



Investigation Report

Investigation of Global Fund Grants to the Republic of Zambia

Theft of Health Products from Medical Stores Limited

GF-OIG-18-007

26 April 2018

Geneva, Switzerland

 **The Global Fund**

Office of the Inspector General

What is the Office of the Inspector General?

The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.

Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.

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The Global Fund believes that every dollar counts and has zero tolerance for fraud, corruption and waste that prevent resources from reaching the people who need them. If you suspect irregularities or wrongdoing in the programs financed by the Global Fund, you should report to the OIG using the contact details below. The following are some examples of wrongdoing that you should report: stealing money or medicine, using Global Fund money or other assets for personal use, fake invoicing, staging of fake training events, counterfeiting drugs, irregularities in tender processes, bribery and kickbacks, conflicts of interest, and human rights violations...

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Email:

ispeakoutnow@theglobalfund.org

Letter:

Office of the Inspector General
Global Fund
Chemin du Pommier 40
CH-1218 Grand-Saconnex, Geneva

Free Telephone Reporting Service:

+1 704 541 6918

Service available in English, French, Spanish,
Russian, Chinese and Arabic

Telephone Message - 24-hour secure voicemail:

+41 22 341 5258

More information: www.theglobalfund.org/oig

Audit Report

OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise the organization's mission to end the three epidemics. The OIG generally audits three main areas: risk management, governance and oversight. Overall, the objective of the audit is to improve the effectiveness of the Global Fund to ensure that it has the greatest impact using the funds with which it is entrusted.

Advisory Report

OIG advisory reports aim to further the Global Fund's mission and objectives through value-added engagements, using the professional skills of the OIG's auditors and investigators. The Global Fund Board, committees or Secretariat may request a specific OIG advisory engagement at any time. The report can be published at the discretion of the Inspector General in consultation with the stakeholder who made the request.

Investigations Report

OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund's mission to end the three epidemics. The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts.

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1. Executive Summary

1.1. Summary

In October 2016 and in April 2017, the Global Fund Secretariat notified the Office of the Inspector General (OIG) that they had been informed by Medical Stores Limited (MSL), a government distributor of health products that HIV test kits, funded by other donors, had been stolen from their warehouse. The OIG also received information that a non-governmental organisation (NGO) had bought HIV test kits in the capital, Lusaka, including some financed by the Global Fund that had been originally delivered to MSL. The ensuing OIG investigation determined that Global Fund-financed health products totalling US\$1.06M could not be accounted for. Evidence suggests that these products were stolen over a two-year period, between 2014 and 2016. This issue of theft of products from MSL is currently being investigated by the Zambian Authorities.

1.2. Main OIG Findings

The investigation identified significant unexplained stock losses of Global Fund-financed pharmaceutical and non-pharmaceutical health products totalling US\$1, 064,788 delivered to MSL between 2014 and 2016. The losses, which were neither effectively investigated, nor reported to the Global Fund comprised:

- EF5,790 HIV test kits valued at US\$416,379 (7.5% of total Global Fund-financed kits delivered between 2014 and 2016)
- 67,967 bottles of antiretrovirals (ARVs) valued at US\$423,209 (2.6% of total Global Fund-financed ARVs delivered between 2014 and 2016)
- 11,442 artemisinin-based combination therapy packs (ACTs) valued at US\$214,486 (2.4% of total Global Fund-financed ACTs delivered between 2014 and 2016)
- 2,521 malaria rapid diagnostic test kits (MRDTs) valued at US\$10,714 (1.7% of total Global Fund-financed kits delivered between 2014 and 2016)

The investigation found that stock quantities recorded in MSL's electronic warehouse management system were negatively adjusted to reflect missing stock identified during annual stock takes. MSL staff could not explain the stock losses and the OIGs investigation also could not reconcile the stock adjustments with any outbound deliveries, expiries or other events. The overall loss totals US\$1, 064,788, 3.2% of a total of US\$33.4M of deliveries investigated. These losses are non-compliant expenditure, as per the terms and conditions of the relevant Global Fund grant agreements.

The internal controls at MSL were ineffective and resulted in multiple opportunities for theft and misappropriation of assets. Documented operating procedures including procedures requiring biannual stock takes and weekly counts of randomly selected locations were not followed. OIGs investigation found that MSL undertook only one stock count in each of the years 2014, 2015 and 2016 and no weekly stock counts were conducted.

