

Investigation of Global Fund Grants to Papua New Guinea National Department of Health

GF-OIG-14-002

31 January 2014 (Updated 30 October 2015)

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B. Acronyms

AAP	Annual Activity Plan
ACSM	Advocacy, Communication and Social Mobilization
ACTs	Artemisinin-based Combination Therapy
ARVs	Anti-retroviral medicines
ASP	Additional Safeguards Policy
AusAID	Australian Agency for International Development
CCM	Country Coordinating Mechanism
CKG	Charles Kendall Group
COI	Certificate of Inexpediency
CSTB	Central Supply and Tenders Board
DOTS	Directly Observed Treatment, Short Course
GDF	Global Drug Facility
GFATM	The Global Fund to fight AIDS, Tuberculosis and Malaria
GPRM	Global Price Reporting Mechanism
HSIP	Health Sector Improvement Program
ILPOC	Integrated Local Purchase Order and Claim form
LFA	Local Fund Agent
MSB	Medical Standards Board
MSH	Management Sciences for Health National
NDoH	Department of Health
NGO	Non-governmental organizations
OIG	Office of the Inspector General
PGK	Papua New Guinea Kina
PLHA	People Living With HIV and AIDS
PMCT	Prevention of Mother to Child Transmission (of HIV) Independent State of
PNG	Papua New Guinea
POM	Port Moresby
PQR	Price and Quality Reporting
PR	Principal Recipient
PSM	Procurement and Supply Management
PSTB	Pharmaceutical Supplies and Tenders Board
PwC	PricewaterhouseCoopers
RDTs	Rapid Diagnostic Test Kits
RPNGC	Royal Papua New Guinea Constabulary
SRs	Sub-Recipients
TRIPS	Trade-related aspects of intellectual property rights
UNICEF	United Nations Children's Fund
USD	United States Dollar
VCT	Voluntary Counselling and Testing
WHO	World Health Organization

C. Executive Summary

1. This report presents the findings of the Office of the Inspector General's (OIG) investigation into allegations of procurement and cash advance irregularities affecting Global Fund grant funds disbursed to the National Department of Health (NDoH), one of the Principal Recipients (PR) of Global Fund Grants to the Independent State of Papua New Guinea (PNG). Indications of potential irregularities arose primarily during an OIG audit of NDoH in November 2010.¹ OIG's audit identified: (i) overall issues of insufficient staff capacity and capability, (ii) unacquitted cash advances, (iii) lack of supporting documentation for purchases, and (iv) procurement processes not delivering value for money and susceptible to fraud.

2. This investigation identified sufficient credible and substantive evidence that:

- (a) NDoH staff engaged in irregular procurement procedures. The irregular procurement procedures included: choosing higher bidders over more competitive bidders to provide health products or pharmaceuticals, single source procurement of pharmaceuticals and health products and brand specification. These practices resulted in higher prices being paid contrary to the PNG Government's main procurement objective to obtain value for money and the Global Fund's requirement that grant funds be managed prudently.
- (b) NDoH staff engaged in the improper management of cash advances to staff. Staff with outstanding accountabilities or unaccounted for advances were advanced more funds before previous advances were retired. Funds advanced to staff included money to pay for accommodation and training at hotels and other venues, contrary to PNG Government policy which requires accommodation expenses to be paid using an Integrated Local Purchase Order and Claim (ILPOC) form.
- (c) NDoH's failure to follow procurement and cash advance requirements resulted in additional and unwarranted costs 1,352,696 as per the table overleaf:

¹ Audit of Global Fund Grants to the Independent State of Papua New Guinea – 5 July 2012 – Report No: GF-OIG- 10-004.

Figure 1: Non-compliance categories and amounts

Categories – Report Section	Non-Compliant Expenditure	
	PGK	USD
Procurement Irregularities		
Vendor 1		
F.3.1.1	107,021	40,809
F.3.1.2	39,600	14,062
F.3.1.3	152,262	50,208
Sub total (A)	298,883	105,079
Vendor 2		
F.3.2.1	228,691	88,373
F.3.2.2	2,351	835
F.3.2.3	14,113	5,011
F.3.2.4	13,336	4,735
F.3.2.5	64,362	22,856
F.3.2.6	163,134	63,039
F.3.2.7	64,563	24,949
F.3.2.8	26,976	9,579
F.3.2.9	46,350	17,910
Sub total (B)	623,876	237,287
Vendor 3		
F.3.3.1	31,569	12,037
Sub total (C)	31,569	12,037
Vendor 4		
F.3.4.1	298,800	113,937
Sub total (D)	298,800	113,937
Cash Advance Irregularities		
Unjustified & Un-acquitted Cash Advances (for accommodation only)		
F.4 (2009)	1,150,182	444,463
F.4 (2010)	1,136,202	439,893
Sub total (E)	2,286,384	884,356
Grand Total (A+B+C+D+E)	3,539,512	1,352,696

C.1 Procurement Irregularities

3. Four irregular procurement transactions involving the procurement of USD 624,800 of malaria test kits and pharmaceuticals from vendor 1 in PNG, between 2005 and 2009 were identified. The investigation found that procurement rules were disregarded resulting in single source procurements, lowest bids being ignored and brand specification, resulting in ‘Value for Money’ (the Government’s need at the lowest total cost) not being achieved. The four procurements resulted in additional and unwarranted costs to Global Fund grants of USD 105,079.

4. Twenty three irregular procurement transactions involving the procurement of USD 309,502 of pharmaceuticals from vendor 2 in PNG, between 2007 and 2008 were identified. The investigation found that procurement rules were disregarded resulting in single source procurements and lowest bids being ignored. The twenty three procurements resulted in additional and unwarranted costs to Global Fund grants of USD 237,287.

5. In addition to the procurements from vendor 1 and vendor 2, this investigation found

that NDoH also procured USD 12,037 (PGK 31,569) of office supplies and stationery for its Disease Control Branch under the guise of training materials for the Global Fund program and USD 113,937 (PGK 298,800) worth of Rapid Syphilis Test Kits via single source procurement.

6. NDoH's irregular procurement practices associated with the procurement of pharmaceuticals and other products under the three Global Fund grants investigated, resulted in total additional and unwarranted costs of USD 468,340 (PGK 1,253,128).

C.2. Irregular and Unacquitted Cash Advances

7. This investigation found that the NDoH did not manage advances in accordance with relevant government requirements. Staff with outstanding accountabilities or unaccounted for advances were given further cash advances and there were many instances of long outstanding advances that were not followed up for acquittal or reimbursement.

8. OIG's review of NDoH's cash advances found that in 2009, USD 924,844 in Global Fund grant funds was advanced to NDoH staff with USD 533,447 remaining unacquitted at the end of that year. In 2010, USD 1,205,035 in Global Fund grant funds was advanced to NDoH. Staff with USD 808,058 remaining unacquitted at the end of that year. NDoH was unable to provide any documentation regarding cash advances made before 2009.

9. An age analysis of the advances found that for 2009 and 2010, about 42% and 25% respectively, were outstanding for more than 180 days. For 2009, 35% of the advances were outstanding for more than 365 days.

10. OIG's review of the cash advances also found that of the advances acquitted either completely or partially during the year 2009 and 2010, no documentation was provided for USD 46,922 equating to 12%, and USD 248,580 equating to 63 %, respectively.

C.3. Response to Audit Findings and Continuation of Grant

Programs in PNG

11. Immediately after the OIG audit, the Global Fund Secretariat wrote to the NDoH, CCM and in country partners to inform them of the decision to invoke the Global Fund's Additional Safeguard Policy (ASP) to mitigate the risks in grant management as a temporary solution. The main additional safeguard measures included a detailed review of NDoH's procurement practices prior to commitment of any funds for procurement.

12. In addition to the additional safeguard measures, the Secretariat in consultation with the OIG immediately implemented a number of actions, including: replacement of the LFA, immediate cessation of all local procurement, and suspension of disbursements to NDoH except for life saving and related critical activities.

13. In April 2011, the NDoH relinquished its role as PR, acknowledging: "that its procurement systems and processes needed major overhaul and strengthening to meet good and transparent procurement practices" and that the department's weaknesses were causing: "great burden to the implementation and administration of Global Fund grants." Following NDoH's withdrawal as PR, the Country Co-Ordinating Committee (CCM) approved the Oil Search Health Foundation as PR for the Round 8 Malaria grant and World Vision

International as PR for the Round 6 TB Grant.²

14. In addition to the measures above, on 5 November 2013, the Global Fund announced the establishment of a new framework to systematically organize the purchase of mosquito nets, anti-HIV drugs and other products that will improve delivery and make significant savings. Long-term contracts in the new framework will improve visibility, production, capacity planning, and competitive pricing.³

C.4. Due Process

15. On 10th December, 2013, OIG provided the PNG Ministry of Health and CCM with a draft of this investigation report for review and comment.⁴ In consultation with the CCM, the OIG extended the deadline for comments to 10 January, 2014.⁵

16. No comments to the report were received by the 10TH January 2014. Subsequently, the OIG communicated directly with the Minister of Health, requesting provision of comments to the report⁶ and the Minister of Health replied that the NDoH's acting secretary would be asked to ensure that this is done.⁷ However, to date, the OIG has not received any comments from in country regarding this report.

C.5. Recommendations

17. Based on the evidence and analysis summarized in this report, the OIG provides the following recommendations to the Secretariat of the Global Fund:

- (a) The Secretariat should seek to recover from the Principal Recipient (NDoH), expenditures of Global Fund grant funds that were not made in compliance with the terms of the relevant grant agreements, in accordance with the applicable legal rights and obligations, based on its determination of legal breach of the grant agreements and associated determination of recoverability.
- (b) The Secretariat should ensure that all core health products for grants in PNG be procured through the Voluntary Pooled Procurement (VPP), or equivalent, mechanism to ensure a cost-effective and cost-efficient procurement process. Local procurement of health products should be avoided, except in emergencies, due to excessive mark-ups.
- (c) The Secretariat should ensure that cash advances to be subject to strict approval limits. Large transactions should be undertaken directly by the PR or SR, via a purchase order or invoice. Acquittal of cash advances should be reported to the LFA on a quarterly basis.

² Meeting of CCM's New PR Core Working Group at NDoH on 31 May 2011.

³ http://www.theglobalfund.org/en/mediacenter/newsreleases/2013-11-05_Breakthrough_on_Procurement_to_Save_USD_140_Million/

⁴ Email from OIG (Inspector General) to CCM Chair and PNG Secretary of Health, dated Dec 10, 2013.

⁵ Email from OIG (Inspector General) to CCM Chair, dated Dec 13, 2013.

⁶ Email from OIG (Inspector General) to CCM Chair, dated Jan 22, 2014.

⁷ Email from PNG Minister of Health, to OIG (Inspector General) dated Jan 22, 2014.

D. Message from the Executive Director of the Global Fund



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MESSAGE FROM THE EXECUTIVE DIRECTOR

Investigation of Global Fund grants to Papua New Guinea

I would like to thank the Office of the Inspector General for its thorough and insightful work on the investigation of Global Fund grants to Papua New Guinea's National Department of Health.

The report presented findings of the investigation into possible procurement and cash advance irregularities affecting Global Fund grants to the Department of Health, which was one of the Principal Recipients of Global Fund grants until 2011.

Indications of potential irregularities first came to light primarily during an audit by the Office of the Inspector General of the Department of Health in November 2010.

The investigation found "credible and substantive evidence" that staff at the Department of Health engaged in irregular procurement practices that included, among other things, choosing higher bidders over competitive bidders and single source procurement of health products or pharmaceuticals.

These practices resulted in excessive prices being paid contrary to the government of Papua New Guinea's objective to get value for money and the Global Fund's own requirement that grant funds should be managed prudently.

The Office of the Inspector General also concluded that staff at the Health Department engaged in improper management of cash advances to staff. For example, staff with outstanding unaccounted for advances were advanced more funds before previous advances were retired.

Failure by the Health Department to follow procurement and cash advance rules and requirements resulted in additional and unwarranted costs to the relevant Global Fund grants of US\$1,352,696.

The Office of the Inspector General has made the following recommendations as a result of its investigation:

1. The Global Fund Secretariat should seek to recover from the Department of Health expenditures of Global Fund grants that were not in compliance with the terms of the relevant grant agreements;
2. The Secretariat should ensure that all core health products for grants in Papua New Guinea are procured through the Secretariat's pooled procurement mechanism;
3. The Secretariat should ensure that cash advances are subject to strict approval limits and that acquittal of cash advances should be reported to the Local Fund Agent each quarter.

