



Audit Report

Procurement Processes

Follow-up Audit

GF-OIG-18-018
03 September 2018
Geneva, Switzerland

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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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.

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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.

Contents

| | | |
|------|--|----|
| 1. | Executive Summary | 4 |
| 1.1. | Opinion..... | 4 |
| 1.2. | Key Achievements and Good Practices | 5 |
| 1.3. | Key Issues and Risks | 5 |
| 1.4. | Rating | 6 |
| 1.5. | Summary of Agreed Management Actions | 6 |
| 2. | Background and Context | 7 |
| 2.1. | Overall Context..... | 7 |
| 3. | The Audit at a Glance..... | 10 |
| 3.1. | Objectives | 10 |
| 3.2. | Scope | 10 |
| 4. | Findings | 11 |
| 4.1. | Limited oversight and compliance monitoring over procurement activities | 11 |
| 4.2 | Supplier contracting and performance management need improvements. | 13 |
| 4.3 | There is a need to re-evaluate and properly measure the GLC agreement for second-line TB commodities | 14 |
| 4.4 | Continued limitations on performance information for pooled procurement | 16 |
| 5. | Table of Agreed Actions | 17 |
| | Annex A: General Audit Rating Classification | 18 |
| | Annex B: Methodology..... | 19 |

1. Executive Summary

1.1. Opinion

Material improvements have been made in various aspects since the OIG Procurement and Supply Chain audit in 2015.¹

New indirect procurement regulations and procedures have been designed, including controls to enhance competitiveness and transparency. Staff have been trained in these new processes. However, the framework is not yet fully embedded and compliance issues remain on tendering and competition. There is a need to enhance compliance monitoring and the design of some aspects of the framework. The procurement framework is therefore rated **partially effective**.

Closer management and improved oversight have been implemented over Procurement Service Agents (PSAs) and other suppliers, and a market shaping strategy has been approved by the Board. However, given changes in market conditions, there is a need to reassess the 2006 decision to directly source all Multi Drug Resistant TB drugs (MDR TB) from the Global Drug Facility (GDF), a pooled procurement mechanism used by the Global Fund. Despite the formalization of the arrangements in a memorandum of understanding (for the procurement of medicines and diagnostics for TB), the performance management framework and reporting activities for GDF procurements have not been established. This is also a repeat issue which had been highlighted in the previous OIG audit. Overall, while the management of PSAs has improved and is partially effective, the reassessment of GDF relationship and establishing procurement and reporting activities are significant issues. This area is therefore rated **needs significant improvement**.

Oversight and performance management of direct procurements (Procurement Service Agent – PSA services) has improved with follow-up and tracking of agreed actions. However, there is a need to incorporate performance monitoring measures in the contracts. The management of indirect procurements (non-health related corporate purchases) also needs a more structured and risk-based approach.² Contract management is therefore rated **partially effective**.

Data for reporting on key performance indicators has improved, and methodologies for reporting and interpreting these KPIs have been enhanced. In early 2018, a revised performance reporting framework was launched to further improve the KPIs; however, one strategic KPI remains unreported due to data limitations. While solutions are being explored, the strategic procurement KPIs continue to be based solely on Pooled Procurement Mechanism (PPM) procurements, which account for approximately 50% of Global Fund health products. The KPIs for procurement are therefore rated **partially effective**.

The audit did not include or rate the organizational structure over procurement activities, and staff capability and capacity. Whilst the 2015 audit had identified gaps in these areas, the Secretariat has acknowledged that remediation of these gaps is still a work in progress and therefore these areas were not ready to be re-evaluated.

¹ Audit of Procurement and Supply Chain Management at the Global Fund GF-OIG-15-008

² The requester of the goods or services is responsible for managing the contract and evaluating the performance of the supplier.

1.2. Key Achievements and Good Practices

Revised Procurement Framework

Since the 2015 audit, a revised indirect Procurement Framework has been rolled out. The framework includes revised regulations and procedures. Staff training was delivered in the third quarter of 2017 to support the operationalization of the revised procurement framework. The framework was also subsequently rolled out with minimal business disruptions.

Procurement Improvement Plan

The Procurement Improvement Plan has brought material enhancements to indirect sourcing processes, including increased thresholds for involving the Sourcing team for most procurement categories, thereby delegating more responsibility and accountability to requesting officers in the business units. The Procurement Regulations have also been aligned with the Accountability Framework. Roles and responsibilities have been defined to increase procurement accountability. In addition, the core principles of value for money, competition, ethics, and transparency have been reiterated throughout the process and framework.

