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of the Global Fund

## OIG reports material improvements in Global Fund procurement processes but challenges remain

The Global Fund has improved its controls, management and oversight of procurement processes at the Secretariat level, in response to issues identified in an audit of procurement and supply chain management carried out in 2015.

The Secretariat, however, has not fully set up adequate measures to oversee and monitor procurement processes, particularly for second-line TB drugs and non-health products, and to manage the performance of Procurement Service Agents (PSAs).

These are some of the findings of [a follow-up audit on Global Fund procurement processes](#) conducted by the OIG in 2018; the report was published on 3 September 2018.

The OIG has performed other subsequent audits since the 2015 one, relating but not limited to the Global Fund's procurement process, which identified weaknesses in the procurement framework (see text box below).

This most recent follow-up audit aimed to provide reasonable assurance on the Secretariat's progress in addressing procurement-related issues of competitiveness, transparency and performance management identified in pertinent procurement audits since 2015. It covered procurement processes at the Secretariat level; it did not cover supply chain management, as the OIG had reviewed it in two separate audits in 2017.

Little or no progress on some issues identified in the 2015 audit

On some of the issues identified in the 2015 audit (GF-OIG-15-008), the Secretariat has made little or no progress. The OIG, in 2015, had identified an absence of procurement and supply chain strategies, gaps in organizational structure and capacity, and weaknesses in procurement regulations and performance reporting.

The OIG and the Secretariat had agreed on three main management actions, spanning three categories:

1. Secretariat's procurement and supply chain management strategy
2. Organization of the procurement and supply chain management structure
3. The Sourcing Department's operational capacity (The Sourcing department is responsible for procurement carried out by the Secretariat; these includes both the Secretariat operational expenditures (OPEX) and grant-related procurements conducted through the PPM and GDF). All agreed actions were due on 30 September 2015.

The OIG closed only one of the three agreed actions from the original 2015 audit (agreed action 3 on the Sourcing Department's operational capacity), in 2018; the other two remain unclosed. However, the OIG has also closed, as part of this follow-up audit, an agreed management action (AMA) from [a 2016 audit](#) of wambo.org (GF-OIG-16-016), on strengthening the accountability framework for compliance with the Global Fund's procurement framework.

The Secretariat, while referring to the procurement strategy, organizational structure and the capacity of the Sourcing department, had acknowledged to the OIG that "a new OIG evaluation would yield the same issues".

In an email to Aidspace, Seth Faison, Global Fund Head of Communications, explained that leadership changes had delayed the Fund's ability to implement changes to strategy, structure and capacity:

"We have made steady progress in procurement and supply chain work, but we also have encountered delays due to internal organizational challenges," Faison said in an email to Aidspace. "When Patrick Latin became Chief Procurement Officer in 2017, he led extensive consideration about how to best align sourcing and supply chain work, but for unexpected family reasons, he resigned after a few months. Peter Sands, after beginning as Executive Director in March 2018, decided to restructure the sourcing and supply chain work, in order to better align priorities, and leverage resources in order to design an end-to-end approach that includes both sourcing and supply chain. A careful recruitment process led to hiring Philippe Francois, an industry expert, as a new Head of Sourcing and Supply Chain."

Francois began his new role on 1 October 2018; the OIG said that now that the Global Fund has recruited a new Head of Sourcing and Supply Chain, the remaining AMAs are likely to be addressed.

## Ratings

The OIG rated four areas according to its four-tiered rating scheme (effective; partially effective; needs significant improvement; ineffective):

- 'the design and effectiveness of the procurement regulations and procedures, including ensuring that procurements are carried out in a competitive and transparent manner': partially effective
- 'the performance management of vendors and procurement service agents': needs significant improvement

- 'the effectiveness of vendor contract management': partially effective
- 'the key performance indicators (KPIs) for procurement': partially effective??

## Procurement-related OIG audit and investigation work published since 2015

- GF-OIG-18-010 Proactive investigation of Procurements of Non-Compliant HIV Rapid Diagnostic Testing Kits
- GF-OIG-17-021 Wambo.org platform
- GF-OIG-17-016 Planning and Management of Consultants
- GF-OIG-17-008 In-country Supply Chain Processes
- GF-OIG-16-26 Supplier wrongdoing and Global Fund Non-Compliance with Procurement Regulations (Mutambara Investigation)
- GF-OIG-16-007 Internal Controls: Compliance with key internal policies including operational, financial and procurement
- GF-OIG-16-016 Wambo.org: Limited scope review of the processes undertaken to procure services and resources for the implementation of wambo.org
- GF-OIG-15-008 Procurement and Supply Chain Management

## Key risks and issues

The OIG identified three main issues during this most recent audit:

- Compliance issues persist, particularly on tendering and competition (however, the report stated that because the Procurement Regulations and Procedures were only launched in October 2017, the OIG cannot yet fully assess their effectiveness for indirect procurement)
- Lack of performance measures in contracts with Procurement Service Agents (PSAs)
- Limited visibility, by the Global Fund, into its procurements of second-line TB drugs through the GDF to fully assess potential savings or value for money

Below, we describe some of the audit findings:

### Limited oversight and compliance monitoring over indirect procurement activities

Since 2015, the Secretariat has revised the procurement framework (principles, policies, regulations, procedures and guidance that govern Global Fund procurement), built the capacity of staff to support the operationalization of the revised framework, and implemented a contract management system (to better manage information on suppliers).