Contrary to MSL's operating procedures, there was no meaningful follow-up or investigation of stock variances. MSL staff were not able to explain the net negative adjustments; the assistant inventory manager suggested that the stock 'must have been stolen'.

During a USAID sponsored market survey in Zambia and the Democratic Republic of the Congo in late 2017, 38 purchases of ACTs financed by the Global Fund were made at 26 commercial vendors in Zambia and 12 commercial vendors in the Democratic Republic of the Congo. The 38 packets of ACTs purchased displayed batch numbers corresponding with Global Fund financed ACTs delivered to MSL between May and December 2016.

OIG's investigation found that of the 38 purchases and 29 different batch numbers identified, five of the batch numbers identified (through eight of the purchases), correspond with batch numbers of ACTs found by the OIG to have been negatively adjusted and unaccounted for.

1.3. Actions Already Taken

Since this issue came to light, MSL has changed its senior management and co-operated fully with the OIG investigation. The Global Fund Secretariat provided financing for a multi-agency national task team, which conducted a series of high profile investigations and enforcement operations leading to arrests associated with an organized cross-border crime network targeting MSL. Stock controls and security arrangements have also been enhanced. Following the appointment of a new acting managing director in May 2017, MSL has introduced several initiatives to address the issues of corruption and theft, including:

- Strengthening its internal audit function and recruiting two new internal auditors that have prioritized supply chain gaps and a dedicated security manager
- MSL/MoH is implementing destination checks to the last mile for high profile supplies that are prone to pilferage
- The security contractor has been replaced with a new provider and police. MSL has reorganised all its warehouses and all Global Fund supplies are under lock and key in severely restricted areas
- Management has invited all stakeholders to joint cycle count activities to improve transparency and visibility of the system
- Management has developed a Whistle Blower Policy and revised the MSL Human Resource Handbook that has been approved by MSL Board
- All new MSL trucks have a disclaimer "This truck is carrying medicines for the people of Zambia. Report any suspicious activities on the this truck to MSL"
- Collaboration with donors and in country authorities, including Zambia's Drug Enforcement Commission and Police. A dedicated task force to investigate corruption and theft at MSL has been established.

Since 2015, the Global Fund, through grant savings, has contributed to the operating costs of a National Task Force established to investigate drug theft from public health institutions. The Global Fund has also funded capacity building and improved supply chain infrastructure at MSL.

1.4. Summary of Agreed Management Actions

The Global Fund Secretariat and the OIG have agreed on specific actions, which are detailed in Section 5 of this report, and include:

- Recovering an appropriate amount from the Principal Recipient - Zambia's Ministry of Health, based on the findings of this report
- MSL's implementation of all stock count control procedures
- MSL, through the Principal Recipient, reporting to the Global Fund any negative stock discrepancies and the results of investigations into those discrepancies

2. Context

2.1. Country Context

Zambia is a lower middle-income country with a population of 16.2 million. Its gross domestic product was US\$21.15 billion in 2015.¹ The country's population is young with a median age of 17 years; 50% of Zambians are below the age of 15. Zambia was ranked 139th out of the 188 countries in UNDP's 2016 Human Development Index² and 87th out of 176 countries in Transparency International's 2016 Corruption Perceptions Index.³

Zambia's economy is heavily dependent on copper as a major export, which has made it vulnerable to declining demand. However, despite fiscal constraints, Zambia's health budget has seen significant additional investments, increasing by 150% in the last six years. This represents 8.3% of the 2016 total national budget. Almost 60% of the health budget is spent on salaries, which reduces available resources for programs.⁴

Politically, Zambia has had a decentralized structure since 1991 with 10 provinces and 103 districts. The Ministry of Health retains policy setting, planning and coordination and management roles. Service delivery is devolved to the district level. The ministry has coordination structures that link the national level to the provincial, district and community levels. The government decided to transition the National TB and Leprosy Program to the Ministry of Community Development and Social Welfare between 2012-2015 and then back to the Ministry of Health at the beginning of 2016. The country's health worker density is 0.77 health staff per 1,000 people⁵ against the target of 2.5 health staff per 1,000 to deliver quality services, according to national guidelines.