Market-shaping changes and some improvements in supplier management of Procurement Service Agents (PSAs)

The Board approved in 2015 a market shaping strategy that moves the Global Fund towards a more comprehensive direct procurement approach addressing market analysis, global tenders, long-term agreements and framework contracts, supplier management and negotiated reference pricing. Further, revised and more robust processes for PSA cash reconciliations have been introduced. In the case of the three PSAs, improvements have also been made in the periodic reviews and ongoing monitoring of supplier performance issues.

1.3. Key Issues and Risks

Procurement framework compliance monitoring

As the Procurement Regulations and Procedures were only launched in October 2017, the OIG cannot yet fully assess their effectiveness for indirect procurement. Embedding the regulations remains a work in progress. Compliance issues persist, particularly on tendering and competition. The full automation of compliance reporting has not yet been implemented. Sourcing continues to work with IT to find a solution.

Supplier contract and performance management

Contracts with PSAs do not contain key clauses on targets, and performance reporting requirements. There is an opportunity to strengthen these direct procurement contracts (for PSA Services) in the 2018 tender process.

Evaluation and assessment of TB commodity contracts

The Global Fund does not have sufficient visibility into its procurements through the Global Drug Facility (GDF) to be able to fully assess potential savings or value for money. The Board's decision³ to directly contract GDF through the Green Light Committee (GLC) as a pooled procurement mechanism for all Multi drug resistant tuberculosis (MDR TB) drugs has not been re-evaluated since 2006.⁴ There have since been significant changes in supply and market for second-line drugs and material enhancements in the Global Fund capacity to execute procurements through its own direct Sourcing team. Although a memorandum of understanding between the Global Fund and Stop TB Partnership has formalized the arrangement, the related performance management and reporting activities have not been clearly defined.

³ Board decision GF/B13/DP26

⁴ The 2006 decision is linked to 2nd line TB drugs. The wider scope of services is for first, second-line drugs, MDR/XDR drugs, pediatric formulations and diagnostics.

1.4. Rating

| | |
|--|---|
| | Objective 1. The design and effectiveness of the procurement regulations and procedures, including ensuring that procurements are carried out in a competitive and transparent manner is rated: Partially effective. |
| | Objective 2. Performance management of vendors, procurement service agents and GDF: The management of PSAs is partially effective, but the reassessment of GDF relationship and establishing procurement and reporting activities are significant issues. This area therefore needs significant improvement. |
| | Objective 3. Management of contracts with vendors is rated: Partially effective. |
| | Objective 4. Review of the key performance indicators for procurement is rated: Partially effective. |

1.5. Summary of Agreed Management Actions

The Secretariat will internally review the Procurement Review Committee role vis-à-vis its membership, implement quarterly reporting on indirect procurement methods used to the Management Executive Committee, and introduce guidance for controlling and maintaining the Preferred Supplier and Direct Suppliers lists. The Secretariat will also capture performance management criteria within the revised PSA contractual agreements, which are currently being finalized. Further, the Secretariat will also work with Stop TB Partnership to revise and implement the Memorandum of Understanding, and analyze future opportunities for collaboration, synergies and information sharing between GDF and the Sourcing Department.

2. Background and Context

2.1. Overall Context

A critical aspect of the Global Fund's fight against the three diseases is to ensure that countries and communities have access to quality, life-saving health products in a timely manner and at a reasonable cost.⁵ Efficient and effective Procurement and Supply Chain Management (PSM) is key to achieving this objective. Procurement activities in the Global Fund are governed by the Board-approved Procurement Policy. The policy is underpinned by a set of more detailed and Procedures. All of these together form the Global Fund Procurement Framework.

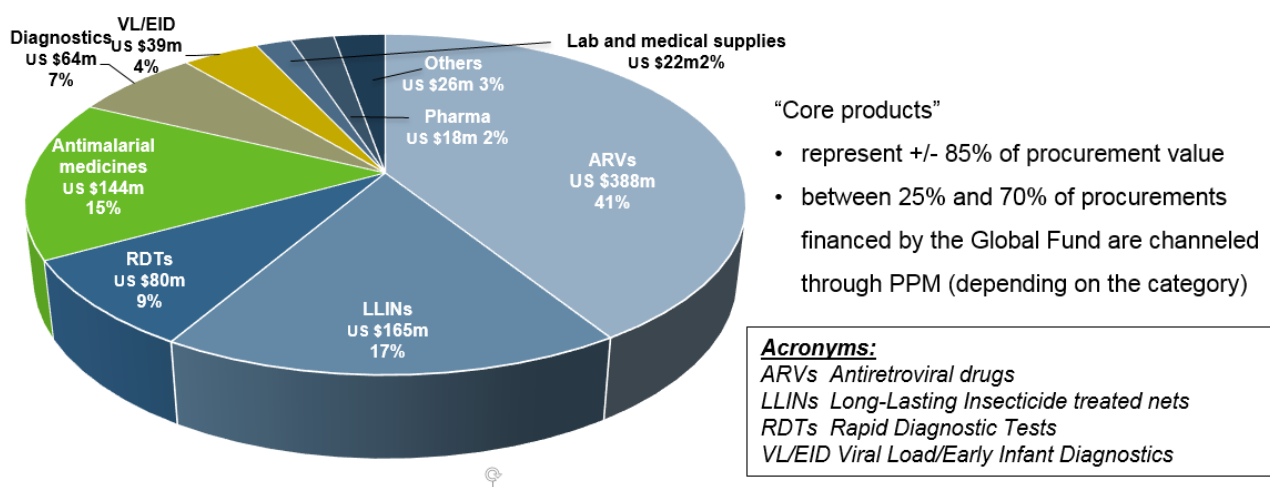
The primary business function is the Sourcing department. Comprised of 30 staff, it is split into teams covering direct procurement (17 staff and consultants) and indirect procurement (six staff) and seven wambo.org staff.⁶ Spend categories are split as follows:

