



Independent observer  
of the Global Fund

## OIG investigation in Democratic Republic of Congo finds tender manipulation and overpricing in malaria grant

Senior managers appointed by the Population Services International (PSI), the Principal Recipient (PR) for the Global Fund's malaria grant in the Democratic Republic of Congo, were responsible for tender manipulation leading to "systemic and significant overpricing" of contracts for transportation, warehousing and customs clearance, resulting in an estimated loss to the Global Fund of \$7,386,066.

The OIG investigation was triggered by 'red flags' raised by PSI in May 2017, after the PR carried out its own internal audit in March-April 2017. The OIG initiated an investigation based on PSI's initial findings.

The OIG's investigation report, made public on 12 March 2019, identifies three types of wrongdoing: collusion, abusive practices, and non-compliance with the grant agreement. The report acknowledges both PSI's and the Global Fund's respective roles in the wrongdoing: PSI's poor oversight of its DRC operations and inadequate measures at headquarters level to identify issues at country level, and the Global Fund's lack of evaluation of PSI's own internal controls, which contributed to the Fund's inability to detect any irregularities in grant implementation.

The proposed recoverable amount is the full \$7,368,066, which PSI has already paid back. PSI is no longer a Global Fund PR in the DRC.

In a comment emailed from the Secretariat to the GFO, Head of Communications Seth Faison said, “The investigation report identifies serious wrongdoing, and it is very good that PSI found the problem, reported it swiftly, and paid back the full amount. We have taken several steps to reduce the risk of similar occurrences in the future.”

The investigation included two field missions by the OIG, to DRC from 11 to 23 December 2017, and to Washington, DC (where PSI is based) from 11 to 15 June 2018. The scope of the OIG’s investigation was limited to the procurement and supply-chain management components of the PSI grant, which came to a total of \$38.15 million (out of \$178 million of expenditures across all line items for the implementation period January 2015 to December 2017). Of the \$38.5 million spent on procurement and supply-chain related line items, 32% was reviewed by the OIG.

Table 1: DRC’s currently active Global Fund grants for New Funding Model 2 (2018-2020)

Principal Recipient	Grant component	Grant	Signed amount (US\$)
Stichting Cordaid	TB/HIV	COD-C-CORDAID	149,742,258
Ministry of Health and Population of the DRC	HIV/AIDS	COD-H-MOH	23,913,524
Ministry of Health and Population of the DRC	Malaria	COD-M-MOH	74,908,613
SANRU Asbi	Malaria	COD-M-SANRU	275,717,435
Ministry of Health and Population of the DRC	Tuberculosis	COD-T-MOH	18,679,294
Total			542,961,124

Source: Global Fund Secretariat

#### Main OIG findings and Agreed Management Actions

The OIG’s investigation report lists five main findings with associated Agreed Management Actions (AMAs):

1. A PSI senior manager in DRC approved special tender conditions and deviations from PSI’s headquarters’ procurement policies, without PSI headquarters’ approval in advance. This meant that bidders with lower prices were consistently eliminated from tender evaluation processes, with contracts awarded to higher-priced bidders. Further deviations included overpricing in land transportation contracts, customs clearance charges, warehousing expenses, air and river transportation, and communications.

AMA 1: The Secretariat will evaluate the design and effectiveness of the internal controls implemented by PSI through the creation of the Global Fund Management Unit (within PSI) and its corresponding functional and administrative reporting lines, to mitigate similar future risks. (Due 30 September 2019; owner: Chief Financial Officer)

2. A restricted tendering process to hire transportation vendors facilitated the creation of an anti-competitive, bid-rotation scheme that resulted in significant overpricing. This came about as a result of PSI in DRC hiring four fiduciary agents to manage payments related to LLIN mass campaigns in different provinces, two of which were authorized by PSI to carry out tenders for transportation contracts in their respective zones of the country.

AMA 2: The Secretariat will address the supplier misconduct in accordance with the policy on supplier misconduct and the [Sanctions Panel Procedures](#). (Due 30 September 2019; owner: Head, Grant

Management).

3. Ineffective governance and oversight by PSI headquarters enabled the misuse of fiduciary agents: PSI headquarters did review fiduciary agents' contracts and verify invoices before payment through headquarters, but "did not identify the limiting nature of their contractual arrangements," the OIG said. PSI did not require the agents to follow PSI's own administrative policies and procedures.

AMA 3: The Secretariat will update its Guidelines for Grant Audit to ensure that auditor engagement includes a review of the controls related to PR-hired third-party agents, as well as review the terms and conditions of engagement of third-party agents. (Due 31 December 2019; owner: Chief Financial Officer)

4. PSI's decentralized business model resulted in a lack of visibility of, and control over, program implementation in DRC. Because PSI headquarters lacked a "proper understanding of the DRC context," the OIG said, it was unable to challenge its DRC senior managers' decision or proactively address potential issues relating to procurement and supply chain.

