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OIG Report Documents Weaknesses in Oversight of Procurement and Supply Management

Deficiencies in the oversight of procurement and supply management (PSM) arrangements may be exposing Global Fund grants to unnecessary and unacceptable risks. This is one of the conclusions of an audit report released by the Fund's Office of the Inspector General (OIG) in April 2010.

In its 79-page report, "Review of Oversight of Grant Procurement and Supply Chain Management Arrangements," the OIG said that it undertook this audit for the following reasons:

- procurement of drugs and other health-related commodities represents 40-50% of the total expenditure of grant funds, and significant sums are spent on distribution arrangements;
- the Global Fund Five-Year Evaluation raised concerns about the PSM oversight standards;
- country audits undertaken by the OIG revealed common weaknesses in PSM capacity and systems at the country level; and
- procurement is considered by several agencies in the development sector to be one of the areas most likely to be subjected to irregular activities such as corruption.

In addition, the OIG said, numerous procurement-related allegations have been received by the OIG, and some grants have been suspended by the Global Fund in part due to procurement-related irregularities.

The OIG said that its country audits reveal the following widespread problems:

- weak forecasting of requirements for drugs and health product;
- weak technical specifications for procurement;
- absence of, or weak, procurement policies and procedures;

- high product prices;
- poor performance of third-party procurement agencies;
- poor inventory management;
- poor storage and transportation facilities at national and sub-national level;
- drug stockouts and expiries;
- weak procurement planning resulting in frequent emergency procurements; and
- inadequate management information systems.

The OIG said that these deficiencies “suggest that the [Global Fund’s] oversight arrangements have failed to spot and mitigate the risks that have emerged” and that, in consequence, the OIG cannot at present give assurance that the PSM arrangements are operating effectively in the countries audited.”

Principal recipients (PRs) have full responsibility for undertaking grant-related PSM. The Global Fund’s role in grant PSM has focused primarily on establishing policy and assisting countries with interpreting policy requirements. The Global Fund also provides limited oversight of the procurement and supply management processes to ensure that PSM is undertaken in a fair, transparent, objective and effective manner.

Within the Global Fund system, the Board, the Secretariat, country coordinating mechanisms (CCMs) and local fund agents (LFAs) all have a role to play in PSM oversight, as do some national drug or procurement regulatory authorities. In its report, the OIG made the following observations concerning these players:

- PRs. Procurement agents are retained by PRs when the PR has capacity limitations in undertaking procurement activities. However the contractual responsibilities for PSM still rest with the PR in accordance with the grant agreement. Most PRs do not have the capacity to contract, monitor and evaluate the activities of procurement agents.
- CCMs. CCMs have sometimes nominated PRs that do not meet the requisite PSM capacity; and then, once programme implementation is underway, CCMs do not have adequate oversight mechanisms in place to enable them to spot emerging problems. In addition, many CCMs have not paid enough attention to their role in strengthening coordination of PSM activities across PRs, diseases and programmes funded by other donors.
- LFAs. The role of LFAs in relation to PSM activities is clearly defined, but many LFAs have difficulty fulfilling this role because they lack PSM expertise. These LFAs rely on “fly in” consultants. In cases where these consultants are unable to fly into a country to undertake an assessment, the assessment is done by “desk review” – but these reviews do not allow the consultant to verify some of the information provided by PRs. In addition, periodic LFA monitoring does not always cover PSM activities (except in the Latin America and Caribbean region, where the LFAs are requested once a year to review the implementation of a sample of procurement processes undertaken by each PR in that region).
- National authorities. The country audits undertaken by the OIG revealed that these national regulatory bodies have limited engagement with Global Fund programmes and, unless their capacity is strengthened, cannot provide effective oversight of these programmes.
- Global Fund Secretariat. Procurement oversight at the Global Fund Secretariat is undertaken through the Country Team Approach (CTA) where the fund portfolio managers (FPMs) seek advice from the technical advisory teams – i.e., Pharmaceutical Management Advisory Services (PMAS), Monitoring and Evaluation (M&E), Finance and Legal units – to support their decision-making. However, there is no requirement for FPMs to consider and follow up on advice given. There are also no mechanisms in place to ensure that action is taken on issues raised by the advisory teams. Under the CTA, if there is no consensus on a matter, it goes to the director of the relevant Country Programs unit, who makes a decision in consultation with the Director of the Country Programs Cluster. There is no input from the advisory teams at this stage. This undermines the checks and

balances established in the CTA. The Pharmaceutical Management Unit (PMU) provides PSM oversight by developing policy and assisting countries with interpreting policy requirements. The PMAS, which is part of the PMU, has only eight staff, which negatively affects its ability to support over 140 country grant programmes.