- Health products on behalf of countries through the Pooled Procurement Mechanism (PPM),
- Operational expenditures, or OPEX, procurement such as Local Fund Agents, professional fees, communications, office infrastructure, etc.);
- Grant-related procurement such as fiscal agents, external audits or vehicles; and
- Strategic initiatives procurement (for example supply chain projects or programmatic evaluations).

Direct Procurement

The Global Fund's biggest country-level investments concern health and non-health products⁷. PPM spend is approximately 55% of the total Global Fund health product spend.⁸

⁹



Principal Recipients are responsible for the implementation of procurement activities for both health and non-health products, in line with their grant agreements. However, to generate efficiencies and improve delivery times, the Global Fund initiated the PPM in April 2007. The mechanism

⁵ This forms part of the Global Fund's Strategic Objective 4: Mobilize increased resources: https://www.theglobalfund.org/media/2531/core_globalfundstrategy2017-2022_strategy_en.pdf

⁶ Although a decision has been made to merge the Sourcing & Supply Chain Departments creating a new department reporting directly to the Executive Director, the audit was conducted at the time these two departments were separate. The supply chain function (currently sitting in Grant Management) has 21 staff, health product management (who oversee the procurement of health products for non PPM countries) consists of 23 staff and Quality Assurance has 3 staff.

⁷ Non-health products are all products and services other than health products that are procured to support activities related to the procurement, distribution and use of health products. This includes, but is not restricted to vehicles, computers, construction materials and technical assistance.

⁸ Global Fund System Total Disbursements Reports.

⁹ Financial data from PPM approved orders 2017.

consolidates health procurements (PPM) across the Global Fund grants and facilitates procurement by engaging Procurement Service Agents (PSAs).

The PSAs provide services to the Global Fund as follows:

- Tracking transactions and reporting key supply management information to Sourcing;
- Managing transactions, including selecting suppliers and processing transactions, after the Global Fund allocates orders to suppliers;
- Selecting and managing freight and logistics; and
- Providing quality assurance services and in-country delivery solutions.¹⁰

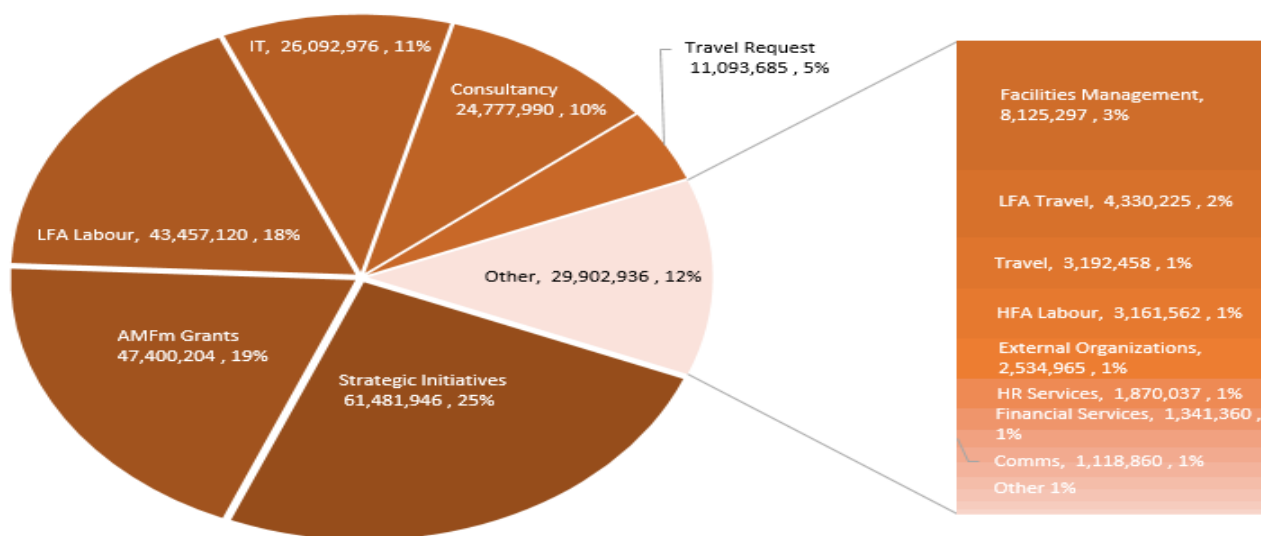
For tuberculosis however, second-line drugs can only be procured through the Green Light Committee’s Procurement Agent, the Global Drug Facility, which in turn utilizes a service agent to manage these orders.¹¹