Many layers of oversight on procurement exist: the risk management unit (which the OIG called "the Global Fund's second line of defence"), the Procurement Review Committee (PRC), the Management Executive Committee (MEC) and the Board. The OIG cited lack of oversight by the risk management unit or inadequacies in oversight by the PRC and MEC.

Weak oversight has enabled the inappropriate use of non-competitive procurement; the Secretariat does not consistently procure on a competitive basis even when the procurement is competition-eligible, said the OIG, nor does it put in place measures to ensure best value in the absence of competition. For instance, the Secretariat awarded a \$30-million contract for staff health insurance through a non-competitive process, even though it met the threshold for open bidding, said the OIG. The Global Fund

received bids from only two insurance providers. Faison referred to it as “an isolated case” and argues that this instance should not be generalized to mean that open, competitive procurements are not followed in Global Fund procurement processes.

Faison explained: “The Secretariat did not have in-house specialist capability to assess the viability of insurance vendors, either in HR or in Sourcing. We had a history of incurring a large loss ratio – averaging 21 percent in the three years before the bid. That meant that we were not an attractive client to many insurance companies. Out of five bidders that were approached and most likely to bid, three declined. As such, there was a need for external expertise to guide the process. The Secretariat hired a leading specialized benefits consulting firm to assist the Global Fund in effectively approaching the market and obtaining the best insurance cover and rates. The procurement followed a set internal process that evaluated the final proposal of the external consulting firm. That internal process engaged the Staff Council and the Finance Department before the Management Executive Committee approved the procurement.”

According to Faison, the same approach had been used in the preceding health insurance procurement in 2014 and had proven successful; the Global Fund had obtained “very good value for money from this procurement”. However, in this case, the OIG said that “it is not possible to conclude beyond doubt whether more competitive rates could have been achieved through reaching out to the open market”.

Nonetheless, a review of procurement-related OIG audits conducted over the last few years shows high numbers of non-competitive procurements. For instance, the OIG, in [a 2016 audit](#), found the Secretariat tendered 60% of sampled consultancy contracts non-competitively, and [in a review of wambo.org](#), found that nine of the 17 (65%) procurements done to support the wambo.org project were tendered non-competitively even though all the procurements were competition-eligible; the OIG said the need for ‘exceptions to competition’ may have been minimized by timely procurement planning.

AMA 1: The Secretariat will: carry out an internal review of the design and operating effectiveness of the PRC; institute quarterly reporting for indirect procurement methods; ensure that the Sourcing department works with budget-holders within divisions to maintain an up-to-date preferred list of suppliers; and ensure that performance-management criteria are captured within the revised PSA contractual arrangements.

Supplier contracting and performance management need improvements

The Global Fund uses three main procurement channels for health products: national procurement mechanisms, its Pooled Procurement Mechanism (PPM), and other procurement agents such as the Global Drug Facility (for second-line TB drugs), with the PPM accounting for 55% of the total health-product spend.

The PPM annual spend is approximately \$1.1 billion for the purchase of health products including ARVs, antimalarial medicines, long-lasting insecticide nets (LLINs), and freight, logistics and other costs. The Global Fund contracts Procurement Service Agents (PSAs) to manage PPM orders; currently there are three PSAs: the Partnership for Supply Chain Management (PFSCM), the IDA Foundation (IDA) and the United Nations Population Fund (UNFPA).

The OIG, in the 2018 audit, noted that despite improvements in the management of contracts and performance of the PSAs, current contractual agreements with the PSAs do not allow the Secretariat to effectively measure the PSAs’ performance; contracts lack service-level targets, performance reporting requirements, or incentives for suppliers on continuous improvement and efficiencies.

For all three PSAs, there were recurring issues such as delays in reporting, particularly for [Price and Quality data \(PQR\)](#), non-conforming products, and product recalls, among others. The Global Fund,

therefore, needs to incorporate performance measures in PSA contracts and monitor their fulfilment. The 2018 PSA tender is an opportunity for the Global Fund to include these measures within the contracts, said the OIG (the Global Fund is in the process of renewing contracts with the PSAs for the next three-year period).

See AMA 1 on indirect procurement above.

There is a need to re-evaluate and properly measure the GLC agreement for second-line TB commodities

The Global Fund strictly procures second-line TB drugs through the Stop TB Partnership's GDF, a pooled procurement mechanism, ever since 2006. The OIG, however, noted that the Secretariat has limited visibility over GDF activity including supplier performance, the methodology behind savings and pricing improvements for TB drugs, formulations and diagnostics. This is in spite of huge amounts of funding channelled through the GDF, through which the Global Fund purchases approximately \$100 million per year.

