining the terms and conditions of use of these funds. When they were submitted for validation, the LFA expressed reservations about these disbursements and the team leader (Mr. N'GOM) requested that PSI Togo justify them with supporting documents. As things stand, supporting documents have been provided for all of the disbursements issued to the three state bodies and the KPMG team that took part in the inspection visited these institutions and verified their expenditure.	See OIG comments related to the recommendation 14b in the action plan	PSI acknowledges that it did not have contracts, subagreements, budgets, or work plans with the MoH, PNLS, or CNLS. PSI notes once again that the Team Leader at the time, Mr. Ngom, as well as the LFA were aware of this fact and continued to authorize distribution of funds and encouraged PSI to offer the institutional support that was requested by the CCM to these national entities and supported programmatically by the Global Fund as a priority for the Round 4 grant. This is further noted in the minutes of the CCM meeting held on February 21, 2006. And as noted previously, supporting documentation for the disbursements to these three entities have been presented to the KPMG auditors who subsequently validated these expense.
114	The Office of the IG wonders about the 5%	\$ 128,508	There is supporting documentation for all disbursements made to NGOs for general costs (see financial report of	See OIG comments related to the recommendation 14b in	During the implementation of Round 4 and Phase 1 of Round 8, Global Fund policy allowed for Sub recipients to

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Paragraph Number	Item Described	Amount Claimed by OIG	PSI Response	OIG Comments	PSI Comments - September, 2011
	<i>administrative fee for Secondary Recipients (SRs). The Office of the IG says the SRs do not have supporting documentations showing how this 5% was used.</i>		<i>each NGO).</i>	<i>the action plan. OIG had reviewed the Financial reports submitted by the SRs, however the amount expended for the overheads was not supported by any supporting documents.</i>	<i>claim and receive a 5% administration fee that was to be attributed to their indirect costs. In April, 2011, the GF issued a new policy on headquarters support costs and the indirect cost rate. This policy mandates that local organizations must direct bill all expenses, which PSI has taken into account in the Round 8 Phase 2 proposal.</i> <i>For Round 4 and Phase 1 of Round 8, all SR direct costs have been verified and validated both by PSI and the LFA in their invoices and the 5% administrative fee has been applied accordingly. In instances where “double charging” was thought to have occurred, PSI has disallowed costs. The validated costs do not include expenses that would normally be included in the 5% administrative fee. Supporting documents detailing these SR expenses are currently located in the PSI office in Lomé, Togo, and include invoices and supporting receipts. PSI will make available any and all documents upon request.</i>
119	<i>OIG reports that nearly 0.5 million USD in Program Income from condom sales were not reported to</i>	<i>\$ 431,939</i>	<i>PSI reinvested the income generated by sales of the condoms given by USAID into its program in Togo. The income amounted to \$431,939 from the sale of 19,952,939 condoms which were delivered as part of the implementation</i>	<i>See OIG comments in Recommendation 15 in the action plan.</i>	<i>Funded donation of commodities made by USAID. As such, PSI disagrees with the OIGs conclusion that PSI should return to the Global Fund the program income generated from non-Global Fund donated commodities. PSI has</i>

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Paragraph Number	Item Described	Amount Claimed by OIG	PSI Response	OIG Comments	PSI Comments - September, 2011
	either GF or USAID. PSI Togo said that the PI was refunded to USAID, while OIG says it was not. As a result, OIG is asking for a refund.		by USAID of a safety stock at the end of the regional Family Health and AIDS prevention in West Africa project (SFP). When implementing this project USAID did not impose any restrictions on the use of incomes from sales. Therefore, the income was used to cover the activities of the country program. The main activities covered were research, distribution, promotion, travel, storage and additional packaging for condoms as well as other activities of the country program. This expenditure was described in the quarterly report. Right up until the distribution of the last condom in October 2007, neither the LFA nor the Global Fund made any mention of the need to validate this expenditure. Furthermore, the data relating to the sales of these condoms was checked by the LFA (data verification) in 2006.		complied with US-government laws regulating program income and its uses as specified under 22CFR226.4(e), which does not require PSI to refund unused program income at the end of a project. Under the USAID-funded project in question, income generated amounted to \$431,939 from the sale of 19,952,939 donated condoms. PSI maintains an accounting system that has separate accounts for donors and the program income generated from its projects. As such, Global Fund program income has been segregated to the commodities sold under Global Fund grants and USAID program income generated under USAID funded grants. As such the \$431,939 associated with the program income generated under the USAID project will continue to be managed by PSI according to USAID rules and regulations. <u>OIG Comment:</u> The OIG has provided the relevant details on this matter to the Global Fund Secretariat. The Secretariat is committed to following up on this with PSI and USAID in order to resolve it (v. Recommendation 15).

