



Audit Report

Wambo.org

Limited scope review of the processes undertaken to procure services and resources for the implementation of wambo.org

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I. Executive Summary

Cost-effective procurement of health commodities is fundamental to the achievement of the Global Fund's strategic objectives and a key factor in sustaining the gains achieved in the fight against the three diseases. The Global Fund's high level of investment in health products gives the organization leverage to negotiate beneficial procurement terms. In line with this, an e-marketplace named wambo.org has been developed as an online procurement platform to bring together buyers and suppliers, to alleviate procurement challenges and to achieve transparency, efficiency and direct cost optimization. The period from the initial formulation of the wambo.org concept to its actual operationalization and live production was 18 months.

The Office of the Inspector General (OIG) received allegations in early 2016 related to certain aspects of the Secretariat's management of the wambo.org project. Following the OIG's initial screening, although the allegations did not meet the criteria for a formal investigation, they raised concerns around the potential circumvention of the Global Fund's own internal controls and regulations for the procurement of services and resources.

As a result, the OIG Audit Unit undertook a limited scope review to determine whether processes to procure services and resources under the wambo.org project were undertaken in accordance with the relevant Global Fund policies and regulations. The OIG **did not** assess whether the procurement processes followed were aligned to industry best practice. Nor did it assess more broadly the business case, the strategic underpinning, or the operational and risk management aspects of wambo.org. This type of broader review will be considered in due course as part of the OIG's regular risk assessment and work program development process. It will take the form of either an audit or an advisory engagement.

The OIG Audit Unit found no evidence of deliberate wrongdoing by Secretariat staff or suppliers in the procurements for wambo.org. However, existing controls as stipulated in the procurement policies, regulations and procedures were not complied with. This resulted in high levels of non-competitive procurement, material non-compliance with procurement rules, weaknesses in the design and execution of contracts and informal management of perceived conflicts of interest. The OIG notes that the issues raised in this review are not necessarily unique to the wambo.org project; similar issues have been identified in two previous OIG audits.¹ Internal controls around transparent and competitive procurements have not been given the same priority as other procurement initiatives.

The Global Fund's procurement framework sets out the controls required to safeguard the organization from risk, to obtain value for money and to demonstrate accountability in the use of taxpayers' funds. As the custodians of the procurement framework, the Sourcing Unit should set the standards that the rest of the organization is expected to adhere to- both in letter and spirit- on procurement-related matters. Significant improvements are required to internal procurement compliance to ensure that the Global Fund holds itself up to the same high standards of procurement rigor and transparency as it holds the implementers of its programs.

Use of non-competitive procurement

Sixty five per cent (65%) of wambo.org procurements (US\$6.9 million in value out of US\$10.7 million) that were eligible for competitive tender were non-competitive. Procurements at the Global Fund are expected to be largely competitive, fair and transparent. Some 'exceptions to competition' are acceptable for valid business reasons. However, the OIG found the use of non-competitive procurements to be a routine practice rather than an exception in the development and implementation of the platform. One supplier was awarded two contracts worth US\$3.3 million in

¹ See OIG's reviews: *Procurement and Supply Chain Management at the Global Fund* (May 2015) and *Internal Controls: Compliance with Key Internal Policies Including Operational, Financial and Procurement Controls* (March 2016)

total without having to go through a competitive process.² The OIG also found that, although some initial contracts were awarded competitively, the number/ value of extensions was not adequately regulated. For example, one contract (originally awarded under a restricted tender) was extended to almost triple its original value, i.e. from US\$0.99 million to US\$2.56 million.

Internal procurement regulations were ineffective in averting the extensive use of non-competitive purchases and extensions. In particular, the approval of 'exception to competition' justifications were sought after contracts were signed or after suppliers had started work, reducing approvals to a formality in many instances. The OIG also found that the justifications provided for 'exceptions to competition' did not always correspond to the specific categories of exception laid out in the procurement policies.

Competitive tenders were not compliant with procurement rules

Only two out of 17 contracts signed under the wambo.org project were completed through a competitive process. One of these two was found to be fully compliant with the procurement procedures. For the second competitive procurement, resulting in contracts valued at US\$4.3 million to date, the OIG noted some departures from procurement rules. For this procurement, the evaluation method and weighted criteria were not defined at the bidding stage as stipulated in the regulations. Although there is evidence of individual scoring from evaluation committee members, no final evaluation report was prepared to support the final decision taken. Conflicts of interest declarations were not obtained and potential conflicts were not formally evaluated.

Weaknesses in design and execution of contracts

Contracting and contract management activities were not compliant. Specifically, the OIG found that, contrary to the procurement framework:

- Consultants started work before contracts were finalized and signed; this can affect the leverage of the Sourcing Unit to negotiate rates, levels of effort and overall cost.
- There was insufficient engagement with the Legal and Compliance Department in the procurement process. Advice was either sought too late in the process and/or when given, it was not incorporated.
- Nine out of 17 contracts reviewed were not signed by suppliers and in two cases, the contracts were not signed by Secretariat personnel of sufficient seniority.

In light of the high level of non-competitive procurements and ineffective compensatory controls in place, as well as non-compliance with the procurement framework in cases where competition happened, the OIG rates the procurement of goods and services under the wambo project as **ineffective**.

Recruitment undertaken in accordance with human resource practices

The OIG found that the processes followed in recruiting a dedicated program manager for the wambo.org project were compliant with Global Fund Human Resources regulations. This area is therefore rated **effective**.

However, while there was no breach of human resource procedures, the OIG found the level of experience required for this role to be incongruous with similar jobs at the same grade within the Secretariat. The Human Resources Department will undertake an analysis and propose options to the Management Executive Committee on whether to issue guidelines to managers on the required experience.

This report includes a message from the Executive Director available in Annex C.

² According to Global Fund procurement procedures, all procurements above US\$30,000 should be competitive unless the purchase meets one of the five permitted justifications for not following a competitive process.

II. Background

As the largest financing institution for health products to fight HIV, tuberculosis and malaria, the Global Fund plays a significant role in global markets by negotiating procurement terms for a portion of the products it finances. For example, in 2015, approximately 48% of the US\$3.2 billion disbursed by the Global Fund was used to finance the procurement of health products. Providing continued access to these critical health products is a key dimension to sustaining the progress achieved in recent years to end the three diseases.

What is wambo.org?

In the second half of 2014, the Secretariat introduced the concept of an online procurement tool designed to provide better prices, increased transparency and improved reliability in the supply of quality assured medicines and medical goods, health equipment and non-health commodities. The tool was initially called the e-marketplace and later became known as wambo.

The evolution of the wambo.org project

In an update to the Finance and Operational Performance Committee in March 2015, it was conservatively estimated that wambo.org would make savings of US\$149 million to the Global Fund by 2019. “Best case” savings were estimated at US\$268 million. The cost of the project was estimated at US\$12 million, US\$7 million of which was anticipated to be found from external funding. Given the expected significant benefits, the Secretariat fast-tracked the development of this platform. The Global Fund was able to design, develop and implement the tool in 18 months, from initial formulation of the concept to its actual operationalization and live production. wambo.org went live in January 2016 and, as of the date of this report, the Secretariat has reported that six countries are using it for the procurement of some of their health products.

The project was broken down into three phases. To assess the market impact and value for money of the wambo.org investment, the Secretariat developed a proof of concept (phase 1). This phase was followed by the pilot (phase 2) and implementation (phase 3) stages where software was selected as the backbone of the platform and in-country partners, suppliers and procurement service agents were consulted.