The Secretariat has taken the following actions:

- With respect to the recovery of funds, the publication of this report triggers the Secretariat's regular recoveries process that will seek to fully recover all misspent funds from the Department of Health as soon as possible;
- Immediately after the audit by the Office of the Inspector General in November 2010, the Secretariat wrote to the Department of Health, the Country Coordinating Mechanism and in-country partners to inform them of a decision to invoke the Additional Safeguard Policy to mitigate risks in grant management as a temporary solution;
- The Secretariat, in consultation with the Inspector General, also replaced the Local Fund Agent, halted all local procurement and suspended disbursement to the Department of Health except for life-saving and other critical activities;
- The Department of Health subsequently relinquished its role as Principal Recipient in April 2011. The Country Coordinating Mechanism approved the appointment of the Oil Search Health Foundation as Principal Recipient for the Round 8 malaria grant and of World Vision International as Principal Recipient for the Round 6 tuberculosis grant.

The Office of the Inspector General provides an essential form of quality control for the Global Fund. It plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Sincerely



E. Background

E.1. Global Fund grants to NDoH

18. NDoH via its Health Sector Improvement Program (HSIP) has been the PR of four Global Fund supported programs. This investigation focused on the Round 3 Malaria grant⁸, Round 4 HIV grant⁹ and the Round 6 TB grant¹⁰ managed by NDoH. Under these three rounds, a total of USD 45 million was awarded to the NDoH in order to fund various Malaria, HIV and TB programs.

Figure 2: – Global Fund Grants to PNG’s NDoH Investigated by OIG.

Grant Number	Status	Grant Amount (USD)	Disbursements
PNG-304-G01-M	Closed	16,217,351	16,217,351
PNG-405-G02-H	Closed	17,552,150	14,157,579
PNG-607-G03-T	Closed	11,402,921	11,345,277

E.1.1 Specific Program Activities

E.1.1.1. Malaria Round 3

19. The Global Fund’s first grant to NDoH was malaria Round 3,¹¹ which started on August, 2004. The grant supported community-based malaria prevention and control in PNG – Nationwide Insecticide-Treated Nets (ITN) distribution and expansion of confirmed diagnosis and appropriate treatment of malaria.

20. NDoH’s planned activities for Round 3, translated into expenditure on: (i) purchase and delivery of LLINs, (ii) Training of staff in microscopy and use of RDTs, (iii) Purchase and delivery of microscopes and RDTs, (iv) Diagnosis of patients, and (v) Purchase and delivery of ACTs.

E.1.1.2. HIV Round 4

21. The Global Fund’s second grant to NDoH was HIV/AIDS Round 4¹², which started on August 1, 2005. The grant supported the scaling up of HIV/AIDS prevention, care and treatment through an intensified multi-sectorial community based programme.

⁸ Global Fund Grant PNG-304-G01-M

⁹ Global Fund Grant PNG-405-G02-H

¹⁰ Global Fund Grant PNG-607-G03-T

¹¹ Global Fund Malaria Grant: PNG-304-G01-M

¹² Global Fund HIV Grant: PNG-405-G02-H

22. NDoH's planned activities for Round 4, translated into expenditures on: (i) Training of teachers and peer educators, (ii) Establishment of youth friendly centers, (iii) Training in delivery of Prevention of Mother to Child Transmission of HIV - PMCT, (iv) Support of service points delivering PMCT, (v) Training in delivery of post exposure prophylaxis, (vi) Training in blood screening, (vii) Training in delivery of voluntary counseling and testing – VCT, (viii) Support of service points delivering VCT, (ix) Support of service points delivering advanced interventions for prevention and treatment of HIV, (x) Training in ARV treatment, and (xi) Strengthening of civil society organizations to provide education, VCT, ARV treatment adherence and support.

E.1.1.3. TB Round 6

23. The Global Fund's third grant to NDoH was TB Round 6¹³, which started on October 1, 2007. The grant supported the expansion and implementation of the Stop TB strategy in PNG.

24. NDoH's planned activities for Round 6 translated into expenditures on: (i) Provision of microscopes, consumables and training to laboratories, (ii) Testing and counseling, (iii) Training, and (iv) Strengthening the procurement and supply chain management of first line drugs.

E.2. OIG Audit of Grants Managed by NDoH

25. In November 2010, the OIG undertook an audit of all Global Fund grants to PNG, including grants managed by the NDoH. The audit of NDoH identified a number of non-compliant grant expenditures totalling USD 5.1 million resulting in a total of 13 'high priority' and 'significant priority' recommendations.¹⁴ The NDoH faced challenges in the areas of: general management; finance; monitoring and evaluation; procurement; and supply chain management.

26. The audit findings resulted in:

- a) the replacement of Cardno EM by PricewaterhouseCoopers (PwC) as the Local Fund Agent (LFA);
- b) significant reduction in the amount of SRs managed by NDoH;
- c) immediate cessation of all local procurement of pharmaceuticals and health products by NDoH;
- d) procurement and distribution of long lasting insecticide treated bed nets (LLINs) related to Round 8 malaria grant to be undertaken by Rotary Against Malaria;
- e) procurement related to HIV core health products to be undertaken by UNICEF; and
- f) suspension of disbursements to NDoH, except for life-saving activities.

27. In order to mitigate identified risks, the Global Fund invoked the Additional Safeguards Policy (ASP) as a temporary solution.¹⁵ The main additional safeguards included:

- a) Sub-Recipient (SR) capacity assessments by the LFA;
- b) quarterly reporting and disbursements; and

¹³Global Fund TB Grant: PNG-607-G03-T

¹⁴Audit of Global Fund Grants to the Independent State of Papua New Guinea – 5 July 2012 – Report No: GF-OIG-10-004.

¹⁵Letter from Unit Director – Asia Unit, to PNG CCM Chair dated 3 December 2010 (Global Fund ref: OPC/EAP/PNG/1249/QC/alf)

- c) detailed review of PRs procurement practices by the LFA prior to commitment of funds for procurement.

28. In response to the audit findings the NDoH relinquished its role as PR, acknowledging: “that its procurement systems and processes needed major overhaul and strengthening to meet good and transparent procurement practices” and that the department’s weaknesses were causing “great burden to the implementation and administration of Global Fund Grants”.¹⁶

29. Following NDoH’s withdrawal as PR, the Country Co- Coordinating Mechanism (CCM) issued a call for expressions of interest resulting in the Oil Search Health Foundation being approved by the CCM as PR for the Round 8 malaria and Round 10 HIV grants, and World Vision International as PR for the Round 6 TB grant.

E.3. Procurement Rules Applicable to NDoH

E.3.1. Global Fund Procurement Requirements

30. Article 18 of the Round 3¹⁷ and Round 4 Grant Agreements¹⁸ and Article 19 of the Round 6 Grant Agreement¹⁹ between the Global Fund and NDoH outline the procurement requirements for pharmaceuticals and other health related products.

31. Article 18 (f) of the Round 3 and Round 4 Grant Agreements states:

“The Principal Recipient must use good procurement practices, including competitive purchasing from qualified manufacturers and suppliers to attain the lowest prices of products, consistent with quality assurance”.

32. Article 19(g) of the Round 6 Grant Agreement states:

“The Principal Recipient shall use good procurement practices when procuring Health Products, including competitive purchasing from qualified manufacturers and suppliers to attain the lowest price of products consistent with quality assurance. With respect to durable products, the lowest possible price shall take into account the total cost of ownership, including the cost of reagents and other consumables as well as costs for annual maintenance”.

33. After a grant proposal has been approved, the PR describes how it will adhere to the Global Fund procurement requirements through a basic Procurement and Supply Management (PSM) plan.

34. The PSM plans submitted by the NDoH in respect of all the Global Fund Grants²⁰

¹⁶ Letter dated 15/04/2011 from NDoH (Dr Clement Malau) to The Global Fund (Dr Michel Kazatchkine)

¹⁷ Global Fund Grant PNG-304-G01-M

¹⁸ Global Fund Grant PNG-405-G02-H

¹⁹ Global Fund Grant PNG-607-G03-T

²⁰ Procurement and Supply Management Systems Plan for Global Fund Grant PNG-304-G01-M (revised version) February 2005; Procurement and Supply Management Systems Plan for Global Fund Grant PNG-404-G02-H

provide that:

- a) funds are used to access the appropriate products at the lowest possible overall price, procured in compliance with the PNG Government's *Finance Management Act*; and
- b) procurement shall be effected in the largest possible quantities in order to achieve economies of scale. All procurement will be based on competitive procurement methods.

Round 4 HIV Grant

35. The PSM plans for the Global Fund R4 HIV Grant²¹ provide that:

- a) The Procurement Centre of the Department of Health – the HSIP – will manage the procurement process of goods, medical supplies and associated peripherals locally procured and required by the proposed activities. The focus of all the HSIP activities is value for money – lowest prices of products of acceptable quality.
 - b) Procurement procedures are transparent with all steps in the procurement process clearly described. Explicit criteria are used to award contracts, according to the PNG Government's *Finance Management Act*.
 - c) The assessment of the tenders (called for any purchase above PGK 100,000) shall be according to the PNG Government's *Finance Management Act*, and use the Pharmaceutical Supplies and Tenders Board (PSTB) for contracts up to the value of PGK 1,000,000 and the Central Supplies and Tenders Board (CSTB) for contracts greater than PGK 1,000,000. Under the PNG Government's *Finance Management Act*, if there is only one supplier able to provide the product required, a Certificate of Inexpediency (COI) can be applied for.
 - d) Procurement shall be effected in the largest possible quantities in order to achieve economies of scale. All procurement will be based on competitive procurement methods, and the contracted supplier shall be the only supplier of the goods described in that contract.
36. For purchases of drugs and health products during Phase 1 of the grant, the grant required that NDoH sign a procurement agreement with WHO as the nominated procurement agent for health and non-health products.²² In addition, the PSM plan for phase 1, stated that all health related commodities (drugs and health products) would be purchased using WHO processes for the first two years of the grant (Aug 2005 – July 2007).
37. For purchases of health supplies during Phase 2 of the grant, NDoH entered into an agreement with UNICEF to procure NDoH's health supplies. Products to be procured through UNICEF included all ARV's and opportunistic infection drugs, and HIV Rapid Diagnostic Test Kits.

Round 3 Malaria Grant

(Phase 1) dated 8 March 2005; Procurement and Supply Management Systems Plan for Global Fund Grant PNG- 404-G02-H (Phase 2) dated November 2008; and Procurement and Supply Management Systems plan for Global Fund Grant PNG-607-G03-T dated 1 August 2006.

²¹ Procurement and Supply Management Systems Plan for Global Fund Grant PNG-304-G01-M (revised version) February 2005; Procurement and Supply Management Systems Plan for Global Fund Grant PNG-404-G02-H (Phase 1) dated 8 March 2005

²² Global Fund grant PNG-405-G02-H Annex A - *Programme Implementation Abstract*

38. The PSM plan for the Global Fund R3 malaria Grant²³ includes:
- a) NDoH, using HSIP, will be the PR for the Global Fund Grant.
 - b) The funds are used to access the appropriate products, at the lowest possible overall price, procured in compliance with the PNG Government's Finance Management Act.
 - c) The following health related commodities shall be purchased using the GFATM funds: Drugs – Artemisinin in capsules, tablets and injection form; Products – Long Life Insecticide Treated Nets, Rapid Diagnostic Test Kits and microscopes
 - d) The microscopes and spare parts will be procured for the HSIP through a special arrangement held by Western Pacific Region, WHO which has a special bulk purchase cost of USD 1,000 per unit rather than the best rate available through competitive bidding of USD 2,000 per unit. WHO will order the microscopes and upon delivery the HSIP shall reimburse WHO for the costs and service fee.
 - e) Other items to be procured through WHO include the Rapid Diagnostic Test kits (RDT). The current best price bought through WHO will be USD 1.10 per test.
39. Annex 9 of the R3 malaria Grant PSM plan states that according to Section 40 of the Public Finances (Management) Act 1995, tenders are to be publicly invited for purchases of stores or supply of works and services or disposal of stores if the estimated cost exceeds PGK 100,000, subject to certain exemptions. Such purchases and disposals over PGK 100,000 are controlled and regulated by the Supplies and Tenders boards established by the Minister under Section 39 of the aforementioned Act. One of these is the PSTB, which is mandated for purchase and disposal of medical supplies and equipment, supply of works and services peculiar to the operations of the NDoH. The PSTB has the authority to approve tenders up to PGK 1,000,000 and if the value of the tenders is over these limits, they should forward their recommendations along with supporting documentation to the CSTB.
40. Annex 9 also states that 'Invitations to bid will be sent to all internationally recognized suppliers, each of which had been identified as capable of supplying the product to meet WHO and NDoH (PNG) specifications'.

Round 6 TB Grant

41. The NDoH PSM plan for the Global Fund Round 6 TB Grant²⁴ includes:
- a) NDoH, using HSIP, will be the PR for the Global Fund Grant.
 - b) The PR will execute its daily functions through the Disease Control Branch.
 - c) The PR will use the procurement mechanisms of the WHO to procure health and non-health products, using the R6 grant. The PR will only procure stationery for training (other than training modules) on a need basis, based on written and detailed regulations mentioned in the *Financial Management Manual*. This manual emphasizes the need for transparency and competitiveness.
 - d) As far as the TB grant is concerned, WHO will use the direct procurement mechanism of the Global Drug Facility (GDF) for the patient drug kits and laboratory kits.