2.2. Differentiation Category for Country Investigations

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by size of allocation amount, disease burden and impact on the Global Fund's mission to end the three epidemics. Countries can also be classed into two cross-cutting categories: Challenging Operating Environments and those under the Additional Safeguard Policy. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, and manmade or natural crises. The Additional Safeguard Policy is a set of extra measures that the Global Fund can put in place to strengthen fiscal and oversight controls in a particularly risky environment.

Zambia is:

- Focused: (Smaller portfolios, lower disease burden, lower mission risk)
- Core: (Larger portfolios, higher disease burden, higher risk)
- High Impact: (Very large portfolio, mission critical disease burden)**

- Challenging Operating Environment*
- Additional Safeguard Policy*

¹ World Bank Country Profile, <http://data.worldbank.org/country/zambia>

² UNDP Human Development Report, <http://www.hdr.undp.org/en/countries/profiles/ZMB>

³ Transparency Intl. 2016 CPI https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table

⁴ UNICEF Health Sector Budget Brief: <https://www.unicef.org/zambia/HealthBudgetBrief-4.pdf>

⁵ AHWO 2010

2.3. Global Fund Grants in the Country

Since 2003, the Global Fund has committed US\$ 1,202 M and disbursed US\$ 1,023 M (up to 24 October 2017) in Zambia. During the 2017 investigation period, the country had five active grants:

Table 1. Active Global Fund grants to the Republic of Zambia (as at 2017) (as at 8 March 2018 – last disbursement under grant ZMB-C-MOH)

Principal Recipient	Grant	Grant end date	Signed amount (US\$)	Disbursed amount (US\$)
Ministry of Health	ZMB-C-MOH	31-Dec-2020	238,687,427	104,352,777
Ministry of Health	ZMB-M-MOH	31-Dec-2020	120,374,668	65,806,333
Churches Health Association of Zambia	ZMB-C-CHAZ	31-Dec-2020	117,238,821	60,452,064
Churches Health Association of Zambia	ZMB-M-CHAZ	31-Dec-2020	28,715,614	17,326,875
UN Development Programme	ZAM-H-UNDP	28-Feb-2017	156,509,071	156,509,071
Total			661,525,601	404,447,120

2.4. The Three Diseases



HIV/AIDS:⁶ Out of a population of 16.2 million, there are an estimated 1.2 million people living with HIV (all ages) in Zambia. This figure is expected to increase to 1.3 million by 2020.

Despite this HIV prevalence among the adult population in 2015-2016 was 12.9% having steadily declined from 15.6% in 2001-2002 to 14.3% in 2007 and 13.3% in 2013-2014.

Number of people living with HIV in 2015:⁷ 1,200,000

Number of people on antiretroviral therapy:⁸ 758,646



Malaria:⁹ Malaria remains a major cause of morbidity and mortality with the entire population of Zambia at risk. Malaria prevalence/incidence in Zambia is markedly heterogeneous with the country stratified into distinct epidemiological zones.

Malaria deaths decreased by 70% from a baseline of 51.2 per 100,000 in 2010 to 15.5 per 100,000 in 2015.

No. of nets sold or delivered in 2014:¹⁰ 6,368,026

No. of people protected by indoor residual spraying in 2015:¹¹ 5,930,141

⁶ Zambia 2018-2020 Funding Request to Global Fund

⁷ UNAIDS website: <http://aidsinfo.unaids.org/>

⁸ UNAIDS website: <http://aidsinfo.unaids.org/>

⁹ Zambia 2018-2020 Funding Request to Global Fund

¹⁰ WHO Global Malaria report 2016: <http://www.who.int/malaria/publications/world-malaria-report-2016/report/en/>

¹¹ WHO Global Malaria report 2016: <http://www.who.int/malaria/publications/world-malaria-report-2016/report/en/>



Tuberculosis:¹² Over the last decade, TB incidence has fallen by 40% (from 650/100,000 population in 2003, to 376/100,000 population in 2016) in large part due to the increased investment in TB diagnosis and treatment and stronger TB/HIV collaboration, including the scale-up of antiretroviral therapy in the general population. .

Overall about 39% of TB cases go undetected, underscoring the need to significantly improve TB case finding, especially at community and health facility level. The extent of multidrug-resistant TB remains unknown and largely unaddressed.