The project was led by a Secretariat project team, supported by a number of external service providers during the different project phases, as summarized in the table below:

Supplier	Stage	Number of contracts	Amount US\$
Supplier 1	Phase 1,2 and 3	2	4,310,000
Supplier 2	Phase 2 and 3	3	3,328,863 ³
Supplier 3	Phase 3	1	2,125,600
Others (see below)	Phase 2 and 3	11	937,496
Total		17	10,701,959

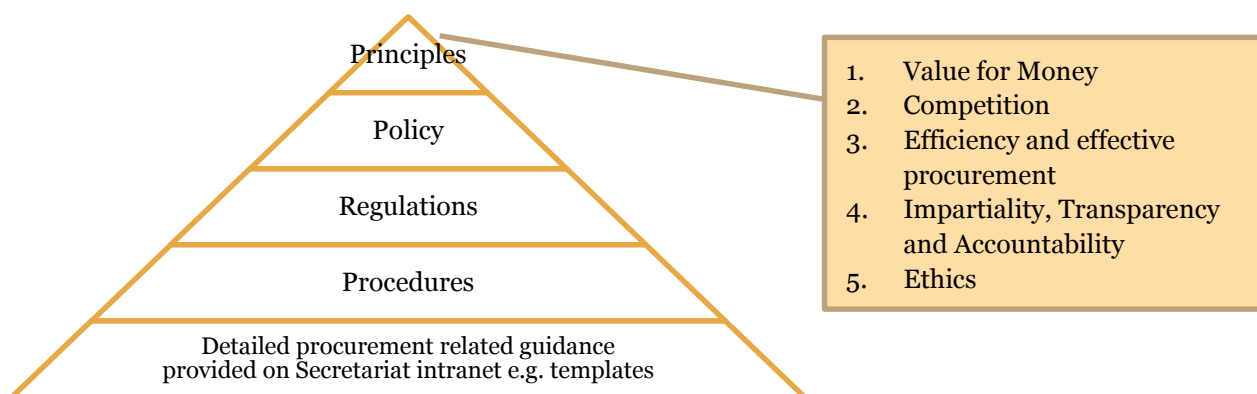
³ Original contracts denominated in Swiss Francs, but equivalent value in United States dollars for ease of comparison

Details of the major contracts signed with the various suppliers by the different methods of procurement as are follows:

	Stage 1: Proof of concept	Stage 2: Pilot	Stage 3: Implementation
Supplier 1 (Strategy consultant)	Contract 1a: Restricted Request for proposal - US\$990,000 (30 Sept 2014) Contract 1b: Extension to Contract 1a - US\$170,000 (7 Jan 015)	Contract 1c: Extension to Contract 1a - US\$1,400,000 (12 Feb 2015)	Contract 2: Exception to competition memo ⁴ - US\$1,750,000 (15 Jul 2015)
Supplier 2 (Strategy consultant)		Contract 1: Exception to competition memo ⁴ – CHF 753,030 (25 Feb 2015) Contract 1b: Extension to contract - CHF 256,116 (22 Apr 2015)	Contract 2: Exception to competition memo ⁴ – CHF 2,073,618 (31 Jul 2015) Contract 3: Exception to competition ⁴ – CHF 103,159 (1 Feb 2016)
Supplier 3 (Marketplace technology)		Contract 1: Request for proposal - US\$2,125,600 (16 Oct 2015)	
Supplier 4 (Supply Chain Management)		Contract 1: Framework agreement – US\$265,000 (30 March 2015)	
Supplier 5 (Supply Chain Management)	Contract 1: Framework agreement – US\$104,065 (22 Dec 2014)		Contract 2: Framework agreement - CHF 44,903 (16 June 2015)
Consultant 1 (Individual Consultant)		Contract 1: Exception to competition memo ⁴ – CHF 244,200 (15 Dec 2014)	
Consultant 2 (Individual Consultant)		Contract 1: Exception to competition memo ⁴ – CHF 77,000 (27 Mar 2015)	
Consultant 3 (Individual Consultant)		Contract 1: Exception to competition memo ⁴ – CHF 61,600 (27 Mar 2015)	
Consultant 4 – (E-marketplace Trademark)	Contract 1: Framework agreement – GBP 10,000 (19 Nov 2014)		Contract 2: Framework agreement – GBP 6,500 (27 Nov 2015) Contract 3: Framework agreement – US\$30,000 (15 Dec 2015)
Consultant 5 (Individual Consultant)			Contract 1: Exception to competition memo ⁴ – CHF 21,900 (19 Jan 2016)
Consultant 6 (Internship)		Contract 1: Exception to competition memo ⁴ – CHF 10,540 (4 Jul 2015)	

The Global Fund Secretariat’s procurement framework

Global Fund procurement is governed by a series of five high-level principles, policies, regulations, procedures and guidance. This framework applies to all Global Fund employees, consultants, officers, Board members or agents who are directly involved in the procurement of goods and/or services for, or on behalf of, the Global Fund.



⁴ Exception to Competition is a single source procurement that can be undertaken only in exceptional circumstances. An Exception to Competition Memorandum is required to summarize the reason for selecting a particular supplier without competition, e.g. exclusive right of supplier, urgent need, compatibility with existing goods and services, and others.

III. Scope

The OIG received internal allegations in early 2016 related to certain aspects of the Secretariat's management of the setup of the wambo.org project. Following the OIG's initial screening, the allegations did not meet the criteria for a formal investigation, however, they raised significant and specific concerns around potential circumvention of the Global Fund's own internal controls and regulations for the procurement of services and staffing.

This limited scope review differs from a routine audit in that its narrower scope was developed to review the controls and management decisions around specific risk areas identified through the allegations of wrongdoing.

The purpose of this review was to determine whether there were any material breaches of internal controls in the procurement of goods, services and resources under the wambo.org project. The review covered only the procurement of services in developing and implementing wambo.org not the procurement of goods through the platform.

Specifically, the review sought to assess whether:

- the procurement of goods and services managed under the wambo.org project was undertaken in accordance with the Global Fund procurement framework; and
- the recruitment of wambo.org staff was undertaken in accordance with established human resource practices.

This limited scope review covered relevant procurement-related transactions and activities undertaken since the inception of the wambo.org to the time of the review (February 2016). The transactions were reviewed against the Global Fund's procurement policies, regulations and procedures that were in force at the time of the transactions.⁵

Given this context and the limited scope of this review, OIG **did not**:

- assess whether the procurement processes followed were aligned to industry best practice;
- perform a broader assessment of the business case, the strategic underpinning, or the operational and risk management aspects of wambo.org.

Rating

Below are the OIG's overall ratings for the processes used to procure goods, services and resources for the wambo.org project:

Audit objectives	Rating	Reference to findings
Compliance with Global Fund procurement framework	Ineffective	IV.1-4
Compliance with Global Fund human resource framework.	Effective	IV.5

⁵ The procurement policy and regulations were amended in March 2015 and the procedures were amended in May 2015.

IV. Findings and Agreed Management Actions

IV.1	High level of procurements under wambo.org were not competed.
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IV.1.1: Sixty-five percent of procurements under the wambo project were not competed.

Global Fund Procurement Policy, page 3:

- Procurement shall be carried out on a competitive basis to the maximum practical extent.
- Exceptions to competition thresholds and processes shall be allowed in exceptional situations only. Such exceptions can only be approved by the Executive Director. The Procurement Regulations shall specify allowable exceptions to such thresholds and processes, and shall also specify who has the authority to approve such exceptions. It is anticipated that the establishment of a portfolio of pre-qualified suppliers, as well as timely procurement planning on the part of users, will minimize the need for exceptions to competition.
- It is anticipated that the establishment of a portfolio of pre-qualified suppliers, as well as timely procurement planning on the part of users, will minimize the need for exceptions to competition.

