



Investigation Report

Global Fund Grants in the Democratic Republic of Congo

Tender manipulation and overpricing in Malaria grant

GF-OIG-19-006
12 March 2019
Geneva, Switzerland

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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.

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 paragraph

Senior managers appointed by Population Services International (PSI), the Principal Recipient for the Global Fund's malaria grant in the Democratic Republic of the Congo (DRC), manipulated the local tenders relating to PSI's bed net mass distribution campaigns. These manipulations also extended to transportation contracts managed by local fiduciary agents hired by PSI. This resulted in systemic and significant overpricing of transportation, warehousing, and customs clearances contracts and an estimated financial loss of US\$7,386,066 to the Global Fund. Following the investigation, PSI has acknowledged this loss and has refunded the Global Fund in full. PSI's inadequate internal governance and weak oversight of its DRC operations facilitated the wrongdoing. The Global Fund's reliance on and non-evaluation of PSI's internal controls reduced its ability to identify these procurement irregularities proactively. The Global Fund is reevaluating the assurance framework agreed with PSI to provide further clarity on the division of responsibilities between different assurance providers and to periodically evaluate the effectiveness of PSI's internal controls.

1.2. Main OIG Findings

Between 2015 and 2017, the Global Fund malaria grant was subject to systemic manipulation of procurement and supply-chain related expenses, through collusive and overpricing schemes. These included restrictions and deviations to tender processes that were designed/approved by the local senior managers appointed by PSI in DRC. As a result, PSI and its fiduciary agents significantly overpriced contracts for in-country land transportation, warehousing, and customs clearance expenses.

Based on PSI's disclosure of red-flags identified during their internal audit, the OIG investigation of procurement and supply-chain management cost identified an estimated overall financial loss of US\$7.36 million out of the total procurement and supply-chain expenditure of US\$38.15 million (see Annex B for details). The OIG also identified a loss of US\$29,710 relating to communication expenses.



Transportation expenditures carried out by PSI's office in DRC generated estimated overpricing of 29%, representing a financial loss of US\$2 million.



PSI hired fiduciary agents in DRC and formulated the terms and conditions of their contracts to carry out restricted transportation tenders which limited competition. Independent price verification by OIG identified 38% overpricing of contracts carried out by the agents, representing a financial loss of US\$4 million.



PSI warehousing contracts in DRC were also overpriced. No documentation was available indicating how warehouse providers were identified. Independent price verifications identified an average overpricing of 21%, resulting in an overall overpricing of US\$0.63 million.



PSI paid 20% overpriced customs clearance charges for each Long Lasting Insecticidal Nets (LLIN) container, representing a financial loss of US\$0.59 million. Customs clearing agents were hired through restricted bidding or sole sourcing and were paid without providing adequate supporting documentation.

Several factors contributed to the financial loss resulting from the local procurements supervised by PSI's senior managers in DRC. The tender evaluation criteria, approved by PSI's Director of Operations in DRC, facilitated the manipulation of the tenders. As a result, lower priced bidders were eliminated on a subjective and inconsistent basis, and national instead of international tenders (which are required by PSI's procurement policies) were carried out.

Although PSI hired the fiduciary agents to manage fiduciary risks associated with cash management in the remote provinces of DRC, they were also tasked with carrying out local tendering for transportation contracts. Their contractual terms and conditions were developed to allow them to carry out restricted tendering. These fiduciary agents' contracts were approved by the Country representative of PSI in DRC, who was also responsible for the entire DRC country operations.

PSI headquarters did not have robust governance and risk mitigation measures in place to manage and oversee the fiduciary agents' activities. PSI headquarters' decentralized and remote management of the DRC portfolio, and its reliance on trusted senior management staff in DRC, created a lack of visibility at headquarters on key fiduciary risks. Although different teams in PSI headquarters identified red flags, PSI lacked a comprehensive escalation and accountability framework to address them.

In accordance with the framework agreement between the Global Fund and PSI, the Global Fund relied on assurance from PSI and its external auditors and did not independently evaluate the effectiveness of internal controls designed by PSI. This reduced the Global Fund's visibility of, and ability to detect, the tendering restrictions and deviations that resulted in overpricing.

The Global Fund's Local Fund Agent was supposed to review local tenders' specifications to check whether they were neutral and non-restrictive but failed to identify the restrictive tendering conditions. The Local Fund Agent's scope of work did not include comparing local procurement requirements with PSI headquarters policies and procedures, meaning deviations from headquarters' requirements passed unnoticed.

The Global Fund's grant risk assessment was not adequate. It considered the fiduciary agents hired by PSI as a risk-mitigating factor without independently reviewing their roles, responsibilities, and performance. Specifically, it relied on a PSI-led evaluation report of one of the four fiduciary agents at the beginning of the grant.

1.3. Actions Already Taken

Since the initiation of the investigation, in addition to refunding the full amount of overpricing identified, PSI has dismissed the senior managers responsible for wrongdoing in the DRC program. It has also taken several steps to address risks in its other Global Fund grants, including:

- Consolidating grant management for all Global Fund awards under one team in the Global Fund Management Unit (GFMU), and implementing functional reporting lines, including between GFMU and Finance, as well as between country office Finance and Internal Audit staff and the respective HQ functions.
- Formalizing a country level risk framework and review process, utilizing cross-functional input and led by PSI executive leadership.
- Implementing activity-level recording of transactions to improve budget monitoring.
- Implementing recommendations to improve PSI's management control structure arising from a Board-initiated governance and accountability review.

In response to the high risks associated with in-country supply chains, the Global Fund established a dedicated Supply Chain Department in 2016. The Global Fund also operationalized an Integrated Risk Module (IRM) in early 2018, which is designed to further strengthen the Global Fund's integrated risk and assurance framework. The IRM establishes a structured and streamlined tool for Country Teams to assess the capacity of implementers, capture, track and manage risks and mitigations, and simultaneously increase the accessibility and usability of risk-related data.