Indirect Procurement

This team is responsible for procurement under the Secretariat’s operational budget and includes grant-related items, special strategic initiatives and general expenditures. In 2017, the Global Fund’s annual indirect expenditure amounted to approximately US\$240 million on goods and services.¹²

The procurement of goods and services must adhere to core principles which require that the Global Fund ‘obtains value for money and ensures that procurement is competitive where required, applies principles of “efficiency, effectiveness, impartiality, transparency, accountability and procurement ethics”’.¹³

Breakdown by category of spend managed by Indirect Procurement team (2017)



Procurement oversight, Supplier Performance and Contract Management

Procurement oversight is performed by the Management Executive Committee, the Strategy Committee and ultimately the Board, through reporting on various key indicators.

¹⁰ PSA’s are required to ensure that the procurement of health products complies with the principles set forth in the World Health Organization (WHO) Model Quality Assurance System for Procurement Agencies (MQAS). PSA’s are required to develop and implement a quality assurance system in line with MQAS principles.

¹¹ <https://www.theglobalfund.org/board-decisions/b13-dp26/>. The Global Drug Facility is a dedicated procurement mechanism managed by Stop TB which seeks to optimize access to quality assured tuberculosis products, and supportive pharmaceutical services, through efficient procurement and supply management, technical assistance and capacity strengthening in the Global Fund countries. For actual procurements and logistics of TB drugs, GDF currently engages another service agent, International Dispensary Association (IDA) Foundation to manage transactions. GDF also pays IDA to manage the GDF Strategic Rotating Stockpile (SRS), which is used to address emergency procurement requirements of countries, including for the Global Fund procurements.

¹² Does not include the \$30m health insurance contract procurement which was not managed by the Indirect Procurement team

¹³ Global Fund Procurement Procedures October 2017 Section 3.

The 2017 Procurement framework sets out the responsibilities for the various stages of the procurement process. Contract management and execution are split between the business units and the Sourcing Department. Performance measurement of contracts is the responsibility of the requesting business units.

PPM performance is measured against strategic and implementation KPIs in the 2017-2022 Strategic Framework. The strategic KPIs include reporting on the availability and affordability of health technologies. This includes a calculation of annual savings achieved through PPM on a defined set of products. Timeliness and completeness of PPM deliveries is reported as an implementation KPI to the Management Executive Committee. The 2018 Performance Reporting framework plans to further expand procurement and supply chain key performance indicators and address some known reporting gaps.

OIG Audits

In 2015, the OIG audit on Procurement and Supply Chain Management processes identified an absence of procurement and supply chain strategies, gaps in organizational structure hampering effective coordination of PSM functions, capacity gaps, weaknesses in procurement regulations and performance reporting, and weaknesses in assurance mechanisms for supply chain.

In 2016, OIG performed a limited scope review of procurements for Wambo.org, as well as an Investigation into Supplier Wrongdoing and Global Fund Non-Compliance with Procurement Regulations. These assignments highlighted further gaps in the procurement framework and the application of its requirements, particularly relating to use and monitoring of exceptions to competition, as well as accountability for compliance. As these weaknesses were material, the OIG included in its work program this follow-up review on the progress of the associated management actions. Following completion of the audit, the OIG has closed two agreed management actions from the 2015 Procurement and Supply Chain Management Audit and Wambo.org.

Previous relevant OIG audit work

14-007 ARV Quantification & Forecasting
15-008 Procurement and Supply Chain Management
16-007 Internal Controls
16-016 Wambo.org procurement processes
16-026 Mutambara Investigation
17-008 In-country Supply Chain Processes
17-016 Management of Consultants
17-021 Wambo.org platform
18-010 Proactive investigation of Procurements of Non-Compliant HIV Rapid Diagnostic Testing Kits

3. The Audit at a Glance

3.1. Objectives

The audit aims to provide reasonable assurance on the Secretariat's progress in addressing procurement-related issues of competitiveness, transparency and performance management identified in pertinent procurement audits since 2015. The audit seeks to evaluate:

- the design and effectiveness of the procurement regulations and procedures, including ensuring that procurements are carried out in a competitive and transparent manner;
- the performance management of vendors and procurement service agents;
- the effectiveness of vendor contract management;
- the KPIs for procurement.