Global Fund Procurement Regulations:

- Section 2b: Procurement shall be carried out in an open competitive basis to the maximum practical extent. All eligible bidders shall be given equal opportunity to compete in providing goods and/or services to the Global Fund or its Principal Recipients, as the case may be.
- Section 5.1.a: Contracts shall be awarded on a transparent and, subject only to established exemptions, on a competitive basis.
- Section 5.2.1: Except as otherwise provided in these Procurement Regulations, procurement shall be by means of open tendering. The objective of open tendering is to provide all eligible suppliers or consultants with timely and adequate notification of requirements and an equal opportunity to bid for the required goods or services.

All procurements to support the wambo.org project were eligible for competitive tendering. Competitive tendering requires at least three quotations for contracts below US\$30,000 and open or restrictive tendering for procurements above that level. The OIG found that the majority (65% in value) of competition-eligible services were procured non-competitively, as reflected in the table below:

Procurement method	Number of contracts	Amount in US\$ ⁶	Percentage %
Non-competitive procurements - Exception to Competition ⁷	9	6,940,675	65%
Restricted tendering ⁸	1	1,160,000	11%
Framework agreement ⁹	6	475,684	4%
Open tendering	1	2,125,600	20%
Total	17	10,701,959	100%

Some exceptions are expected for valid business reasons and accordingly the procurement regulations make provisions for non-competitive purchases in “exceptional cases”. However, this

⁶ This is the total value of the contract and not the amount paid on contracts to date.

⁷ Exception to Competition is a single source procurement that can be undertaken only in exceptional circumstances. An Exception to Competition Memorandum is required to summarize the reason for selecting a particular supplier without competition e.g. exclusive right of supplier, urgent need, compatibility with existing goods and services, and others.

⁸ Restricted tendering is a procurement method in which the solicitation is sent only to selected suppliers or consultants who have been pre-qualified through a screening process.

⁹ Framework agreement sets out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.

high percentage reflects that non-competitive procurements were the norm under the wambo.org project. The Secretariat has attributed this high level of non-competitive procurement to the project's extremely tight timelines due to high prioritization of the project and the specialized nature of the services required. However, timely procurement planning may have minimized the need for 'exceptions to competition'.

Although planning for the overall project was evident, this was not the case with regard specifically to the project's procurements. Planning for procurements was crucial in light of the complexity and the strategic significance of the project, the tailored nature of the services sought and the substantial sums involved. As mentioned in finding IV.1.2, available documentation shows that processes to identify consultants for Phase 2 only started in February 2015, at the same time as the phase was scheduled to start.

It should be noted that despite these control weaknesses, the OIG found no evidence of deliberate wrongdoing on the part of either the Secretariat staff or the suppliers in connection with this finding or the findings below.

IV.1.2 Questionable justifications provided for non-competed procurements

Global Fund Procurement Regulations, Section 5.2.4:

Single-source procurement may be undertaken five defined exceptional circumstances.

- a. *The subject matter of the procurement is available only from a particular supplier or consultant, or a particular supplier or consultant has exclusive rights in respect of the subject matter of the procurement, such that no reasonable alternative or substitute exists, and the use of any other procurement method would therefore not be possible;*
- b. *In exceptional cases when there is an extremely urgent need for the subject matter of the procurement, such as in response to natural disasters, and engaging in any other method of procurement would be impractical because of the time involved in using those methods;*
- c. *The procuring entity, having procured goods, equipment, technology or services from a supplier or consultant, determines that additional supplies or services must be procured from that supplier or consultant for reasons of standardization or because of the need for compatibility with existing goods, equipment, technology or services, taking into account the effectiveness of the original procurement in meeting the needs of the procuring entity, the limited size of the proposed procurement in relation to the original procurement, the reasonableness of the price and the unsuitability of alternatives to the goods or services in question;*
- d. *The procuring entity determines that the use of any other method of procurement is not appropriate for the protection of essential security interests or confidential information; or*
- e. *When the estimated value of the procurement contract is regarded as low value under the applicable regulation.¹*

Global Fund Procurement Procedures, Section 5:

Justifications for exception to competition shall describe the circumstances of non-competitive action and specify the ground for resorting to any of the alternative methods identified in the Procurement Regulations.

The table below provides a summary of the justifications provided for the non-competitive procurements/ extensions:

Supplier	Procurement/ extension	Value in US\$ millions	Justifications provided		
			Follow on contract due to no reasonable alternative	Compelling urgency	Specialist skills
Contract 1b: Supplier 1 – Proof of concept	Extension	0.17	✓	✓	
Contract 3: Supplier 1 - Pilot	Extension	1.4	✓		
Contract 4: Supplier 1 – Implementation	Non-competitive procurement	1.75	✓		

Supplier	Procurement/ extension	Value in US\$ millions	Justifications provided		
			Follow on contract due to no reasonable alternative	Compelling urgency	Specialist skills
Contract 1a: Supplier 2 - Pilot	Non-competitive procurement	0.76 ¹⁰		✓	✓
Contract 1b: Supplier 2 – Pilot	Extension	0.26		✓	✓
Contract 2: Supplier 2 – Implementation	Non-competitive procurement	2.21	✓		
Contract 3: Supplier 2 – Implementation	Non-competitive procurement	0.10	✓		
Various contracts - Individuals	Non-competitive procurement	0.46			✓
Total		7.11			

The OIG’s analysis of the justifications for non-competitive procurements or extensions amounting to US\$5.3 million found that they were not consistent with the procurement policy and regulations in the following circumstances:

Phase 2: Pilot (Supplier 2 contract)

Supplier 2 was appointed at the Stage 2 Pilot through non-competitive means for CHF0.8 million in February 2015; however, through extensions and non-competitive procurements, the total value of the supplier’s contracts increased to CHF3.19 million (US\$3.33 million) by February 2016. The wambo.org team relied on the following two bases for procuring Supplier 2 non-competitively:

- *Regulation 5.2.4b: “...extremely urgent need”*: The Sourcing Department attributed this extreme urgency to an ambitious project timeframe. In their view, the use of any other procurement method would have been impractical because it would have taken too long. However, the OIG questions urgency as a justification since the need for consultants for the Phase 2 pilot stage was envisaged as early as Phase 1: Proof of Concept (August 2014); this is evidenced by the fact that Phase 1 bidders were required to ensure a seamless transition in the event that a new contractor would be appointed for Phase 2. However, the process to formally identify consultants for the Phase 2 pilot only started in February 2015 at the end of the Phase 1 Proof of Concept. Whilst acknowledging that the actual selection of service providers for Phase 2 could not have occurred before the completion of Phase 1, early identification of potential bidders (to support restrictive tendering) or better planning for a full “Request for Proposal” for Phase 2, would have facilitated competition, especially in light of the ambitious project timeframes.
- *Regulation 5.2.4a: The subject matter of the procurement... available only from a particular supplier ... supplier has exclusive rights in respect of the subject matter of the procurement... ”*¹¹ Both Supplier 1 and Supplier 2 were appointed as strategy consultants at the pilot stage within a two-week window. This is evidence that, at this time, there would have been more than one suitable supplier had the procurement been opened up to tender. The Sourcing Department’s representation that it obtained an “informal solicitation of a quotation from a different supplier that knew the project sufficiently” also demonstrates that, at the very least, Suppliers 1 and 2 could have competitively bid for Phase 2 (pilot).

