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OIG INVESTIGATION UNCOVERS EVIDENCE OF COLLUSION, FRAUD AND CORRUPTION IN PROCUREMENT ACTIVITIES IN KAZAKHSTAN

An investigation by the Office of the Inspector General (OIG) into procurement in HIV and TB grants to Kazakhstan found evidence of systematic collusion, fraud and corruption by local vendors and other parties that compromised 76 contracts worth \$16.5 million. Separately, similar problems on a smaller scale were uncovered in Yemen.

A [report](#) on the Kazakhstan investigation was published in January. The investigation was sparked by a [country audit](#) conducted by the OIG in 2011 that found indications of possible misappropriation of grant funds (see [GFO article](#)).

The investigation covered the period December 2003 – October 2012. PRs for the grants were the Republican Center for Prophylactics and Control of AIDS (RCAIDS) and the National Center of Tuberculosis Problems (NCTP).

A number of previous and current RCAIDS and NCTP employees were found to have been fully or partially aware of the practices of the local vendors and did not disclose them to the Global Fund, or were involved in some of the irregularities directly. Over-pricing totalled at least \$5.4 million, which the OIG recommended be recovered.

In 46 of the 76 contracts, the OIG said four individuals orchestrated a systematic bid rigging scheme in which they either (a) submitted bids themselves on behalf of more than one vendor; or (b) coordinated with other vendors to submit fake bids to simulate competition; or (c) exerted pressure to have the contracts awarded on a single-source basis.

The OIG said that some or all of these practices were known to two ex-directors of RCAIDS, who held office between 2006 and 2010; the current director of NCTP; and other former PR staff. It said that the staff members were also responsible for a number of irregularities, including making false statements to the OIG, under-advertising tenders, attempting to alter procurement files, and basing procurement decisions on fabricated product sample testing documents.

Other factors that may have contributed to the scale of the procurement irregularities:

- the procurement procedures of both PRs did not include sufficient guidance;
- the conditions in the grant agreement did not include sufficient measures to mitigate procurement risks;
- there was no formal process of due diligence by the PRs concerning its suppliers; and
- oversight by the Secretariat was limited.

The OIG reported that since 2012, the Secretariat has implemented several measures to mitigate procurement-related risk in the Kazakhstan grant portfolio. First, it has introduced a new oversight strategy, which includes regular in-depth reviews by both the country team and the local fund agent (LFA) before and after the awarding of contracts. Second, the prices being paid by the Global Drug Facility for second-line TB drugs and the Fund's pooled procurement mechanism are being used as benchmarks for selected procurements. Finally, a procurement agent has been appointed for NCTP and one will be appointed shortly for RCAIDS.

The procurement agents will be responsible for most purchasing. The PRs will retain responsibility for certain low-value or low-risk procurements, under the oversight of the LFA and the country team.

As a result of the OIG report, the Secretariat has agreed to implement further actions. These include addressing the suppliers' misconduct, in line with the Secretariat's policies in this area, including referring the cases to the Sanctions Panel. The Secretariat will also (with assistance from the OIG) draft guiding principles for PRs on how to assess the legitimacy, financial security and capacity of suppliers.

The current grant agreement with NCTP will be extended until 30 June 2015, but no new grants to Kazakhstan will be approved until all agreed management actions in the OIG report have been implemented.

According to the OIG, the Secretariat believes that continued funding to RCAIDS and NCTP is appropriate, given their critical role in leading the national HIV and TB response, and given the measures that have been and are being taken to reduce procurement risk. Both PRs have undergone significant reforms and many of the individuals involved in collusive and fraudulent procurements have been removed from their posts.

There is nothing in the OIG report about the oversight, or lack of oversight, by the LFA or the country coordinating mechanism.

The PRs were provided an opportunity to respond to the OIG's findings. Their responses are included in a 10-page annex to the report, along with rebuttal comments from the OIG. For the most part, the OIG did not identify anything in the PRs' responses that caused it to alter its findings.

The report on the investigation comes just 13 months after the OIG issued another [report](#) involving allegations of attempted misappropriation and ultimate misuse of Global Fund monies by RCAIDS amounting to \$105,227. That investigation was also related to procurement activities. (See [GFO article](#))

Yemen

An OIG investigation into a Round 4 TB grant in Yemen found that the PR, the National Tuberculosis Control Program (NTCP), conspired with a supplier to steer sole source procurement contracts to the supplier. The OIG also found that inappropriate gratuities were paid in relation to the awarding of contracts. As a result, contracts worth \$664,365 were deemed to be non-compliant with the grant agreement.

The OIG said that the sole-sourced contracts resulted in NTCP over-paying for goods by \$15,712 and it recommended that the Global Fund recover this amount.

A [report](#) on the investigation was released in January.

The grant ran from 2005 to 2010. Since 2011, the security situation in Yemen has created a challenging operating environment for grant oversight and implementation. This has led to Yemen joining the Fund's pooled procurement mechanism or having procurement done through UN agencies. The Fund has also expanded the scope of the LFA and has invoked the Additional Safeguards Policy, which permits it to nominate new PRs and to directly contract external auditors.

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