²³ Procurement and Supply Management Systems Plan for Global Fund Grant PNG-304-G01-M (revised version) February 2005

²⁴ Procurement and Supply Management Systems plan for Global Fund Grant PNG-607-G03-T dated 1 August 2006.

- e) WHO will procure most of the items for the grant. Procurement will be in large quantities whenever possible, in order to achieve economies of scale. WHO will procure all items based on competitive procurement methods.

E.3.2. PNG Government Procurement Requirements

42. Procurement of works, goods and services by National Departments, Provincial Administrations, Public Bodies (collectively known as Agencies) and Supply and Tenders Boards is governed by the Good Procurement Manual²⁵ developed by the CSTB to help agencies achieve ‘Value for Money’ outcomes in the contracts that they establish; the Financial Management Manual²⁶ for instruction and guidance regarding procurement; and the Public Finances (Management) Act 1995²⁷ which governs State tenders and contracts.
43. The procurement framework and principles are found in part 11 of the *Financial Management Manual*²⁸. Part 11 of the manual identifies the following five fundamental procurement principles:
- value for money,
 - transparency,
 - effective competition,
 - fair and ethical dealing, and
 - efficiency and effectiveness.
44. The main objective of PNG Government procurement is to obtain “value for money” in the acquisition of goods and services using ethical and transparent processes whilst promoting open and effective competition.

E.3.2.1. Major and Minor Procurement

45. The PNG Government’s Financial Management Manual²⁹ states that the procurement processes to be used are determined by the value (in PGK) of the procurement. This is summarized in the table below.

Figure 3: PNG Government Procurement Process Requirements by Value

Procurement Value	Classification	Process	Detailed Reference
< PGK 100,000	Minor	Quotes	Part 12
>= PGK 100,000	Major	Public Tender	Part 13

46. According to the Public Finance (Management) Act³⁰, there are only two available processes that Departments and other government agencies can use to establish major contracts:

²⁵ PNG Central Supply & Tenders Board Good Procurement Manual Version 4 – 15 January 2005. Available at: <http://www.cstb.gov.pg/good-procurement-manual.php>

²⁶ PNG Department of Finance *Financial Management Manual* printed in January 2006. Available at: <http://www.pcabii.org/resources.jsp>

²⁷ Available at: <http://www.pcabii.org/resources.jsp>

²⁸ PNG Government - Department of Finance *Financial Management Manual* Volume 2. Part 11 – Procurement – Framework and Principles. P.11-1. May 2005.

²⁹ Ibid. P. 11-2

³⁰ PNG Government *Public Finances (Management) Act 1995*

- a) Public Tender, or
 - b) Certificate of Inexpediency.
47. The processes are set down in law and are not negotiable. Other contracting processes such as direct price negotiation, pre-qualification, selective tendering, etc. are illegal and not acceptable.

Public Tenders

48. Part 13, Division 2 of the Financial Management Manual requires that all procurements of PGK 100,000 or more are to be conducted through the relevant Supply and Tenders board. Division 2 of the Financial Management Manual requires that public tenders are to be used for procurements of goods, works and services with a value greater than PGK 100,000 and that selective tenders are not allowed. Division 3 of the Financial Management Manual requires that for goods and services where the tender is valued at greater than PGK 100,000 it must be advertised in a national newspaper with large circulation.

Certificates of Inexpediency

49. The PNG government's Financial Management Manual states that a Certificate of Inexpediency may only be issued in exceptional circumstances which are: Natural Disaster, Defence Emergency; Health Emergency or Situation of Civil Unrest.³¹

International Financing Arrangements

50. In circumstances where the terms of an agreement with an international organisation under which the Government of Papua New Guinea is to receive monies, make specific provision for the manner in which tenders will be invited for contracts performed as a result of the agreement, other procurement processes may be used.³² This enables NDoH to procure from WHO and UNICEF vide the Global Fund grants, as long as the over riding principle of 'value for money is obtained'.

E.3.2.2. Cash Advances

51. The management of advances is governed by the PNG Government's Financial Management Manual. Part 20 of the manual states that advances are only allowed for:
- a) Maintenance and operations of a cash office,
 - b) Travelling expenses,
 - c) Payment of salaries, wages and allowances,
 - d) Recreation leave or furlough leave due to the officer,
 - e) Payments that cannot conveniently be made at a cash office,
 - f) Any other matter approved by the Secretary for Finance
52. The Financial Management Manual states that:
- a) For international travel, all officers will acquit travelling advances within 14 days of return

³¹ PNG Government Department of Finance *Financial Management Manual* – Division 4 – Certificate of Inexpediency – 13-9

³² PNG Government *Public Finances (Management) Act* 1995. S.40 (3) (d)

- to their home station.
- b) For domestic travel, within seven days of return from duty travel, the officer will acquit the advance by submitting an acquittal form. Any refund due will be paid by the advance holder direct to the Cash Office and the original receipt attached to the acquittal form supporting this payment.
 - c) No advance is to be made for accommodation costs (accommodation costs are paid by way of an Integrated Local Purchase Order and Claim – ILPOC).
 - d) No second advance is to be made when the first advance is outstanding.
 - e) Payment of the advance is subject to the condition that should the officer fail to acquit an advance within the prescribed time or fail to refund any balance due, the amount due will be recoverable from the salary of the officer in not more than three consecutive installments or any other payments due to him.
 - f) Should any advance prove to be excessive, the surplus must be repaid to the issuing office immediately the surplus becomes apparent.

F. OIG Investigation

F.1. OIG Investigations Unit

53. See Annex 1.

F.2. Applicable Concepts of Fraud and Abuse

54. See Annex 1A.

F.3. Origin and Scope of the Investigation

55. This investigation was triggered by the recommendations that followed from the OIG's country audit of PNG grants in November 2010.³³ OIG's investigation focused on NDoH's procurement of pharmaceuticals and health products during the Global Fund R3 (malaria), R4 (HIV) and R6 (TB) grants.

56. In April 2011, the OIG launched an investigation of NDoH's procurement procedures and practices in order to ascertain: that NDoH procurement processes complied with relevant policies and procedures (both those of the PNG government and Global Fund); that the procurements delivered value for money; and if any fraudulent activity tainted the procurement process.

57. This investigation also focused on NDoH's management of cash advances in order to ascertain if NDoH's management of cash advances complied with relevant policies and procedures and the extent and amount of any unacquitted advances.

58. The OIG has not sought independent legal advice regarding specific issues relating to the national procurement regulations; it relied on a plain reading of the statute as well as representations made by the LFA and individuals with a professional knowledge of national public procurement activities interviewed in the course of the investigations.

³³ Audit of Global Fund Grants to the Independent State of Papua New Guinea – 5 July 2012 – Report No: GF- OIG-10-004. Copy of the audit report is available at: <http://www.theglobalfund.org/en/oig/reports/>

F.3.1. Due Process

59. The OIG provided the Global Fund Secretariat, the CCM and the PR (NDoH) an opportunity to review and comment on the OIG's findings prior to the finalization of this report. The Global Fund Secretariat provided its comments to the OIG's findings on 2 October 2013. These comments have been considered and incorporated where deemed appropriate.

60. On the 10th December 2013, the OIG requested the NDoH and CCM to review this investigation report and provide comments by 24th December.³⁴ In consultation with the CCM, the OIG extended this deadline to the 10th of January 2014, however no comments to the report were received. Subsequently, the OIG wrote to the Minister of Health, requesting comments to this report.³⁵ The Minister replied that the Acting Secretary of NDoH would be asked to ensure that this was done.³⁶ As at 31st January, no comments have been received from in country.

F.3.2. Exchange Rate

61. This report describes amounts in United States Dollars (USD) and Papua New Guinea Kina (PGK). For the purposes of this report, an annual average exchange rate from PGK to USD was calculated for each of the years 2005 to 2010, the years of transactions covered in this report³⁷ with the applicable year's average exchange rate being applied to the corresponding year of any NDoH transaction.

Figure 4: - Year by Year PGK / USD

Year	USD	PGK
2005	1.00	3.0326
2006	1.00	2.8630
2007	1.00	2.8159
2008	1.00	2.5878
2009	1.00	2.6225
2010	1.00	2.5829

G. Investigation Findings

G.1. Overview

G.1.1. NDoH Staff Engaged in Irregular Procurement Procedures

62. This investigation found sufficient credible and substantive evidence that officials within NDoH engaged in irregular procurement procedures that did not comply with either PNG Government or Global Fund procurement requirements.

³⁴ Email from OIG to PNG CCM and NDoH, dated Dec 10, 2013.

³⁵ Email from OIG to PNG Minister of Health, dated Jan 20, 2013.

³⁶ Email from the PNG Minister of Health to OIG, dated Jan 21, 2013.

³⁷ Based on historical exchange rates at: www.oanda.com/currency/historical-rates/.

63. NDoH’s irregular procurements resulted in unwarranted and additional costs to the Global Fund grants of USD 105,079 due to the following PNG Government procurement principles³⁸ not being respected:

- a) Value for money;
- b) Transparency; and
- c) Effective competition.

G.1.2. NDoH Staff Engaged in Irregular Cash Advance Procedures and Failed to Recover Unacquitted Amounts

64. During this investigation, OIG examined NDoH’s Global Fund related cash advances. The investigation found sufficient credible and substantive evidence that NDoH’s HSIP did not manage advances in accordance with the requirements of the PNG Government’s *Financial Management Manual*³⁹ with cash advances being unacquitted and NDoH failing to take any action to recover unacquitted amounts. Verification of cash advances found that NDoH frequently made further advances to officials despite previous advances remaining unacquitted contrary to PNG Government policy.

65. It was also found that contrary to the *Financial Management Manual*⁴⁰, which states that no advance is to be provided for accommodation costs and that accommodation expenses are to be paid using an Integrated Local Purchase Order and Claim (ILPOC) form, advances were made for accommodation costs and unspent balances were outstanding with a number of hotels.

G.2. Purchase of Pharmaceuticals and Health Products

G.2.1. Vendor 1

66. Vendor 1’s principal business is listed as the supply of pharmaceutical products.⁴¹

67. This investigation identified four suspect procurement transactions involving vendor 1, between September 2005 and December 2009, totalling PGK 1,726,200 (USD 624,800) where procurement rules were disregarded resulting in “single source” procurement, lowest bids being ignored and ultimately “Value for Money” (the Government’s need at the lowest total cost) not being achieved.

Figure 5: – Table of Suspect NDoH Procurements from vendor 1

³⁸ PNG Department of Finance *Financial Management Manual* printed in January 2006. Available at: <http://www.pcabii.org/resources.jsp>

³⁹ Ibid.

⁴⁰ *Financial Management Manual* – Part 20 ‘Advances Management’

⁴¹ Current Extract for Vendor 1 Limited as at 27 May, 2011.

Ref	Date	Amount PGK	Service
15565 Malaria	21/11/07	235 000	ICT Malaria Test Kits 500 units @ PGK 470 each
7835 TB	12/09/07	95 000	Supply of 10 microscopes
3078 Malaria	26/09/05	480 600	ART Injections 80mg X 20,000 (PGK 57 000) 40mg X 20,000 (PGK 39 600) Artemether tablets 50mg X 12 – 80 000 pkts (PGK 384 000)
16730 Malaria	23/12/09	915 600	Procurement and distribution of RDTs to all health facilities. ART injection -80mg X 80,000 units (PGK 137 600) Artesunate or Artemether tablets – 200,000 pkts (50mg X 12) (PGK 778 000)
TOTAL		1,726,200	

G.2.1.1. Malaria - 15565

68. This procurement relates to NDoH's purchase of ICT malaria test kits from vendor 1 in 2009 funded with Global Fund R3 malaria grant⁴² funds (Annex 3).

69. A review of the procurement documentation found that on 2 June 2009, vendor 1 sent NDoH an invoice for delivery of 500 ICT malaria test kits (Annex 4) at a unit cost of PGK 470 (USD 179.21) and a total cost of PGK 235,000 (USD 89,609). The kits were received into store by NDoH on 4 June 2009 (Annex 5).

70. The file included a document showing that three companies bid to supply 2,000 RDT test kits to NDoH (Annex 6): Boucher Muir (PNG), North West Medical, and vendor 1. There was a total price difference of PGK 534,787 (USD 203,922) between the winning bidder, vendor 1, and the lowest bidder, Boucher Muir (PNG). This translates to a price of PGK 483.78 per kit (vendor 1) versus PGK 216.38 per kit (Boucher Muir) or PGK 4.84 per test (USD 1.84) versus PGK 2.16 (USD 0.82) per test as each kit contains 100 tests.

