



*Office of Inspector General*

**MEMORANDUM FOR THE ACTING ADMINISTRATOR**

DATE: June 7, 2017

FROM: Ann Calvaresi Barr /s/  
Inspector General

SUBJECT: OIG Advisory Memorandums and Global Health Advisory on Internal Control Concerns

The Inspector General Act of 1978, as amended, calls upon Offices of Inspectors General to keep both agency leadership and Congress well informed about concerns over the integrity and effectiveness of agency programs and operations. Going forward, in connection with this mandate, the USAID Office of Inspector General (OIG) will share observations about agency vulnerabilities more proactively, based on OIG's extensive body of work. By reporting to agency leadership on critical risks, vulnerabilities, and inefficient or ineffective practices sooner, I aim to prompt changes that may result in monetary savings; curb fraud, waste, or abuse; and improve agency performance. Over the past year, investigative work concerning the management of global health commodities has revealed important vulnerabilities. Our work in this area underscores the need for OIG to periodically issue proactive advisories that can prompt timely corrective or remedial action.

We are currently developing an advisory memorandum format that OIG will use in the future to communicate these observations in a timely manner, as such needs arise. I also plan to share these memorandums with relevant congressional committees and post them on our public web site.

In the interim, I would like to bring to your attention the attached memorandum that we initially transmitted to the Bureau for Global Health. Some of the information contained in the memo, which will be publicly released, is sensitive and has been redacted in accordance with the Freedom of Information Act. Should you have any questions or need additional information, please contact me at (202) 712-1150.

Attachment



*Office of Inspector General*

**MEMORANDUM**

TO: Jennifer Adams  
Acting Assistant Administrator  
Global Health

FROM: Jonathan Schofield /s/  
Special Agent in Charge  
Africa, Europe, and Latin America and the Caribbean

SUBJECT: Internal Controls Concerns Regarding USAID Global Health Supply Chain –  
Procurement and Supply Management Project (GHSC-PSM)

The purpose of this memorandum is to identify fraud prevention concerns to the USAID Bureau for Global Health (Global Health) regarding the USAID Global Health Supply Chain – Procurement and Supply Management (GHSC-PSM) project. In an effort to help safeguard against program fraud and abuse and to carry out its oversight mission, the Office of Inspector General/Investigations (OIG/I) will continually identify vulnerabilities within GHSC-PSM and make them known to USAID. In accordance with the Inspector General Act of 1978, the OIG is required to engage on matters “concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations... to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.”<sup>1</sup>

Ensuring the integrity of the USAID GHSC-PSM project is an ongoing OIG/I priority. We have conducted fraud awareness briefings at GHSC-PSM headquarters and are organizing fraud identification and prevention training at GHSC-PSM field offices. In the last several years, OIG/I has investigated individuals and syndicates in Africa that steal, transport and resell President’s Malaria Initiative (PMI) commodities such as bed nets and anti-malaria pharmaceuticals. By working with USAID missions, State Department offices, local law enforcement and international organizations, OIG/I has made numerous arrests and seizures of stolen and counterfeit commodities and developed a trove of experience to combat this fraud. OIG/I has stood up “cash for tips” hotlines in several African countries dedicated to obtaining actionable information against those who prey on the GHSC-PSM. In just the last eight months, OIG/I has coordinated with local law enforcement to execute the following USAID supply chain enforcement actions: searches of 17 locations and six arrests in Malawi in September 2016

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<sup>1</sup> Inspector General Act of 1978, section 4(a)(5).



related to a PMI/Global Fund commodity theft investigation, with two additional arrests of Ministry of Health employees in February 2017; five arrests in Zambia of individuals responsible for stealing HIV rapid diagnostic test kits in November 2016; and seven arrests in Guinea in February 2017 related to trafficking in stolen PMI commodities. These and similar investigations are focused on identifying and neutralizing organized efforts to divert medications and commodities from supply chains, though the cases listed above predate the GHSC-PSM. We continue to identify schemes of varying sophistication in which local nationals, positioned at different points in the supply chain, take advantage of their access or knowledge to the detriment of the safe and effective delivery of medical commodities.