1.4. Summary of Agreed Management Actions

Taking into account the actions already taken by PSI and the Global Fund, the OIG and the Global Fund Secretariat have agreed on additional specific actions, as detailed in Section 5. In summary, the Secretariat will ensure that:

- The Secretariat will evaluate the design and effectiveness of the Global Fund Management Unit (GFMU) created by PSI to mitigate similar future risks.
- The Secretariat will address the supplier misconduct in accordance with the policy on supplier misconduct and the Sanctions Panel Procedures.
- The Global Fund Secretariat will update its Guidelines for Grant Audit to ensure that auditor engagement includes a review of the controls related to Principal Recipient hired third party agents including review of the terms and conditions of their engagement and adherence to such terms and conditions.
- Based on an evaluation of the effectiveness of PSI's internal controls, the Global Fund will re-evaluate its framework agreement with PSI to clarify the scope of responsibility between different assurance providers. The Global Fund will review assurance arrangements with other international non-governmental organizations to determine whether revisions are required to their respective assurance arrangements and/or framework agreements.

In addition to the above actions agreed with the Secretariat, the OIG will also evaluate the referral of the investigation findings to the DRC's national law enforcement authorities for their consideration of potential criminal action against the individuals responsible for the fraud identified in this report.

2. Context

2.1. Country Context

The Democratic Republic of the Congo (DRC) is the second-largest country in Africa and the 12th largest country in the world, over 2.3 million square kilometers in size. With abundant land suitable for farming and Africa's largest reserves of minerals and precious metals, the DRC's economic potential is significant. However, despite annual improvements in GDP growth since 2016¹, approximately 90.5% of the country's estimated 81.34 million people are considered "working poor," living on less than \$3.10/day.²

DRC is a complex operating environment whose poor infrastructure development poses significant challenges in designing and implementing effective health programs. Despite the challenging context, Global Fund programs have generated successful results in DRC. Notably, between 2015 and 2017, the Global Fund through its implementer PSI carried out Long-lasting insecticidal nets (LLIN) mass distribution campaigns in 16 out of 25 provinces of DRC and distributed 35.6 million LLINs throughout the DRC, targeting universal coverage.

The healthcare system in DRC was once renowned in Africa. However, decades of conflict and resulting political and economic challenges have made the DRC one of the most difficult countries in which to deliver health care services³. The country's health care system consists of four tiers, including 516 health zones ("Zones de Santé"), 65 administrative health districts sub-divided from 26 provinces (each with a provincial health department), and a central, federal government-level Ministry of Health. Public funding, however, is not available in all administrative regions, and foreign governments and international aid programs subsidize a significant percentage of the country's health expenditure. This fragmented system contributes to an inadequate supply chain⁴. Humanitarian aid is concentrated in urban areas, where approximately 44% of the population resides⁵.

Health delivery outside major population centers faces major challenges. Only four of the 26 provincial capitals can be reached by road from the capital city, Kinshasa, and 50% of the country remains inaccessible by road or rail transport⁶. Water transport has traditionally been the dominant mode of transportation in two-thirds of the country, owing to the thousands of kilometers of navigable waterways⁷.

2.2. Differentiation Category for Country Investigations

The Global Fund classifies countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by the amount allocated, the total disease burden and impact on the Global Fund's mission to end the three epidemics.

¹ World Bank <https://data.worldbank.org/country/congo-dem-rep>

² UNDP Human Development Indicators – Congo (Democratic Republic of the). <http://hdr.undp.org/en/countries/profiles/COD>

³ USAID. Democratic Republic of the Congo – Global Health. February 27, 2018. <https://www.usaid.gov/democratic-republic-congo/global-health>

⁴ Naughton, B., Abramson, R., Wang, A. and Kwan-Gett, T. "DRC Survey: An Overview of Demographics, Health and Financial Services in the Democratic Republic of Congo." Overview Report to the Bill & Melinda Gates Foundation. March 29, 2017. http://uwstartcenter.org/wp-content/uploads/2017/05/START-Center_DRC-Survey_Final.pdf

⁵ UNDP Human Development Indicators – Congo (Democratic Republic of the). <http://hdr.undp.org/en/countries/profiles/COD>




⁶ Naughton, B., Abramson, R., Wang, A. and Kwan-Gett, T. "DRC Survey: An Overview of Demographics, Health and Financial Services in the Democratic Republic of Congo." Overview Report to the Bill & Melinda Gates Foundation. March 29, 2017. http://uwstartcenter.org/wp-content/uploads/2017/05/START-Center_DRC-Survey_Final.pdf

⁷ PWC. "Democratic Republic of Congo." <https://www.pwc.com/gx/en/transportation-logistics/publications/africa-infrastructure-investment/assets/drc.pdf>

Countries can also be divided into two cross-cutting categories:

1. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, and human-made or natural crises
2. The second category, the Additional Safeguard Policy, provides the Global Fund with an extra set of measures to strengthen fiscal and oversight controls in risky environments.

The Democratic Republic of Congo 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***

2.3. Global Fund Grants in the Country

Since 2003, when the Global Fund became a partner in the DRC, it has disbursed about US\$1.61 billion for HIV/AIDS, TB, and malaria programs.⁸

This investigation concerns the Global Fund malaria grant COD-M-PSI, for the “Contribution to universal access of DR Congo populations to effective interventions to fight malaria,” implemented by PSI. The grant implementation period was from 1 January 2015 to 31 December 2017. PSI is no longer a Principal Recipient for the Global Fund in DRC.

For the implementation period 2018 to 2020, the Global Fund has five active grants, with US\$542,961,124⁹ in the budget amount to address the three diseases. This includes US\$117,501,431 in the budget for the national programs, and support to two Principal Recipients from civil society to implement a portfolio of US\$425,459,693 in the budgeted amount:

- Catholic Organization for Relief and Development Aid, Congo (Cordaid), an international NGO based in The Hague and present in DRC since the 1970s. Cordaid currently manages a combined TB/HIV grant with US\$149.7 million in budgeted funds;
- Eglise du Christ au Congo / Sante Rurale (Sanru), a local NGO established in Kinshasa in 1981. Sanru currently manages a malaria grant with US\$275.7 million in budgeted funds.

For implementation period 2015 to 2017, the Global Fund’s financing in the DRC included two additional civil society organizations:

- Population Services International (PSI), an international NGO based in Washington DC and present in DRC since 1987. PSI managed one grant with a budget of US\$173.5 million.
- Caritas Congo, a local NGO established in Kinshasa since 1960, managed one grant with a budget of US\$38.96 million.

⁸ <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3dddf43878055>. Accessed February 11, 2019.

