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Update from the Executive Director - Tanzania

16 May 2017

The Global Fund has zero tolerance for corruption or fraud. When any misspent funds are identified, the Global Fund pursues recovery, so that no donor money is lost to fraud or ineligible expenses. The Office of the Inspector General (OIG) is an integral and important part of risk management and controls, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund. **This update specifies that the Global Fund did not suffer any financial loss on its investments in Tanzania.**

The Audit of Global Fund Grants to the United Republic of Tanzania, published 8 February 2016, identified challenges with the supply chain management system, lapses in key financial controls, and weaknesses in the governance, oversight and management of grant implementation arrangements. The Global Fund Secretariat immediately implemented a series of agreed actions to address the weaknesses identified in the audit report. It also provided the OIG with verification by the Local Fund Agent in May 2016 on documentation provided by the Principal Recipient.

The OIG's follow-up investigation clarified the queries and concerns raised in the audit report and provided updated information since the audit was published; it also concluded there was no evidence that the significant process failures identified by the audit had been exploited for fraudulent gain by the Medical Stores Department (MSD). Poor documentation at the time of an audit that requires further review is a symptom of weaknesses in controls, compliance and assurance. The Global Fund takes such documentation weaknesses seriously and acts to correct the problems.

It is not unusual for the final recoverable amount that is determined after additional work by Investigations Department to differ from the findings of an audit. Auditors can only review the information that is available to them at the time of the audit. Guided by their findings, additional work often has to be undertaken by a Local Fund Agent or by the Investigation Department to help determine the recoverable amounts. This work entails significant

additional review of records that can take months and cover several countries and continents, depending on the location of relevant documents. Even when the final amounts are significantly lower, the lack of readily available documentation can indicate sub-optimal compliance and controls that requires attention.

The following represent actions being implemented by the Global Fund and partners to address weaknesses identified in the audit report, and findings from the OIG investigation:

- **The Global Fund did not suffer any financial loss on its investments in Tanzania.** Expenditures of US\$9.6 million that were not supported with appropriate documentation as identified in the audit report have since been reconciled and the investigation found that those expenses had been properly documented. The misappropriation of US\$215,757 of funds in January 2015, identified in the investigation, has been repaid to the Global Fund. The Global Fund is pursuing full recovery of US\$490,776 worth of antiretroviral medicine that could not be accounted for by the government's MSD.
- **The Global Fund is working with MSD to strengthen its systems and oversight.**
 - The Global Fund and key country stakeholders have instituted a review of the MSD, and the supply chain as a whole, in order to find solutions to the challenges it faces in storing and distributing commodities. The Global Fund will support the government and partners to develop an operational plan on this based on the findings of the holistic supply chain review.
 - MSD has taken action to strengthen its payments procedures. Suppliers are now paid directly from the MSD Global Fund dedicated bank accounts. MSD also created a Grants Management Unit, which includes accounting specialists responsible for reconciling and verifying all transfers using Global Fund funds.
 - The OIG investigation found that the variance of US\$1.55 million identified in the audit was incorrect; all consignments shipped by the Global Fund's Pooled Procurement Mechanism were matched with those received by MSD.
 - The Global Fund, through its Local Fund Agent, is reviewing supporting documents for all transfers from MSD's Global Fund dedicated bank accounts for the period from 1 July 2016 to 30 June 2017. The review will establish if the transfers follow appropriate relevant procedures, verifying the delivery of goods and services and the effective implementation of the risk-mitigating measures.
- **The Global Fund has asked the Country Coordinating Mechanism to prepare a time-bound action plan showing how the country's implementation arrangements will be streamlined and strengthened in order to support effective implementation of programs.**
- **The OIG investigation found that the Ministry of Health construction procurement followed appropriate guidelines.** While the audit had initially reported that the Ministry of Health had erred in awarding the contract to the third-lowest bidder, the full examination of the procurement process showed that the lowest bidder had been rejected as it was on the Tanzania Public Procurement

Regulatory Authority list of blacklisted firms; the second-lowest bidder was rejected after its performance references were found to be negative. The Ministry of Health awarded the contract to the third-lowest bidder who met all necessary qualifications and reference checks.