Officially launched in January 2016, the GHSC-PSM, awarded to Chemonics International, is the largest single indefinite delivery/indefinite quantity (IDIQ) contract in USAID history. With a \$9.5 billion ceiling for health commodities and technical assistance, GHSC-PSM is designed to make health commodities for HIV/AIDS, malaria, family planning and maternal and child health more readily and cost effectively available. The following issues were identified by OIG/I as potential areas of concern within the GHSC-PSM financial protocols that may expose the program to possible fraud and abuse.

The GHSC-PSM currently utilizes letters of credit (LOC) to allow the prime implementer to independently withdraw program funds electronically. OIG/I recognizes the financial benefits of LOCs as a funding mechanism, however this method of funding requires minimal certification and less accountability than alternative funding options. While the prime implementer is required to submit quarterly Federal Financial Reports (SF-425), these statements solely reflect high-level budgetary information and may be insufficient in this context. Furthermore, the SF-425 form does not require the recipient to certify that expenditures were made in compliance with the terms of their contract. Instead, the form requires the signatory to certify that funds were expended, “for the purposes and intent set forth in the award documents.” In a high-risk endeavor such as GHSC-PSM, compliance is key. USAID should consider enhancing the certifications associated with this project.

For detailed GHSC-PSM financial data, Global Health predominately relies on the prime implementer’s monthly budget statements. However, only the quarterly SF-425 requires a certification of account accuracy to the U.S. Government. Due to the scope and dollar value of GHSC-PSM, OIG/I recommends Global Health consider immediately incorporating appropriate certifications into future monthly budget statements – the detailed accounting of expenditures – to codify the signatory’s acknowledgement that he/she is subject to criminal, civil, or administrative penalties for any false, fictitious, or fraudulent information under U.S. Code, Title 18, Section 1001. By incorporating additional certifications into the financial reporting process, and requiring the implementer to certify that expenditures have been made in accordance with the terms of its award, overall accountability is increased.

Under FAR 52.203-13, subcontractors are required to institute a code of business ethics and conduct, as well as report all allegations of fraud to the Office of Inspector General. This is limited, however, to subcontracts in excess of \$5.5 million and with a performance period of



more than 120 days. Given the high-risk nature of GHSC-PSM's work, primarily at the end of the supply chain where local organizations and systems are involved, early fraud reporting is key to preventing little problems from becoming big ones. Current award conditions present a potential vulnerability in which subcontractors involved in complex aspects of supply chain operations are not required to report fraud to either the prime implementer or the OIG. USAID should consider working with the contracting officer (CO) and the prime implementer to ensure sufficient contractual language extends to subcontractors in order to ensure potential cases of fraud or corruption are reported in a timely manner.

OIG/I cautions Global Health to avoid overreliance on the prime implementer and its subcontractors' program oversight in lieu of its own. A recent allegation, brought to the attention of OIG/I by the project's contracting officer's representative (COR) during the GHSC-PSM program transition period, [REDACTED]

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[REDACTED] Though it was reported to the OIG, this should be viewed as a cautionary tale. Under GHSC-PSM, the supply chain will again be managed by a single prime implementer which could impact the certainty of allegations and losses being reported. Overreliance on implementer monitoring and fraud reporting can be problematic as has been demonstrated through our work and noted as one of USAID's top management challenges. Historically, major USAID implementers have failed to notify USAID or OIG in a timely manner when issues of fraud or corruption have come to light. This has led to critical programmatic disruptions, such as the suspension of approximately \$300 million worth of Syria-related programming by the Office of Foreign Disaster Assistance (OFDA) last year after serious (and unreported fraud) was uncovered. While Chemonics has an admirable internal compliance unit, prudent management of taxpayer funds dictates having multiple levels of oversight. As such, OIG/I recommends Global Health consider, *directly* employing independent firms to conduct annual or unscheduled audits of GHSC-PSM records, protocols and standard operation procedures (SOPs) to maintain satisfactory administration over program operations. OIG/I detected that while the prime implementer has annual corporate audits and limited subcontractor audit requirements, Global Health does not have established policies or procedures for routine GHSC-PSM focused audits.