⁹ GOS. Accessed February 11, 2019

2.4. The Three Diseases



HIV/AIDS: DRC faces a generalized HIV epidemic with pockets of concentrated epidemics affecting key populations including sex workers, men who have sex with men, and injecting drug users. The country has made significant progress in addressing the disease, as exhibited by the reduction in numbers of new HIV infections and AIDS-related deaths¹⁰.

390,000 people living with HIV¹¹

214,000 people on antiretroviral therapy¹²

HIV prevalence in adults is **0.7%**¹³



Malaria: DRC accounts for 10% of the global malaria burden, ranking second in the world. Together with Nigeria, DRC accounts for more than 35% of the global total estimated malaria deaths¹⁴. Almost the entire population (97%) lives in areas of stable transmission and is at risk of contracting malaria¹⁵. The mortality rate for children under five has decreased steadily.

7,250,000 insecticide-treated nets distributed in 2017¹⁶

Malaria incidence/1,000 population at risk (2015): 246¹⁷



Tuberculosis: DRC is one of the top 20 countries that appears in all three high-burden lists for TB, TB/HIV, and MDR-TB. The country's tuberculosis control program has proven effective, with a treatment success rate of 89%.¹⁸

Estimated TB Incidence: 323/100,000 (2016)¹⁹

200,000 People with TB treated in 2017²⁰

¹⁰ <http://aidsinfo.unaids.org/>

¹¹ <http://www.unaids.org/en/regionscountries/countries/democraticrepublicofthecongo>

¹² <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3ddf43878055>

¹³ <http://www.unaids.org/en/regionscountries/countries/democraticrepublicofthecongo>

¹⁴ <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3ddf43878055>

¹⁵ WHO World Malaria Report 2017. <http://apps.who.int/iris/bitstream/handle/10665/259492/9789241565523-eng.pdf;jsessionid=82BE178BF4DCFAC687450C8B3C42930D?sequence=1>

¹⁶ <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3ddf43878055>

¹⁷ https://www.pmi.gov/docs/default-source/default-document-library/country-profiles/drc_profile.pdf?sfvrsn=20

¹⁸ <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3ddf43878055>

¹⁹ <https://www.cdc.gov/globalhivtb/where-we-work/drc.pdf>

²⁰ <https://www.theglobalfund.org/en/portfolio/country/?loc=COD&k=8821256b-ea63-4407-adbf-3ddf43878055>

3. The Investigation at a Glance

3.1. Genesis and Scope of the Investigation

January 2015: Start of wrongdoing

May 2017: OIG alerted to wrongdoing

Source of the alert:

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

In March-April 2017, a Population Services International (PSI) internal audit found irregularities in transportation tenders at its DRC office. PSI reported the suspected fraud to the OIG in May 2017.

A subsequent PSI investigation identified 20% of PSI-DRC's transportation tenders as potentially fraudulent, as well as procurement manipulation in 88% of the transportation contracts signed by fiduciary agents. The investigation report, which PSI submitted to the OIG on 12 April 2018, also identified overpricing in warehousing contracts.

Based on PSI's interim findings, in May 2017 the OIG initiated an investigation to identify the full scale of potential losses to Global Fund grants. The OIG carried out a mission to DRC and reviewed 32% of the total US\$38.15 million procurement and supply-chain management transactions recorded in PSI's headquarters accounting system for the grant implementation period of January 2015 to December 2017.

The OIG sample was spread across tenders carried out by PSI in DRC and its fiduciary agents, covering land, air, and water transportation; warehousing; and customs clearance expenses. The OIG also reviewed a sample of communication expenses.

PSI fully cooperated with the OIG's investigation, including sharing the work papers and methodology that it used to reach its investigation findings.

3.2. Type of Wrongdoing Identified

- ☐ Coercion
- ☒ **Collusion**
- ☐ Corruption
- ☐ Fraud
- ☒ **Abusive Practices**
- ☐ Human Rights Issues
- ☒ **Non-Compliance with Grant Agreement**
- ☐ Product Issues

3.3. Non-Compliant Expenditure

US\$23,699,783: The OIG investigation found a non-compliant amount of US\$23.7 million due to procurement irregularities and systemic overpricing. An assessment of the financial loss was undertaken by the OIG which identified an estimated financial loss of US\$7,386,066 to the Global Fund. The financial loss included losses due to overpricing in transportation expenditures of US\$6,136,275, warehousing expenditures of US\$633,429 and customs clearance expenditures of US\$586,651 (refer to Annex B for details).

3.4. Proposed Recoverable Amount

US\$7,386,066: The OIG considered the entire financial loss of US\$7,386,066 as the proposed recoverable amount. The PSI has refunded the full amount to the Global Fund.

The scope of this OIG investigation was limited to the procurement and supply-chain management line items of the PSI grant, totaling US\$38.15 million. The investigation did not cover other line items of the PSI grant, which had total aggregate expenditures of \$178 million reported as of December 31, 2017, across all line items. Apart from this investigation, and as part of its normal 2018 work program, the OIG is also conducting an audit of DRC grants. The audit includes the PSI grant in its scope and, using a risk-based approach; it will review a sample of other expense line items that are not related to procurement and supply-chain management. This audit is expected to be completed in early 2019, and the report will be finalized and published thereafter.

Previous relevant OIG work

GF-OIG-16-022 (21 September 2016) Audit Report of Global Fund Grants to the Democratic Republic of the Congo

GF-OIG-14-019 (24 October 2014) Investigation Report on Global Fund Grants to Democratic Republic of the Congo

4. Findings

4.1. PSI senior manager in DRC approved special tender conditions and deviations that facilitated manipulation, resulting in overpriced contracts

PSI's senior manager in DRC approved restrictive special conditions and deviations from PSI's procurement policies without PSI headquarters' prior approval. As a result, from the beginning of the grant implementation period, bidders with lower prices were consistently eliminated from the tender evaluation process and contracts were awarded to bidders with high prices using unreasonable justifications, resulting in a financial loss of **US\$2,095,020** to the Global Fund on land transportation contracts executed by the PSI office in DRC.

Special conditions and deviations approved by PSI's Senior Management in DRC

The Director of Operations in DRC approved a number of special conditions or deviations in the tendering requirements that facilitated manipulation of the tender evaluation process, as summarised below:

- *National instead of international tenders*

PSI in DRC carried out all tenders above US\$100,000 through either national tenders or sole sourcing. This is contrary to PSI headquarters' policy requiring international tenders for values above US\$100,000. If an international tender is not possible due to market dynamics, the PSI country representative is required to obtain approval to conduct in-country tendering from the PSI regional director and the director of procurement based in PSI headquarters. However, none of PSI's tenders in DRC above US\$100,000 had documentation confirming prior approval from PSI headquarters.

