

INVESTIGATION REPORT

# Global Fund Grant in Pakistan

Prohibited practices compromised procurement in a tuberculosis program

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GF-OIG-21-007

1 April 2021

Geneva, Switzerland

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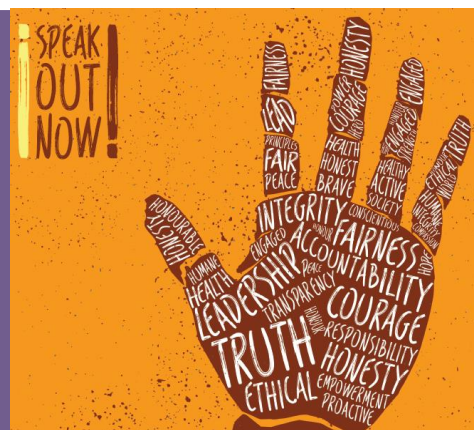
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# 1. Investigation at a glance

## 1.1. Executive Summary

This report covers three separate events:

1. The Indus Hospital, a Principal Recipient of Global Fund grants, engaged in anti-competitive and collusive practices and failed to properly mitigate actual or apparent conflicts of interest in the selection of IRD as a supplier for four projects to be funded as part of the grant. This resulted in a non-compliant amount of US\$1,062,076 and potentially recoverable amount of US\$341,791: see section 2.1.
2. Subsequently, following a procurement process compromised by anti-competitive, fraudulent and collusive practices, the Indus Hospital engaged Interactive Health Solutions (IHS), an entity majority-owned by an executive manager and owner of IRD and his wife, to provide IT services. This resulted in a non-compliant amount of US\$1,070,085 and potentially recoverable amount of US\$519,624: see section 2.2.
3. The Indus Hospital selected Interactive Research and Development (IRD) as a long-term technical assistance supplier without conducting a competitive tender, with the agreement of the Secretariat. The safeguards proposed to mitigate the related conflicts of interest proved not to be effective. The costs of this contract to the grant were materially higher than the costs of delivery by IRD and that those costs did not reflect the true nature of the amounts invoiced. In some instances, costs invoiced could not be supported. This resulted in a non-compliant and potentially recoverable amount of US\$310,174: see section 2.3.

These events involved non-compliance with the Grant Agreement by the Principal Recipient, including non-compliance by a Principal Recipient's supplier with the Code of Conduct for Suppliers<sup>1</sup>. As the costs for managing the grant, as well as the cost of the contracts with the suppliers were paid with grant funds, this results in ineligible use of grant funds. In instances where these compliance issues resulted in losses, the OIG is proposing these amounts to the Secretariat for recovery.

## 1.2. Genesis and Scope

In December 2018, OIG received information relating to alleged conflicts of interest, procurement and implementation irregularities involving one supplier (IRD) to the Indus Hospital. In assessing this information, the OIG saw that routine Global Fund oversight processes had also flagged related irregularities in the procurement of services from IRD and another related party supplier, IHS; this OIG investigation sought to verify the allegations received, including reviewing the Secretariat's role in the initial handling of the reports of irregularities in this grant.

OIG undertook missions to Karachi, Pakistan in August 2019 and in February 2020. Investigators obtained financial transaction, procurement and service delivery records and documents, conducted interviews with employees of the Indus Hospital, and both suppliers, and obtained hospital data. The scope of the investigation covered the period 1 January 2016 to 31 December 2018.

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<sup>1</sup> Global Fund Code of Conduct for Suppliers (15.12.2009)

The agreements between the Indus Hospital and the two service providers do not include explicit mention of the Code of Conduct for Suppliers. The Grant Agreement requires this Code be communicated to all suppliers by the Principal Recipient. The suppliers IRD and IHS were presented with this Code of Conduct by the OIG twice; first in the initial communication notifying them of the investigation and requesting their collaboration, and again when the detailed findings were shared with them for comments. No objections were made regarding their applicability or to the investigative process. IRD and IHS cooperated with the investigations and notably provided costs and expenditure information in relation to the services provided to the Indus Hospital.