3.2. Scope

The audit did not cover the issues raised in the 2015 Procurement and Supply Chain Management Audit around the Global Fund's procurement strategy, the organizational structure over procurement and supply chain activities, and the capability and capacity of the Sourcing Department.

Various related changes and improvements are currently ongoing. For example, the incoming Executive Director has created a dedicated Sourcing and Supply Chain Department reporting directly to him, merging the existing functions that are currently spread across different areas within the Secretariat. In addition, an external consultancy has performed a diagnostic across the Sourcing function to review and enhance its structure, processes and capacity. Overall procurement strategy is also being considered through this review. However, the Secretariat acknowledged that these areas have not yet been adequately addressed and a new OIG evaluation would yield the same issues. Therefore, in consultation with the Secretariat, these areas were excluded from the scope of this follow-up review.

The audit did not review the Global Fund's Supply chain management strategy or the assurance mechanisms over procurement and supply chain management activities, as these were reviewed in the 2017 In-Country Supply Chain Processes audit (GF-OIG-17-008, April 2017) and the 2017 In-Country Assurance audit (GF-OIG-17-026, December 2017).

4. Findings

4.1. Limited oversight and compliance monitoring over indirect procurement activities

Oversight and monitoring of procurement activity remains limited, leading to continued compliance issues even after implementation of the revised procurement framework.

The 2015 audit found that a majority of the sampled competition-eligible, non-health (indirect) procurements were made non-competitively. Compensatory controls were not in place either to ensure that best value was obtained in the absence of competition. The root causes for these issues included weak policies on procurement, lack of compliance monitoring and the absence of a management information system for procurement-related data to aid decision-making.

The procurement framework has since been revised, systems enhancements implemented and comprehensive staff training rolled out. This has resulted in procurement process compliance improvements since the 2015 audit. Since 2015, tender requirements are increasingly being competed on the open market, with the number of tenders (requests for proposal – RFP) issued by the Sourcing more than doubling.¹⁴ However, there are still gaps in oversight as the current framework does not provide for an effective second line review of procurement transactions. In line with the three lines of defence model adopted by the Global Fund in 2014, operational compliance testing by an independent second line of defence function has not yet commenced over procurement activities.¹⁵ Defining an effective organizational structure for the procurement function, outlining a clear and an overarching Sourcing Strategy remain critical. As acknowledged by management, further improvements are also needed to enhance the efficiency and effectiveness of the procurement framework.

a) Weaknesses in the oversight of Procurements There is currently no “second-line” oversight over procurement transactions within the Secretariat. Risk Management are working with the Sourcing Unit to develop oversight and risk indicators for procurement.¹⁶ In the absence of adequate second-line oversight, certain significant risks remain such as inappropriate use of non-competitive procurement methods, which may lead to poor value for money.

The following weaknesses were noted in the oversight of procurements:

- Procurement Procedures require the PRC¹⁷ to ‘conduct an independent review of the procurement process for high-value or high-risk requirements’. However, there is no clear guidance as to what types of contracts would constitute “high risk” and require PRC involvement (nine PRC cases were reviewed in 2017, of which two are rated as high risk by Sourcing).
- Procurement Regulations require that the list of approved Direct Purchasing suppliers¹⁸ and estimated contract values is reported to the Management Executive Committee (MEC) twice a year; however, this MEC reporting has not yet been implemented. Although this list of 42 suppliers was reviewed by the Procurement Review Committee in December 2017, three sampled Direct Procurement suppliers were neither on the PRC-reviewed Direct Procurement list nor on the list of GFS Preferred Suppliers (who are competitively selected and who hold framework contracts with the Global Fund).

¹⁴ Based on Global Fund RFP Solicitations Database.

¹⁵ The Risk Management Department is independent from the other divisions and departments, including those that manage grants and operational risks, and as such performs a ‘second line of defense’ role (management forming the first line, and the Office of the Inspector General constituting the third line of defense).

¹⁶ The Global Fund established a second line of defense risk management department in November 2014 with operational compliance responsibilities given to Risk in 2018.

¹⁷ The Procurement Review Committee, known as the PRC, is *designed to conduct an independent review of the procurement process for high-value or high-risk requirements*’ (Global Fund Procurement Procedures).

¹⁸ Direct purchasing typically takes place for low value procurements where the Procurement framework allows purchasing from a supplier with no competition, subject to the Budget Holder’s approval.