Total cases notified in 2016:¹³ 40,153

New and relapse cases detected in 2016:¹⁴ 38,326

3. The Investigation at a Glance

3.1. Genesis and Scope of the Investigation

November 2014: Start of wrongdoing

October 2016: OIG alerted to potential wrongdoing

Source of the alert:

- Secretariat**
- Principal Recipient
- Sub-Recipient
- Local Fund Agent
- Anonymous whistle-blower
- Audit referral
- Other**

In October 2016, having first been alerted by MSL, the Global Fund Secretariat notified the OIG of the theft of nine pallets of USAID-funded HIV test kits valued at US\$250,000 from MSL's off-site warehouse. In April 2017, the Global Fund's Zambia Fund Portfolio Manager informed the OIG that other donor-funded HIV test kits totalling approximately US\$26,800 had also been stolen from MSL's central warehouse. The theft occurred in February 2017. In parallel, the OIG received information that in April 2016, an NGO purchased US\$207,000 of HIV test kits from a supplier in Lusaka, including some originally delivered to MSL which were financed by the Global Fund. In February 2017, the Local Fund Agent also confirmed that products procured from Global Fund resources were part of the consignment diverted from MSL.

Given the reports of theft and the total value of health products financed by the Global Fund at risk, the OIG opened an investigation; initially to account for Global Fund-financed HIV test kits delivered to MSL. The investigation focused on all ten deliveries of HIV test kits totalling US\$5.6M funded by two Global Fund grants ZAM-H-UNDP and ZMB-C-MOH and delivered to MSL between November 2014 and December 2016.

¹² Zambia 2018-2020 Funding Request to Global Fund

¹³ WHO Global TB report 2016: http://www.who.int/tb/publications/global_report/en/

¹⁴ WHO Global TB report 2016: http://www.who.int/tb/publications/global_report/en/

3.2. Type of Wrongdoing Identified

- Coercion
- Collusion
- Theft**
- Fraud
- Human Rights Issues
- Non-Compliance with Grant Agreement**
- Product Issues**

3.3. Non-Compliant Expenditure

US\$1,064,788: The OIG investigation found losses of Global Fund-financed ARVs, ACTs, HIV and malaria test kits delivered to MSL between 2014 and 2016. This is a non-compliant expenditure as per the terms and conditions of the relevant Global Fund grant agreements.

3.4. Proposed Recoverable Amount

US\$1,064,788: The OIG proposes the entire non-compliant expenditure as the recoverable amount.

3.5. Progress on Previously Identified Issues

A 2017 country audit of Global Fund grants to Zambia reported the following:

- Stock-outs and expiries of health products of varying magnitudes were identified from health facility to central warehouse levels. Whilst significant improvements are underway particularly around warehousing, distribution arrangements remain a challenge, particularly for the last mile of delivery. Medicine availability has also been affected by the accuracy of quantification and forecasting for HIV.
- Discrepancies were identified in MSL's physical stock counts against an inventory systems count in seven out of the 13 commodities tested. Furthermore, malaria rapid diagnostic test stock had a 22% discrepancy between the system count and the physical count at the warehouse.

Under the current grants, the Ministry of Health leads the quantification process for medicines and commodities with support from partners and in-country stakeholders. Procurement of most health products now goes through the Global Fund's Pooled Procurement Mechanism. MSL now has approximately 20 trucks making monthly deliveries to one of four hubs at Mongu, Chipata, Ndolo or Choma (to be increased to seven) or to individual health facilities.

Previous relevant OIG work

[GF-OIG-17-028 Audit of Global Fund Grants to Zambia](#)

4. Findings

4.1 Stolen HIV test kits worth US\$416,379

The investigation found an unexplained loss of 5,790 packs of HIV test kits valued at US\$416,379, delivered to MSL between 2014 and 2016 through two Global Fund grants.¹⁵ This represents 7.5% of total deliveries of 76,751 packs of Global Fund-financed HIV test kits over this period, valued at US\$5.59M.

The HIV test kits were discovered missing from the warehouse during annual stock takes between 2014 and 2016, resulting in MSL staff making numerous negative adjustments of stock quantities in MSL's electronic warehouse management system. These adjustments were made to reflect the actual quantity of HIV test kits in the warehouse versus the quantity that should have been there.

The investigation could not reconcile the stock losses with any outbound deliveries, expiries or other events. Nor was MSL able to explain the losses. During the investigation, the OIG received confirmation from the Zambia National Task Force that some of the missing HIV test kits were later purchased by an NGO from a commercial entity in Lusaka.

