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Procurement irregularities and over-pricing in Madagascar identified by OIG

An investigation by the Office of the Inspector General (OIG) into procurement contracts for five malaria grants to Madagascar has found evidence of non-compliant expenditures, over-priced goods and collusion among suppliers. A report on the investigation was released on 3 January.

Procurement activities from four Round 9 grants under investigation involved two government and two non-government bodies: the central support office for health sector projects (UGP: Unité de Gestion des Projets d'Appui au Secteur de Santé) and the central governments health products procurement office (SALAMA: Centre d'Achats de Médicaments et de Matériel Médical); Pact and the Madagascar intercooperation association (AIM: Association Intercoopération Madagascar). Procurement activities under a Round 7 grant were also investigated, with UGP as the PR.

By April 2012, when the investigation was launched, some \$70.8 million had been disbursed over the five grants; expenditures of \$12.2 million were examined.

The investigation has implicated three of the four PRs in non-compliant expenditures worth some \$1.1 million, including \$462,670 in over-pricing; only AIM was exonerated for any suspect spending.

Table: Summary of non-compliant expenditures and amounts of over-pricing identified by the OIG

PR	Grant	Disbursed as of 30 April 2012	Reviewed by the OIG	Amount of non- compliant expenditures	Of which, amount of over-pricing
UGP	MDG-910- G17-M	\$8,867,217	\$6.0 m.	\$843,600	\$382,937
	MDG-708- G09-M	\$24,170,652			
Pact	MDG-910- G19-M	\$13,741,533	\$1.4 m.	\$299,672	\$74,464
SALAMA	MDG-910- G16-M	\$16,397,630	\$ 2.3 m.	\$17,068	\$5,269
AIM	MDG-910- G18-M	\$7,652,053	\$2.5 m.	NIL	NIL
Totals		\$70,829,085	\$12.2 m.	\$1,160,340	\$462,670

With respect to the grants administered by UGP, the OIG uncovered evidence that groups of vendors colluded and submitted bids for procurement contracts that had not been independently prepared. In a restricted national tender launched by UGP in 2010 for supplies and equipment for an indoor residual spraying campaign, the OIG found that contracts worth \$640,146 were compromised; of this amount, slightly more than half was charged at above-market rates.

Such practices needed the collusion of a procurement unit official, according to the OIG.

The grant administered by Pact required the PR to use SALAMA as a procurement agent. During 2011–2012, Pact entered into three contracts with SALAMA. The OIG found that two of the contracts – \$270,643 for laboratory equipment and \$29,029 for rapid diagnostic tests – were overpriced by \$74,464 in total. The OIG said that Pact exercised insufficient oversight of the contracting process with SALAMA. However, the OIG acknowledged that Pact undertook corrective measures shortly after the issue was raised, and managed to recover some of the excess.

With respect to the grant for which SALAMA was PR, the OIG said that in January 2011, a contract was awarded for \$17,068 to IDA Foundation to supply an anti-malarial medicine manufactured by REMEDICA, a supplier approved by the World Health Organization.

However, the medicines actually delivered by IDA and distributed by SALAMA were produced by another manufacturer, Guilin Pharmaceuticals, which was not an approved supplier, resulting in an overcharge of roughly \$5,000. IDA has since committed to refund the excess charges.

The OIG found fault with SALAMA, IDA and the local fund agent (LFA) for the fact that the wrong drugs were distributed to patients.

An annex to the report included detailed comments from the UGP, Pact and SALAMA on an earlier draft of the report. These comments prompted changes to the final report.

In an attached letter, the Global Fund’s executive director, Mark Dybul, said that the Secretariat has moved to respond to the findings, including limiting the scope of the grants to essential malaria activities;

suspending the signing of Phase 2 of the UGP NSA grant; moving to 100% verification by the LFA; and requiring pooled procurement for most commodities. SALAMA has also been removed as a PR, and its grant is in closure. A recovery plan should be in place by March 2014, Dybul added.

Separately, the OIG said it had been advised of the findings of a forensic audit commissioned by Pact and conducted on one of Pact's sub-recipients. The OIG said that the audit identified procurement irregularities, which will be followed-up directly by the Global Fund Secretariat.

The report of the OIG investigation can be found on the Global Fund website [here](#)

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