- Although mandated to be responsible for reviewing “compliance with both process and principles”, there are ambiguities regarding the actual mandate of the PRC. Although the PRC is comprised of senior level members, the Sourcing Department considers the Committee’s role to be one of pure process compliance rather than a higher level oversight to ensure that significant procurement transactions are consistent with the spirit and principles of the procurement framework, such as value-for-money. In the view of the Sourcing department, these aspects are the responsibility of the individual budget-holders, with budget oversight from MEC. As this committee, which was established in late 2017, matures and becomes more embedded in the procurement governance process, there is an opportunity to review its mandate and its roles, taking into account the seniority of its membership (process compliance reviews could potentially be delegated to appropriate compliance functions at the operational level).
- Classification of procurement transactions is not accurate to facilitate oversight and subsequent monitoring. The OIG identified procurements valued at US\$581,653 that did not follow the required procedures which would be applicable if the POs were correctly classified. For example, exceptions to competition were classified as competitive procurement and therefore did not go through the approval process for exceptions to competition.

b) Open competitive procurements are not performed consistently. Procurements are not consistently performed through open market bidding, which could have ensured and manifested their competitiveness. For example, the renewal of a three-year contract for staff health insurance, worth over US\$30 million, was outsourced to a specialized benefits consulting firm to approach the market and obtain competitive insurance premium rates. The approach is consistent with the renewal process in 2014. Further, with insurance reported expense claims exceeding premiums in 2017 and earlier years, an increase in premium was likely in the renewal.¹⁹ However, overseen by Human Resources after approval by Sourcing, this represented the largest single indirect procurement made by the Global Fund in 2017. The third party consultants that conducted the procurement did not (by design) conduct a tender on the open market, even though the transaction amount exceeded (GF Sourcing) mandatory thresholds for open competition; instead, bids were requested from five insurance providers. Only two bids were received. The consultancy shared analyses on the market research and benchmarking of fees and premiums against open market rates and comparable organizations only post the selection of the insurance provider, and based on the analyses, it is not possible to conclude beyond doubt whether more competitive rates could have been achieved through reaching out to the open market.

Agreed Management Action 1

The Secretariat will ensure that:

- An internal review of the design and operating effectiveness of the Procurement Review Committee takes place.
- Management Executive Committee reporting is instituted on a quarterly basis for indirect procurement methods.
- The Sourcing Department will issue guidance to control and maintain the Preferred Supplier List and the list of Direct Suppliers.
- Performance management criteria are captured within revised PSA contractual agreements. OIG note that the outsourced services agreement for the pooled procurement mechanism PSA tenders have been published during the audit.

Due Date: 31 December 2019

Owner: Head of Sourcing and Supply Chain

¹⁹ HR 2017 Report- https://tgf.sharepoint.com/sites/inside/DL002/HR_2017Workforce_Report_en.pdf#search=HR%20Report%202017- the final expense claims were 103% of the insurance premium for 2017. The loss ratio was higher in previous years.

4.2 Supplier contracting and performance management need improvements.

The 2015 audit identified weaknesses in the management of contracts and the monitoring of supplier performance, for both direct and indirect procurement.

Direct/Sourcing Procurement of health products

Since the 2015 audit, contract and performance management of the three Procurement Service Agents (PSAs) has materially improved. There are detailed, regular reviews by the Sourcing Department of PSA data, and PSAs are held to account over the timeliness and accuracy of their reporting. Actions for performance improvements are documented, tracked and escalated to appropriate levels. Risk self-assessments by PSAs are discussed and challenged, as part of year-end reviews, and areas for continued improvement, efficiencies and cost savings are explored.

However, there is still room for improvement around the management of contractual obligations and the quality of data received from PSAs.

Current contractual agreements with PSAs do not include service level targets, performance reporting requirements, or incentives for suppliers on continuous improvement and efficiencies. As a result, underperformance has been managed through supplier warnings in performance meetings, management letters and the escalation of issues. However, these arrangements are not fully effective and various issues previously raised persist. For example, for all three agreements, gaps were regularly identified on the timely reporting, particularly for Price and Quality data (PQR),^{20 21} non-conforming products, product recalls, insurance matters, Principal Recipient invoicing and compensation; however, these issues are not systematically tracked and continue to recur.

Embedding critical performance components within the contracts and tracking key obligations will ensure a structured and consistent treatment of suppliers, result in deliverables and actions that are legally binding, and increase responsiveness to agreed actions. The 2018 PSA tender is an opportunity to renegotiate inclusion of these aspects in their contracts.

Indirect non-health procurements

Since the 2015 audit, a contract management system has been implemented, but opportunities exist for integrating supplier management activities across departments. For example, a business data supplier has three separate contracts across different departments, at materially different prices, with no overall view of the supplier's performance. Indirect procurement and post contract management of non-health products is not structured and focused on key risks. This is necessary to ensure effective oversight and an efficient management approach for different supplier services.