Figure 6: – NDoH Quotations Received for RDT Test Kits.

Quotations and scheduled from:	Amount:
1) <u>Boucher Muir (PNG)</u>	<u>482,764.14</u>
2) <u>NORTH WEST MEDICAL</u>	<u>777,360.00</u>
3) <u>BORAKO PERKE</u>	<u>967,551.62</u>

71. Despite vendor 1 actually delivering test kits (500) at a price of PGK 470 (USD 179), PGK 0.14 less per kit than the quoted price, the decision to specify “ICT Combo Kits” and award vendor 1 the contract, rather than obtain an equally suitable kit from Boucher and Muir cost

⁴² Global Fund grant PNG-304-G01-M

the grant an additional PGK 126,809 (USD 48,354).

72. NDoH's specification of the ICT Malaria Combo Cassette Test (Annex 7) stated that "although there were many brands on the market today, PNG had been using a specific brand recommended and supplied by WHO". NDoH's RDT specification also stated that "the malaria control program will continue to use the same test being introduced now specifically because:

- a) training has been conducted widely using the current test;
- b) health workers have been introduced to this specific test and they have been able to
- c) recognize the test quickly;
- d) there is no need to confuse health workers with different tests;
- e) all tests are slightly different;
- f) storage conditions are different;
- g) length of time is variable; and
- h) packaging is different."

73. This procurement used a "Certificate of Inexpediency" (COI) issued by the Supply and Tenders Board on 19/2/2008 that circumvented the requirement to use the public tender process and engage a selective tender process.

74. Documents contained within the procurement file indicate that this procurement, based on a COI approved on 19 February 2008, was ordered on 25 April 2009 and delivered into store on 4 June 2009. The COI was not issued on the basis of: Natural Disaster, Defence Emergency; Health Emergency or Situation of Civil Unrest, which are the only situations for the issue of a COI according to the *Financial Management Manual*.⁴³

75. The fact that this order was not placed until 14 months after the issue of the certificate negates any claim that the "reasons considered inexpedient to invite tenders are: malaria test kits are urgently required to complete the current malaria program in each province".

76. The PSM plan submitted by NDoH in respect of this grant states that: "other items to be procured through WHO include the Rapid Diagnostic Test Kits. For the RDT we will again be using the best value for money and the wide experience WHO has with RDTs from the many different manufacturers worldwide. The current best price bought through WHO will be USD 1.10 per test."⁴⁴ This procurement was not undertaken through WHO and each test kit purchased from vendor 1 in this procurement cost USD 1.84 per test kit.

77. The conduct of this procurement was improper, as it relied on an invalid COI and there appears to be no reason as to why a public tender process could not have been engaged in.

78. The *Financial Management Manual*⁴⁵ states that COIs "have enabled Departments and agencies to avoid the public tendering process and that certificates have generally been issued on the basis that there is only one suitable supplier or the department has run out of time to conduct a proper tendering process". It also states that "closer examination of the former justification (there is only one suitable supplier) generally means that the specification for the goods or

⁴³ PNG Government Department of Finance *Financial Management Manual* – Division 4 – Certificate of Inexpediency – 13-9

⁴⁴ Global Fund Grant: PNG-304-G01-M Procurement and Supply Management Systems Plan. Revised February 2005. P.12.

⁴⁵ PNG Government Department of Finance *Financial Management Manual* – Division 4 – Certificate of Inexpediency – 13-10

services is biased in some way and the second justification (lack of forward planning by departments) is no longer acceptable”.

79. This investigation finds that this procurement relied on an outdated COI to avoid the public tendering process and involved a specification for goods that was biased. This investigation also finds that this procurement was not consistent with the “value for money” and “effective competition” fundamentals of the PNG Government’s procurement system, resulting in an additional and unwarranted cost to the program of at least USD 40,809 (PGK 107,021) if ICT Combo malaria RDT kits were sourced from another supplier, and up to USD 48,354 (PGK 126,808) if an equally or more suitable RDT kit such as CareStart or Parascreeen was purchased from one of the other bidders.

G.2.1.2. TB - 7835

80. This procurement relates to NDoH’s purchase of ten “Olympus” brand microscopes valued at PGK 95,000 (USD 33,736) from vendor 1 in 2007, funded via a Global Fund R6 TB grant (Annex 8).

81. On 28 August 2007, the NDoH faxed tender specifications to three local suppliers: vendor 1, Supreme and EBOS for the supply of ten microscopes. NDoH specified “Olympus” brand microscopes and received quotes of PGK 95,000 (USD 33,736) from vendor 1, PGK 99,756 (USD 35,425) from Supreme for “Olympus” brand microscopes and PGK 55,400 (USD 19,673) from EBOS to supply “Leica CME” microscopes.

82. The PSM plan submitted by NDoH in respect of this grant stated that the PR will use the procurement mechanisms of WHO to procure health and non-health products, using the Round 6 grant. Fifteen Binocular microscopes at an estimated cost of USD 1,659.52 (PGK 4,673) each would be procured by WHO from the Global Drug Facility (GDF).⁴⁶

83. This procurement did not comply with the PSM plan in that the microscopes were not procured through WHO and were procured directly from vendor 1. The price per microscope from vendor 1 was USD 3,318 (PGK 9,343), double the estimated price in the PSM plan.

84. NDoH’s procurement of “Olympus” microscopes from vendor 1 unnecessarily cost the grant at least PGK 39,600 (USD 14,062) and as much as PGK 48,285 (USD 17,147).

G.2.1.3. Malaria - 3078

85. This procurement relates to the July 2005 purchase of: 80,000 packets of 50 mg Artemether tablets at a cost of PGK 384,000 (USD 126,624); 20,000 80mg artemether ampoules at a cost of PGK 57,000 (USD 18,795); and 20,000 40mg artemether ampoules at a cost of PGK 39,600 (USD 13,058) from vendor 1 (Annex 9). Total cost of this procurement was PGK 480,600 (USD 158,477). The procurement file included delivery notes indicating that the artemether tablets were received by NDoH on 11 August 2005 (Annex 10) and the artemether ampoules were received by NDoH on 22 July 2005 (Annex 11).

86. Examination of the procurement file found that with regard to the Artemether tablets, quotes were received as follows (Annex 12): vendor 1 PGK 384,000 (USD 126,624); Multichem PGK 242,345 (USD 79,913) and PGK 580,260.59 (USD 191,340); Boucher & Muir PGK 380,456 (USD 125,455) and PGK 276,221 (USD 91,083); and vendor 2 PGK 27,200 (USD 8,969). Vendor 1’s bid was approved on 20 July 2005.

⁴⁶ Ibid.

Figure 7: - Quotations Received by NDoH re Supply of Artemether Tablets

Supplier (non manufacturer)	Vendor 2	Multichem Lab	Boucher & Muir	Boucher & Muir	Vendor 1	Multichem Lab
Classification (L)= Local (O)= Overseas	L	L	L	L	L	L
Offer No:	4	1	2C	2	3	2B
Qualified PNG MSB	Y	Y	Y	Y	Y	Y
Manufacturer (name or code)	Sino pharm/China	NambaPharma/Vietnam	Medopharm/India	Microlabs/India	KPC/China	Microlabs/India
Qualified PNG MSB	N	Y	Y	Y	Y	N
Product qualified PNG MSB	N	Y	N	N	Y	N
Pharmacopeia (name and year)						
Shelf life (in months)						
Commercial						
Delivery lead time (weeks)	2-3 (ex-stock pom)	4	8-10	8-10	Ex-stock	8-10
Incoterms	FIS	FIS	FIS	FIS	FIS	FIS
Unit price on offer	0.3400	0.9300	1.0600	1.4600	4.800	2.1500
Currency on offer	PGK	USD	USD	USD	PGK	USD
Exchange rate	1.0000	0.3070	0.3070	0.3070	1.0000	0.3070
Unit price in PGK	0.34	3.03	3.45	4.76	4.80	7.00
Total value of offer	27,200	242,345.28	276,221.50	380,456.03	384,000.00	580,260.59
Local preference – 20%						
Variation vs lowest						

87. If there was an NDoH requirement that both the manufacturer and the product be qualified by PNG's Medical Standards Board (MSB), Multichem should still have won the tender based on price with a quote of PGK 242,345 (USD 79,913) versus vendor 1's quote of PGK 384,000 (USD 126,624), a difference of PGK 141,655 (USD 46,710).

88. Examination of the same procurement file found that with regard to the purchase of 20,000 Artemether Injections (80mg), quotes were received as follows (Annex 13): vendor 2 PGK 40,400 (USD 13,321); Multichem PGK 41,585 (USD 13,712); Boucher & Muir PGK 41,693.81 (USD 13,748) and PGK 49,511.40 (USD 16,326); and vendor 1 PGK 57,000 (USD 18,795). Vendor 1's bid (the highest bid) was approved on 20th July 2005.

Figure 8: - Quotations Received by NDoH re Supply of Artemether Ampoules (80 mg)

Supplier (non manufacturer)	Vendor 2	Multichem Lab	Boucher & Muir	Boucher & Muir	Vendor 1
Classification (L)= Local (O)= Overseas	L	L	L	L	L
Offer No:	4	2	1B	1	3
Qualified PNG MSB	Y	Y	Y	Y	Y
Manufacturer (name or code)	Sino pharm/China	China Yanzhou Xier/China	Karwai Pharma/China	Ipca lab/India	KPC/China
Qualified PNG MSB	N	Y	N	Y	Y
Product qualified PNG MSB	N	N	N	Y	Y
Pharmacopeia (name and year)					
Shelf life (in months)					
Commercial					
Delivery lead time (weeks)	2-3	8-10	4	4	Ex-stock
Incoterms	FIS	FIS	FIS	FIS	FIS
Unit price on offer	2.0200	0.6383	0.6400	0.7600	2.8500
Currency on offer	PGK	USD	USD	USD	PGK
Exchange rate	1.0000	0.3070	0.3070	0.3070	1.0000
Unit price in PGK	2.02	2.08	2.08	2.48	2.85
Total value of offer	40,400.00	41,585.23	41,693.81	49,511.40	57,000.00
Local preference – 20%					
Variation vs lowest					

89. Again, if there was an NDoH requirement that both the manufacturer and the product be qualified by the PNG MSB, Boucher & Muir would still have won the tender based on price with a quote of PGK 49,511 (USD 16,326) versus vendor 1's quote of PGK 57,000 (USD 18,795), a difference of PGK 7,488 (USD 2,469).

90. Examination of the same procurement file found that with regard to the purchase of 20,000 Artemether injections (40 mg), quotes were received as follows (Annex 14): Multichem PGK 25,515.74 (USD 8,413); vendor 2 PGK 30,000.00 (USD 9,892); Boucher & Muir PGK 34,527.69 (USD 11,385) and PGK 36,482.08 (USD 12,029); and vendor 1 PGK 39,600.00 (USD 13,058). Vendor 1's bid (the highest) was approved on 20 July 2005.

Figure 9: - Quotations Received by NDoH re Artemether Ampoules (40 mg)

Supplier (non manufacturer)	Multichem Lab	Vendor 2	Boucher & Muir	Boucher & Muir	Vendor 1
Classification (L)= Local (O)= Overseas	L	L	L	L	L
Offer No:	2	4	1B	1	3
Qualified PNG MSB	Y	Y	Y	Y	Y
Manufacturer (name or code)	China Yanzhou Xier/China	Sino pharm/China	Kaiwai Pharma/China	Ipca lab/India	KPC/China
Qualified PNG MSB	Y	N	N	Y	Y
Product qualified PNG MSB	N	N	N	Y	Y
Pharmacopeia (name and year)					
Shelf life (in months)					
Commercial					
Delivery lead time (weeks)	8-10	2-3 (ex-stock pom)	4	4	Ex-stock
Incoterms	FIS	FIS	FIS	FIS	FIS
Unit price on offer	0.3917	1.5400	0.5300	0.5600	1.9800
Currency on offer	USD	PGK	USD	USD	PGK
Exchange rate	0.3070	1.0000	0.3070	0.3070	1.0000
Unit price in PGK	1.28	1.54	1.73	1.82	1.98
Total value of offer	25,515.74	30,800	34,527.69	36,482.08	39,600.00
Local preference – 20%					
Variation vs lowest					

91. Again, if there was an NDoH requirement that both the manufacturer and the product be qualified by PNG’s MSB, Boucher & Muir should still have won the tender based on price with a quote of PGK 36,482.08 (USD 12,029) versus vendor 1’s quote of PGK 39,600 (USD 13,058), a difference of PGK 3,117.92 (USD 1,027).

92. Vendor 1’s three winning bids (Artemether Tablets – 80,000 / Artemether Injection (40 mg) – 20,000 / Artemether Injection (80 mg) – 20,000) were included in a contract between the PSTB on behalf of NDoH and vendor 1 signed on 20th day of July 2003 for a total contract price of PGK 854,454.55 (USD 281,756). The contract also included the supply of non-Global Fund Grant related medical products.