In the absence of any explanation, compounded with the NGO's purchase of HIV test kits missing from MSL, the OIG concludes that the missing kits had been stolen from the warehouse.

Table 2. Losses of HIV test kits delivered to MSL

Delivery*	Supplier Invoice	Purchase Order No.	Quantity Entered into MACS^	Pack Cost US\$	Net Negative Adjustment (loss-packs)	Adjustment Value (US\$)
1	91060992-1	50094	3195	80.00	-624	49,920
	91060992-3	50094	3140	80.00	-12	960
	91060992-6	50094	3201	80.00	-18	1,440
3	91031160	404198-1	5,465	90.00	-1102	99,180
4	195001851	404117	3,404	90.00	-370	33,300
5	00124217	404118-1	3,900	28.17	-28	789
6	14/042503	45133559	6,681	88.00	-1956	172,127
7	14/042504	45133559	6,319	88.00	-93	8,184
8	95000370	45133561	9,873	88.00	-33	2,904
9	00121701	45133585	7,332	29.31	-1025	30,043
10	00116413	00013252	6,499	33.14	-529	17,531
Total					-5,790	416,379

*No discrepancies were found regarding delivery number 2.

^Total quantity entered into MACSwms, which is MSL's inventory management system, as being received and put into warehouse

Agreed Management Action 1.0

Based on the findings of this report, the Global Fund Secretariat will finalise and pursue an appropriate recovery amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recovery

Owner: Chair, Global Fund Recoveries Committee

Due date: 31 October 2018

Category: Financial & Fiduciary Risks

¹⁵ Global Fund grants: ZAM-H-UNDP and ZMB-C-MOH. More information on these grants can be found at: <https://www.theglobalfund.org/en/portfolio/country/list/?loc=ZMB&k=5407d575-ab23-4db6-ac34-b5eb567da7fo>

4.2 Unexplained losses of HIV and malaria products worth US\$648,409

Following the significant losses of HIV test kits, the OIG widened its investigation scope to include other Global Fund-financed health products such as ARVs to treat HIV, ACTs to treat malaria, and malaria rapid detection test kits (MRDTs).

The OIG found unexplained losses of ARVs, ACTs and MRDTs delivered to MSL between June 2015 and December 2016 through two Global Fund grants which totalled US\$648,409. MSL was unable to explain the losses. As a result, the OIG concluded that the missing stock was stolen from MSL's warehouse.

Unexplained losses of ARVs delivered to MSL

The investigation found an unexplained loss of 67,967 bottles of ARVs valued at US\$423,209 delivered to MSL between June 2015 and December 2016 through a Global Fund grant.¹⁶ This represents 2.6% of total deliveries of 2.6M bottles of Global Fund-financed ARVs valued at US\$18.7M. Again, the ARVs were not found in the warehouse during annual stock takes, resulting in MSL staff making numerous negative adjustments of stock quantities in the warehouse management system.

MSL staff confirmed that the stock losses and negative adjustments were the result of stock that they were unable to locate during annual stock takes and that this was probably due to theft.

Table 3. Losses of ARVs delivered to MSL

Delivery*	Supplier Invoice	Purchase Order No.	Quantity Entered into MACS^	Pack Cost US\$	Net Negative Adjustments (loss -bottles)	Adjustment Value (US\$)
1	U07-E17/1106	32760-1	74,486	7.78	-2116	16,462
	U07/E17/1099	32760-1	75,002	7.78	-4326	33,656
	U07-E17/1152	32760-2	74,520	7.78	-7837	60,972
	U07/E17/1242	32760-3	18,029	7.78	-1620	12,604
2	90287339	32762-0	100,116	7.14	-5332	38,070
3	90303364	336640	620,876	7.99	-9292	74,243
4	90240005	28648	59,566	4.62	-16881	77,990
	2000052065	28648	79,488	9.21	-3096	28,514
	9019088	28648	222,417	4.62	-16421	75,865
	90240006	28648	60,172	4.62	-48	222
	90240035	28650	201,994	4.62	-998	4,611
Total					-67,967	423,209

*No discrepancies were found regarding delivery number 5.