### 1.3 Findings Summary

The investigation found that the practices summarized above resulted in an amount of US\$2,442,335 of grant funds being spent in a manner not in compliance with the terms of the Grant Agreement and is therefore ineligible for funding. Of this amount US\$1,171,589 is found to constitute a financial loss and is proposed to the Global Fund Secretariat for recovery, as follows:

- In relation to section 2.1, an amount of US\$341,791 was linked to payments for milestones showing unsupported and exaggerated programmatic achievements, or where the quality of services was deficient, leading the OIG to conclude a loss to the program.
- In relation to section 2.2, analysis of costs and services provided to the Indus Hospital show IHS's proposal reflected a level of service which was not delivered. The difference between costs to the supplier and amounts charged to the grant amounted to US\$519,624. This amount is proposed to the Secretariat as a basis for determining recoveries.
- In relation to section 2.3, an amount of US\$310,174 corresponds to expenditures for which the supporting documents, or their absence, leads the OIG to conclude the activities or expenditures did not take place as represented and constitute a loss to the program.

The OIG found that unmitigated, or improperly mitigated conflicts of interest between implementers and suppliers enabled the events detailed above. In particular, neither the Indus Hospital nor the Secretariat appear to have taken tangible or effective action to enforce and monitor the terms of the conflict of interest declarations submitted by five individuals associated with IRD in relation to their role in the operations or management of the Global Health Directorate.

The investigation concluded there was insufficient or ineffective oversight on the part of the Global Fund Secretariat in reviewing and endorsing the Indus Hospital's selections of IRD and IHS after its selection of IRD as a long-term technical assistance provider, and in managing the related conflicts of interests.

While empowered individuals within the Secretariat have broad discretion in the fiduciary oversight of grant management, they are in particular expected to uphold the Guidelines for Grant Budgeting in making determinations regarding eligibility of expenditures and issuing related approvals. While exceptions and deviations from these Guidelines are expected in the due course of grant management, minimal controls exist to manage and govern such exceptions. These oversight decisions by the Secretariat do not, however, mitigate the prohibited practices in the management of grant funds by the Principal Recipient. Stronger management performance and attention to conflict of interest matters on the part of the Secretariat could have prevented or allowed earlier detection of these issues.

This report summarizes the detailed findings presented to the subjects and does not aim to present the entirety of the investigative work performed by the OIG.

## 1.4 Context

The Global Fund has invested US\$697 million in Pakistan since 2003 and is the country’s biggest donor for HIV/AIDS and TB.