¹⁰ Original contracts denominated in Swiss Francs, but equivalent value in United States dollars for ease of comparison

¹¹ The expertise and skills needed for the scope of work can only be fulfilled by one supplier or the products or services are proprietary (old exception to completion template language)

- The Sourcing Department justified the decision to procure Supplier 2’s services non-competitively on the basis that this supplier was ranked second in two previous bids that had related scopes of work. However, this justification is questionable on the following bases:
 - Supplier 2’s unique expertise was identified at the Phase 1: Proof of Concept stage. The scope of work for which Supplier 2 initially submitted its bid was materially different from the requirements of the Phase 2 and Phase 3 stages. This rendered the results of previous bids largely irrelevant to the subsequent stages. This was further confirmed by the fact that Supplier 2 had to prepare different technical proposals to address the different scopes of work at the two stages.
 - The Phase 1 proposal was submitted by Supplier 2’s Virginia office in the United States, yet it was Supplier 2’s Zurich office in Switzerland that was awarded the contract for the Phase 2 stage. The two offices proposed different staff and rates, which contradicts the representation made to the OIG that Supplier 2 was appointed on the basis of its first proposal.

Phase 2: Pilot (individual contractors)

All individual consultants, whose contract values ranged from US\$21,900 to US\$244,200, were procured non-competitively under the wambo.org project; this was justified because the expertise/skills needed for the scope of the work could only be fulfilled by one supplier or the services required were proprietary. However, the OIG found that, in three out of the four individual contracts,¹² the roles defined in the scope of work did not require special expertise or skillset. The OIG also found that, in two cases, the scope of work that was listed in the individual’s contracts was also captured in the contracts of the two strategy consultants for Phases 2 & 3, raising further questions about whether the specialist skills were available “only from a particular supplier”.

Phase 3: Implementation (both Supplier 1 and Supplier 2 contracts)

The appointments of Supplier 1 and Supplier 2 at the Phase 3 Implementation stage (valued at US\$3.96 million) were made on the following basis *Regulation 5.2.4c: ...additional supplies ... must be procured from that supplier for standardization or compatibility*. The explanations in the memoranda listed three reasons i.e. (i) need to launch Phase 3 immediately; (ii) unique expertise gained in the second phase that was needed in the implementation phase; and (iii) great past performance. However, in relation to (ii) unique expertise and (iii) performance of the supplier, the OIG noted that:

- The use of “great performance” in the previous stages of the wambo.org project as one of the justifications for selecting Supplier 2 and Supplier 1 non-competitively could not be verified due to the lack of documented assessments of the suppliers’ performance. The Secretariat explained that performance assessments of suppliers were undertaken but not documented.
- The Secretariat also confirmed to OIG that the leadership (partner and manager) of the Supplier 2 were terminated by the Global Fund in May 2015 due to unsatisfactory performance. This contradicts the representations about Supplier 2’s “great performance” in the subsequent ‘exception to competition’ memoranda presented in July 2015 for a contract of CHF 2,073,618 for the Phase 3 work. This also contradicts the explanation provided about the unique expertise gained in the second phase that was needed in the implementation phase.

¹² These contracts were for an IT Program officer and researchers into fundraising and intellectual property rights.

IV.1.3 Modifications to existing contracts inadequately regulated

Global Fund Procurement Procedures, Section 9.3: *Any modification resulting in a change in contract price, technical specifications or requirements or delivery periods requires an approval from the authorized approvers in accordance with the contract approval levels in these Corporate Procurement Procedures.*

Three wambo.org related contracts were modified, resulting in an increase in contract prices: two of the modifications were made to the Supplier 1 contracts (Proof of Concept and Pilot stages) and one related to the Supplier 2 Phase 2 Pilot contract. The OIG noted in its review of the contract modifications that, although the procurement regulations/ procedures do not set any restrictions on contract modifications, the reasonableness of the number and value of extensions is questionable. For example, the initial Supplier 1 contract was extended twice within a four-month period, increasing the initial contract amount from US\$990,000 to US\$2,560,000, almost three times the original contract amount.

Agreed management action 1: The Secretariat will review its current procurement framework (policies, regulations and procedures) to ensure that its contents are aligned and that they provide greater clarity and adequate guidance about the organization's procurement processes.

Owner: Chief Financial Officer

Target Date: 30 June 2017

Agreed management action 2: The Secretariat will strengthen its accountability framework for compliance with the organization's procurement framework. Specifically, this will include:

- Institute reporting to the Management Executive Committee on a quarterly basis the "exception to competition" levels by Division, analysis of rationales provided for exceptions to competition, areas of weakness and actions to correct them.
- Ensuring that relevant staff (sourcing department managers, corporate procurement buyers, budget holders and requesters) incorporate an objective related to compliance with the procurement framework in their performance objectives.
- Training relevant staff involved in the organization's procurement process on their roles and responsibilities and raising awareness among all staff about procurement processes and documentation requirements.
- The Sourcing department working with budget-holders within divisions to strengthen procurement planning and maintaining an up to date preferred list of suppliers at the organizational and divisional level, where applicable.

Owner: Chief Financial Officer

Target Date: 31 December 2017

IV.2	Tender processes not compliant with basic procurement procedures
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As mentioned in Finding IV.1, competitive processes (open and restrictive bidding) to identify suppliers were only followed in two out of the 17 contracts raised under the wambo.org project. In the two cases where competitive processes were followed, the OIG found that:

- The procurement of Supplier 3 was generally compliant with established procedures.
- The process followed to contract Supplier 1 as a strategy consultant was not fully aligned with the Global Fund procurement policy as elaborated in the sections below.

IV.2.1 Required formal approval not obtained for restricted tendering

<p>Global Fund Procurement Procedures, section 11.2 figure 1: <i>For a procurement method other than open tendering, a memorandum justifying the use of such method must be cleared by a Sourcing Department Manager, and approved by the Chief Financial Officer</i></p>
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Supplier 1 was procured following a restricted tendering process without obtaining formal approval from the Chief Financial Officer, as is required in the procurement regulations. The Secretariat explained that the Chief Financial Officer was privy to the process followed given his involvement in the project, however his formal approval was not provided.

IV.2.2 Evaluation criteria and method not defined in the bidding documents

<p>Global Fund Procurement Policy, page 3 –Impartiality, Transparency and Accountability: <i>In ensuring impartiality, potential suppliers ... shall be afforded eruiatable treatment and their offers shall be evaluated based on their legal, technical and financial abilities.</i></p> <p>Global Fund Procurement Regulations:</p> <ul style="list-style-type: none">• Section 5.4: <i>The procurement documents shall specify any factor, in addition to price, that will be taken into account in evaluating tenders, and how such factors will be quantified or otherwise evaluated.</i>• Section 5.1.c: <i>Solicitations for goods and services shall provide all information necessary for a prospective bidder to prepare a tender and, as such, shall be based upon a clear and accurate description of the proposed terms and conditions of the contract and the goods or services to be acquired.</i> <p>Global Fund Procurement Procedures, section 11.3.c and d:</p> <ul style="list-style-type: none">• Section 11.3.c: <i>.....The Technical Evaluation Committee evaluates the technical proposals in accordance with the criteria published in the request for proposal.</i>• Section 11.3.d: <i>The Sourcing Department Buyer evaluates the cost proposals in accordance with the cost evaluation.</i>

The OIG found that bidding documents for the procurement of the Strategy Consultant at the Phase 1 Proof of Concept stage did not contain critical information as required in the regulations. In particular, the bidding documents lacked (i) the method against which bidders would be evaluated, (ii) the respective weight assigned to the rating criteria in the Request for Proposal, (iii) a defined pass mark for technical evaluations and opening of financial bids, and (iv) weighting of quality and cost in evaluations. This is not only contrary to the regulations but it also does not facilitate transparent decision-making, a key principle of the Global Fund procurement policy.

