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Global Fund to recover funds misused in Papua New Guinea

The Global Fund will seek to recover some US\$1.3 million in misused funds following an investigation by the Office of the Inspector General into financial mismanagement by the government principal recipient, the National Department of Health.

The OIG had conducted an audit of the NDoH in November 2010 (see [GFO article](#)) which revealed the recruitment of unqualified staff, unjustified cash advances, a lack of supporting documentation for purchases and weak procurement processes.

A total US\$41.7 million was disbursed to the NDoH for three grants, one in each disease component.

At the time of the audit, the Fund invoked its Additional Safeguard Policy (ASP) to mitigate further risks to the grants. Safeguard measures include a detailed review of NDoH's procurement practices before funds are committed to further procurement, the replacement of the local fund agent and an immediate halt to any local procurement. Disbursements to NDoH beyond lifesaving and critical activities were also suspended.

Among NDoH's financial mismanagement were routine single-source procurements: a violation of the Fund's procurement rules. Lowest bids were also ignored. The OIG cited four irregular transactions for a total of nearly \$625,000 in malaria test kits and pharmaceuticals from 2005-2009 that added more than \$105,000 in costs to Global Fund grants.

The OIG investigation found that NDoH engaged in irregular procurement. Single source procurements were done contrary to the procurement rules and lowest bids were ignored. Four irregular procurement transactions involving the procurement of \$624,800 worth of malaria test kits and pharmaceuticals from Borneo Pacific Pharmaceuticals in PNG between 2005 and 2009 resulted in additional and unwarranted

costs to Global Fund grants of \$105,079..

Twenty three irregular procurement transactions involving the procurement of \$309,502 worth of pharmaceuticals from City Pharmacy in PNG, between 2007 and 2008 were inflated by \$237,287.

NDoH also procured \$12,037 of office supplies and stationery for its Disease Control Branch under the guise of training materials for the Global Fund program. It also procured Rapid Syphilis Test Kits worth \$113,937 via single source procurement.

NDoH was also found wanting with its management of cash advances to department staff. There were no requirements of repayment, and those employees who had already received advances that were unpaid were able to obtain additional advances.

In 2009, \$924,844 in Global Fund grant funds was advanced to NDoH staff with \$533,447 (57.7%) in outstanding debts at the end of that year. In 2010, \$1,205,035 in Global Fund grant funds were advanced to NDoH staff and \$808,058 (67%) were outstanding at the end of that year.

NDoH withdrew as PR in April 2011, acknowledging a need to comprehensively overhaul and strengthen its procurement practices.

In the aftermath, the Fund established a framework for procurement of commodities including long-lasting impregnated nets, anti-retrovirals and other commodities to ensure more efficient delivery and better cost-savings. "Long-term contracts in the new framework will improve visibility, production, capacity planning, and competitive pricing," the report says.

PNG should also be enrolled in the Fund's Voluntary Pooled Procurement mechanism to maintain these efficiencies and cost-savings, the OIG said. Local procurement of health products should be avoided, except in emergencies, due to excessive mark-ups.

The OIG audit report can be found [here](#).

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