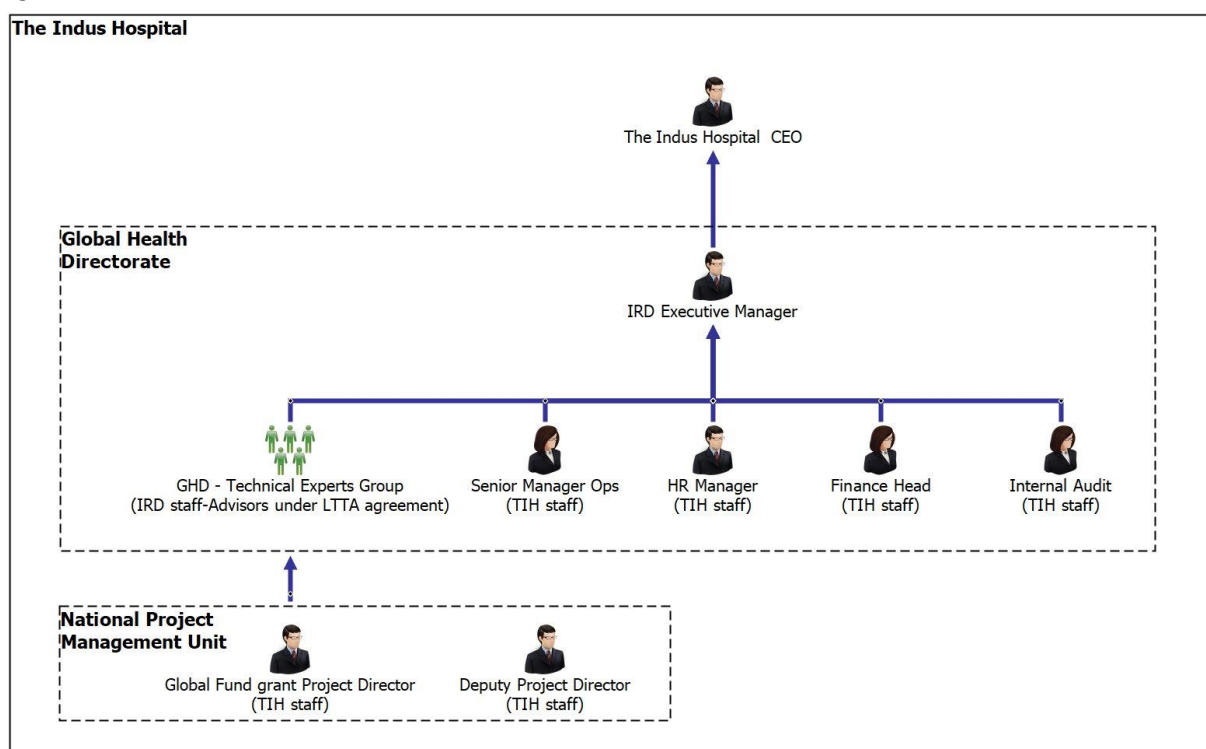


**The Indus Hospital:** The Indus Hospital operates tertiary care multidisciplinary hospitals and other healthcare providers in Pakistan. It started operations in July 2007. In April 2016, it contracted with IRD under a “long-term technical assistance” agreement, or LTTA agreement, to support the implementation the Global Fund grant. In May 2016, the PAK-T-TIH grant was signed. In November 2016, it contracted with IHS for the provision of IT services and submitted conflicts of interest declarations to the Global Fund. In January 2017, the Indus Hospital advertised for suppliers to bid on four major projects under the TB grant, and in March 2017 awarded all four contracts, for a total amount of US\$1,354,168, to IRD.



**Global Health Directorate:** In 2016, the Indus Hospital created the Global Health Directorate as an internal structure to manage donor programs. However, this structure is in part staffed with external consultants employed by IRD, and managed by an executive manager of IRD, pursuant to the LTTA agreement as described below. According to an executive manager of IRD, “GHD is owned, operated completely by myself and [a fellow IRD director]”. IRD’s website stated, as of the publication date of this report “2016 [...] GHD awarded Principal Recipient status by Global Fund...with a total portfolio of USD 47M”. The Global Health Directorate oversaw the activities of the Indus Hospital Project Management Unit which supported the implementation of the Global Fund grant. It is headed by a program director who has a dual reporting line to the CEO of the Indus Hospital and to the executive manager of IRD in charge of the Global Health Directorate.

Fig 1. TIH Structure





**Interactive Research and Development (IRD):** In April 2016, the Indus Hospital and IRD signed the LTTA agreement for the “Global Fund Tuberculosis Project” for an amount of US\$1,918,801 for the period May 2016 to December 2017. Under the agreement, IRD would provide technical advice, oversight and personnel, with reporting lines as per the organogram shown in Fig 1. This agreement was later extended to December 2018.

Three entities sharing the name IRD are relevant to this report: IRD Pakistan (PVT) Limited, a Pakistan-registered entity, IRD-FZC owned, a U.A.E. registered entity, and IRD Global Limited, a Singapore-registered entity. Ownership structure is summarized in Annex A. As the distinction between the three legal entities is not material to the findings, the report uses IRD to refer to all three entities.



**Interactive Health Solutions (IHS):** In November 2016, the Indus Hospital awarded IHS, a software company, a US\$1,456,392 contract to provide IT-related services supporting the activities funded by the Global Fund grant. IHS was created in 2012 as a subsidiary of IRD and is majority-owned by an executive manager of IRD and his wife.