In light of significant risks detected by the OIG, OFDA recently hired a risk mitigation advisor to monitor its work in and around Syria. The OIG recommends that Global Health consider hiring an equivalent full-time compliance officer/risk mitigation advisor dedicated to GHSC-PSM, which is exponentially larger – and poses greater risks – than the Syria relief effort. The officer, direct hire or personnel services contractor, could engage globally to test systems, conduct unannounced compliance checks and end user verification, provide training, ensure compliance and coordinate with the OIG.

Global Health would benefit from increasing frequency of spot checks at end-user facilities and deploying random record-keeping inspections at centrally managed warehouses by rotating Global Health teams. This should be considered in addition to its announced annual/ semi-annual management site visits to country offices managed by GHSC-PSM staff. Variances in administering personnel and the frequency of checkups curtail risks of bribery and graft while



also increasing the accuracy of reporting documentation. All site visits, including those by CORs, should be documented with field reports submitted to Global Health management and respective COs.

Centralized and secondary electronic record systems must also be available to Global Health in order to prevent inventory gaps and loss of documents or records. While the benefits of digitizing records is self-evident, it is key to also recognize that failing to keep such records not only raises risks, but simultaneously diminishes the ability to investigate allegations. In January 2015, OIG/I received a complaint declaring \$1,000,000 worth of USAID-funded malaria medication was unaccounted at the Ghanaian Central Medical Store (CMS) warehouse.

Complainants alleged that a [REDACTED] employee was forging invoices to conceal the spike in commodities disappearing from the warehouse. On January 13, 2015, a fire at the CMS warehouse destroyed a sizable portion of stockpile along with the only copies of the allegedly falsified documents. With evidence and records destroyed, OIG/I was unable to launch an investigation. To prevent similar loss and preserve data, GHSC-PSM would benefit from digitalization of records and documents that can be accessed off-site. From Pakistan to Nigeria to Haiti, failure to prioritize the need to digitize records creates complications and ultimately limits the OIG's options when allegations are received.

FOIA Exemption 7(F)
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In 2013, Novartis began marking "Not for Sale" on its artemisinin-based combination therapy (ACT) packages to help prevent theft and resale on the advice of Global Health and OIG/I. Our office commends Global Health on its ongoing endeavors to strengthen identification and traceability of commodities through the adoption of the GS1 bar code standards. OIG/I encourages Global Health and its implementer to expand its tagging initiative and have suppliers label "Not for Sale" in English and local languages on medicine packaging, wherever possible. Additionally, OIG/I urges the inclusion of the message, "If found for sale, contact police/OIG at <https://oig.usaid.gov/>" to help prevent diverted, counterfeit or sub-standard commodities from entering local markets.

In circumstances where GHSC-PSM relinquishes control of healthcare products to host government ministries, OIG/I suggests Global Health consider seeking permission from host governments to retain inspection authority in order to conduct site visits, track distribution, safeguard commodities and prevent stock outs. GHSC-PSM personnel identified state-controlled warehouses in Nigeria, for example, as an area of program vulnerability originating from a lack of visibility due to shifts in commodity custody and no enforceable contractual relationships with state-controlled warehouses. OIG/I recognizes GHSC-PSM's plan to relocate products from state-controlled to third-party logistics (3PL) managed warehouses in Quarter 3/Quarter 4 of 2017 to augment program visibility, but additionally recommends considering a more robust response to some host country governments' unwillingness to allow inspections or partner fully with regard to commodities under their control. OIG/I suggests that Global Health engage, as necessary, with Department of State officials and local governments on behalf of its implementer to establish bilateral agreements and help facilitate site visits to state-controlled warehouses in all areas, including high-risk or remote ones. Insufficient oversight – or even presence – by GHSC-

PSM of government controlled facilities may increase the risk of criminals and opportunists exploiting inherent warehousing vulnerabilities.

OIG/I will continue to assist Global Health to overcome vulnerabilities and achieve effective program operations through our investigative work.

To ensure a productive conversation ensues, OIG/I looks forward to a response within 30 days. If you have questions or would like to meet at any point, please contact Jonathan Schofield, Special Agent in Charge, Africa, Europe, and Latin America and the Caribbean Division, at [REDACTED] gov.

FOIA Exemptions 6  
and 7(C)