The OIG also noted that:

- Different evaluation methods were applied at two stages of the evaluation process. Available documentation shows that the initial technical evaluation followed the “quality/cost” based

method.¹³ However from discussions with the Sourcing Department, only “quality” was subsequently used in determining the selected service provider.¹⁴ The Secretariat did not document, and was not able to explain, the rationale for the change in evaluation method.

- The information provided to the Technical Evaluation Committee included a score sheet that contained two scenarios for applying a 50:50 weighting ratio between the technical and financial score (i) without having to disqualify any bidders; and (ii) disqualifying bidders based on a 65% threshold for the technical score. This score sheet gave the evaluators’ access to the financial information even before the technical evaluation process had been completed, which is contrary to procurement regulations. The consideration of two scenarios also introduces subjectivity to the evaluation process especially in light of the fact that the 65% threshold used to disqualify three bidders was only agreed upon during the technical evaluation stage.
- The Sourcing Department explained how the evaluation process was undertaken in arriving at the selected service provider. However, as noted in Finding IV.2.2 below, the Secretariat has been unable to provide the evaluation report from the technical committee to evidence this.

IV.2.3 Technical evaluation report not prepared

Global Fund Procurement Regulations:

- **Section 11.3.c:** *The Chair of the Technical Evaluation Committee is responsible for selecting the members of the Committee, scheduling meetings, leading discussions and writing the report which makes recommendations for the award of the contract or further discussions with certain offerors.*
- **Section 11.3.e:** *If required, a shortlist of proposals that is most advantageous to the Global Fund will be created. The firms in the shortlist will be given questions and comments on how their proposals can be improved. Another proposal deadline will be established and the committee evaluate and rescore their best and final offers on technical merit and the Sourcing Department reevaluate their cost proposals.*

The OIG was not provided with a Technical Evaluation Committee report for the procurement of the Strategy Consultant for the Phase 1 Proof of Concept stage, for which a contract of US\$1.16 million was awarded (including extensions). In light of the missing report:

- The evaluation process was not documented as required in the regulations: Four out of five Technical Evaluation Committee members scored the seven bidders. However, there is no documented explanation as to why the fifth member did not score the bidders nor the extent of their involvement in the rest of the evaluation process. Two out of four committee members also did not provide narrative comments explaining the basis of bid ratings; this was especially important in light of significant variations noted between the scores of committee members. For example the range of scores (with a possible maximum of 140) for one supplier was between 56 and 106, another was rated between 54 and 99, and another between 66 and 109.
- No record exists of the Technical Evaluation Committee’s final decision to award the contract. Decisions by the Technical Evaluation Committee not to score two of the three technical evaluations undertaken later in the process were not documented. Consequently, based on statements made to the OIG, the initial technical evaluation was used in making the selection decision. The decision not to weigh the quality and cost scores in the final score was also not documented, nor was the decision to retain the second best bid as a contingency option, as represented by the Secretariat.

¹³ Quality and cost based method is an evaluation method whereas proposals are evaluated based on both their technical merit and price.

¹⁴ Quality based selection is an evaluation method whereas the cost of the work is not considered when making the initial selection of the best or most appropriate provider of the professional services required. Fees for services will be negotiated, however, following selection and before contracting.

IV.2.4 Perceived and potential conflicts of interest not declared

Global Fund Procurement Regulations, section 2e: *All procurements should not be in violation of the Global Fund's policy on Ethics and Conflict of Interest for Global Fund Institutions, Code of Conduct for Suppliers, and Code of Conduct of the Global Fund to Fight AIDS, Tuberculosis and Malaria.*

While Global Fund regulations do not make it mandatory for members of the Technical Evaluation Committee to sign a Conflict of Interest declaration, the instructions to committee members and the resulting evaluation report template stipulate that members must confirm that they have no conflict of interest in participating in the evaluation. However, the OIG found that:

- There were no conflict of interest declarations on file for four out of the five Technical Evaluation Committee members for the selection of the Strategy Consultant for Phase 1.
- The former wambo.org project manager, who has since left the Global Fund, worked with Supplier 1 for five years immediately before joining the Global Fund. Supplier 1 was awarded a US\$4.3m contract for wambo.org, out of which US\$3.3m was on a non-competitive basis. Based on the actual scoring of the different bidders, the OIG found no evidence that the Project Manager skewed the evaluation in favor of or against his former employer. However, there was no documented evidence that the potential conflict of interest was declared or that mitigation measures were taken to effectively manage the perception of a conflict, whether real or not.

As mentioned in IV.3.1, the requirements for Phase 2 & 3 were developed by Supplier 1, and the firm was subsequently awarded contracts for US\$3.15 million. This was in contravention of the advice provided by the Legal and Compliance Department, which was that Supplier 1 should be prevented from bidding for Phase 2 & 3 as they were deemed to be conflicted. While the Secretariat states that requirements were developed jointly with the suppliers, no documents were provided to the OIG to evidence this.

In the absence of key records documenting the procurement process, the OIG is unable to confirm that it was impartial and transparent as required by the procurement regulations.

IV.3	Inadequate contracting and negotiating processes
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IV.3.1 Limited involvement of the Legal and Compliance Department

<p>Global Fund Procurement Procedures, Section 9.1:</p> <ul style="list-style-type: none">• <i>The Global Fund signature and endorsement authorities for procurement shall be in accordance with the Global Fund's current Signature Authority Procedure.</i>• <i>The contract is prepared by the Sourcing Department with inputs, as necessary, from the Legal and Compliance Department.</i>• <i>The Sourcing Department, with the support of Legal and Compliance Department (as necessary) is responsible for selecting the correct form of the contract.</i> <p>Global Fund Procurement Procedures, Section 7:</p> <p><i>The Sourcing Department is responsible for negotiating contracts with prospective suppliers or consultants with support from the Legal and Compliance Department, and the requesting Department.</i></p> <p>Global Fund Procurement Procedures, Section 3.6:</p> <p><i>The 'Legal Officer- Procurement' has the responsibility to (a) prepare all nonstandard procurement contracts (b) provide support in the development of procurement related documents such as Requests for Proposals (c) review changes to standard procurement contracts and standard terms and conditions (e) review and endorse procurement contracts and (f) provide legal advice and support to the Sourcing Department.</i></p>
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The Legal and Compliance Department was primarily engaged in reviewing and commenting on the standard terms and conditions for wambo.org related contracts. Available documentation showed limited engagement of the Legal Department in other aspects provided for in Global Fund procedures i.e. the development of procurement related documents as well as negotiating, reviewing and endorsing procurement contracts. For example, the Legal Department was not involved in the preparation of the Request for Proposal for the 'Proof of Concept' stage. The Legal Department was also not engaged in negotiations with Supplier 2's pilot phase contract negotiations.

In cases where the Legal and Compliance Department advised on the procurement process, there was no evidence that the advice provided was appropriately taken into consideration. For example, the Legal Department's advice that Supplier 1 should not be involved in further stages of the project since they had developed Stage 1: Proof of Concept was not taken on board. Although the approach taken was modified, the rationale for overriding that advice was not documented (see finding IV.2.4).

Early engagement would have provided the Legal Department with opportunities to identify gaps, challenge and strengthen procurement processes, and positively influence the procurement, negotiation and contracting decisions.