- *Bid submission in anonymous (unnamed) envelopes*

PSI in DRC included a requirement for the bidders to provide their bids in anonymous (unnamed) bid envelopes, contrary to PSI headquarters' procedures. PSI eliminated multiple bidders in different tenders supposedly for failing this criterion, but no audit trail was maintained to record whether those bidders had submitted bids in unnamed envelopes or not. The OIG notes that an anonymous folder also facilitates bid tampering, as unnamed envelopes are easier to replace.

- *Non-separation of technical and financial bids*

PSI's tender requirements in DRC did not require bidders to submit their proposals in two separately sealed folders for technical and financial bids, which is contrary to PSI headquarters' procurement policies. Consequently, PSI's tender committee in DRC had access to both technical and financial proposals simultaneously. This facilitated manipulation of the selection process and resulted in multiple bidders with lower prices being rejected at the first two stages of evaluation (preliminary analysis and technical analysis).

- *Minimum number of vehicles required not stipulated in tenders*

PSI's tender requirements in DRC asked bidders to detail their available vehicles but did not prescribe the minimum number of vehicles required for the tender. This allowed bidders to be rejected on the basis that they had fewer vehicles than required, despite those bidders quoting lower prices.

- *The requirement for certified identification and registration documents*

PSI's tender requirements in DRC stipulated that bidders should provide a certified or notarized copy of national identity and national registration documents. In multiple instances, bidders provided photocopies of the certified documents instead of original documents. Rather than providing clarifications in the following tenders, or requesting the original notarized copy of the documents from those vendors, PSI in DRC rejected those bidders, despite those bidders proposing lower prices.

Overpricing in land transportation contracts

The OIG evaluated 20 land transportation tenders by comparing the prices paid to the winning bidders with the rates offered by bidders who would have qualified had they not been eliminated by the special conditions and deviations described above. The OIG's price comparison identified overpricing of **29%** of the total cost of US\$3.07 million (see Annex B).

Due to the systemic nature of the OIG's finding, the OIG extrapolated the above loss percentage to the entire land transportation tenders of US\$7.26 million carried out by PSI in DRC and identified an overall overpricing of **US\$2,095,020**.

Overpricing in customs clearance charges

The PSI in DRC hired customs clearance agents through restricted bidding or sole sourcing and paid them for services without them providing adequate supporting documentation. The OIG compared clearances payments made by PSI in DRC with those made by another Global Fund Principal Recipient in DRC for the importation of LLINs and found that PSI paid 19.6% higher customs clearance charges for each container of LLINs. Based on this finding, the OIG calculated an overpricing of **US\$586,651** out of a total of US\$2.99 million customs clearance charges.

Overpricing in warehousing expenses

Warehousing expenses incurred by PSI in DRC were also overpriced. PSI carried out no advertising to procure the warehouses, and no documentation was available indicating how it identified vendors. Independent pricing information for warehousing contracts identified overpricing of **21%** of the total expenditure reviewed by the OIG. This resulted in an overall financial loss of **US\$633,429** to the Global Fund, out of the US\$2.97 million of warehousing expenditure incurred by PSI in DRC.

Overpricing in a communications contract

PSI in DRC rejected a lower-priced bidder in a communication contract in favor of a more expensive bidder who proposed an unrealistically short delivery period. The winning bidder subsequently delayed the contract execution without incurring a penalty. This resulted in overpricing of **US\$29,710**.

Overpricing of air and river transportation

OIG analysis of US\$6.1 million of expenses relating to air and river transportation carried out by PSI in DRC found **US\$25,989** as a financial loss due to the selection of higher-priced bidders. It did not, however, identify systemic overpricing or manipulation of procurement processes for air and river transportation, as happened with land transportation.

Other irregularities in transportation contracts

- *No logistics plan to allocate routes to the most cost-effective bidders*

PSI in DRC did not allocate transportation zones to bidders based on a logistics plan or scheduling analysis to obtain the best value for money, and consequently, qualified bidders with the lowest prices were not always allotted the costliest routes. In one instance, the OIG analysis

determined that the zone allocation process (not assigning eligible bidders to costliest routes) inflated costs by 26% in a tender.

- *No evaluation of sub-contracted vendors' suitability*

The majority of the vendors hired by PSI in DRC sub-contracted their transportation contracts to undisclosed transporters either in part or in full. PSI's tender requirements in DRC stipulate that any sub-contracting requires prior approval from PSI, but no documentation existed indicating that PSI had been informed of, or had evaluated, the sub-contracted vendors' suitability to carry out LLIN distribution.

In response to the OIG's findings, PSI said that the placement of the Director of Operations in DRC, who had earlier worked at PSI headquarters, was part of PSI's risk mitigation response. The role of the Director of Operations was intended to ensure that internal controls were implemented as designed, to take steps to minimize fraud and to build the capacity of PSI's office in DRC.

The PSI has refunded the entire financial loss amounts identified by the OIG to the Global Fund and has created a Global Fund Management Unit (GFMU) at its headquarters. This includes implementation of functional reporting links between GFMU and finance, as well as between finance units in the country offices and internal audit staff and HQ operations.

Agreed Management Action 1

The Global Fund Secretariat will evaluate the design and effectiveness of the internal controls implemented by PSI through the creation of GFMU and its corresponding functional and administrative reporting lines, to mitigate similar future risks.

Owner: Chief Financial Officer, Finance & Administration Division

Due date: 30 September 2019

Category: Governance, Oversight & Management Risks

4.2. A restricted tendering process to hire transportation vendors facilitated the creation of an anti-competitive, bid-rotation scheme that resulted in significant overpricing

PSI in DRC hired four fiduciary agents²¹ to carry out payment activities concerning the implementation of LLIN mass campaigns in different provinces of DRC. The agents were purportedly hired to mitigate fiduciary risks associated with managing cash in remote locations of DRC. However, two of the four fiduciary agents not only managed payments; PSI in DRC authorized them to also carry out tenders for transportation contracts for their respective zones.