^Total quantity entered into MACS as being received and put into warehouse

Unexplained losses of ACTs delivered to MSL

The investigation found an unexplained loss of 11,442 packs of ACTs valued at US\$214,486 delivered to MSL between October 2015 and December 2016 through a Global Fund malaria grant.¹⁷ This represents 2.4% of total deliveries of 474,597 packs of ACTs valued at US\$8.4M between 2014 and 2016. MSL staff could not locate the missing ACTs during annual stock takes. As a result, they made negative adjustments to the quantities recorded in the warehouse management system.

Buffer stocks ensured that there were no stock-outs and missing stock was only identified during annual stock takes. MSL staff were unable to provide any explanation for the stock losses except to say that the losses were probably due to theft.

¹⁶ Global Fund grant ZMB-C-MOH

¹⁷ Global Fund grant ZMB-M-MOH

A USAID sponsored market survey in October/November 2017 found ACTs for sale at six commercial vendors in Zambia with the same batch numbers as ACTs delivered to MSL in deliveries 3 and 4a in the table below. The survey also found ACTs for sale at a commercial vendor in both Zambia and the Democratic Republic of the Congo with the same batch number as ACTs delivered to MSL in delivery 10b in the table below.

Table 4. Loss of ACTs delivered to MSL

Delivery*	Supplier Invoice	Purchase Order No.	Quantity Entered into MACS^	Pack Cost US\$	Net Negative Adjustments/loss (packs)	Adjustment Value (US\$)
1	2355	327040	3,600	1.56	-954	1,488
3	2355	328360	16,073	16.54	-3130	51,770
4a	2248	50001	40,500	16.54	-36	595
4b	2355	328360	25,093	16.54	-1102	18,227
4c	2355	50004-0	25,099	16.54	-100	1,654
5	2253	286920	12,269	13.25	-627	8,308
7a	2248	50001	22,973	21.42	-740	15,851
7b	2248	50003	7,934	21.42	-405	8,675
8	2248	286930	17,000	19.58	-1,514	29,644
10a	16042	50003	26,029	28.20	-682	19,232
10b	16042	50004-0	26,828	28.20	-782	22,052
11	16042	28695-0	8,853	27.00	-1,370	36,990
Total					11,442	214,486

*No discrepancies were found regarding delivery number 2.6 or 9.

^Total quantity entered into MACSwms as being received and put into warehouse

Unexplained losses of MRDTs delivered to MSL

The investigation found an unexplained loss of 2,521 MRDTs (corresponding to 267,850 individual tests) valued at US\$10,714 delivered to MSL between December 2015 and July 2016 through a Global Fund malaria grant.¹⁸ This represents 1.7% of total deliveries of 148,242 test kits valued at US\$638,096 between 2014 and 2016.

Again, the missing MRDTs were not found in the MSL warehouse during annual stock takes resulting in staff making negative adjustments to the quantities recorded in the warehouse management system. As with the other missing products, buffer stocks ensured that there were no stock-outs. The missing stock was only identified during annual stock takes. The responsible MSL staff member was unable to provide any explanation for the stock losses except that the losses were probably due to theft.

Table 5. Loss of MRDTs delivered to MSL

Delivery*	Invoice	Purchase Order No.	Quantity Entered into MACS^	Pack Cost USD	Net N(-) Adjustments (packs)	Adjustment Value (US\$)
1	16053	29207	128,443	4.25	-2,521	10,714
Total					-2,521	10,714

*No discrepancies were found regarding delivery number 2.

^Total quantity entered into MACSwms as being received

Agreed Management Action 1.1

¹⁸ Global Fund grant ZMB-M-MOH

Based on the findings of this report, the Global Fund Secretariat will finalise and pursue an appropriate recovery amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recovery.

Owner: Chair, Recoveries Committee
Due date: 31 October 2018
Category: Financial & Fiduciary Risks

4.3 Non-compliance with documented stock inventory controls and high stock levels facilitated the theft of health products by staff.

MSL's inventory control practice was at variance with inventory control policy. Contrary to the standard operating procedure that stipulates biannual stock counts, staff only conduct stock counts at the end of the year. Monthly cycle counts¹⁹ only started again in 2017 after a four-year absence, despite recommendations for more regular cycle counts in both MSL's 2015 and 2016 annual stock take report.

The stock count control standard operating procedure requires one inventory at the end of March and another towards the end of the year. It also requires weekly stock counts of 40 randomly selected locations and monthly cycle counts. Furthermore, from 2011 to October 2016, contrary to the stock control procedures, MSL's internal auditor was not involved in stock takes. Nor did the internal auditor have any visibility of stock count variances, or their investigation. In 2011, the requirement for his signature on the stock adjustment form was removed. It wasn't reinstated until instructed by the new managing director in October 2016.

