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OIG investigation in Zambia uncovers theft of health products from national medical stores between 2014 and 2016

In an investigation of Global Fund grants to Zambia, the Office of the Inspector General (OIG) has uncovered large-scale theft of a range of HIV, tuberculosis and malaria-related medical products from Zambia's national medical stores.

The OIG's investigation report was made public on April 26, 2018.

The report identified "significant unexplained stock losses" of Global Fund-financed HIV test kits, and HIV and malaria products, together valued at \$1,064,788, which were delivered to Zambia's Medical Stores Limited (MSL) between 2014 and 2016. In addition, the report concludes that non-compliance with documented stock inventory controls, as well as high stock levels, facilitated the theft of health products by MSL staff. Although the wrongdoing started in November 2014, the OIG was not alerted until October 2016.

The losses, which the OIG says were not effectively investigated nor reported to the Global Fund included 5,790 HIV test kits, 67,967 bottles of antiretrovirals (ARVs), 11,442 artemisinin-based combination therapy packs (ACTs), and 2,521 malaria rapid-diagnostic test kits.

These losses make up between 1.7% and 7.5% of Global Fund-financed products delivered in Zambia between 2014 and 2016.

Origins of the OIG investigation

The OIG investigation was triggered by a series of theft reports, starting in October 2016, when the

director of MSL informed the Secretariat, in a telephone call to the Zambia fund portfolio manager, that nine pallets of USAID-funded HIV test kits worth \$250,000 had been stolen from MSL's off-site warehouse. The Secretariat notified the OIG of the theft.

Then, in April 2017, another theft was reported: The fund portfolio manager informed the OIG that still more HIV test kits (funded by a different donor), had been stolen from MSL's central warehouse in February 2017.

The OIG opened an investigation that initially focused on all ten deliveries of HIV test kits to MSL, valued at US\$5.6 million, and funded by two Global Fund grants (ZAM-H-UNDP and ZMB-C-MOH). After recognizing the major HIV test kit losses, the OIG broadened its investigation.

Below we explain further the main components of the OIG's report, and the resulting agreed management actions (AMAs).

Main findings

The unexplained loss of 5,790 HIV test kits worth US\$416,379 represents 7.5% of the total deliveries of Global Fund-financed test kits to MSL between 2014 and 2016.

The losses of the HIV test kits, as well as other HIV and malaria products, were discovered missing during annual stock takes. The investigation found that MSL staff had negatively adjusted stock quantities in the warehouse management system to reflect the missing stock.

MSL staff were unable to explain the losses, and the OIG's investigation also could not reconcile the stock adjustments with any outbound deliveries, expiries, or other events.

The investigation concluded that internal controls at MSL were ineffective and resulted in multiple opportunities for theft and misappropriation of assets. It also found that documented operating procedures (such as a biannual stock count stipulated in the standard operating procedure) were not followed: MSL undertook only one stock count each year in 2014, 2015, and 2016. Because MSL's buffer stocks prevented stockouts, and no weekly stock counts were conducted, the missing stocks were only identified during the annual stock takes.

Types of wrongdoing, and agreed management actions

The report identifies three types of wrongdoing: theft, non-compliance with grant agreement, and product issues.

Based on the report findings, the Secretariat will pursue all three agreed management actions (AMAs). First, to finalise and pursue an appropriate recovery amount. The non-compliant expenditure – the losses of Global Fund-financed ARVs, ACTs, HIV and malaria test kits – came to a total of US\$1,064,788, which the OIG proposes be recovered in full.

The Secretariat will also review the implementation of the MSL's Standard Operating Procedure for stock-count control, and will confirm that MSL regularly reports stock variances in Global-Fund financed products, and that these variances are being investigated.

(See the full table of AMAs on page 15 of [the OIG report](#).)

Zambia country context

Up until October 2017, the Global Fund had committed US\$1.202 billion to Zambia, and had disbursed US\$1.023 billion. Zambia had five active Global Fund grants during the OIG's 2017 investigation (see

below).

Table 1: Zambia's active Global Fund grants in 2017

Principal Recipient	Grant	Grant end date	Signed amount (US\$)
Ministry of Health	ZMB-C-MOH	31-Dec-2020	238,687,427
Ministry of Health	ZMB-M-MOH	31-Dec-2020	120,374,668
Churches Health Association of Zambia	ZMB-C-CHAZ	31-Dec-2020	117,238,821
Churches Health Association of Zambia	ZMB-M-CHAZ	31-Dec-2020	28,715,614
UN Development Programme	ZAM-H-UNDP	28-Feb-2017	156,509,071
Total			661,525,601

The Global Fund classifies Zambia as a 'high impact' country – with a very large Global Fund-supported portfolio, and a mission-critical disease burden.

Previously identified issues

In 2017, a country audit of Global Fund grants to Zambia reported stock-outs and expiries of health products, from health facilities to central warehouse levels. Discrepancies were picked up between MSL's physical stock counts and an inventory-systems count, in seven of 13 commodities tested. The target date for most of the AMAs resulting from this audit is December 2019.

Global Fund Response

Acknowledging the complexity of in-country supply chains and logistics, as well as the risks of theft and wastage and necessity to minimize those, Zambia fund portfolio manager Paul McGarrick told Aidspace that "broadly speaking, Zambia is meeting its targets," and that the country was making good progress against the three diseases.

On the same day that the OIG's report was published, Global Fund Executive Director Peter Sands published a statement stating that "Zambia's response to the losses at MSL has been exemplary".

"Since this issue came to light, MSL changed its senior management and co-operated fully with the OIG investigation," Sands said.

Following the appointment of a new acting managing director in May 2017, MSL has introduced several other initiatives to address issues of theft and corruption, including replacing a security contractor, strengthening its internal audit function, and introducing a whistle-blower policy. (Read [Peter Sands' full statement](#).)

It is significant, according to McGarrick, that the Global Fund-supported multi-agency task team, which undertook "a really detailed investigation," was country led. The task team's investigations and enforcement operations have led to the arrests of eight people within an organized cross-border crime network that has targeted MSL.

The [full report of the OIG investigation](#) into Zambia's Global Fund-supported grants is accessible on the Global Fund website, as well as [an earlier OIG audit report on Zambia](#), from December 2017.

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