AMA 1: (see above)

5. The assurance framework agreement between the Global Fund and PSI was insufficient, and reduced both parties' ability to identify risks proactively. The Global Fund relied on internal controls designed by PSI without evaluating their effectiveness, the OIG report says, (the framework did not require such evaluation, either by the Local Fund Agent [LFA] or PSI's external auditors) and because of this, the Fund had inadequate assurance on key portfolio risks. Practically, this meant that the LFA did not review tenders that were initiated in DRC but were paid by PSI headquarters, thereby reducing the Fund's visibility into tenders carried out by PSI in DRC. It also meant that the Fund did not verify the PSI-hired fiduciary agents' terms of reference or performance; furthermore, the Fund considered the fact of PSI having hired fiduciary agents a risk-mitigating factor (page 21 of the report provides substantial further detail).

AMA 4: The Global Fund will re-evaluate its framework agreement with PSI to clarify the scope of responsibility between different assurance providers, and will review assurance arrangements with other INGOs to determine whether revisions are needed in current arrangements or framework agreements. (Due 31 December 2020; owner: Chief Risk Officer)

#### Breakdown of financial losses

The "systemic manipulation of procurement and supply-chain systems" described by the OIG included restrictions and deviations to tender processes that had been designed or approved by PSI-appointed senior managers in DRC. Of the total estimated losses, \$7.36 million was related to procurement and supply chain, and \$29,710 related to communication expenses. The breakdown of the \$7.36 million comprised:

- Transportation expenditures overpriced by 29% and restricted transportation tenders carried out by PSI-appointed fiduciary agents, overpriced by 38% (a combined loss of \$6,136,275)
- Warehousing contracts overpriced by 21% (a loss of \$633,429)
- Customs clearance charges on containers of Long Lasting Insecticidal Nets overpriced by 20% (a loss of \$586,651).

#### Actions already taken

Both Population Services International and the Global Fund have already acted to redress – or prevent

recurrence of – the issues the OIG has identified. PSI has refunded in full the amount of the combined overpricing and dismissed the individuals responsible for the wrongdoing in DRC. In addition, grant management for all Global Fund-supported programs are now consolidated in the Global Fund Management Unit (GFMU), among other measures.

Though predating this investigation, in 2016, the Global Fund created a dedicated Supply Chain Department (unrelated to this investigation but in response to the generalized high risk associated with in-country supply chains). In 2018, the Fund also set in motion an Integrated Risk Module to strengthen the integrated risk and assurance framework further.

Executive Director of the Global Fund, Peter Sands, thanked the OIG for this investigation and expanded upon the steps the Fund is taking to reduce the risk of similar occurrences in the future in a Message from the Executive Director posted on the Global Fund's website:

“We have begun by reviewing assurance mechanisms for PSI specifically. We are developing a quality assurance framework to assess the effectiveness of PSI's proposed remedial actions, including an increased focus on controls at implementation level. We are taking steps to strengthen financial reporting, review governance and accountability mechanisms to identify additional safeguards that might be needed, and conduct bi-annual monitoring visits that review financial performance and manage emerging issues. Finally, we are enhancing the Local Fund Agent's scope of work to emphasize fraud prevention, detection and timely escalation to the Global Fund. We will use the same approach for all international nongovernmental organizations that implement Global Fund grants, to make sure that we have the appropriate assurance that our funds are achieving the impact intended.” (See [the full message from the Executive Director](#) about the OIG's investigation in DRC.)

(Editor's note: See sections 8.4 and 9.4 of the [Risk Management Report and Annual Opinion](#), presented to the 39th Board Meeting in May 2018, for more detail on the Fund's efforts to address supply chain risks and embed risk and assurance planning.)

## Country context

The DRC is the second-largest country in Africa, the 12th-largest in the world, and has a population of 81 million people, 44% of whom live in urban areas and 90% of whom live on less than \$3.10 per day. Only 50% of the country can be reached by road or rail transport.

Though DRC once possessed a healthcare system “renowned in Africa,” the OIG report says, decades of ongoing conflict and the complex political and economic challenges resulting from the conflict have made the DRC one of the most difficult countries in the world in which to deliver health-care services.

The DRC is a ‘high impact’ Global Fund country (very large portfolio, mission-critical disease burden) and is designated a ‘challenging operating environment’ with additional safeguard policy in the Global Fund's differentiation categories for country investigations.

The Global Fund has signed a total of \$1.998 billion worth of grants with DRC, of which \$1.63 billion has so far been disbursed. Currently (for the implementation period 2018 to 2020) the Global Fund is financing five active grants (see Table 1 above).

## Further reading:

- The Global Fund's [news release and full report of the Office of the Inspector General's investigation in DRC](#)
- [Audit Report – Global Fund Grants to the Democratic Republic of Congo \(2016\)](#)
- [Investigation Report on Global Fund Grants to the Democratic Republic of Congo \(2014\)](#)

- [Country Audit of the Global Fund Grants to the Democratic Republic of Congo \(2010\)](#)

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