93. OIG’s investigation found that two other qualified suppliers were able to provide the items at a total saving of PGK 152,262 (USD 50,208) and that this procurement did not comply with NDoH procurement policy as it did not represent “value for money”, which is described as “obtaining goods and services that best meet the governments need at the lowest cost”.

94. This procurement also did not comply with Article 18 (f) of the relevant grant agreement⁴⁷ which requires purchasers to “use good procurement practices including competitive purchasing from qualified manufacturers and supplies to attain the lowest price of products, consistent with quality assurance”.

⁴⁷ Global Fund Grant: PNG-304-G01-M

G.2.2. Vendor 2

95. OIG identified 23 suspect procurement transactions involving vendor 2, between May 2007 and December 2008, totalling PGK 1,001,074 (USD 309,502).

Figure 10: - Suspect Procurements from vendor 2

Ref	Date	Amount PGK	Service
13439 HIV	19/12/08	299,200	2720 packets of Efavirenz (Estiva) 600mg tablets (30 tabs per pack)
7027 HIV	08/06/07	4,250	100 packets of Nevirapine tablets (Nevivir) 200mg (60 tabs per pack)
7184 HIV	29/06/07	25,000	600 packets of Nevirapine tablets (Nevivir) 200mg (60 tabs per pack)
6485 HIV	24/04/07	850.00	20 bottles of Nevirapine tablets (Nevivir) 200mg (60 tabs per bottle)
	22/05/07	16,660	392 bottles of Nevirapine (Nevivir) tablets 200mg (60 tabs per bottle)
	10/05/07	1,065.60	6 bottles of Efavirenz (Estiva) tablets 600mg (20 tabs per bottle)
		127.50	3 bottles of Nevirapine (Nevivir) tablets 200mg (60 tabs per bottle)
	17/05/07	85.00	2 bottles of Nevirapine (Nevivir) tablets 200mg (60 tabs per bottle)
		2,469.60	20 bottles of Lamivudine 150mg + Nevirapine (Zidolam) tablets (60 tabs per bottle)
6955 HIV	12/06/07	99,840	600 bottles of Efavirenz (Estiva) tablets 600 mg (30 tabs per bottle)
9621 HIV	17/05/08	132,000	1,200 bottles of Efavirenz (Estiva) tablets 600mg (30 tabs per bottle)
		122,400	2,400 bottles of Nevilast 30 (60 tabs per bottle)
		34,030	900 packs of Lamistar 30 (60 tabs per pack)
11634 HIV	31/10/08	21,600	80 bottles of Abacavir tablets 300mg (60 tabs per bottle)
		47,496	100 packs of Lopinavir/Ritonavir (Ritocom) tablets 200/50 mg (120 tablets per pack)
		24,750	150 packs of Tenofovir tablets 300 mg (30 tablets per pack)
		17,700	30 packs of Saquinavir tablets 500mg (120 tabs per pack)
		1,200	20 packs of Aciclovir tablets 200 mg (10 X 10 tabs per pack)
		30,000	500 packs of Fluconazole tablets 200mg (10 X 10 tabs per pack)
		40,000	400 packs of Azithromycin tablets 500mg (10 X 10 tabs per pack)
7947 HIV	27/09/07	34,000	800 bottles of Nevirapine (Nevivir) tablets 200mg (60 tabs per bottle)
13415 HIV	18/12/08	16,350	3270 packs of Cotrimozazole tablets 400 + 80 mg (100 tabs per pack)
		30,000	1000 packs of Ciprofloxacin tablets 500 mg (100 tabs per pack)

G.2.2.1. HIV – 13439

96. This procurement relates to a NDoH HIV R4 (Phase I) PGK 299,200 (USD 115,619) purchase of 2,720 bottles (30 tablets per bottle) of 600mg Efavirenz tablets from vendor 2 in December 2008. This equates to USD 42.50 per pack.

97. According to documentation in the relevant procurement file provided by NDoH, on 19 December 2008, the NDoH's acting director of disease control sent a memo to the director of NDoH's HSIP requesting the reprogramming of funds to procure ARV and drugs for the treatment of opportunistic infections for patients living with HIV and AIDS, as funds from the Global Fund were delayed until January 2009 (Annex 15).

98. This procurement appears to be a single source procurement as the relevant procurement file only contained one quotation, being that from vendor 2, dated 18 December 2008, and addressed to NDOH's HIV technical advisor (Annex 16).

99. PNG Government regulations require all major procurements (procurements of PGK

100,000 and above) to be conducted via a public tender process and through the relevant Supply and Tenders Board. Selective tenders are not allowed as they restrict competition.

100. Global Price Reporting Mechanism (GPRM) data shows that the 2008 medium transaction price for Efavirenz 600 mg tablets manufactured by Hetero Drugs Ltd (India) was USD 10.01 (PGK 25.90) for 30 tablets.⁴⁸

101. The PSM plan submitted by NDoH in respect of this grant⁴⁹ states that “NDoH through the HSIP MB⁵⁰ can purchase from sole suppliers, in the circumstances where the approved ARV suppliers are the sole suppliers, using the Certificate of Inexpediency (COI) process, described in the PNG Government’s Finance Management Act”. This procurement was not undertaken via a COI.

102. The PSM plan in respect of this grant also requires a tender for any purchase above PGK 100,000 and indicates a price of USD 13.71 per pack from WHO approved suppliers.

103. Given that this procurement did not comply with PNG Government procurement policies and procedures and that it is evident from WHO GPRM data that a higher price was paid -PGK 110.00 (USD 42.50) per packet, versus an average price PGK 25.90 (USD 10.01) per pack, this procurement resulted in additional and unwarranted costs to the Global Fund grant of an additional PGK 228,691 (USD 88,373).

G.2.2.2 HIV - 7027

104. This procurement relates to a NDoH HIV R4 (Phase I) PGK 4,250 (USD 1,509) purchase of 100 bottles of Nevirapine 200 Mg (Nevir) tablets from vendor 2 via a direct procurement process in June 2007. This equates to USD 15.09 per bottle.

105. According to documents in the relevant procurement file provided to OIG by NDoH, the procurement was effected via an Inter Office Memorandum from the acting director of NDoH’s Disease Control Branch to the director of the HSIP Program Management Branch (Annex 17).

106. The file contains a single quote from vendor 2 (Annex 18) that appears to have been faxed to the NDoH on 12 June 2007. PNG Government policy requires three quotations for purchases valued at less than PGK 5,000 (USD 1,775).

107. WHO GPRM data shows that the 2007 medium transaction price for Nevirapine 200 mg tablets manufactured by Hetero Drugs Ltd (India) was USD 6.74 (PGK 18.97) for 30 tablets.⁵¹

108. The PSM plan submitted by the NDoH in respect of this grant states that “NDoH through the HSIP MB can purchase from sole suppliers, in the circumstances where the approved ARV suppliers are the sole suppliers, using the Certificate of Inexpediency (COI) process, described in the PNG Government’s Finance Management Act.” This procurement was not

⁴⁸ Based on pricing for lower middle-income countries with WHO defined daily dose (DDD) of 1 X 600 mg tablet per day (365 tablets per year) and an annual treatment cost of USD 121.87 per year (USD 0.333 per tablet). WHO GPRM database can be found at: <http://apps.who.int/hiv/amds/price/hdd>

⁴⁹ PNG Government Procurement and Supply Management Systems Plan for Global Fund Grant PNG-404-G02-H. 8 March 2005.

⁵⁰ Program Management Branch

⁵¹ Based on pricing for lower middle-income countries with WHO DDD of 1 X 200mg tablet per day and an annual treatment cost of USD 41.04 (USD 0.1124 cents per tablet).

undertaken via a COI.

109. The same PSM plan indicates that this product will be purchased from a WHO approved supplier at an approximate estimated cost of USD 9.31 per bottle. The price paid by NDoH regarding this procurement from vendor 2 was USD 15.09 per pack, over USD 6.00 per bottle more.

110. Given that this procurement did not comply with PNG Government procurement policy and that it is evident (from WHO GPRM data) that higher than market price was paid, USD 15.09 per pack, versus a medium transaction price of USD 6.74 per bottle, NDoH's actions resulted in additional and unwarranted costs to the grant corresponding to the difference between the price paid to vendor 2 and the medium transaction price which is PGK 23.51 (USD 8.35) per bottle, which totals PGK 2,351 (USD 835).

G.2.2.3. HIV - 7184

111. This procurement relates to an NDoH HIV R4 (Phase I) PGK 25,500 (USD 9,055) purchase of 600 bottles of Nevirapine 200 Mg (Nevivir) tablets from vendor 2 via a direct procurement process in June 2007 in contravention of PNG government procurement requirements. This equates to PGK 42.50 (USD 15.09) per bottle.

112. According to documents in the relevant procurement file provided to OIG by NDoH, the procurement was effected via an Inter Office Memorandum from the acting director of NDoH's Disease Control Branch to the director of the HSIP Program Management Branch (Annex 19).

113. The relevant procurement file provided to OIG by NDoH contains a single quote from vendor 2, dated June 19, 2007 (Annex 20).

114. PNG Government policy requires that three written quotations are to be obtained for purchases valued between PGK 5000 and under PGK 100,000.

115. WHO GPRM data shows that the 2007 medium transaction price for Nevirapine 200 mg tablets manufactured by Hetero Drugs Ltd (India) was USD 6.74 (PGK 18.97) for 30 tablets.⁵²

116. The PSM plan submitted by the NDoH in respect of this grant states that "NDoH through the HSIP MB can purchase from sole suppliers, in the circumstances where the approved ARV suppliers are the sole suppliers, using the Certificate of Inexpediency (COI) process, described in the PNG Government's Finance Management Act." This procurement was not undertaken via a COI.

117. The same PSM plan indicates that this product will be purchased from a WHO approved supplier at an approximate estimated cost of USD 9.31 per pack. The price paid by NDoH regarding this procurement from vendor 2 was USD 15.09 per pack.

118. Given that this procurement did not comply with PNG Government policies and procedures and that it is evident (from WHO GPRM data) that higher than market price was paid, PGK 42.49 (USD 15.09 per bottle), versus a medium transaction price per bottle of PGK 18.97 (USD 6.74), NDoH's actions resulted in an additional and unwarranted cost to the grant corresponding to the difference, which totals PGK 14,113 (USD 5,011).

⁵² Ibid.

G.2.2.4. HIV – 6485

119. This procurement relates to an NDoH HIV R4 (Phase I) PGK 21,250 (USD 7,546) single source procurement of 417 bottles of Nevirapine⁵³ (Nevivir) 200mg tablets from vendor 2 via a direct procurement process in April 2007, in contravention of PNG Government procurement requirements.

120. According to documents in the relevant procurement file provided to OIG by NDoH, this procurement was based on an Inter-Office Memorandum from the acting director of the NDoH's Disease Control Branch to the director of the HSIP Program Management Branch, dated 13 April 2007, requesting funding for urgent procurement of antiretrovirals (Annex 21).

121. The procurement file provided did not contain a COI as required under PNG procurement regulations and procedures and the procurement file only contained one quotation, that from vendor 2 (Annex 22).

122. Despite the claimed urgency, vendor 2 delivered 417 bottles of Nevirapine (Nevivir) 200mg tablets costing a total of PGK 16,872.50 (PGK 40.46 / USD 14.36 per bottle) over a period of 28 days via four deliveries (Annex 23):

Figure 11: - Delivery Dates of Vendor 2 Procurement

Delivery Date	Product	Quantity
25/04/07	Nevivir-200mg (Nevirapine) 60	20 bottles (of 60 tablets)
10/05/07	Nevivir – 200mg (Nevirapine) 60	3 bottles (of 60 tablets)
17/05/07	Nevivir-200mg (Nevirapine)60	2 bottles (of 60 tablets)
22/05/07	Nevivir-200mg (Nevirapine) 60	392 bottles (of 60 tablets)

123. WHO GPRM data shows that the 2007 median transaction price for Nevirapine 200 mg tablets manufactured by Hetero Drugs Ltd (India) was USD 6.74 (PGK 18.97) for 30 tablets.⁵⁴

124. The PSM plan submitted by NDoH in respect of this grant states that “NDoH through the HSIP MB can purchase from sole suppliers, in the circumstances where the approved ARV suppliers are the sole suppliers, using the Certificate of Inexpediency (COI) process, described in the PNG Government’s Finance Management Act”. This procurement was not undertaken via a COI.

125. The same PSM plan indicates that this product will be purchased from a WHO approved supplier at an approximate estimated cost of USD 9.31 per pack. This price paid by NDoH regarding this procurement from vendor 2 was USD 15.45 per pack, more than USD 6.00 per bottle more.

