



MEMORANDUM

DATE: October 11, 2018

TO: Bureau for Global Health, Senior Deputy Assistant Administrator, Alma Golden

FROM: Acting Deputy Assistant Inspector General for Investigations, Jonathan Schofield /s/

SUBJECT: Advisory Update on Global Health Supply Chain-Procurement and Supply Management Project

This advisory update follows up on our June 7, 2017, memorandum notifying your office of vulnerabilities in USAID's Global Health Supply Chain-Procurement and Supply Management (GHSC-PSM) Project that exposed it to criminal abuse,¹ as well as on subsequent communications between our offices. The vulnerabilities we identified related to commodity tracking, supply chain data access, reporting, commodity inventory access, labeling, and other issues. Seizures and sting operations conducted by our agents demonstrated how gaps and other weaknesses in these areas create opportunities for fraud and theft that feed the black market and put lives at risk.

The bureau responded to our advisory on July 5, 2017, and again on November 1, 2017, with an outline of planned actions. On November 13, 2017, we requested additional information on the status of those actions. OIG/Investigations (OIG/I) and bureau leadership and technical advisers supporting the GHSC-PSM project met on August 6, 2018, to discuss the bureau's actions to address the vulnerabilities we identified.

OIG/I is encouraged by the increased engagement between the bureau and its GHSC-PSM implementer, Chemonics International, and by their efforts to improve internal controls. The bureau and Chemonics are holding routine monthly and weekly meetings to review incident reports and other items, as well as regular technical workgroup meetings to address task order-specific issues and strategize response actions as needed. Chemonics has increased the bureau's access, both at headquarters and in the field, to real-time supply chain data via its ARTMIS commodity-tracking platform and worked to expand barcode capacity to improve inventory controls.

In its August 21, 2018 memorandum, the bureau provided details about its efforts to address the vulnerabilities outlined in our June 2017 advisory that are still considered pending, including the bureau's plans to (1) hire a GHSC-PSM risk management adviser, (2) procure a third-party

¹ USAID, "OIG Advisory Memorandums and Global Health Advisory on Internal Control Concerns," June 7, 2017. <https://oig.usaid.gov/node/1152>

monitor, (3) conduct 2-year financial audits of the GHSC-PSM mechanism, and (4) provide OIG information on improvements made to the tracking and management of commodity distribution down to community health centers. Specifically, the bureau advised that it is exploring developments in labeling, data access and exchange, and barcoding.

We continue to be encouraged by these developments. However, sustained management attention to promptly and effectively implement these actions will be critical to closing the gaps that our work identified. Below are our observations concerning the bureau's planned course of action to address outstanding vulnerabilities, and a summary of our recent and ongoing GHSC-PSM investigations and future investigative approach.

Observations Regarding the Bureau's Planned Course of Action To Address OIG-Identified Vulnerabilities

Certifications and the financial reporting process. Financial statements did not include certifications codifying the signatory's acknowledgment that he or she is subject to criminal, civil, or administrative penalties under U.S. Code, Title 18, Section 1001. The bureau responded that Chemonics is now including the appropriate certifications on financial reports to acknowledge that GHSC-PSM employees are subject to criminal, civil, and administrative penalties for any false, fictitious, or fraudulent information. OIG/I supports this action and requests a representative sample of the certifications.

Contract language for timely reporting potential cases of fraud or corruption. OIG/I noted that contract language did not extend to subcontractors, which could inhibit timely reporting of allegations of fraud or corruption. The bureau's November 11, 2017, response indicated that the contractor had included Federal Acquisition Regulation (FAR) clause 52.203-13 (Contractor Code of Business Ethics and Conduct) in its subcontract template and would add the language to subcontracts when they were due for modification. OIG/I supports this decision.

Use of independent firms to conduct annual or unscheduled audits of GHSC-PSM project records, protocols, and standard operating procedures. At the early August meeting, OIG/I spoke about the benefit of annual or unscheduled audits. The bureau said it would schedule future audits after understanding the scope and timing of USAID OIG's GHSC-PSM project audits. OIG has two ongoing audits currently in the fieldwork phase. Specifically, OIG is assessing:

- USAID's process for designing, competing, and selecting the contract for the GHSC-PSM project, as well as its project management for ensuring the accurate and timely delivery of health commodities.
- USAID's management of in-country supply chains for health commodities, including the steps USAID has taken to identify and mitigate the root causes of in-country supply chain weaknesses.²

Also at the August meeting, the bureau stated that it plans to procure a third-party financial audit to review two annual cycles of the GHSC-PSM project starting with fiscal year 2018; we requested that the bureau share with OIG the objectives and plans for this audit. The bureau also

² Questions regarding the scope and timeline of the scheduled audits may be directed to OIG/Audit.

stated that Chemonics is up for a Defense Contract Audit Agency audit and recertification in 2018, which will provide additional feedback on its compliance with the FAR.

Use of compliance officers/risk mitigation advisers to test systems, conduct unannounced compliance checks and end-user verification, provide training, ensure compliance, and coordinate with OIG. OIG/I noted the potential benefit of directly hiring a full-time compliance officer dedicated to identifying and addressing GHSC-PSM project vulnerabilities. In its November 1, 2017, memorandum, the bureau stated that it had prepared a scope of work for an external consultant to conduct a risk management assessment and produce an implementation plan. In its August 21, 2018, memorandum, the bureau reported that it is in the process of hiring an independent consultant to identify areas of risk and coordinate across USAID's various health and field offices to improve oversight. The bureau anticipated hiring a risk management consultant around the time of this advisory update.