Please see Agreed Management Action 1

²⁰ As per grant agreements, Principal Recipients (PRs) of Global Fund grants have to report grant-funded purchases of key pharmaceutical and health products into the online PQR system. Data entry is limited to Principal Recipients and the VPP procurement agents and access to individual grants is restricted. Key pharmaceutical and health products include antiretrovirals, anti-TB medicines, anti-malarial medicines, bed nets, condoms and rapid diagnostic tests for HIV and malaria.

²¹ This issue is acknowledged by Sourcing as a known issue through the publically available PQR data caveat statement stating weaknesses on data accuracy, timeliness, completeness and integrity. PQR data is used for to help countries access market information, enabling them to obtain better value for money.

4.3 There is a need to re-evaluate and properly measure the GLC agreement for second-line TB commodities

For the procurement of medicines for multidrug-resistant TB, the Green Light Committee (GLC) initiative was set up by the World Health Organization and the Stop TB Partnership in April 2006. Stop TB utilize an internal team, the Global Drug Facility (GDF) to execute procurement on behalf of the Global Fund. The initiative aims to support countries in managing drug-resistant tuberculosis by (i) ensuring access to quality-assured second-line drugs at affordable prices (ii) monitoring the use of second-line drug use in approved projects; and (iii) promoting technical assistance for MDR-TB projects.

The 2015 OIG audit found that, despite material purchases for second line drugs, the Secretariat had not formalized its contractual relationship with the Global Drug Facility including the roles, terms and conditions and performance measures under which the Facility would operate; this meant that the Secretariat could not measure the Facility's performance.

Inadequate performance monitoring for TB procurements:

Following the audit, a memorandum of understanding (MoU) was signed in June 2016 between the Global Fund and Stop TB Partnership. This MoU defined the roles of the Global Fund and GDF, and aimed to facilitate sharing of lessons learned, leverage each other's technical expertise and align performance monitoring for Global Fund financed MDR-TB procurements through a mutually agreed mechanism.²² The MOU included a joint commitment to 'develop a standard set of harmonized KPIs... [and] collaborate on the definition, implementation and monitoring of agreed performance metrics'. The MoU envisaged the creation of a dashboard (TB Traffic Light) for regular reports to internal and external stakeholders, as well as a jointly developed mechanism for follow-up actions.

However, the performance metrics contemplated under the MOU have still not been developed. In October 2017, Stop TB presented to the Global Fund a market-shaping strategy update: 'Overview, updates and Priority Issues from Stop TB's Global Drug Facility'²³; however, the dashboard and regular performance monitoring were not discussed.

Whilst material issues on product availability have not been identified, gaps in management information and performance reporting of GDF activity limit the ability of the MEC and the Board to ensure that performance is optimal and that value for money is delivered through this arrangement. The Global Fund does not receive any reporting allowing for an evaluation of the savings and value-for-money achieved on GDF procurements. Key obligations set out in the MoU between the parties are not being delivered by either party. These include the previously mentioned dashboard, timely exchange of information on health product quality and quality assurance compliance, and mutually agreed performance metrics. A joint working group to implement the MoU has not been established.

There is limited Global Fund visibility over GDF activity including supplier performance, the methodology behind savings and pricing improvements (for first, second-line drugs, MDR/XDR drugs, pediatric formulations or diagnostics) or progress on issues reported by GDF on national procurement for TB drugs.

TB procurement by the Global Drug Facility has not been re-evaluated since 2006:

The supply and market for second-line drugs has changed significantly since the Board decision²⁴ to solely procure through the Green Light Committee, including increases in quality-assured suppliers and formulations for second-line drugs. In 2009, when the Global Fund started procuring second-line drugs exclusively through GDF, there were only 10 suppliers in the market for those drugs; by

²² Memorandum of Understanding Global Fund STBP on the Global Drug Facility 2016

²³ GDF market-shaping strategy overview & update (October 2017)

²⁴ Board decision GF/B13/DP26

2017, the number of available suppliers in the market had more than doubled to 24. Likewise, whilst 24 formulations of second-line drugs were available in 2011, this number had increased nearly fivefold to 117 by 2017.²⁵ Furthermore, at the time of the Board decision in 2006, the Global Fund had not initiated the Voluntarily Pooled Procurement Mechanism (the precursor to PPM), and had limited procurement management capacity.

Today, the Pooled Procurement Mechanism has significantly matured and most of the Global Fund's health procurements are managed through highly competitive processes in the selection of suppliers, procurement service agents, and products, ensuring high value for money. However the Global Fund has not performed periodic evaluations of its current procurement of second-line TB drugs exclusively through GDF, taking into account the impact of the market changes that have occurred since the relationship was initiated. The need for a re-evaluation does not necessarily call into question the relevance of the Global Fund partnership with GDF.