The OIG commented as follows on some of the mechanisms set up to assist with PSM:

- Price and Quality Reporting (PQR) Mechanism. While the PQR tracks the prices and suppliers of a few health products, it does not provide a comprehensive database of information for decision-making. There is no evidence that quality assurance issues observed through PQR data are followed up and resolved in line with Global Fund policy. There is no mechanism in place to provide assurance that PQR data is actually provided by PRs, and the Secretariat continues to face challenges in this respect. The penalty for failure to provide the data is, on paper, a freeze of disbursements. However, the country audits undertaken by the OIG revealed that PRs that have not entered data on the PQR were still able to get their disbursements. The PQR's effectiveness is also reduced by the limited selection of health products it covers.
- PSM plans. PRs are supposed to complete a PSM plan prior to signing the grant agreement, but this requirement is often deferred. In fact, in the sample of 16 countries selected by the OIG for review, only one grant had a PSM plan prepared prior to grant signature. When the PSM plan is deferred, the Global Fund misses an opportunity to address issues upfront that could potentially affect the timely implementation of programmes. And once grant implementation is underway, there is no mechanism in place to ensure that the PR complies with the PSM policies stipulated in the grant agreement and the PSM plan.
- Technical assistance. In many cases, capacity development has been piecemeal and aimed at improving the ability of PRs to comply with a set of procedures, as opposed to addressing systematic structural issues. In other cases, the capacity development programmes only targeted PSM at low functional levels (e.g., improvement of individual technical skills). This did not address fundamental PSM issues and, sometimes, did not result in sustainable improvements to the overall PSM control environment.

The OIG made the following additional observations:

- Ineffective supply chain management systems have resulted in problematic forecasting, drug stock outs and expiries.
- There is no policy to regulate the selection and use of third-party procurement agents.
- While "conditions precedent" (CPs) are often included in grant agreements to address capacity gaps identified during LFA assessments, there is no policy at the Global Fund that regulates the implementation of CPs. This means that CPs may be waived without addressing the risks they were set up to mitigate.

The OIG noted that the Global Fund is currently developing several initiatives which, once implemented, should strengthen the PSM oversight function. These include establishment by the Board of a Market Dynamics and Commodities Ad-hoc Committee to oversee specific PSM activities; the rolling out of the CCM dashboard, which draws attention to PSM as part of the CCM's oversight function; revision of the Progress Update and Disbursement Report (PU/DR) form used by LFAs to include, among other things, PSM-related reporting; and the introduction of Country Profiles by the PMU.

The audit report contains 17 recommendations on ways in which the Global Fund can address the problems identified by the OIG. Some of them, such as the following two recommendations, raise issues that could impact the Global Fund's core principle of country ownership:

- The Global Fund should consider the benefits of playing a more active role in resolving, or mobilising

development partners at global and national level to resolve, procurement problems, even if it comes at the cost of bending the principles of the Global Fund as a “financing only” entity.

- The Global Fund Secretariat should institute measures through which PR’s PSM activities are monitored in accordance with the grant agreement, approved PSM plan and Global Fund procedures.

The OIG said that “it is for debate whether greater PSM oversight at a country level would be in conflict with the Global Fund model. The important question arises about how far procurement oversight structures established by the Global Fund can go without overstepping its mandate as a financing mechanism and interfering with the obligations of PRs in relation to PSM.”

The Global Fund Secretariat said that it welcomed the recommendations, that it agreed with all of them (fully or partially), and that many of the recommended actions are covered in the Secretariat’s 2010 workplan.

The information in this article was taken from “Review of Oversight of Grant Procurement and Supply Chain Management Arrangements,” Office of the Inspector General, Global Fund, 22 April 2010, available at www.theglobalfund.org/en/oig/reports.

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