126. Given that this procurement was not consistent with the PNG Government procurement requirements, and Global Fund grant requirements; NDoH’s actions resulted in additional and unwarranted costs to the grant corresponding to the difference between the medium transaction price of USD 6.74 per bottle and the price paid to vendor 2 regarding this

⁵³ Original order was for 500 bottles with vendor 2 delivering 417 bottles. NDoH only invoiced for 417 bottles.

⁵⁴ Based on pricing for lower middle-income countries with WHO DDD of 1X200mg tablet per day and an annual treatment cost of USD 41.04 (USD 0.1124 cents per tablet).

procurement, the total of which is PGK 13,336 (USD 4,735).

G.2.2.5. HIV - 6955

127. This procurement relates to an NDoH R4 HIV (Phase I) PGK 99,840 (USD 35,455) purchase of 600 bottles of 600mg Efavirenz (Estiva) tablets from vendor 2 via single source procurement in June 2007, in contravention of PNG Government procurement requirements.

128. This procurement was initiated via an Inter-Office memo (Annex 24) dated 4 June 2007, requesting urgent purchase of ARV's to prevent a stock out. Attached to the memo was a quotation from vendor 2 regarding the supply of 600 bottles of Efavirenz (Estiva) 600mg tablets for a price of PGK 99,840 (USD 35,455) or PGK 166.40 (USD 59) per bottle (Annex 25).

129. WHO GPRM data shows that the 2007 median transaction price for Efavirenz 600 mg tablets manufactured by Hetero Drugs Ltd (India) was USD 21.00 (PGK 59.13) for 30 tablets.⁵⁵

130. This procurement did not comply with government procurement requirements or Global Fund grant requirements, and resulted in additional and unwarranted costs to the grant corresponding to the total difference between the median transaction price price of USD 21.00 (PGK 59.13) and the price paid to vendor 2 of USD 59.09 (PGK 166.40) regarding his procurement, a total of USD 22,856 (PGK 64,362).

G.2.2.6. HIV - 9621

131. This procurement relates to a 2008 NDoH R4 HIV PGK 288,420 (USD 111,453) purchase of anti-retroviral drugs: Lamistar; Nevilast and Estiva tablets.

132. This procurement was initiated via an Inter-Office Memo (Annex 26) requesting an emergency procurement of: 900 packs of 'Lamistar 30' (Lamivudine 150mg + Stavudine 30mg); 2400 packs of 'Nevilast 30' (Lamivudine 150mg + Stavudine 30mg + Nevirapine 200mg); and 1,200 packs of 'Estiva' tablets (Efavirenz 600 mg), followed by an Inter Office Memo (Annex 27) requesting release of funds for this procurement and an Inter Office Memo from requesting approval for a Short Form Contract for vendor 2 to supply an urgent order (Annex 28).

133. Vendor 2 provided a quote of PGK 288,420 to supply the drugs as follows: Lamistar 30–900 packs (60 tabs per pack) at a total cost of PGK 34,020; Nevilast 30- 2400 packs (60 tabs per pack) at a total cost of PGK 122,400; and Estiva 600- 1200 packs (30 tabs per pack) at a total cost of PGK 132,000 (Annex 29).

134. The procurement was approved and a short-term contract was entered into between the NDoH and vendor 2 to supply the quoted drugs. The drugs were delivered on 19 May 2008 and full payment received by vendor 2 from NDoH on 27 May 2008 (Annex 30).

135. The drugs were ordered on 10 April 2008, via an NDoH Integrated Local Purchase Order and Claim Form (ILPOC) (Annex 31). The relevant CSTB contract states the terms "Immediately after placement of Order/issuing ILPOC – 21 days as per suppliers quote". The goods were delivered 39 days after the issue of the ILPOC, outside the required terms (Annex

⁵⁵ Based on pricing for lower middle-income countries with WHO defined daily dose (DDD) of 1 X 600 mg tablet per day (365 tablets per year) and an annual treatment cost of USD 255.57 per year (USD 0.700 per tablet). WHO GPRM database can be found at: <http://apps.who.int/hiv/amds/price/hdd/>

32).

136. With regard to this procurement, NDoH paid the following prices for the procured drugs: PGK 37.78 (USD 14.60) for each pack of Lamistar -30; PGK 51.00 (USD 19.70) for each pack of Nevilast – 30; and PGK 110.00 (USD 42.50) for each pack of Efavirenz 600 mg (Annex 33).

137. WHO GPRM data shows that the median transaction prices for these drugs⁵⁶ was: Lamistar⁵⁷-USD 5.00 (PGK 12.93) per bottle of 60 tablets⁵⁸; Nevilast⁵⁹ USD 11.62 (PGK 30.07) per bottle of 60 tablets⁶⁰ and Estiva⁶¹ USD 13.38 (PGK 34.62) per pack of 30 tablets.⁶²

138. Based on the above, NDoH’s actions resulted in an additional and unwarranted cost to the grant corresponding to the total difference between the median transaction price and the price paid to vendor 2 amounting to PGK 163,134 (USD 63,039).⁶³

Figure 12: - Summary of Prices Charged by Vendor 2 Compared to WHO GPRM Median

Description	Brand Name	No. of packs	Manufacturer	Vendor 2 Price (PGK)	WHO GPRM Median	Difference	Total Difference (PGK)
Lamivudine 150mg+ Stavudine 30mg	Lamistar-30	900	Hetero, India	37.78	12.93	24.94	22,446
Lamivudine 150mg+ Stavudine 30mg+ Nevirapine 200mg	Nevilast-30	2,400	Hetero, India	51.00	30.07	20.93	50,232
Efavirnez 600mg	Estiva-600	1,200	Hetero, India	110.00	34.62	75.38	90,456
						TOTAL	163,134

G.2.2.7. HIV – 11634

139. This procurement relates to a NDoH R4 (Phase 2) PGK 182,746 (USD 70,618) single source procurement of a number of different drugs to treat opportunistic infections from vendor 2 in October 2008.

⁵⁶ In USD for 1 year’s treatment at a WHO recommended usual adult defined daily dose (DDD)

⁵⁷ Lamiduvine 150mg + Stavudine 30 mg tablets

⁵⁸ Based on 1 years treatment costing USD 60.86 and a WHO DDD of 2 tablets per day (USD 0.083 cents per tablet).

⁵⁹ Lamivudine 150mg + Stavudine 30mg + Nevirapine 200 mg

⁶⁰ Based on 1 years treatment costing USD 141.44 and a WHO DDD of 2 tablets per day (USD 0.193 cents per tablet)

⁶¹ Efavirenz 600mg

⁶² Based on 1 years treatment costing USD 162.91 and a WHO DDD of 1 tablet per day (USD 0.466 per tablet).

⁶³ Total price paid to vendor 2 of PGK 288,420, less the total WHO GPRM median transaction price of PGK 125,363 = PGK163,057

Figure 13: - Opportunistic Infection Drugs Purchased from vendor 2

Invoice	Delivered	Item	Amount per bottle / packet (PGK)	Qty	Total Amount (PGK)
594596	4 Nov 2008	Abacivir Tablets 300mg (80 bottles of 60 tablets)	60.00	80	21,600
		Ritocom tablets (Lopinavir 200mg + Ritonavir) (100 bottles of 120 tablets)	474.96	100	47,496
		Tenofovir 300mg (150 bottles of 30 tablets)	165.00	150	24,750
		Saquinavir 500mg (30 bottles of 120 tablets)	590.00	30	17,699.75
		Aciclovir tablets 200mg (Virest) (80 packets of 25 tablets)	15.00	80	1,200
		Fluconazole tablets 200mg (Flucap200/L) (500 bottles of 100 tablets)	60.00	500	30,000
		Azithromycin Tabs 500mg (90 bottles of 100 tablets)	100.00	90	9,000
601246	2 Dec 2008	Azithromycin Tabs 500mg (310 bottles of 100 tablets)	100.00	310	31,000

140. A review of documents included in the relevant procurement file provided to OIG reveals that this procurement was initiated via an Inter Office Memorandum dated 6 August 2008 (Annex 34). The Memo states that funds for the purchase have been budgeted for and that a quotation for second line ARV's is attached.

141. As a result of this memo a NDoH HSIP Requisition for Expenditure was raised on 20 August 2008 and approved on 26 August 2008 for purchase of 2nd line antiretroviral drugs and opportunistic infection drugs valued in total at PGK 182,746 (USD 70,618) from vendor 2 (Annex 35) "as per quote attached" (Annex 36).

142. There is no indication in the relevant procurement file that this purchase is an "emergency purchase" and there is no COI issued by the CSTB. There are also no other quotes contained in the file.

143. The order was delivered to NDoH on 4 November 2008 (Annexes 37 & 38), over two months after the order was placed.

144. A review of the PSM Plan submitted by NDoH to the Global Fund for procurement of HIV related products⁶⁴ found that NDoH were to use UNICEF as the procurement agent for the procurement processes of all international health products required by NDoH under the grant unless the procurement did not meet the minimum order quantities of UNICEF's suppliers.⁶⁵ Given that this order totalled over USD 70,000 and there was no UNICEF "Request for Cost Estimate Form" or UNICEF "Cost Estimate" in the procurement file⁶⁶ this procurement contravened the agreed PSM plan.

145. WHO GPRM data shows that the median transaction price for Ritocom was USD 4.04 (PGK 10.45) per bottle of 120 tablets⁶⁷ and for Tenofovir, USD 17.10 (PGK 44.25) per bottle of 30

⁶⁴ PNG National Department of Health Procurement and Supply Management Plan – GFATM Proposal (Round 4 Phase 2) HIV and AIDS Component. November 2008

⁶⁵ Ibid. P.14-15.

⁶⁶ Refer to: [http://www.unicef.org/supply/files/Procurement_of_HA_supplies\(1\).pdf](http://www.unicef.org/supply/files/Procurement_of_HA_supplies(1).pdf) for further details of UNICEF Procurement Process re HIV/AIDS related supplies

⁶⁷ Based on 1 year's treatment costing USD 49.26 and a WHO DDD of 4 tablets per day (USD 0.033 per tablet).

tablets.⁶⁸ The Management Sciences for Health (MSH) International Drug Pricing Guide⁶⁹ shows that the median transaction prices for the other drugs were: Saquinavir - USD 83.40 (PGK 215.82) per bottle 120 tablets; Aciclovir – USD 1.37 (PGK 3.55) per pack of 25 tablets; and Fluconazole – USD 15.10 (PGK 39.08) per bottle of 100 tablets.⁷⁰

Figure 14: Vendor 1 price versus WHO GPRM and MSH Median Price for Ritocom, Tenofovir, Saquinavir, Aciclovir and Fluconazole Tablets.

Description	Brand Name	No. of bottles / packs	Vendor 2 Price per bottle/pack (PGK)	WHO GPRM Median	MSH Median	Difference	Total Difference (PGK)
Lopinavir 200mg + Ritonavir 50mg	Ritocom	100 ⁷¹	474.96	10.45		464.51	46,451.00
Tenofovir 300mg	Tenofovir	150 ⁷²	165.00	44.25		120.75	18,112.25
Saquinavir	Saquinavir	30 ⁷³	165.00		215.82	50.82	1,524.67
Aciclovir	Aciclovir	80 ⁷⁴	15.00		3.55	11.45	916.00
Fluconazole	Fluconazole	500 ⁷⁵	60.00		39.08	20.92	10,460

146. Based on the above, NDoH’s actions resulted in an additional and unwarranted cost to the grant corresponding to the total difference between the median GPRM price and the price paid to vendor 2 for the drugs Ritocom and Tenofovir alone amounting to at least PGK 64,563 (USD 24,949).⁷⁶

G.2.2.8. HIV - 7947

147. This procurement relates to an NDoH R4 HIV PGK 34,000 (USD 12,074) purchase of 800 bottles of Nevirapine 200mg (Nevivir) tablets from vendor 2 via single source procurement in September 2007, in contravention of PNG Government procurement requirements. The procurement was initiated by an Inter Office Memorandum dated 27 September 2007 (Annex 39).

148. The quote from vendor 2 shows that vendor 2 quoted a price of PGK 42.50 (USD 15.09) per pack (60 tablets) of Nevirapine 200mg (Nevivir) tablets with the total order being for 800 packs at PGK 34,000 (USD 12,074) (Annex 40).

149. WHO GPRM data shows that the median transaction price for Nevirapine 200mg tablets

⁶⁸ Based on 1 year’s treatment costing USD 17.10 and a WHO DDD of 1 tablet per day (USD 0.570 per tablet).

⁶⁹ <http://erc.msh.org/mainpage.cfm?file=1.o.htm&module=DMP&language=english>

⁷⁰ MSH International Drug Pricing Guide consulted due to no prices of these drugs being recorded in the GPRM data base.