The TB drugs market is relatively small, fragmented and complex in comparison to various other pharmaceuticals, and significant additional savings are harder to achieve. Further, the relationship with GDF entails multiple partnership benefits besides cost savings, including technical assistance to countries, collaborative support to the Secretariat, and enhancing emergency responsiveness through the strategic stockpile. However, without a comprehensive evaluation encompassing all these factors, the Global Fund may not be able to fully assess the extent to which the single-source arrangement through GDF is delivering the most value-for-money in relation to other potential arrangements, taking into account supply reliability and other procurement needs.

Agreed Management Action 2

The Secretariat will ensure that:

- the Sourcing department work with Stop TB to revise and implement the Memorandum of Understanding;
- together with the Stop TB Partnership an analysis is carried out to identify future opportunities for collaboration, synergies and information sharing between GDF and the Sourcing Department and submitted to MEC.

Due Date: 31 December 2019

Owner: Head of Sourcing and Supply Chain

²⁵ GDF market-shaping strategy overview & update (October 2017)

4.4 Continued limitations on performance information for Health Product Procurement

The 2015 audit found that while the Secretariat had established processes for measuring performance related to the Pooled Procurement Mechanism, it had not formalized the methodologies, terminologies and cut off dates for calculating and interpreting the key performance indicators for direct procurement. As a result, the OIG was unable to validate the accuracy of the reported performance results.²⁶

Since the audit, the work on elaborating the methodology for the calculations has been completed and in early 2018, a revised performance reporting framework was launched, allowing the Board to monitor progress against the four strategic objectives of the Global Fund. However, certain known limitations remain:

- KPI 6a - Strengthen Systems for Health (Procurement) under the Resilient and Sustainable Systems for Health Objective is focused on tracking the strength of countries' national procurement systems tracking Admin lead time, price and OTIF. It was due to be reported in Q1 2018, but this has not yet happened due to data limitations. The plan is being drafted to collect and include price and OTIF data from PRs and international agencies purchasing health products using the Global Fund's budget and second-line TB drugs procured through Stop TB and the Global Drug Facility. These products account for almost 50% of the drugs procured by the Global Fund and, as such, are critical to the accurately interpret the related KPIs.
- Implementation KPIs (i-KPI g, i-KPI h) relate only to PPM and by design do not include national procurement.

These limitations have been communicated to, and are known by, the Global Fund Board. The Secretariat is exploring options to include six countries (for their national drug procurements) and four international agencies in the strategic KPI 6a calculations, which make up approximately 30% of Global Fund health product spending.²⁷ However, the Secretariat has not yet started collecting data from these 10 procurers. The KPI team is working with the Legal Department to explore options for information sharing with international agencies. The Board approved KPI 12 relates to PPM activities only. The Secretariat has a greater level of control over the results for KPI 12, through direct PPM activities, while KPI 6a represents benchmarks from other agencies and allows capacity building efforts to be targeted.

PPM performance is measured against strategic and implementation KPIs in the 2017-2022 Strategic Framework. The strategic KPIs include reporting on the availability and affordability of health technologies. Additional management information is reported to executive management through implementation KPIs.

²⁶ The 2016 OIG Audit of KPIs conducted a detailed validation exercise on KPI data (including the PPM focused KPIs) and concluded that the audit 'did not identify any overall material errors in calculation, estimation or lack of alignment between results reported and the underlying data'.

²⁷ This will decrease the 50% of total Global Fund health spending which is currently not part of KPI 6a calculations.

5. Table of Agreed Actions

| Agreed Management Action | Target date | Owner |
|--|------------------|-----------------------------------|
| <p>1. The Secretariat will ensure that:</p> <ul style="list-style-type: none"> • An internal review of the design and operating effectiveness of the Procurement Review Committee takes place. • Management Executive Committee reporting is instituted on a quarterly basis for indirect procurement methods. • The Sourcing department work with budget-holders within divisions to maintain an up to date preferred list of suppliers. • Performance management criteria are captured within revised PSA contractual agreements. OIG note that the outsourced services agreement for the pooled procurement mechanism (PSA) tenders have been published during the audit. | 31 December 2019 | Head of Sourcing and Supply Chain |
| <p>2. The Secretariat will ensure that:</p> <ul style="list-style-type: none"> • The Sourcing department work with Stop TB to revise and implement the Memorandum of Understanding. • A cost benefit analysis of retaining current arrangements or incorporating TB commodity procurement within the Sourcing unit (PPM) is presented to the Board for approval. | 31 December 2019 | Head of Sourcing and Supply Chain |

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 effective. The nature of these issues is such that the achievement of objectives is seriously compromised.</p> |

Annex B: Methodology

The OIG 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 documents 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.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place at the Global Fund, as well as in country, and is used to provide specific assessments of the different areas of the organization's activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of 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.