IV.3.2 Teams mobilized before contract signature

<p>Global Fund Procurement Procedures, section 9.2: <i>The requesting unit, or any Global Fund employee, shall not direct any supplier or consultant to initiate the implementation of any contract until such a contract is duly signed by all parties concerned.....and has been rendered effective in accordance with the terms of the contract. Failure to comply with the requirements of this section may constitute a violation of the Global Fund staff code of conduct.</i></p>

Contrary to the procurement regulations, the OIG found that, in four instances, service providers were mobilized and started work prior to the completion of the contracting process. In three out of the four instances noted, teams were retained on site so that work could progress as contracts were being negotiated and signed off. The contracts that were signed after teams were mobilized/ retained and for which there were no other signed contractual arrangements in place, are listed below:

	Start date	Contract date	Difference in days	Contract Value
Supplier 1 – pilot*	1 February 2015	10 February 2015	10	US\$1,400,000
Supplier 2 – pilot	23 February 2015	11 March 2015	16	CHF 753,030
Supplier 2 – Implementation*	20 July 2015	26 August 2015	37 ¹⁵	CHF 2,073,618
Supplier 1 – Implementation*	1 August 2015	7 September 2015	38	US\$1,750,000

* Consultants retained on site as contracts were being negotiated and signed.

The above finding exposed the Global Fund and its contractors to risk on contracts valued at US\$6.11 million, and reduced the leverage of the Global Fund in the negotiating process. For example in the case of the Supplier 2 pilot phase contract, the Sourcing Department expressed concerns that the leverage they had in negotiating rates, level of effort and overall cost was constrained by the fact that the consultants had already started work on the project.

The OIG also found that the approval of the ‘exception to competition’ memoranda for contracts worth US\$4.62 million were obtained after contracts had been drawn up and/or when consultancy teams had already been mobilized to do the work. Since these approvals are supposed to be a prerequisite to issuing purchase orders, this makes the approval process merely a formality, and defeats the purpose of approval as an internal safeguard.

IV.3.3 Inappropriate form of contracts used

Global Fund Procurement Procedures, Section 9.1:

The Sourcing Department, with the support of Legal and Compliance Department (as necessary) is responsible for selecting the correct form of the contract.

Global Fund Procurement Procedures, Section 3.6:

The ‘Legal Officer - Procurement’ has the responsibility to (a) prepare all nonstandard procurement contracts (b) provide support in the development of procurement related documents such as Requests for Proposals (c) review changes to standard procurement contracts and standard terms and conditions (e) review and endorse procurement contracts and (f) provide legal advice and support to the Sourcing Department.

Global Fund Procurement Procedures, Section 11.6.1: *The payment mechanism of the Global Fund to the supplier against the contracted agreement includes a match of the PO and invoice details within specified tolerance levels.*

Lack of clear roles and responsibilities for ‘time and materials’ contracts:

Fourteen out of the 17 contracts signed were ‘time and materials’ contracts, where the Global Fund paid suppliers for the number of hours worked to deliver the service, as opposed to a fixed fee paid against the satisfactory delivery of goods or services. Under this type of arrangement, it was critical to ensure that the conditions in the contract were clear to protect the Global Fund from the risk of inefficiency by the supplier. The OIG noted that available contract documentation did not always clearly define the roles and responsibilities of the suppliers:

- There was no clear distinction between the roles of the two Strategy Consultants, Supplier 1 and Supplier 2, at Phase 2 and Phase 3 since some of the work listed in the two contracts was similar.

¹⁵ This delay was caused by protracted negotiations with the Supplier which resulted in a CHF 0.5 million reduction in price.

- The Phase 2 contracts for Supplier 1, Supplier 2, Supplier 5 and Consultant 1 all required the supplier to develop a Request for Proposal for the online platform.
- The Phase 2 contracts for Supplier 1 and for Consultant 1 both required the supplier to develop (i) implementation plans (ii) risk registers (iii) communication plans (including program management).
- Both Supplier 1 contracts for Phase 1 and for Phase 2 required the supplier to develop a new organization structure for wambo.org
- Both Supplier 1 and Supplier 2 at Phase 2 were tasked with defining the changes in the procurement process for wambo.org.

Accepting that some level of collaboration is expected on large or complex projects, and although slide decks presented to the Steering Committee as evidence of different deliverables, the OIG was unable to determine the level of contribution made by individual suppliers. The Secretariat acknowledged that the contracts did contain similar phrases and should have been crafted differently to reflect the exact roles and value add of suppliers in the project.

Lack of stipulated deliverables for ‘fixed fee’ contracts:

Under a fixed fee contract, payment does not depend on resources used or time expended but upon the receipt of satisfactory deliverables. As mentioned in finding IV.4.1, the ‘Statement of Work’ should define the deliverables expected under the contract; however the OIG found that defined deliverables or milestones were not stipulated in two out of the three ‘fixed fee’ contracts signed with Supplier 1 for values of US\$1,400,000 and US\$1,750,000, respectively. Although suppliers often require interim payments on large or complex projects, the Sourcing Department was unable to explain the basis for monthly payments to Supplier 1 before any deliverables were completed or milestones achieved.

IV.3.4 Contracts not signed by appropriate personnel

Global Fund Procurement Procedures, Section 9.2:

- *Only duly authorized representatives of the Global Fund under the Signature Authority procedure can sign a contract on behalf of the Global Fund*
- *The contract shall be signed by both parties after contract negotiations are successfully concluded.*

According to the Global Fund Procurement Procedures, “a Purchase Order is a legally binding document created in the procurement system based on an authorized requisition”. The final Purchase Order, alongside the standard terms and conditions, constitute the procurement contract with the supplier. In its review of wambo.org contracts, the OIG found that:

- Two of the contracts signed under the wambo.org project were not signed by the appropriate Global Fund personnel, according to the Signature Authority procedure in place at the time of the transaction. Modifications to two contracts increased the contract value to above US\$1 million, a threshold above which approval by the Chief Financial Officer is required; however, the two Purchase Orders were instead signed by the Sourcing Manager and the Chief Procurement Officer.¹⁶ The Secretariat explained that although the Chief Financial Officer did not sign the contracts, he was aware of these contracts.
- In six out of the seven cases of procurements above US\$100,000, the standard Terms and Conditions were not signed by the suppliers. Four of these were for contract values over US\$1 million.
- Six contracts were signed against frameworks that had previously been signed with the organization. However, the OIG found that three of these purchase orders worth US\$55,468 were raised against expired framework agreements.¹⁷

¹⁶ The OIG notes that the Signature Authority Procedure has since been amended to only require Chief Financial Officer’s approval for projects above USD 10 million.

¹⁷ Purchase orders were raised in 2015 yet the framework agreement had expired in February 2014. Despite the agreement having expired, the Secretariat was able to obtain the same price and terms on these contracts.