The fiduciary agents' contracts were signed and approved by the Country Representative of PSI in DRC. The contracts prescribed them to carry out a restricted tendering process. Names of the preferred vendors for the restricted transportation tendering were provided to the agents under the supervision of PSI's Director of Operations in DRC.

As a consequence, the two fiduciary agents systematically and repeatedly hired a select group of vendors in an anti-competitive bid-rotation scheme. This resulted in a lack of fair competition, significant overpricing by the vendors, and an overall financial loss of **US\$4 million** to the Global Fund on land contracts executed by the fiscal agents.

The OIG's review of a sample US\$2.44 million of transportation contracts carried out by the fiduciary agents identified that US\$1.22 million was contracted to two vendors, Ets Lofils and Ets Nzuka et Fils and the balance awarded to five other vendors.

Certain vendors were related to each other; they were either represented by the same individual, or they had the same office address, thereby employing non-transparent and unfair practices, contrary to the requirement of the Code of Conduct for Suppliers of the Global Fund. For example:

- Ets Lofils was related to Ets Nzuka et Fils and they shared the same employee.
- Ets Nzuka et Fils was located in the same office as Ets Badjembe and Ets MTK Fils, two other vendors hired by the fiduciary agents in a number of contracts.
- Ets Badjembe used trucks listed by other vendors including Ets Lofils, Ets Nzuka et Fils and Ets MTK fils.

In response to the OIG's findings, three of the four vendors, Ets Lofils, Ets Nzuka et Fils and Ets Badjembe, provided explanations and denied any wrongdoing (see Annex C).

Independent price verification, comparing prices paid by PSI with prices obtained from vendors that participated in tenders conducted by other Global Fund Principal Recipients in DRC, enabled the OIG to calculate an average price for each province where LLIN deliveries had taken place, and compare it with the prices of the winning vendors selected by the fiduciary agents for those same provinces.

In a review of transactions totaling US\$2.44 million, the OIG comparison found overpricing of **38.5%**. Extrapolating the overpricing percentage to the entire population of US\$7.98 million of transportation tenders carried out by the fiduciary agents, there was an overall loss of **US\$4 million** to the Global Fund.

The PSI has refunded to the Global Fund the entire financial loss amount identified by the OIG.

²¹ Fiduciary agents hired by PSI in the DRC had specific and unique role as compared to the fiduciary agents recommended and hired under the Global Fund program. In a typical, Global Fund grant the role of fiduciary agent is to manage and control the banking and financial arrangements and ensuring compliance with all financial requirements of the Global Fund.

Agreed Management Action 2

Based on the findings of this report, the Secretariat will address the supplier misconduct in accordance with the policy on supplier misconduct and the Sanctions Panel Procedures.

Owner: Head, Grant Management Division

Due date: 30 September 2019

Category: Governance, Oversight & Management Risks

4.3. Ineffective governance and oversight by PSI headquarters enabled the misuse of the fiduciary agents

PSI headquarters did not have robust governance and oversight of the fiduciary agents' engagement and performance. Although PSI headquarters reviewed the terms and conditions of the fiduciary agents' contracts and carried out verifications of their invoices before payment through headquarters, it did not identify the limiting nature of their contractual arrangements, specifically as related to restrictive transportation tendering.

Between 2015 and 2017, PSI signed multiple contracts with fiduciary agents for different LLIN mass campaigns. According to PSI headquarters, one of the objectives of hiring the fiduciary agents was to mitigate the high fiduciary risk associated with cash management in the provinces of DRC.

Although the fiduciary agents did not implement program activities, their roles and responsibilities were otherwise similar to a Global Fund grant sub-recipient. For example, two of the four fiduciary agents not only managed payments but also hired contractors and suppliers.

Global Fund Principal Recipients are required to implement and administer robust governance and oversight mechanisms over sub-recipients, but PSI headquarters did not apply similar governance and oversight to the fiduciary agents' operations.

PSI did not require the fiduciary agents to follow PSI's administrative policies and procedures, but only the limited terms and conditions annexed to their contracts. Moreover, instances were noted where the fiduciary agents were contracted through a national tender, contrary to PSI headquarters' procurement policies, which require an international bid for tenders above US\$100,000.

PSI headquarters' procurement team said it approved the fiduciary agents' contracts and reviewed requests for proposals for hiring the fiduciary agents on an ad-hoc basis. These reviews did not identify gaps in the terms and conditions of fiduciary agents' contracts, including the lack of an obligation to follow PSI's policies and procedures.

PSI headquarters did not obtain independent assurance over the fiduciary agents' operations by conducting audits or spot checks and did not proactively identify gaps associated with the design and execution of the fiduciary agents' contracts.

PSI headquarters made the majority of the payments to the fiduciary agents. It received summaries of the expenses submitted by the fiduciary agents, together with their invoices and payment approvals from its office in DRC. PSI headquarters said it relied on its office in DRC to verify the underlying documents supporting those invoices.

In its response to the OIG's findings, PSI said the fiduciary agents were vendors engaged as service providers, rather than sub-recipients, and that it designed oversight controls to validate the documentation provided by the agents; however, they were not implemented as designed.

Agreed Management Action 3

The Global Fund Secretariat will update its Guidelines for Grant Audit to ensure that auditor engagement includes a review of the controls related to Principal Recipient hired third party agents (including fiduciary agents).

The Global Fund through the grant external audit process will review the terms and conditions of the engagement of such third-party agents, including their adherence to such terms and conditions, specifically when the Global Fund Secretariat considers those fiduciary agents as a risk mitigation factor.

Owner: Chief Financial Officer, Finance & Administration Division

Due date: 31 December 2019

Category: Governance, Oversight & Management Risks

4.4. PSI's decentralized business model resulted in a lack of visibility of, and control over, program implementation in DRC

Lacking proper understanding of the DRC context, PSI headquarters relied substantially on its senior management in the country. It was, therefore, unable to challenge the decisions of its senior managers in DRC or proactively address potential issues concerning the tendering and execution of local procurement and supply-chain contracts.

For procurement-related matters, PSI headquarters relied on its Director of Operations in DRC who, before moving to DRC in 2015, had previously worked in PSI's headquarters procurement team. This reduced PSI headquarters' visibility and control over its DRC operations.

