

Archive PDF

Update from the Office of the Inspector General - Tanzania

16 May 2017

A follow-up investigation by the Office of the Inspector General (OIG) on concerns raised by **an audit report** concluded there was no evidence that the significant process failures identified by the audit had been exploited for fraudulent gain by the Medical Stores Department (MSD). The OIG only publishes investigation reports when conclusive findings of fraud and abuse have been made, in line with the applicable professional guidelines. The investigation has therefore been formally closed without a formal report.

Financial irregularities at the MSD central warehouse

During the audit mission, MSD was given multiple opportunities over several months to provide OIG auditors with supporting documents for nine transfers amounting to US\$8,742,679. Eventually, some 12 months later, MSD was able to provide supporting documentation for the nine transfers. However, the OIG found that MSD did not adequately oversee its financial operations, allowing misappropriation of US\$215,757 as supporting documents of the transfers were used twice by MSD. This amount has subsequently been repaid.

The Secretariat, through its Local Fund Agent, is reviewing supporting documents for all transfers from MSD Global Fund dedicated bank accounts for the period from 1 July 2016 to 30 June 2017. The review will establish if the transfers follow appropriate relevant procedures, verifying the delivery of goods and services and the effective implementation of the risk-mitigating measures.

US\$ 1,05 million stock discrepancy at the MSD central warehouse

The OIG audit had identified a stock discrepancy of US\$1,05 million between commodities (anti-malarial drugs and testing kits) shipped from the Global Fund's Pooled Procurement Mechanism and received by MSD's central warehouse in 2014. The Local Fund Agent and the OIG both noted poor filing systems and record-keeping for receipt of goods at MSD. MSD could not provide key supporting documents. Due to the size of the discrepancy, the

OIG conducted a further reconciliation exercise, by extending the scope after the audit date from 01 November 2015 to 01 June 2016, and including consignments of anti-malaria products of a total value of US\$8.45 million. The OIG was able match all shipped consignments with those received by MSD. However, the OIG noted the continued inefficiency of MSD's document filing system which significantly delayed the reconciliation process.

In addition, the OIG identified vulnerabilities in MSD's warehouse management software leaving the data vulnerable to manipulation. MSD is in the process of addressing these issues with the system developer including researching the best solution for a system upgrade.

Unaccounted US\$0.5 million of antiretroviral medicines

The OIG had found that US\$490,776 worth of antiretroviral medicines were unreconciled. Although MSD had made an insurance claim, it failed to report the loss to the Global Fund as stipulated by the Code of the Conduct for Recipients of Global Fund Resources, which represents a direct financial loss to the Global Fund.

The Secretariat is following up with MSD regarding the outstanding insurance claim and, based on the outcome, related recoveries may be sought by the Secretariat.

Ministry of Health Construction Procurements

The OIG audit had also identified that the Ministry of Health's Department of Human Resources restricted a tender in its award of construction contracts for the renovation of hospitals valued from US\$300,000 to 1.9 million. Only one supplier had qualified for the financial evaluation stage. In one of these procurements, there was an unexplained revision of the evaluation process resulting in the award of the contract to the third-highest bidder. For these reasons, the issue was flagged to the investigations team for further investigation to evaluate whether any related stakeholders had personally gained.

The Ministry of Health later clarified that the tender had been restricted because of time considerations in order to meet deadlines. The investigation further clarified why the third-highest bidder in the procurement process was awarded the contract. The contractor that had proposed the lowest price was rejected as it was on the Tanzania Public Procurement Regulatory Authority list of blacklisted firms. The second-lowest bidder was rejected after its performance references were found to be negative. Finally, the contract was awarded to the third-lowest bidding contractor and the final negotiated value of the contract awarded was lower than initially estimated for the contract.

Conclusion

The audit of the Tanzania grant portfolio identified significant weaknesses in internal control such that material amounts of expenditures could not be substantiated during the audit. These included weak financial oversight, lack of supporting documentation for transactions, and ineffective stock reconciliation processes. When such issues are identified and material amounts cannot be adequately supported in the course of an audit, the audit is generally unable to conclude as to the validity of the recorded expenditures, which are therefore reported as unsupported for audit reporting purposes. In those circumstances, it is standing practice for the Office of the Inspector General to close the audit and to perform follow-up work through a more targeted investigation of the suspected transactions, which may or may not result in a finding of fraud. In the case of the transactions reported above, the investigation did not find evidence of fraud. However, the OIG investigation corroborated the significant internal control deficiencies that had been identified in the audit. The Secretariat has confirmed to the OIG the implementation of measures to address these significant deficiencies in financial expenditure controls.