⁷¹ Each bottle containing 120 tablets

⁷² Each bottle containing 30 X 300mg tablets

⁷³ 30 bottles of 120 X 300 mg tablets

⁷⁴ 80 packets of 25 X 200mg tablets

⁷⁵ 500 bottles of 100 X 200mg tablets

⁷⁶ The total difference between the MSH median price and the price paid to vendor 2 for the drugs Saquinavir, Aciclovir and Fluconazole amounting to a total difference of approximately PGK 12,900 (USD 4,985) has not been included in the unwarranted costs amount due to the prices not including shipping costs. The drugs Abacavir and Azithromycin were found to have been supplied by vendor 2 at a competitive price. WHO GPRM data re Abacavir tablets, found the median price to be USD 25.99 (PGK 67.25) which compares favourably against vendor 2’s price. MSH data re Azithromycin tablets, found the median price to be USD 62.19 per bottle (PGK 160) which compares favourably against vendor 2’s price.

was USD 3.12 (PGK 8.78) per bottle.⁷⁷

Figure 15: Summary of Prices Charged by Vendor 2 Compared to GPRM Average

Description	Brand Name	Pack Size	Manufacturer	Vendor 2 Price (PGK)	WHO GPRM Median	Difference
Nevirapine 200 mg	Nevivir	60 tablets (800 bottles)	Hetero, India	42.50	8.78	33.72
					TOTAL	26,976

150. OIG’s review of the procurement file found that it did not contain any other quotes or reference to other quotes apart from the quote from vendor 2. This procurement therefore appears inconsistent with PNG Government procurement requirements and also Global Fund grant requirements.

151. OIG’s calculation based on the difference between the PQR average price for Nevirapine 200mg (Nevivir) tablets and the price paid by NDoH to vendor 2 is that this single source procurement resulted in an additional and unwarranted cost to the corresponding grant of PGK 26,976 (USD 9,579). This amount should be refunded to the Global Fund. In any event, the entire amount of the procurement can be considered non-compliant with the terms of the grant agreement.

G.2.2.9. HIV-13415

152. This procurement relates to an NDoH R4 HIV PGK 46,350 (USD 17,910) pharmaceutical purchase comprising of 3,270 packs of Cotrimoxazole 400+80mg tablets (100 tablets per pack) valued at PGK 16,350 (USD 6,318) and 1,000 packs of Ciprofloxacin 500mg tablets (100 tablets per pack) valued at PGK 30,000 (USD 11,592) procured in 2008 from vendor 2 via single source procurement, contrary to PNG Government procurement rules and regulations and contrary to Global Fund Grant requirements.

153. This procurement was initiated by an Inter Office Memo “Reprogramming of Remaining STI and HIV and AIDS to Procure HIV Drugs and Drugs for the Treatment of Opportunistic Infections” from the acting director of NDOH’s Disease Control Branch to the director of HSIP’s Management Branch, dated 19 December 2008 (Annex 41).

154. Although the Memo states “Please see the quotes attached for the costs of these drugs”, a review of the procurement file provided by NDoH reveals only one quote, being from vendor 2 dated 18 December 2008 (Annex 42).

155. The quote from vendor 2 offers Cotrimoxazole tablets at PGK 5.00 (USD 1.93) per pack and Ciprofloxacin tablets at PGK 30.00 (USD 11.59) per pack.

156. Although the procurement file does not contain any invoice or delivery note from vendor 2 or any receiving documentation from NDoH, a cheque in the amount of PGK 46,350 (USD 17,910) was drawn by the NDoH and payable to vendor 2.

157. A review of the relevant PSM plan reveals that the drugs approved for procurement to treat

⁷⁷ Based on WHO GPRM data of 1 years treatment costing USD 38.04 at a WHO DDD of 2 tablets per day (USD 0.052 per tablet).

opportunistic infections were: Septrim tablets; Septrim suspension; Amphotericin B IV vials; and Fluconazole capsules, tablets and suspension. The drugs for opportunistic infections purchased in this procurement were Cotrimoxazole and Ciprofloxacin; neither is approved in the PSM plan.

158. Given that the purchase of these drugs (Cotrimoxazole and Ciprofloxacin) were not approved in the PSM plan for the treatment of opportunistic infections and the absence of documentation showing delivery of these pharmaceuticals to NDoH, the expenditure of PGK 46,350 (USD 17,910) is considered to be unsupported by any books and records, and therefore non incurred in compliance with the grant agreement.

G.2.3. Vendor 4

G.2.3.1. HIV - 15148

159. This procurement relates to the July 2009 NDoH purchase of Rapid Syphilis Test Kits from vendor 4 valued at PGK 298,800 (USD 113,937) funded via the Global Fund R3 HIV grant.

160. This procurement was initiated via an Inter Office Memo “Funding for the Purchase of Syphilis Test Reagents for Sentinel Sero-Surveillance 2009” from the executive manager Public Health, to NDOH’s HSIP director, dated 7 July 2009 (Annex 43). The memo states that “vendor 4 is the only distributor of the preferred reagents and that is the reason for the submission of only one quotation”.

161. On 14 July 2009, a memo was sent to the Secretary of NDoH with a supply contract for the supply and delivery of Rapid Syphilis Testing Kits by vendor 4 Ltd (Annex The memo stated that vendor 4 “is the only distributor of this preferred reagent”.

162. The single source quote from vendor 4 Ltd. (Annex 45) indicates 120,000 tests (89 test kits) to be delivered to NDoH at a total cost of PGK 298,800 (USD 113,937). 88 of the kits “Syphilis 3.0 Device” each containing 45 tests and one of the kits containing 40 tests were delivered into the NDoH Area Medical Store on 24 July 2009.

163. Despite NDoH’s preference for this particular type of testing kit (SD rapid test kits), given that the total cost of this procurement was PGK 298,800 (USD 113,937) it was required to be conducted by way of public tender unless a COI was issued by the CSTB. The procurement file reveals no such certificate and the relevant payment voucher confirms that the procurement was “sole source” and funded by the Global Fund (Annex 46).

164. Included in the procurement file was a letter from the head of obstetrics and gynecology at the University of PNG’s School of Medicine and Health Sciences. The letter states that testing of rapid syphilis test kits from SD diagnostics of Korea reveals that they have the same specificity and sensitivity as the Abbot brand ‘Determine’ test kits. The letter further states that: “It would seem reasonable therefore to order the SD Korean Syphilis rapid tests kits if they are available locally and are not more expensive for our use in screening antenatal women in PNG” (Annex 47).

165. This procurement was single sourced. NDoH appears inconsistent with PNG government procurement requirements by not putting this procurement out to tender, and therefore the global fund grant agreement. The expenditure for the entire amount of this procurement, PGK 298,800 (USD 113,937) was not compliant with the terms of the grant agreement.

G.3. Purchase of Non-Health Products

G.3.1. Vendor 3

G.3.1.1. HIV-16580

166. This procurement relates to a NDoH R4 (Phase 1) HIV PGK 31,569 (USD 12,037) procurement of office and stationery items for the STI/HIV Unit of the Disease Control Branch in July 2009 and received by NDoH on 2 December 2009.

167. The procurement was initiated via an Inter Office Memorandum “Funding for STI/HIV/AIDS Office Supplies” from the executive manager Public Health to the director HSIP Management Branch, dated 7th July 2009 (Annex 48).

168. Quotes were received from three suppliers, as required under PNG Government procurement policy with vendor 3 being the cheapest quote (Annex 49).

169. The Inter Office Memorandum indicates that the stationery procurement was purchased using funds from “DC503195”. A document contained in the procurement file indicates that this code is a Global Fund grant activity “Procurement of training materials” for disease control.

Figure 16: NDoH Activity Codes Showing DC503195 as a Global Fund Financed Activity

1670	DC503194	Purchase and assemble training manuals	Disease Control	Disease Control	70	NDoH	PTA/CSTA	HIV/AIDS	GFA	100,000
1671	DC503195	Procurement of training materials	Disease Control	Disease Control	70	NDoH	PTA/CSTA	HIV/AIDS	GFA	100,000
1672	DC5032010	Maintenance of Program vehicles	Disease Control	Disease Control	70	NDoH	PTA	HIV/AIDS	GFA	12,000

170. The “Requisition for Expenditure” regarding this procurement indicates that the goods are “for purchase of office items and stationery for 2010 Office Use” (Annex 50). This is not a ‘procurement for training materials’ and this procurement should not have been funded from Global Fund grant funds allocated to ‘procurement of training materials’. Consequently, the value of the entire procurement PGK 31,569 (USD 12,037) is outside of the approved work plans and budgets for the grant and was not incurred in compliance with the terms of the grant agreement.

G.4. NDoH Cash Advances

171. During this investigation a desk verification of the cash advances relating to years 2009 and 2010 was undertaken. OIG found that no record of advances and their acquittals prior to 2009 was available. That is, NDoH was not able to provide supporting documents explaining the final use of these funds.

172. As per the “Advance Acquittal Register – 2009” a total of PGK 7,353,351 (USD 2,803,946) was provided to employees and vendors as advances in that year, of which, a total of PGK 2,425,404 (USD 924,844) was related to The Global Fund. Of the PGK 2,425,404 Global Fund related advances, PGK 1,398,967 (533,447) - 58%, was not acquitted at the end of the year. No

documentation was provided for PGK 1,300,781 (USD 496,008) out of the unacquitted advances.

173. As per the “Advance Acquittal Register - 2010 (as at 31st December 2010)” a total of PGK 9,539,146 (USD 3,693,192) was provided to employees and vendors as advances in that year of which a total of PGK 3,112,486 (USD 1,205,035) was related to The Global Fund. Of the PGK 3,112,486 (USD 1,205,035) Global Fund related advances, PGK 2,087,134 (USD 808,058) - 67%, was not acquitted at the end of the year. No documentation was provided for PGK 2,033,734 (USD 787,383) out of the unacquitted advances.

174. Of the PGK 1,026,437 and PGK 1,025,366 advances acquitted completely or partially during the year 2009 and 2010 respectively, no documentation was provided for PGK 123,053 (USD 46,922) - 12%, and PGK 642,058 (USD 248,580) - 63%, respectively.

Figure 17: Summary of advances provided during 2009 and 2010 (Amounts in PGK)

	2009			2010		
	Total	TGF	Others	Total	TGF	Others
Total Advances	7,353,352	2,425,404	4,927,948	9,539,146	3,112,486	6,426,661
% on Total		33%	67%		33%	67%
Acquitted	2,506,589	1,026,437	1,480,152	2,886,759	1,025,366	1,861,393
%		42%	30%		33%	29%
Unacquitted	4,846,762	1,398,967	3,447,795	6,652,388	2,087,120	4,565,268
%		58%	70%		67%	71%

175. An age analysis of the advances provided indicated that out of the total advances for 2009 and 2010 about 42% and 25% respectively were outstanding for more than 180 days. For 2009, 35% of the advances were outstanding for more than 365 days.

Figure 18: Summary of age analysis of advances as on 31/12/2011 (Amounts in PGK)

Total Advance	Total Advance	>180 days	% on total	>365 days	% on total
2009	2,425,404	175,802	7%	841,927	35%
2010	3,112,486	777,383	25%	0	0%

176. A review of advances provided to vendors and employees indicated that for the year 2009 (Annex 51) and 2010 (Annex 52), 72% and 74% of the total advances were outstanding from the vendors respectively for these years.

177. Moreover, it was noted that fresh advances were provided to employees before acquittal of the previous advances. Instances were noted where advances were provided even when two or more prior advances were outstanding.

Figure 19: Summary of advances provided to vendors and employees (Amounts in PGK)

Advance Type	2009		2010	
A. Vendor Advance	1,014,104	72%	1,553,525	74%
Three or more non-acquittals	384,189	38%	799,312	51%
Two non-acquittals	201,860	20%	122,295	8%
One non-acquittal	60,327	6%	67,461	4%
Others	367,728	36%	564,458	36%
B. Employee Advance	384,863	28%	533,595	26%
Three or more non-acquittals	33,545	9%	217,729	41%
Two non-acquittals	51,566	13%	80,471	15%
One non-acquittal	52,717	14%	14,586	3%
Others	247,035	64%	220,809	41%
Total Outstanding	1,398,967	100%	2,087,120	100%

178. OIG verification found that frequently further advances have been given to officials without first obtaining the acquittals and adjustments of previous advances, contrary to the requirements of PNG Government's Financial Management Manual which states that no second advance is to be made to an officer where a previous advance is outstanding.

179. The investigation found that there was no central control to record the debits and credits for the individual hotels or venues thereby providing a list of balances against each hotel or venue. This has led to a situation where large amounts of advances are held with hotels over which NDoH has little control.

180. Examination of the advance register for 2009 and 2010 further indicated that as against the PNG Government's Financial Management Manual, which states that no advance is to be provided for accommodation costs and that the accommodation expenses are to be paid using an Integrated Local Purchase Order and Claim (ILPOC) form, advances were provided for accommodation.

181. It was further noted that out of the total outstanding advance for the year 2009 and 2010, 82% and 54% respectively of the outstanding advances were related to accommodation.