The internal auditor confirmed that MSL staff undertake one stock take per year and the stock count data is entered into the warehouse computer system. The standard operating procedure requires the internal auditor, after each stock take, to deliver a discrepancy report to management for review. Management determine which small discrepancies will be approved prior to the warehouse management system being updated. Unapproved discrepancies are further reviewed to determine whether they should be investigated.

During stock takes, the warehouse is divided into zones with a stock count sheet produced by the warehouse management system for each zone. Two staff members count products in the zone listed on the count sheet. First counts are a 'blind count' with products appearing on the count sheet without quantities. Count tallies are recorded on the count sheets and then entered into the warehouse management system by staff. When count sheet tallies do not match system stock quantities, a second count sheet is produced by the system. Second counts are undertaken by a different team. If the second count tallies do not match system quantities, a third and final count sheet is generated.

If the results of a third count do not match the system quantities, the third count sheet is given to another count team to perform a final count which is taken as the final physical quantity and entered into the warehouse management system. Once all stock take count sheets are entered into the system, the stock count is closed and a variance report automatically produced by the system.

The investigation found that adjustments of stock quantities to account for missing stock are automatically generated by the warehouse management system as a result of the tallies recorded on third count sheets being manually entered into the system. No further authorisation is required. Responsibility for investigating stock losses rests with the assistant warehouse manager and is limited to a search of the warehouse to try and find the missing stock. Instances of missing stock identified during annual stock takes are not reported to any authorities and no insurance claims are made.

¹⁹ A cycle count is an inventory auditing procedure, which falls under inventory management, where a small subset of inventory, in a specific location, is counted on a specified day. Cycle counts contrast with traditional physical inventory in that a full physical inventory may stop operation at a facility while all items are counted at one time.

Agreed Management Action 2

Based on the findings of this report, the Global Fund Secretariat will review the implementation of the procedures articulated in MSLs Standard Operating Procedure relating to stock count control (SO19 MSL).

Owner: Head, Grant Management

Due date: 28 February 2019

Category: Governance, Oversight and Management Risks

Agreed Management Action 3

Based on the findings of this report, the Global Fund Secretariat will confirm that Medical Stores Limited regularly reports stock variances in Global Fund-financed products and that variances are being investigated per MSL procedures.

Owner: Head, Grant Management

Due date: 28 February 2019

Category: Governance, Oversight and Management Risks

5. Table of Agreed Actions

Agreed Management Action	Target date	Owner	Category
1. Based on the findings of this report, the Global Fund Secretariat will finalise and pursue an appropriate recovery amount. This amount will be determined by the Global Fund Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recovery	31 October 2018	Chair, Global Fund Recoveries Committee	Financial & Fiduciary Risks
2. Based on the findings of this report, the Global Fund Secretariat will review the implementation of the procedures articulated in MSLs Standard Operating Procedure relating to stock count control (SO19 MSL)	28 February 2019	Head Grant Management	Governance, Oversight and Management Risks
3. Based on the findings of this report, the Global Fund Secretariat will confirm that Medical Stores Limited regularly reports stock variances in Global Fund-finance products and that variances are being investigated per MSL procedures.	28 February 2019	Head Grant Management	Governance, Oversight and Management Risks

Annex A: Investigation Methodology

Why we investigate: Wrongdoing, in all its forms, is a threat to the Global Fund’s mission to end the AIDS, tuberculosis and malaria epidemics. It corrodes public health systems and facilitates human rights abuses, ultimately stunting the quality and quantity of interventions needed to save lives. It diverts funds, medicines and other resources away from countries and communities in need, limits impact and reduces the trust, which is essential to the Global Fund’s multi-stakeholder partnership model.

What we investigate: The OIG is mandated to investigate any use of Global Fund funds, whether by the Secretariat of the Global Fund, by recipients of grants funds, or their respective suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with the grant agreements. The Global Fund Policy to Combat Fraud and Corruption²⁰ generally outlines the prohibited practices, which will result in investigation findings.