IV.3.5 Safeguards to ensure value for money or to maximize Global Fund resources not met

Global Fund Procurement Principles:

- *Page 2 - Procurement shall be conducted with the aim of obtaining value for money.*
- *Page 3- Procurement shall be conducted in a manner that maximizes the efficient use of the Global Fund's resources and ensures that the goods and/or services procured effectively meet the requirements of the users within the Global Fund.*

Global Fund Procurement Regulations:

- **Section 2a:** *The negotiation shall focus on achieving the best overall value for money for the Global Fund.*
- **Section 5.1.f:** *No more than a reasonable price (as determined, for example, by a comparison to price quotations and market prices) shall be paid to obtain goods and services.*

Global Fund Procurement Procedures, Section 6:

- *The Global Fund should purchase goods and services at or below normal market rates, and such rates should be logically related to, or required in, the performance of the contract. A market rate is what a prudent business person would pay for a particular good or services in a competitive marketplace. For individual consultants, the Global Fund reimburses established consulting rates or the prorated annual salary, as certified by the individual consultant.*
- *The Sourcing Department shall check which specialist consultants are needed by multiple requesting units and ensure that market rates are agreed and acceptable to both the requesting units involved and the Sourcing Department.*

The OIG found that necessary safeguards were not in place to ensure that value for money was considered during the contracting and negotiating process, especially for non-competitive procurements:

- **Poor benchmarking of individual rates:** The rates agreed with certain individual consultants were high compared to the methods suggested in the procurement procedures. The procedures provide two alternative methods: the Global Fund can use either “established consulting rates” or the consultant’s certified “prorated annual salary”. However, the OIG found that the prorated fee agreed for one of the consultants, an ex-employee of the Global Fund, did not follow either method: there was no established rate for this particular consultant and the offered rate was at least three times the amount of the average annualized salary for a Global Fund employee of the same grade. The OIG notes that no payments have been made against this particular contract to date.
- **Lack of benchmarking in the absence of competition:** For the Supplier 1 contracts, the firm did not provide the Global Fund with rate cards for the rates charged. Because a competitive process was only undertaken at Phase 1 when the initial contract of US\$990,000 was awarded, it is not possible to ascertain whether the Global Fund received value for money on the subsequent procurements of US\$3.1 million.
- **Lack of systems to track supplier rates:** The Sourcing Department does not have a mechanism to identify other cases where the same supplier is being used by multiple Global Fund departments. The OIG identified one case where the daily fee rate negotiated for a partner from Supplier 2 was 24% higher than the rate being paid by another Global Fund department for the same person at the same time.¹⁸

¹⁸ The date of these contracts are 6 and 20 July 2015.

IV.3.6 Travel expenses were not in line with standard Global Fund conditions for suppliers

Global Fund Procurement Procedures, Section 6: *The Global Fund Travel Regulations set a standard of reasonableness that should be applied to travel by consultants.*

The expenses charged under the contracts were not aligned to the Global Fund travel and expense regulations. In addition to the individual fee rates on all the Supplier 2 contracts, the Global Fund paid additional expenses of CHF330 per day for each contractor *irrespective* of whether the consultants traveled or not. In addition to this rate, the contract stipulates that the Global Fund should separately pay for any additional travel costs for contracted staff if they travel outside Switzerland. In the absence of supporting expense records reflecting which consultants travelled, the OIG cannot quantify how much should have been paid. Subsequent to our audit, the Secretariat has acknowledged that these payments were made in error.

Agreed management action: See AMAs 1-2

IV.4	Unsatisfactory documentation
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IV.4.1 Key documents were not retained along the procurement process

Global Fund Procurement Policy, page 3: *In promoting transparency, information relating to procurement process shall be documented in a manner that facilitates appropriate scrutiny of procurement activities, as described in the Procurement Regulations or Procedures.*

Global Fund Procurement Regulations, 5.1.h : *Records shall be maintained to document the receipt and use of goods and services acquired, the nature and extent of solicitations of prospective suppliers of goods and services acquired, and the basis of award of contracts and orders.*

Retention of key documentation to justify and manage procurements

The procurement framework requires documentation and maintenance of that documentation. However, the Secretariat was unable to provide the auditors with all the relevant documentation necessary for this review. The Sourcing Department acknowledges that some of the key documents listed in the procurement frameworks had not been prepared including:

- documentation supporting the decisions made in selecting consultants;
- conflict of interest declaration forms for the Technical Evaluation Committee members for the two procurements processes undertaken;
- performance assessments of suppliers;
- market rate cards; and
- evidence of deliverables that formed the basis for payments of Supplier 1.

During its review, the audit team also requested a complete list of purchase orders related to wambo.org, however, this was not possible as the Global Fund procurement system is unable to isolate purchase orders related solely to wambo.org. In the absence of such a list, the OIG obtained a list of wambo.org related payments from the Finance Division. However, purchase orders for which payment had not been effected could not be identified.

IV.4.2. No “Statement of Work” prepared prior to the procurement of the majority of contracts

Global Fund Procurement Regulations, section 5.4: *[For competitive tenders], Procurement documents shall ... set forth clearly and precisely the services to be carried out, the location of the services, the goods to be supplied, the place of delivery or installation, the schedule for delivery or completion, minimum performance requirements, and the warranty and maintenance requirements, as may be applicable, as well as any other pertinent terms and conditions.*

Global Fund Procurement Procedures, section 3.5: *The Requester has the responsibility to ... identify the requirements for the procurement of all goods and services, with support from the Sourcing Department.*

A ‘Statement of Work’ is a document which defines the activities, deliverables and timelines; these requirements are normal practice for adequately performing supplier selection in a fair and transparent manner. Contrary to the Global Fund regulations, the OIG found that:

- Statements listing the requirements needed for procurements were not prepared prior to the procurement process for major portions of the 13 of the 17 contracts signed under the wambo.org project. Although information regarding the activities could be found in suppliers’ proposals and/or final contracts, this defeats the purpose for their preparation (i.e. to support the supplier selection process) and should therefore be prepared prior to the procurement process.

- Of those available, the OIG found that two out of four requirements had been developed by the service providers themselves. Given that the regulations stipulate that the development of requirements to guide the procurement is the responsibility of the requester (with support from the Sourcing Department), the transfer of this responsibility to the service providers is inappropriate as there is a risk that the supplier could design requirements that give them a competitive advantage. This conflict of interest has also been raised under Finding IV.2.4.

The Sourcing Department stated that they did not need to have “Statements of Work” finalized at the start of the process because all key components were reflected in the final contracts, contradicting the procurement procedures which stipulate that requirements should be identified *in advance* of the tendering and contracting process.

Agreed management action: See AMAs 1-2

IV.5	Due process was followed in recruiting wambo.org staff
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Global Fund employee Handbook:

- *Section 2: The recruitment process is designed to enable the Global Fund to select the best applicant for a job based on objective and fair criteria.*
- *Section 6: All jobs at the Global Fund are evaluated according to their purpose, function, scope and level of responsibility. They are each assigned a grade level, from Grade Level A to Grade Level G. A job evaluation is performed and the job graded when a new job is created within the Global Fund.*

IV.5.1 Human resource recruitment processes complied with

One staff member has been recently recruited to replace the Project Manager who left the Global Fund. The OIG reviewed the process followed in the recruitment of this position, *Senior Manager – E-marketplace*, and found the processes to have been followed satisfactorily; in particular:

- *Development of the job description:* The Human Resources Department provided a template to the relevant manager against which the job description was developed. The Human Resource business partner reviewed the job description and provided comments, which were materially addressed in the final job description.
- *Evaluation of the position grade:* The job was evaluated by an external provider and the Global Fund’s internal Job Evaluation Committee rated the position as Grade E.
- *Advertising and shortlisting for the position:* The position was advertised in accordance with routine Global Fund human resource practices. Only three candidates applied for the position and all were shortlisted for interview.
- *Interviewing and selection of candidate:* The three candidates that applied for the position were interviewed by a panel constituted in line with the Human Resources practices. The panel report was made available to the OIG for review and contained the comments, conclusions and recommendations of the panel members.

IV 5.2 Gaps noted in the human resources processes

A review of a sample of roles (Grade D and E) under the wambo.org project against recently advertised positions showed that the required years of experience for the wambo.org positions was incongruous with peer and/or more junior positions. The OIG found that Secretariat does not have standardised experience or qualification requirements for grade levels, and that hiring managers use their discretion to determine the number of years of experience and academic qualifications required for particular grade levels across the Secretariat.