Due to its decentralized business model, PSI headquarters delegated planning and implementation of the in-country supply chain to its local procurement unit, headed by its Director of Operations in DRC. PSI headquarters had minimum participation in designing tender processes adapted to the country context, such as input on the mode of local transportation, defining different lots for transportation, and planning for risk mitigation in cases of delays in the arrival of LLINs from manufacturers.

PSI headquarters did not implement an escalation and accountability framework for its DRC operations. Although individual teams within PSI headquarters (including the program support team, field-finance support team and procurement team) identified red flags during their reviews of DRC operations, PSI headquarters did not coordinate a unified approach to address the issues proactively.

PSI headquarters management said it received critical information and requests for deviations from policy post-facto from its senior management in DRC, who did not proactively share information with PSI headquarters.

PSI's local DRC accounting system was not integrated with its headquarters' accounting system. This resulted in PSI headquarters having a lack of visibility over the purchase-to-pay process in DRC. Its local 'QuickBooks' accounting system was not upgraded to an enterprise system that could be accessed by PSI headquarters in real time, meaning PSI headquarters had to upload extracts of local books of accounts records monthly into their headquarters' accounting system.

This process had many limitations, including reducing PSI headquarters' access to certain data fields in its DRC accounting records. For example, DRC accounting records were uploaded at a transaction level, but purchase orders for local payments and their corresponding contracts were not created or uploaded into PSI headquarters' accounting system. This limited PSI headquarters' real-time ability to systematically track and reconcile its DRC local purchase orders with international and local payments, or to identify and report instances where authorization limits were not met, or when other exceptions occurred.

Although PSI headquarters kept its DRC senior management informed about delays in the arrival of LLIN consignments from the manufacturers, PSI headquarters were either not responsible for, or were not participating in, discussions on how to manage the implications of these delays on its local procurement and supply-chain planning. For example, in one instance, a delay in LLINs arriving in DRC led to a last-minute change of the mode of LLIN transportation from water to air, resulting in an additional cost of approximately US\$700,000 to the grant, which was subsequently approved by the Global Fund.

PSI said that its headquarters' regional support team and finance teams did perform monthly reviews of the operations of PSI in DRC and that this was how the PSI management team had identified the concerns that resulted in its own investigation. PSI has since created a Global Fund Management Unit (GFMU) at its headquarters. This includes the implementation of functional reporting links between GFMU and finance, as well as between their finance units in the country offices and internal audit staff and HQ operations.

Agreed Management Action 1

The Global Fund Secretariat will evaluate the design and effectiveness of the internal controls implemented by PSI by the creation of GFMU and its corresponding functional and administrative reporting lines, to mitigate similar future risks.

Owner: Chief Financial Officer, Finance & Administration Division

Due date: 30 September 2019

Category: Governance, Oversight & Management Risks

4.5. The assurance framework agreement between the Global Fund and PSI was insufficient, and reduced both parties' ability to identify risks proactively

During the grant period, the Global Fund relied on the assurance framework contained in the framework agreement between PSI and the Global Fund, which divides substantive testing procedures between the Global Fund's Local Fund Agent (LFA) and PSI's external auditors.

The Global Fund relied on internal controls designed by PSI without evaluating their effectiveness, and thereby had inadequate assurance on key portfolio risks. The framework agreement does not require either the Global Fund LFA or PSI's external auditors to evaluate the effectiveness of PSI's internal controls and is unclear in certain key respects. For example, the framework agreement relies on obtaining assurance from PSI's external auditors for PSI Headquarters-generated transactions, without explaining what would be considered as headquarters-generated versus local costs.

Subsequently, the Local Fund Agent did not review tenders that were initiated in DRC but paid by PSI headquarters, reducing the Global Fund's visibility of the tenders carried out by PSI in DRC. The LFA reviewed the transactions initiated and paid in DRC; although the scope of this review included verifying whether each tender's technical specifications were neutral and non-restrictive to ensure fair competition, the LFA did not identify the special tendering conditions as restrictive. Furthermore, its scope did not include comparing local procurement requirements with PSI headquarters policies and procedures, meaning deviations from headquarters' requirements passed unnoticed.

Some of the overpriced transactions fell within the scope of PSI's external auditor, who did not however identify gaps in procurement procedures, as their substantive audit procedures were essentially limited to financial review and did not include testing the adequacy of tendering requirements.

External auditors provide the Global Fund with audit opinions in relation to specific grants. In this instance, whilst the Secretariat had previously identified in-country supply chain processes as 'high risk,' the Secretariat did not ask the external auditor to review the critical business processes involved in the local supply chain.

When the Global Fund recommends the hiring of a fiduciary agent by an implementer, it normally agrees on their roles and responsibilities jointly with the implementer, including the terms and conditions of their hiring. It also carries out independent periodic evaluations of the agents. However, this did not happen with the fiduciary agents engaged by PSI, as the Global Fund did not recommend their hiring. The Global Fund trusted PSI to evaluate its fiduciary agents and, for its risk assessment, it relied on an evaluation report carried out by PSI for one of the fiduciary agents at the commencement of the grant implementation period in the first quarter of 2015.

During the period 2015 to 2017, PSI signed several new contracts with its fiduciary agents; however, the Global Fund did not review either their evolving terms of reference or their performance. During periodic performance update and disbursement request (PU/DR) reviews in 2015 and 2016, the Local Fund Agent reviewed some transactions carried out by PSI's fiduciary agents, but did not question the restrictive nature of the tendering requirements designed in the fiduciary agents' contracts, or identify any issues concerning the extent of the activities they performed.

Although the Global Fund did not verify the fiduciary agents' terms of reference and their performance, the Global Fund considered the fiduciary agents hired by PSI as a risk-mitigating factor during its grant risk assessment. The Global Fund's grant risk assessment was therefore not adequate, specifically concerning the extent of the work carried out by the fiduciary agents.

In response to the high risks associated with in-country supply chain, the Global Fund established a dedicated Supply Chain Department in 2016. The Global Fund also operationalized an Integrated Risk Module (IRM) in early 2018 which is designed to strengthen the integrated risk and assurance

framework further. The IRM establishes a structured and streamlined tool for Country Teams to assess the capacity of implementers; capture, track and manage risks and mitigations; and simultaneously increase the accessibility and usability of risk-related data.

Agreed Management Action 4

Based on an evaluation of the effectiveness of PSI's internal controls as part of AMA 1, the Global Fund will re-evaluate its framework agreement with PSI to clarify the scope of responsibility between different assurance providers, including defining criteria for the scope of verifications to be conducted by these assurance providers.