OIG investigations aim to:

- (i) identify the specific nature and extent of wrongdoing affecting Global Fund grants;
- (ii) identify the entities responsible for such wrongdoing;
- (iii) determine the amount of grant funds that may have been compromised by wrongdoing; and
- (iv) place the Global Fund in the best position to recover funds, and take remedial and preventative action, by identifying where and how the misused funds have been used.

OIG conducts administrative, not criminal, investigations. It is the recipients’ responsibility to demonstrate their compliance with the grant agreement in their use of grant funds. Its findings are based on facts and related analysis, which may include drawing reasonable inferences. Findings are established by a preponderance of evidence. All available information, inculpatory or exculpatory, is considered by the OIG.²¹ As an administrative body, the OIG has no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, its ability to obtain information is limited to the access rights it has under the contracts the Global Fund and its recipients enter into, and on the willingness of witnesses and other interested parties to voluntarily provide information.

The OIG bases its investigations on the contractual commitments undertaken by recipients and suppliers. Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including those disbursed to Sub-recipients and paid to suppliers. The Global Fund’s Code of Conduct for Suppliers²² and Code of Conduct for Recipients, included in these con provide additional principles, which recipients and suppliers must respect, and the Global Fund Guidelines for Budgeting generally define how expenditures must be approved and evidenced to be recognized as compliant with the terms of the grant agreements.

²⁰ (16.11.2017) Available at https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

²¹ These principles comply with the Uniform Guidelines for Investigations, Conference of International Investigators, 06.2009; available at: http://www.conf-int-investigators.org/?page_id=13, accessed 1.12.2017.

²² Global Fund Code of Conduct for Suppliers (15.12.2009), § 17-18, available at: https://www.theglobalfund.org/media/3275/corporate_codeofconductforsuppliers_policy_en.pdf, and the Code of Conduct for Recipients of Global Fund Resources (16.07.2012), §1.1 and 2.3, available at: https://www.theglobalfund.org/media/6011/corporate_codeofconductforrecipients_policy_en.pdf. Note: Grants are typically subject to either the Global Fund’s Standard Terms and Conditions of the Program Grant Agreement, or to the Grant Regulations (2014), which incorporate the Code of Conduct for Recipients and mandate use of the Code of Conduct for Suppliers. Terms may vary however in certain grant agreements.

Who we investigate: Principal Recipients and Sub-recipients, Country Coordinating Mechanisms and Local Fund Agents, as well as suppliers and service providers. Secretariat activities linked to the use of funds are also within the scope of work of the OIG.²³ While the Global Fund does not typically have a direct relationship with the Secretariat's or with recipient's suppliers, the scope of OIG work²⁴ encompasses their activities regarding the provision of goods and services. To fulfill its mandate, the OIG needs the full cooperation of these suppliers to access documents and officials.²⁵

Sanctions when prohibited practices are identified: When the investigation identifies prohibited practices, the Global Fund has the right to seek the refund of grant funds compromised by the related contractual breach. The OIG has a fact-finding role and does not determine how the Global Fund will enforce its rights, nor does it make judicial decisions or issue sanctions.²⁶ The Secretariat determines what management actions or contractual remedies to take, in response to the investigation findings.

However, the investigation will quantify the extent of any non-compliant expenditures, including amounts the OIG proposes as recoverable. This proposed figure is based on:

- (i) amounts, for which there is no reasonable assurance about delivery of goods or services (unsupported expenses, fraudulent expenses, or otherwise irregular expenses without assurance of delivery);
- (ii) amounts which constitute over pricing between the price paid and comparable market price for such goods or services; or
- (iii) amounts incurred outside of the scope of the grant, for good and services not included in the approved work plans and budgets or expenditures over approved budgets.

How the Global Fund prevents recurrence of fraud: Following an investigation, the OIG and Secretariat agree on management actions that will mitigate the risks of prohibited practices to the Global Fund and its recipients' activities. The OIG may make referrals to national authorities for criminal prosecutions or other violations of national laws, and supports such authorities as necessary throughout the process, as appropriate..

²³ Charter of the Office of the Inspector General (19.03.2013), § 2, 9.5, 9.6, 9.7 and 9.9 available at:

https://www.theglobalfund.org/media/3026/oig_officeofinspectorgeneral_charter_en.pdf

²⁴ Charter of the Office of the Inspector General § 2, and 17.

²⁵ Global Fund Code of Conduct for Suppliers, § 16-19

²⁶ Charter of the Office of the Inspector General § 8.1