According to the bureau, its response to our other four concerns depends on the risk management consultant's assessment and implementation plan.³ Accordingly, the bureau has yet to communicate current and planned actions to address these vulnerabilities.

OIG/I's Recent and Ongoing GHSC-PSM Project Work and Future Investigative Approach

Protecting the GHSC-PSM project became an OIG/I strategic priority in fiscal year 2017. Over the last several years, OIG expanded its investigations of individuals and syndicates in Africa that steal, transport, and resell President's Malaria Initiative (PMI), President's Emergency Program for AIDS Relief (PEPFAR), and family planning commodities. Through cooperation with USAID missions, State Department offices, local law enforcement, and international organizations, OIG/I secured indictments, arrests, and seizures and acquired a trove of experience to combat this fraud. OIG/I took proactive measures against this fraud as well, and stood up cash-for-tips hotlines in several African countries, dedicated to obtaining actionable information against those who prey on the GHSC-PSM project.

Despite OIG/I's interventions and the recent actions taken and planned by the bureau and Chemonics to improve logistics prior to beneficiary consumption, the GHSC-PSM project remains vulnerable to corruption. For example:

- From September 2016 through September 2018, OIG/I, both independently and in coordination with local law enforcement, conducted coordinated market surveys, controlled-buy operations, arrests, seizures and various forms of information gathering across sub-Saharan Africa. Our office bought or seized some 1,500 long-lasting, insecticide-infused nets, 200 malaria test kits, 60 boxes of antimalarial drugs, 45 HIV test kits, and 4 boxes of HIV medication (pictured below) throughout Nigeria, Guinea, Mozambique, Tanzania, and Zambia. Additional buys were possible as our targeted suppliers offered more product. Our

³ The four concerns regarded the need to (1) increase the frequency of spot checks at end-user facilities and deploy rotating USAID teams to conduct periodic record-keeping inspections at centrally managed warehouses; (2) strengthen logistics management information systems, and promote open data policies and access to supply chain data; (3) explore the feasibility and utility of requiring additional or enhanced labeling; and (4) explore channels to expand inspection authority in some countries, and help conduct site visits, track distribution, safeguard commodities, and prevent stockouts.

efforts yielded approximately 37 arrests in Malawi, Guinea, Zambia, and Nigeria, and confirmed allegations that stolen USAID-funded health commodities were available for illicit purchase in other countries, such as Mozambique.⁴



Clockwise from top left: Stolen HIV test kit components obtained by OIG, antimalarial medication purchased in an OIG market buy, antimalarial medicine obtained in OIG operations in central Africa, and HIV test kits secured during operations.

- In February 2018, a senior PSM official in Nigeria—where more than half of the seized nets came from—advised OIG/I that PSM loses control of its nets at several stages of distribution. The official pointed out that other donor organizations do not rely on local governments to the extent USAID does and suffer fewer inventory losses. Commodities have also been lost in drug warehouse fires in several Nigerian states. PSM’s Nigeria Risk Assessment to the mission confirmed that the highest supply chain risks involved state-level public storage. Specifically, the assessment noted that the lack of secure infrastructure, strong management systems, and skilled staff weakened proper storage and control of commodities. This assessment was most recently supported in May 2018 when the OIG Hotline received a disclosure from Chemonics concerning the theft of nets in Nigeria. Chemonics discovered the theft through an inventory discrepancy after transporting nets from the state warehouse to 21 local government areas in early April 2018. Later that month, nets were found for sale in a market. In early May 2018, Chemonics received additional reports of nets being diverted or

⁴ Other countries may be subject to additional investigations and are therefore not specifically identified here.

found for sale in markets. Chemonics maintains it loses control of inventory once commodities arrive at state-run warehouses that are not properly secured and typically have only two low-paid guards. While some believe additional armed guards would be beneficial, USAID continues to rely on local government security, noting that local involvement encourages program buy-in. Risks associated with reliance on public state warehouses may best be mitigated through diplomatic efforts to better incentivize and encourage tighter oversight in-country once local governments receive USAID-funded commodities.

The GHSC-PSM project remains an OIG/I priority. However, our focus and execution continue to evolve. The bulk of investigations to date have focused on intra- or transnational theft and diversion of PMI- and PEPFAR-funded commodities in Africa. As associated OIG/I findings support our overarching concern—that the supply chain remains vulnerable across the continent—continuing to focus on this line of work would likely prove counterproductive. Therefore, we are expanding our investigations beyond these parameters, while also digging deeper in the areas we have already investigated. As our work continues, we will continue to keep you informed.

Candid review of procedures and clear-eyed discussion of where improvements may be needed have already had a demonstrably positive impact. We remain committed to maintaining independent oversight of the project, and are optimistic that the ongoing exchange of information and ideas between our offices will continue to enhance the GHSC-PSM project's protections, strengthen its core elements, and better ensure its ultimate success.

cc: Inspector General, Ann Calvaresi Barr
Assistant Inspector General for Investigations, Dan Altman