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Paragraph Number	Item Described	Amount Claimed by OIG	PSI Response	OIG Comments	PSI Comments - September, 2011
121	The Office of the IG says that PSI did not get authorization to spend the income generated by sales on the purchase of a computer and vehicle.	\$ 55,883	We were not aware that it was necessary to consult the Secretariat of the Global Fund again, since approval from the CCM was the only precondition that the Global Fund and the LFA had laid down to us. When Phase II of R4 was being negotiated, the Global Fund and the LFA asked PSI to draw up a budget on the basis of sales forecasts for condoms, lubricant gel and testing services. This budget was devised and submitted to CCM, which approved it in June 2007. What is more, the expenditure of this income complied with the budget approved by CCM and submitted for validation to the LFA at the time, which was Price Waterhouse Coopers. In terms of the terms of the negotiations for the budget of Phase II of Round 4 (LFA and GF requirements) we were given no indication whatsoever that after getting CCM approval for the budget and sending it to the Global Fund and the LFA, PSI Togo would then have to seek permission again from the Global Fund prior to beginning any expenditure.	See OIG comments related to the recommendation 15b in the action plan	The requirement to obtain specific approval from the Global Fund Secretariat for the items procured from program income in support of the grant was not previously communicated to PSI. Furthermore, according to Article 11(c) of the Standard Terms and Conditions, "Any revenues earned by the Principal Recipient or Sub-Recipients from Program activities, including but not limited to revenues from 'social marketing activities', shall be accounted for and used solely for Program purposes." There is no further guidance on Program Income in the Operational Policy Manual or any other manual we are familiar with. Thus, PSI has no requirement to seek permission, although we normally do this. In effect, during the negotiation of Phase 2 of Round 4, the Global Fund and the LFA asked PSI to develop a provisional budget for expenses to be paid for with program income generated from the sale of condoms, lubricants and testing services. This budget was developed and submitted to the CCM, which approved it in June 2007. All subsequent expenses made using program income were in conformity with the budget approved by the CCM and submitted for

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					validation to the LFA, who at the time was PriceWaterhouse Coopers. As part of the negotiation of the Phase 2 Round 4 budget, we were never given any indication that once the budget had been approved by the CCM and sent to the Global Fund and the LFA that PSI should once again request approval from the Global Fund prior to beginning to incur expenses using program income per the approved budget. Furthermore, neither the LFA nor the Global Fund ever raised any concerns about expenses of program income on the basis of not having prior approval from the Global Fund. Therefore, PSI operated under the basis that these costs were approved and therefore are allowable.
129	The Office of the IG notes that the SR (the Red Cross of Togo) did not refund the \$42,000 that it spent inappropriately.	\$ 25,223	Contrary to the assertions of the Global Fund's Office of the Inspector General, the account of the Red Cross was in debit to the tune of 30,218,555 CFA Francs on 15 November 2006, as was shown by our correspondence of N/Ref: FIN/KK/1243/-2006 of 15 November 2006. (Appendix F129). Since then, the Red Cross has carried out successive refunds of 8,100,000 CFA Francs (see voucher RV177 of 29/10/2007), 2,500,000 CFA F (see voucher RV207 of 04/6/2008), 2,500,000 CFA F (see voucher RV234 of 21/7/2008), 500,000 CFA F (see Voucher RV373 of	Noted, the report has been amended	As a follow up to our previous comment, payment was not received from the Red Cross by the 30 June deadline, and therefore PSI's attorney has filed a case against the Red Cross with the judicial authorities in Togo.

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			12/11/2008) and finally 4,511,170 CFA F (see Voucher RV 181 of 13/8/2009), or a total amount of 18,111,170 CFA F. As things stand, the Red Cross still owes PSI 12,107,385 CFA F, or around \$USD 25,223. Because the Red Cross has stopped making refunds, PSI has launched legal proceedings and the court case is pending. On the advice of its legal expert, PSI wrote to the Red Cross asking it to pay the balance by 30 June 2011. If payment is not made by 30 June 2011, our legal expert has obtained an order to seize the bank accounts and assets of the Red Cross.		
	Total	\$ 890,092			