Furthermore, the Global Fund will review assurance arrangements with other international non-governmental organizations to determine whether revisions are required to their respective assurance arrangements and/or framework agreements, and develop a plan to implement any revisions identified.

Owner: *Chief Risk Officer, Risk Management Department.*

Due date: 31 December 2020

Category: Governance, Oversight & Management Risks

5. Table of Agreed Actions

Agreed Management Actions	Target date	Owner	Category
1. The Global Fund Secretariat will evaluate the design and effectiveness of the internal controls implemented by PSI through the creation of GFMU and its corresponding functional and administrative reporting lines, to mitigate similar future risks.	30 September 2019	Chief Financial Officer, Finance & Administration Division	Governance, Oversight & Management Risks
2. Based on the findings of this report, the Secretariat will address the supplier misconduct in accordance with the policy on supplier misconduct and the Sanctions Panel Procedures.	30 September 2019	Head, Grant Management Division	Governance, Oversight & Management Risks
3. The Global Fund Secretariat will update its Guidelines for Grant Audit to ensure that the auditor engagement includes a review of the controls related to Principal Recipient hired third party agents (including fiduciary agents). The Global Fund through the grant external audit process will review the terms and conditions of the engagement of such third-party agents, including their adherence to such terms and conditions, specifically when the Global Fund Secretariat considers those fiduciary agents as a risk mitigation factor.	31 December 2019	Chief Financial Officer, Finance & Administration Division	Governance, Oversight & Management Risks
4. Based on an evaluation of the effectiveness of PSI's internal controls as part of AMA 1, the Global Fund will re-evaluate its framework agreement with PSI to clarify the scope of responsibility between different assurance providers, including defining criteria for the scope of verifications to be conducted by these assurance providers. Furthermore, the Global Fund will review assurance arrangements with other international non-governmental organizations to determine whether revisions are required to their respective assurance arrangements and/or framework agreements, and develop a plan to implement any revisions identified.	31 December 2020	Chief Risk Officer, Risk Management Department	Governance, Oversight & Management Risks

Annex A: 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. It limits the Global Fund's impact and reduces the trust that 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 Global Fund Secretariat, grant recipients, or their suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with grant agreements. The Global Fund Policy to Combat Fraud and Corruption²² outlines all prohibited practices, which will result in investigations.

OIG investigations aim to:

- (i) identify the 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 preventive action, by identifying where and how the misused funds have been spent.

The OIG conducts administrative, not criminal, investigations. It is recipients' responsibility to demonstrate that their use of grant funds complies with grant agreements. OIG 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.²³ 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 enters into with its recipients, 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 Suppliers²⁴ and Code of Conduct for Recipients provide additional principles, which recipients and suppliers must respect. The Global Fund Guidelines for Grant Budgeting define compliant expenditures as those that have been incurred in compliance with the terms of the relevant grant agreement (or have otherwise been pre-approved in writing by the Global Fund) and have been validated by the Global Fund Secretariat and/or its assurance providers based on documentary evidence.

²² (16.11.2017) Available at https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

²³ 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.

²⁴ 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: The OIG investigates 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 the OIG's work.²⁵ While the OIG does not typically have a direct relationship with the Secretariat's or recipients' suppliers, its investigations²⁶ encompass 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.²⁷

Sanctions when prohibited practices are identified: When an 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.²⁸ The Secretariat determines what management actions to take or contractual remedies to seek 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 paid for which there is no reasonable assurance that goods or services were delivered (unsupported expenses, fraudulent expenses, or otherwise irregular expenses without assurance of delivery);
- (ii) amounts paid over and above comparable market prices for such goods or services; or
- (iii) amounts incurred outside of the scope of the grant, for goods or services not included in the approved work plans and budgets or for expenditures in excess of approved budgets.

How the Global Fund prevents recurrence of wrongdoing: Following an investigation, the OIG and the Secretariat agree on management actions that will mitigate the risks that prohibited practices pose 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 support such authorities as necessary throughout the process, as appropriate.

²⁵ 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

²⁶ Charter of the Office of the Inspector General § 2, and 17.

²⁷ Global Fund Code of Conduct for Suppliers, § 16-19

²⁸ Charter of the Office of the Inspector General § 8.1

Annex B: Summary of financial loss

Category of expense (Amount in US\$)	Expenses recorded by PSI accounts	Amount reviewed by OIG	Financial loss on amount reviewed	% Financial loss on amount reviewed	Non-compliant	Non-compliant amount for extrapolation	Financial loss after extrapolation	Total financial loss
Land Transportation - Fiscal Agent	10,425,553	2,441,077	940,149	38.5%	10,425,553	7,984,476	3,075,117	4,015,266
Land Transportation - PSI in DRC	7,259,526	3,069,007	885,682	28.9%	7,259,526	4,190,519	1,209,338	2,095,020
Customs Clearances	2,993,118	1,698,326	332,872	19.6%	2,993,118	1,294,793	253,779	586,651
Warehousing	2,965,887	242,617	51,816	21.4%	2,965,887	2,723,271	581,613	633,429
River Transportation	1,386,538	527,520	15,775	3.0%	15,775	0	0	15,775
Air Transportation	4,724,773	4,143,063	10,214	0.2%	10,214	0	0	10,214
Other expenses	8,394,505	0	0	0.0%	0	0	0	0
Sub-total	38,149,899	12,121,608	2,236,508	18.5%	23,670,073	16,193,059	5,119,848	7,356,355
Communication related		238,013	29,710	12.5%	29,710	0	0	29,710
Grand total		12,359,620	2,266,218	18.3%	23,699,783	16,193,059	5,119,848	7,386,066

Annex C: Summary of Subject Responses

1. PSI



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Washington, DC 20036
(202) 785-0072 | psi.org

October 26, 2018

[REDACTED]
Head of Investigations
The Global Fund

(via email)

Dear [REDACTED]

Thank you for sending the Letter of Findings on the OIG's investigation of Procurement and Supply Chain expenses of PSI in DRC. PSI greatly appreciates the opportunity to review these findings for factual accuracy and to review your calculation of the extrapolated financial impact of the fraud scheme. As neither [REDACTED] nor [REDACTED] are still employed by PSI, we have not been in contact with them to share the Letter of Findings.