Figure 20: Advances provided for accommodation (Amounts in PGK)

Advance Type	2009			2010		
	Total Advance	Not Acquitted	% of total	Total Advance	Not Acquitted	% of total
Accommodation	1,898,025	1,150,182	82%	1,458,563	1,136,202	54%
Others	527,379	248,785	18%	1,653,922	950,918	46%
Grand Total	2,425,404	1,398,967		3,112,486	2,087,119	

182. A sample review of documents provided for acquittals and partial acquittals due for more than 14 days and amounting to more than PGK 4,000 was carried out for each of the year 2009 and 2010.

183. On review of the advances for 2009, it was noted that for advances of PGK 330,431 (USD

125,998) acquittals were not completely adjusted and a balance of PGK 91,441 (USD 34,868) - 28%, was still outstanding.

184. Out of the selected sample, amounting to PGK 1,552,747 (USD 592,086); no documentation was available for PGK 982,302 (USD 374,567) including PGK 39,352 (USD 15,005) for which either acquittals or partial acquittals were already adjusted.

Figure 21: Sample transactions selected for review (Amounts in PGK)

Particulars	Total Advance Amount	Total Acquitted Amount	Total Balance Amount
Acquitted	279,336	292,026	(12,660)
Partially Acquitted	330,431	238,990	91,441
Not Acquitted	942,950	0	942,950
Total	1,552,717	531,016	1,021,701

Figure 22: Documentation not available for selected sample (Amounts in PGK)

Particulars	Acquitted	Partially Acquitted	Not Acquitted	Total
Total transactions selected	279,336	330,431	942,950	1,552,747
Documentation not available	13,075	26,277	942,950	982,302

185. OIG’s review of the advances for 2010 found that for advances of PGK 246,088 (USD 95,275) acquittals were not completely adjusted and a balance of PGK 83,440 (USD 32,304) - 34%, was still outstanding.

Figure 23: Sample transactions selected for review (Amounts in PGK)

Particulars	Total Advance Amount	Total Acquitted Amount	Total Balance Amount
Acquitted	286,035	286,320	(285)
Partially Acquitted	246,088	162,648	83,440
Not Acquitted	1,361,139	0	1,361,139
Total	1,893,262	448,968	1,444,294

Figure 24: Documentation not available for select sample (Amounts in PGK)

Particulars	Acquitted	Partially Acquitted	Not Acquitted	Total
Total transactions selected	286,035	246,088	1,361,139	1,893,262
Documentation not available	156,726	92,041	1,361,139	1,609,906

186. It was noted that out of the total advances not acquitted amounting to PGK 1,398,967 (USD 533,447) and PGK 2,087,134 (USD 808,058) for 2009 and 2010, 58% and 67% respectively were related to HIV Program.

Figure 25: Advances not acquitted for different programs (Amounts in PGK)

Particulars	2009	% of total	2010	% of total	Grand Total	% of total	% Remarks
Total Not Acquitted Advances	1,398,967	58%	2,087,134	67%	3,486,101	63%	On total Advances*
HIV Program	983,084	70%	1,032,853	49%	2,015,937	58%	On total not acquitted
Malaria Program	134,930	10%	452,445	22%	587,375	17%	On total not acquitted
TB Program	280,952	20%	443,761	21%	724,713	21%	On total not acquitted
Others (Unknown)	0		158,075	8%	158,075	5%	On total not acquitted

*Refer to Figure 19 for total advances

H. Expenditures Not Compliant with the Grant Agreements

H.1. Determination of compliance

187. The OIG presents factual findings which identify certain expenses as ineligible for funding with grant funds. Such ineligibility is based on the provisions of the Global Fund’s Standard Terms and Conditions of the Program Grant Agreement (“STCs”). The OIG does not aim to conclude on the appropriateness of seeking refunds from recipients, or other sanctions on the basis of the provisions of the grant agreement.

188. Various provisions of the STCs provide guidance on whether a program expense is eligible for funding by the Global Fund. It is worth noting that the terms described in this section are to apply to Sub-recipients as well as Principal Recipients.

189. At a very fundamental level, it is the Principal Recipient’s responsibility “to ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant funds are used solely for Program purposes and consistent with the terms of this Agreement”. In practice, this entails abiding by the activities and budgetary ceilings proposed in the Requests for Disbursement, which in turn must correspond to the Summary Budget(s) attached to Annex A of the Program Grant Agreement.

190. Even when the expenses are made in line with approved budgets and work-plans, and properly accounted for in the Program’s books and records, such expenses must be the result of processes and business practices, which are fair and transparent.

191. The STCs specifically requires that the PR ensures that: (i) contracts are awarded on a transparent and competitive basis, and (iv) that the PR and its representatives and agents do not engage in any corrupt practices as described in Article 21(b) of the STCs in relation to such procurement.

192. For the avoidance of the doubt, the STCs explicitly forbid engagement in corruption or any other related or illegal acts when managing Grant Funds :

“The Principal Recipient shall not, and shall ensure that no Sub-Recipient or person affiliated with the Principal Recipient or any Sub-recipient participate(s) in any other practice that is or could be construed as an illegal or corrupt practice in the Host Country.”

193. Amongst prohibited practices is the rule that the PR shall not and shall ensure that no person affiliated with the PR “engage(s) in a scheme or arrangement between two or more bidders, with or without the knowledge of the Principal or Sub-recipient, designed to establish bid prices at artificial, non-competitive levels.”

194. The Global Fund’s Code of Conduct for Supplier and Code of Conduct for Recipients (the “Codes”) further provide for additional principles by which recipients and contractors must abide, as well as remedies in case of breaches of said fundamental principles of equity, integrity and good management. The Codes also provide useful definitions of prohibited conducts.

195. The Codes are integrated into the STCs through Article 21(d) under which the PR is obligated to ensure that the Global Fund’s Code of Conduct for Suppliers is communicated to all bidders and suppliers. Similarly, Article 21(e) provides for communication of the Code of Conduct for Recipients to all Sub-recipients, as well as mandatory application through the SR agreements.

196. Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including expenses made by Sub-recipients and contractors.

197. The factual findings made by the OIG following its investigation and summarized through this report can be linked to the prohibited conducts or other matters incompatible with the terms of the Program Grant Agreements.

H.2. Reimbursements or Sanctions

198. The Secretariat of the Global Fund is subsequently tasked with determining what management actions or contractual remedies will be taken in response to those findings.

199. Such remedies may notably include the recovery of funds compromised by contractual breaches.

200. Article 8 of the Global Fund’s Round 3 (Phase 1) malaria Grant and Round 4 (Phase 1) HIV Grant with the NDoH establishes that the Global Fund may require the NDoH to immediately refund disbursement of the Grant funds if: “In the case of any disbursement of the Grant that is not made or used in accordance with this Agreement, or that finances goods or services that are not used in accordance with this Agreement, the Global Fund, notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Principal Recipient to refund the amount of such disbursement in United States dollars to the Global Fund within sixty (60) days after the Principal Recipient receives the Global Fund’s request for a refund.

201. Article 27 of the Global Fund’s Round 3 (Phase 2) malaria Grant, Round 4 (Phase 2) HIV Grant and the Global Fund’s TB Grant Agreement with the NDoH stipulates that the Global Fund may require the PR “to immediately refund to the Global Fund any disbursement of the Grant funds in the currency in which it was disbursed [in cases where] there has been a breach by the Principal Recipient of any provision of this (sic) Agreement [...] or the Principal Recipient has made a material misrepresentation with respect to any matter related to this Agreement.”⁷⁸

202. According to Article 21(d) of the Global Fund’s Round 3 (Phase 2) malaria Grant, Round 4 (Phase 2) HIV Grant and the Global Fund’s TB Grant Agreement with the NDoH, “in the event of non-compliance with the Code of Conduct, to be determined by the Global Fund in its sole

⁷⁸ Ibid at Art. 27(b) and (d).

discretion, the Global Fund reserves the right not to fund the contract between the Principal Recipient and the Supplier or seek the refund of the Grant funds in the event the payment has already been made to the Supplier.”⁷⁹

203. Additional sanctions, including with respect to Suppliers, may be determined pursuant to the Sanction Procedure of the Global Fund, for breaches to the Codes.

204. The OIG’s findings are presented below with the amounts corresponding to each expense in relation to which compliance issues were identified.

205. Specifically, the investigation found that the following provisions of the Grant Agreements have not been complied with:

H.2.1. Round 3 Malaria Grant: PNG-3-4-G01-M (Phase 1), and Round 4 HIV Grant: PNG-405-G02-H (Phase 1)

206. Under Article 9 – Management of Grant Funds, the NDoH agreed to “ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant funds are used solely for Program purposes and consistent with the terms of this Agreement”.

207. Under Article 17 (a), the NDoH agreed to follow Global Fund’s procurement practices, which require at a minimum that: “contracts shall be awarded on a transparent and competitive basis”; “contracts shall be awarded only to responsible contractors that possess the ability to successfully perform the contracts”; and “no more than a reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to obtain goods and services.”⁸⁰

208. Under Article 18 (f), the NDoH agreed to “use good procurement practices when procuring Health products, including competitive purchasing from qualified manufacturers and suppliers to obtain the lowest price of products.”

H.2.2. Round 3 Malaria Grant: PNG-304-G01-M (Phase 2); Round 4 HIV Grant: PNG-405-G02-H (Phase 2); Round 6 TB Grant: PNG-607-G03-T (Phase 1 and 2)

209. Under Article 6 (d) the NDoH committed to “comply with host country law and other applicable law”.

210. Under Article 9 – Management of Grant Funds, the NDoH agreed to “ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant funds are used solely for Program purposes and consistent with the terms of this Agreement.”

211. Under Article 18 (a) – Procurement Practices, the NDoH agreed to follow Global Fund’s procurement practices, which require at a minimum that: “contracts shall be awarded on a transparent and competitive basis”; “contracts shall be awarded only to responsible contractors that possess the ability to successfully perform the contracts”; and “no more than a reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall

⁷⁹ Ibid.

⁸⁰ Ibid. Article 17.a – *Contracts for Goods and Services*

be paid to obtain goods and services.”

212. Under Article 19 (c), the NDoH agreed “to ensure that procurement under the program is carried out in accordance with the PSM plan”.

213. Under Article 19 (g), the NDoH agreed to “use good procurement practices when procuring Health Products, including competitive purchasing from qualified manufacturers and suppliers to attain the lowest prices of products, consistent with quality assurance”.

H.3. Summary of Expenditures Identified as Non-Compliant

214. As a result of its investigation, the OIG has calculated total additional and unwarranted costs resulting from compliance issues, across the three grants to be up to PGK 3,539,512 (USD 1,352,696). The table below summarizes the categories that make up this amount.

Figure 26: Non-compliance categories and amounts

Categories – Report Section	Non-Compliant Expenditures	
	PGK	USD
Mismanagement (Procurement)		
Vendor 1		
F.3.1.1	107,021	40,809
F.3.1.2	39,600	14,062
F.3.1.3	152,262	50,208
Sub total (A)	298,883	105,079
Vendor 2		
F.3.2.1	228,691	88,373
F.3.2.2	2,351	835
F.3.2.3	14,113	5,011
F.3.2.4	13,336	4,735
F.3.2.5	64,362	22,856
F.3.2.6	163,134	63,039
F.3.2.7	64,563	24,949
F.3.2.8	26,976	9,579
F.3.2.9	46,350	17,910
Sub total (B)	623,876	237,287
Vendor 3		
F.3.3.1	31,569	12,037
Sub total (C)	31,569	12,037
Vendor 4		
F.3.4.1	298,800	113,937
Sub total (D)	298,800	113,937
Mismanagement (Cash Advances)		
Unjustified & Un-acquitted Cash Advances (for accommodation only)		
F.4 (2009)	1,150,182	444,463
F.4 (2010)	1,136,202	439,893
Sub total (E)	2,286,384	884,356
Grand Total (A+B+C+D+E)	3,539,512	1,352,696

I. Recommendations

215. The OIG makes the following recommendations as a result of the findings of this investigation:

- a) The Secretariat should seek to recover from the Principal Recipient (NDoH), expenditures of Global Fund grant funds that were not made in compliance with the terms of the relevant grant agreements, in accordance with the applicable legal rights and obligations, based on its determination of legal breach of the grant agreements and associated determination of recoverability.
- b) The Secretariat should ensure that all core health products for grants in PNG be procured through the Voluntary Pooled Procurement (VPP), or equivalent, mechanism to ensure a cost-effective and cost-efficient procurement process. Local procurement of health products should be avoided, except in emergencies, due to excessive mark-ups.
- c) The Secretariat should ensure that cash advances to be subject to strict approval limits. Large transactions should be undertaken directly by the PR or SR, via a purchase order or invoice. Acquittal of cash advances should be reported to the LFA on a quarterly basis.