The OIG noted that, following the 2015 audit's finding that the relationship between the Secretariat and the GDF had not been formalized, a [Memorandum of Understanding \(MoU\)](#) to formalize it was signed in June 2016. However, the two parties had not started implementing the MoU at the time of the audit, the OIG said. In fact, they had not yet established a working group with representatives from both parties to spearhead the implementation. As a result, neither of the two parties are delivering the key obligations set out in the MoU, including a dashboard (for regular reporting), timely exchange of information on health product quality and quality assurance compliance, and mutually agreed performance metrics.

In fact, the Global Fund has not developed KPIs for tracking the performance of the GDF, the OIG said, as laid out in the MoU. This lack of adequate management information and performance reporting by the GDF, the OIG noted, limits oversight by the Management Executive Committee (MEC) and the Board.

The Global Fund's Faison commented: "The OIG report raises concerns about a decision to source all multi-drug resistant (MDR) TB drugs directly from the GDF and concludes that the performance management framework and reporting activities for the GDF have not been established. Nevertheless, the report recognizes the uniqueness and the great importance of the Global Fund-GDF partnership and the relatively small, fragmented and complex nature of the market for TB drugs, in comparison to other pharmaceuticals. We will build on the MOU to improve on our capacities."

The said MoU defines the roles of the Global Fund and GDF, and if implemented will facilitate the sharing of lessons learned, leverage the technical expertise of the two parties, and align performance monitoring for Global Fund-financed MDR-TB procurements.

The OIG also found that the Global Fund has not carried out any evaluations of the GDF since it started using it in 2006. The supply and market for second-line TB drugs have changed significantly since then and the Global Fund has since introduced the Pooled Procurement Mechanism. The OIG underscored the need for an evaluation to ascertain the value for money of continuing to use the GDF in light of these changes. The Secretariat has not yet planned an evaluation, Faison told Aidspace.

AMA 2: The Secretariat will ensure that the Sourcing department works with Stop TB to revise and implement the MoU, and to present a cost-benefit analysis to the Board as to whether to retain current TB procurement arrangements or incorporate them within the Pooled Procurement Mechanism (due 31 December 2019).

Continued limitations on performance information for Health Product Procurement

The Secretariat reports to the Board using 12 strategic Key Performance Indicators (KPIs) that the Board

uses to monitor progress against the Global Fund's 2017-2022 four strategic objectives (see the [2017-2022 Strategic KPI Framework](#)). The Global Fund measures PPM performance by monitoring the availability and affordability of health technologies (KPIs 12a and 12b, respectively) and the timeliness and completeness of PPM deliveries. The Secretariat also monitors the administrative lead time, price and on-time and in-full deliveries (OTIF) for procurements done through the national systems (KPI 6a – Strengthen Systems for Health [Procurement] under the Resilient and Sustainable Systems for Health Objective).

The OIG noted that the Secretariat failed to report to the Board on KPI 6a for 2017 due to data limitations; KPI 6a was due for reporting in the first quarter of 2018. In fact, it remains unclear when the Secretariat will first report on KPI 6a; in a [report to the Board](#) in early 2018, the Secretariat did not set a date for this. The OIG also noted that the implementation KPIs relate only to the PPM and do not include national procurement. The first issue is not new; in 2016, the Secretariat had [reported to the Board](#) that lead time and on-time and in-full deliveries (OTIF) data would only be available for countries that use the PPM; they had suggested the use of data obtained from the PQR but acknowledged this would lead to a one-year lag in reporting.

The OIG reported that, currently, the Secretariat is exploring the option of targeting ten procurers – six countries and four international agencies – that together account for approximately 30% of Global Fund health-product spending, for data on KPI 6a; this would allow the Global Fund to monitor at least 85% of the health-product spend (30% through national procurement/international agencies and 55% through PPM). At the time of the audit, the Secretariat had not started collecting data from these 10 procurers.

There was no AMA linked to this finding.

All AMAs are due on 31<sup>st</sup> December 2019 and are 'owned' by the Head of Sourcing and Supply Chain.

Previous audits related to procurement

The OIG has conducted seven other audits or investigations that relate to procurement. These include:

- In 2016, in [an audit of Global Fund internal controls](#), the OIG noted that a high number of non-competitive procurements; and lack of reconciliations of PPM orders by the Principal Recipients (PR);
- In the same year, the OIG, in a [limited scope review of wambo.org](#), reported poor compliance to existing controls leading to high levels of non-competitive procurement, material non-compliance with procurement rules, weaknesses in the design and execution of contracts, among others;
- A subsequent [audit of the wambo.org platform](#) showed that Wambo had failed to meet its targets within the expected timeframe; Wambo was not on track to meet its initially projected savings target of \$246 million by 2019, nor had it met the targeted lead time of 21-26 days – reported lead time at the time of this audit was 47 days.

The [full report of the OIG follow-up audit on Procurement Processes](#) is accessible on the Global Fund website, as well as the [2015 audit report on Procurement and Supply Chain Management at the Global Fund](#).

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