PSI has reviewed the factual accuracy of the Letter of Findings and provides comments in the attached copy of the document, along with additional supporting documents referenced in our response.

In summary, our comments relate to the following aspects:

1. PSI recognized the inherently risky operating environment in DRC, and in fact [REDACTED] role in DRC was part of PSI's risk mitigation response. As the attached job description shows, the role of the Director of Operations was intended to ensure that internal controls were implemented as designed, to take steps to minimize fraud, and to build the capacity of local staff involved in the procurement and logistics process. See paragraphs 20, 80 and 91 in the Letter of Findings.
2. PSI's global procurement policy was revised in December 2016 to require that procurements above \$100K should be performed as an international public tender. Many of the tenders for the Fiduciary Agents were actioned prior to this revised policy. See paragraphs 36 and 76 in the Letter of Findings.
3. The \$1.67m of fees paid to [REDACTED] were not in fact customs duties but are fees for legally required pre-shipment verification that must be performed for all imports into the DRC. The fees charged to the Global Fund grant were paid to a third-party agent. See paragraph 51 and footnotes 39 and 40 in the Letter of Findings.
4. The Fiduciary Agents were vendors engaged as service providers rather than sub-recipients. They were not responsible for the implementation of activities. See paragraph 73 in the Letter of Findings.
5. PSI did design oversight controls to validate the documentation provided by the Fiduciary Agents; however, they were not implemented as designed. See paragraphs 74, 78 and 90 in the Letter of Findings.
6. PSI HQ regional support team and finance teams did perform monthly reviews of the PSI DRC operations, consistent with policy. Indeed, these reviews were how the PSI management team identified concerns that resulted the targeted GIA audit that resulted in the investigation. See paragraph 83 in the Letter of Findings.

7. PSI DRC's financial system, QuickBooks, did integrate with the PSI HQ accounting systems, through a monthly automated upload. See paragraph 85 in the Letter of Findings.

PSI takes its responsibility as a steward of the Global Fund's money seriously and will return funds once we reach agreement on the financial impact of this fraud scheme. In connection with this, as noted in the call between [REDACTED] on Tuesday October 23rd, during our review of your calculation of the financial impact we identified the following:

1. We understand there is a difference between how much PSI paid in customs clearance fees and the fees that the Global Fund has negotiated on SANRU's behalf, however, this difference cannot be attributed to the fraud scheme and as such should not be included in the extrapolation.
2. We noted that two transactions had been miscoded to the 7.2 cost grouping, the effect of which will reduce the base for the extrapolation.
3. In the calculation of the average pricing of the independent verification exercise, we noted that the calculation did not take into consideration all the bids received in Tshuapa/Mongala, Tshuapa, Kinshasa, Sankuru and Maindombe.

We look forward to hearing from you on the impact of these points on the calculated financial impact.

PSI proactively reviewed our approach to managing Global Fund awards, as well as our internal control environment, and implemented changes prior to receipt of your letter. In addition, since receipt of your Letter of Findings, we have taken the opportunity to identify further changes. We will detail these changes in the Agreed Management Action plan when the draft report is shared with us, but we would like to draw your attention some of the key changes, which are further detailed in our attachment. For example, we have:

1. Consolidated grant management for all Global Fund awards under one team in the Global Fund Management Unit (GFMU), under the leadership of Senior Director, [REDACTED].
2. Implemented recommendations to improve PSI's management control structure arising from the Board-initiated governance and accountability review conducted by Grant Thornton.
3. Formalized a country-level risk framework and review process, utilizing cross-functional input and led by PSI executive leadership.
4. Implemented functional reporting lines, including between the GFMU and Finance, as well as between country office Finance and Internal Audit staff and the respective HQ functions.
5. Improved the depth of the monthly financial performance review of each grant to include reviews of performance against budget, absorption, cash position, forecast, and follow up of previously agreed actions.
6. Started implementing activity-level recording of transactions to improve budget monitoring.
7. Required countries to scan and attach all supporting documentation into QuickBooks Enterprise to allow real time monitoring of transactions.
8. Reminded PSI country offices of the procurement policy requirements, and during Q4 are implementing spot check monitoring of procurements.

If there are any questions regarding the comments provided or the additional documentation attached, please do not hesitate to contact me or [REDACTED]

[REDACTED]

2. ETS Lofils

In a letter to the OIG on 15 January 2018, the Director of General of ETS Lofils wrote that:

- Lofils is an independent entity, structurally distinct from other transport companies and forming part neither of a consortium nor a partnership.
- As a matter of business practice, Lofils rents trucks from, and to, other companies to fulfil transportation contracts, when necessary.
- Subcontracting was specifically authorized in the contracts signed with the Fiduciary Agents.
- Conscious that price would be taken into consideration by the tender committee, Lofils did not propose overly high rates.
- PSI fiduciary agents' tenders indicated a budgeted amount for transporting the LLINs. All transportation companies were aware of the maximum price they could propose.
- The similar pricing proposed by competing companies could be explained by the above, and by the detailed description of routes provided in tenders, meaning fuel/insurance/security/maintenance costs could be accurately estimated.
- By mistake, an incorrect address for ETS Lofils had been included in their tender bid.
- Lofils does not share a head office with other transportation companies, but for practical reasons shares space with other companies in certain towns.

3. ETS Badjembe

In an email to the OIG, the Operations Director of ETS Badjembe wrote that:

- In their customers' interests, ETS Badjembe subcontracts work when necessary to fulfil a contract.
- Subcontracting was not forbidden in the contracts signed with the Fiduciary Agents.
- ETS Badjembe's office is found in Concession Parc Africa, an industrial area housing other businesses.
- Pricing details in tenders were confidential, with each supplier providing their own prices.

4. ETS Nzuka & Fils

In a letter to the OIG on 4 February 2019, the Operations Director of ETS Nzuka & Fils wrote that:

- ETS Nzuka has no commercial or private relationship with any of the transportation companies who participated in the tenders.
- ETS Nzuka's bid was submitted secretly and independently.
- ETS Nzuka's proposed price was within the budget outlined in the tender.
- The company moved office shortly after submitting the tender bid, explaining why they could not be located at the previous address.
- Article 6 of the contract signed with the Fiduciary Agents specifically authorized subcontracting.
- ETS Nzuka worked as a subcontractor for other transportation companies, in addition to fulfilling its own contract.