Although the Job Evaluation Committee assesses the reasonableness of all newly created jobs or those that have substantially changed, the committee does not review the reasonableness of qualifications required in job descriptions. The Human Resources Department has acknowledged these inconsistencies and has committed to undertake an analysis and propose options to the Management Executive Committee on whether to issue guidelines to managers on the required experience.

Agreed management action 3: The Human Resources department will review the criteria contained in the job descriptions linked to professional experience. Options will be developed and will be presented to MEC for review and/or approval, and subsequently guidance on the revised process will be provided to hiring managers tasked with developing job descriptions.

Owner: Head of Human Resources

Target Date: 31 December 2016

V. Table of Agreed Actions

No.	Category	Agreed Action	Target date and owner
1	Compliance with Global Fund procurement framework	The Secretariat will review its current procurement framework (policies, regulations and procedures) to ensure that its contents are aligned and that they provide greater clarity and adequate guidance about the organization's procurement processes.	Chief Financial Officer 30 June 2017
2	Compliance with Global Fund procurement framework	<p>The Secretariat will strengthen its accountability framework for compliance with the organization's procurement framework. Specifically, this will include:</p> <ul style="list-style-type: none"> • Institute reporting to the Management Executive Committee on a quarterly basis the "exception to competition" levels by Division, analysis of rationales provided for exceptions to competition, areas of weakness and actions to correct them. • Ensuring that relevant staff (sourcing department managers, corporate procurement buyers, budget holders and requesters) incorporate an objective related to compliance with the procurement framework in their performance objectives. • Training relevant staff involved in the organization's procurement process on their roles and responsibilities and raising awareness among all staff about procurement processes and documentation requirements. • The Sourcing department working with budget-holders within divisions to strengthen procurement planning and maintaining an up to date preferred list of suppliers at the organizational and divisional level, where applicable. 	Chief Financial Officer 31 December 2017
3	Compliance with Global Fund human resource framework	The Human Resources department will review the criteria contained in the job descriptions linked to professional experience. Options will be developed and will be presented to MEC for review and/or approval, and subsequently guidance on the revised process will be provided to hiring managers tasked with developing job descriptions.	Head of Human Resources 31 December 2016

Annex A: General Audit Rating Classification

<p>Effective</p>	<p>No issues or few minor issues noted. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.</p>
<p>Partially Effective</p>	<p>Moderate issues noted. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.</p>
<p>Needs significant improvement</p>	<p>One or few significant issues noted. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.</p>
<p>Ineffective</p>	<p>Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes are not adequately designed and/or are not generally not effective. The nature of these issues is such that the achievement of objectives is seriously compromised.</p>

Annex B: Methodology

The Office of the Inspector General (OIG) performs its audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These Standards help ensure the quality and professionalism of the OIG's work.

The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG's auditors and the integrity of their work. The OIG's Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

Limited scope audits cover specific topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls. The scope of an OIG limited scope audit is different to a full audit as its scope is more specific and narrow, and is deliberately tailored to cover certain identified risks and controls. Audits test and evaluate supervisory and control systems to determine whether the identified risk is managed appropriately.

If a limited scope audit reveals multiple, material weaknesses in governance, risk management and internal controls, a more extensive audit or investigation may be conducted.

Annex C: Message from the Executive Director

27 May 2016

As part of the Global Fund's ongoing evolution and improvements to its systems and procedures, a review of risk and opportunity to improve results by the Secretariat and partners, along with findings from reports from the Office of the Inspector General, clearly identified procurement as an area requiring urgent action. Since 2013, the Secretariat has revamped the Pooled Procurement Mechanism (PPM) that has given countries access to lower priced, quality products. Through the PPM, by working with partners and negotiating directly with manufacturers, the price of long-lasting insecticide treated bed nets to prevent malaria has decreased by 38 percent since 2013, and the price of combination antiretroviral therapy for HIV has been reduced by 25 percent. But despite the significant advantages and improvements, the PPM is a Global Fund-managed mechanism. That means it does not in itself address the enduring challenge in global health: how to achieve country ownership and long term sustainability.

To address this challenge, the Global Fund conceived, developed and delivered a new online marketplace for medicines and health commodities, giving countries the tools to access pooled procurement to reduce the price of quality-assured products in an effective and sustainable way. Country ownership was a core principle from the beginning of the wambo.org project. Implementing countries played a key role in the design of the wambo.org software that was created.

From the initial idea to the placement of the first order, the implementation of wambo.org took only 18 months. To date, three countries – Bangladesh, Mozambique and Zambia – have placed orders with a value of US\$65 million. It is conservatively estimated that wambo.org will save US\$250 million for implementers of Global Fund grants over the next five years. By the end of 2016 we anticipate that the first few countries will use wambo.org with domestic resources, significantly increasing the value and savings beyond Global Fund financing. It is the longer term vision to include all health commodities and to open the program up to other organizations outside the Global Fund, thereby establishing wambo.org as an independent entity and as a global public good.

In addition to the cost savings, wambo.org provides a fully transparent and accountable procurement process, which will significantly reduce transaction costs and time, increasing efficiency and value for money. It also has the potential to help shorten the historic delay between the issuance of new health guidance by the WHO and the subsequent access to improved diagnostics and therapies; and to promote innovative products and increase access to global markets for all suppliers of quality products.

Audits by the Office of the Inspector General are an essential form of quality control for the Global Fund. These help us achieve our mission of effectively investing the world's money to support countries to save lives, end epidemics and build resilient and sustainable systems for health. I would like to restate the Secretariat's support and appreciation of the role of an independent audit function.

Concerning this report, I would like to underscore three important issues. First, and as the report clearly states, there was no evidence of any wrongdoing.

Second, the OIG is clear that the report is not meant to provide a complete picture of the wambo.org project, and is not an opinion on the platform itself. It is not the product of a full audit of wambo.org, but of a "limited scope review" of the processes undertaken to procure consulting services and recruit staff for the implementation of wambo.org.

Third, the Global Fund Secretariat, in all its work, endeavors to maintain the highest standards of transparency and accountability, while balancing procedural requirements and risk management with the reality and needs of rapidly implementing our mission. So while the report highlights important issues of consistent application of procedures, we believe we acted in good faith throughout the project and pursued the principles of transparency, value for money and efficiency.

In that regard, the project delivered every benchmark on time and within the estimated cost as per the information initially submitted to the Global Fund's governing structures. The one exception was external financing, which has now been met.

To meet the ambitious timelines of the project, in some cases we made use of 'exception to competition', a legitimate procurement option expressly provided for by the Global Fund's procurement regulations. While in most cases the Secretariat aims to minimize the use of this approach, as indicated in the report and Agreed Management Actions (AMA), this is an area for improvement. In this case, it was decided that the substantial savings merited use of Global Fund procurement regulations that facilitated speed and agility.

As with all OIG reports, we jointly identified areas for improvement and the Secretariat is fully committed to implementing the AMA. As recognized in the report, the improvement area that stands out most clearly is that of documentation. Despite our fast project timelines, we could have been more diligent in documenting each step of the procurement processes. In this area, the limited scope review has highlighted shortcomings that will be addressed, which will improve the clarity and accountability in the Secretariat's procurement framework.

The report also rates the procedures followed for human resources as "effective" because existing procedures were followed. However, the review also highlights the need for tighter overall procedures and Human Resources have already begun to implement the AMA.

In summary, we are grateful for the work of the OIG to improve our systems. We are also very excited about the opportunity wambo.org provides to country-owned procurement systems to increase equitable access to low cost, high quality products; improve transparency, accountability, efficiency and value for money in procurement systems; and provide access to global markets for all suppliers of quality products, thus saving more lives.

Mark Dybul, Executive Director of the Global Fund