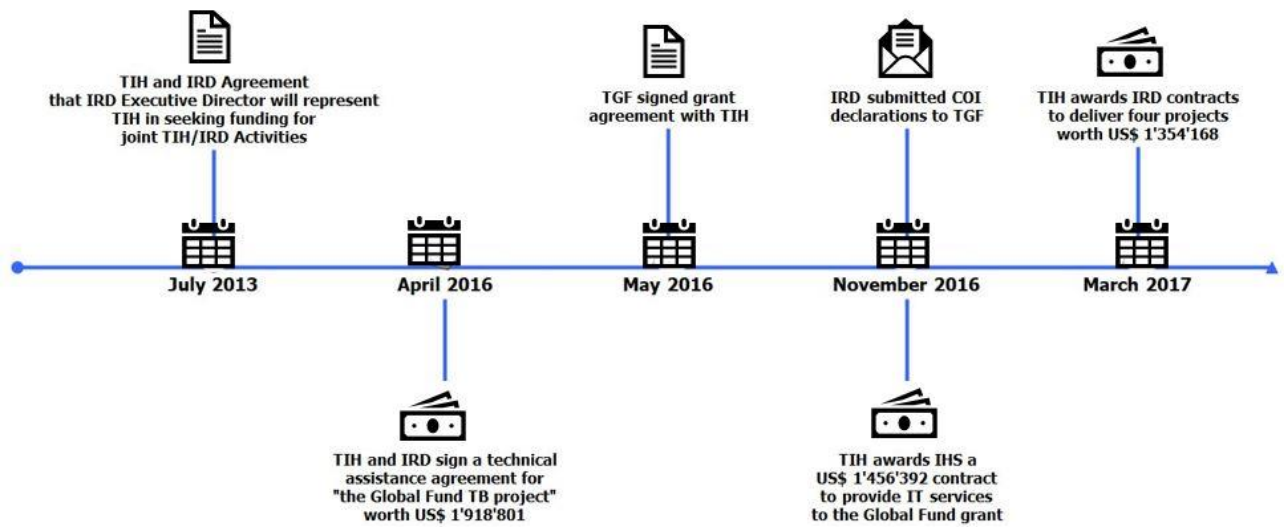


**PAK-T-TIH Global Fund Grant:** In May 2016, the Global Fund entered into the Grant Agreement PAK-T-TIH with the Indus Hospital as Principal Recipient, for an amount up to US\$39.7 million. Prior to the signature, concerned with an underachieving TB program under a previous grant with a different entity, the Secretariat asked an executive manager of IRD, which represented the Indus Hospital in the grant agreement negotiations, to devise a plan to adapt IRD’s “Zero TB” project to the Global Fund grant program.

This executive manager of IRD prepared or oversaw the preparation of draft documents supporting the Global Fund grant agreement, notably the PAK-T-TIH grant budget for the period 2016-2017, which included budget earmarks for the LTTA agreement and for the IT support services. In April 2016, a month prior to the grant agreement being signed, the Indus Hospital submitted this grant budget to the Global Fund. Under the “technical assistance fees – Consultants” cost line, which amounted to US\$1,918,801. IRD was already identified as a service provider in this document.

The Secretariat was aware of these facts and endorsed the award of the LTTA agreement to IRD during grant negotiations. On 29 April 2016, prior to the signature of the Grant Agreement and during the grant negotiations referred above, the Indus Hospital signed a LTTA agreement with IRD for the “Global Fund Tuberculosis Project” for the period May 2016 to 31 December 2017. See Fig 2 for timeline. The agreement did not detail individuals’ rates or specific deliverables; rather, it indicated a lump-sum associated with a percentage of time to be allocated to the work by a series of individuals with specific professional designations, and the possibility to have additional consultants costs charged to the contract, with no further breakdown of the cost structure. The full budgeted amount under the Grant Agreement budget was used as the contract amount.

Fig 2. Timeline



While it is not unusual, or unexpected to have nominal budgetary envelopes at the grant signature stage, it is unexpected that a supplier be identified at that stage when a public tender has yet to be conducted, and also for the actual contract amount following a tender to very closely correspond to the budgeted envelope.

A detailed depiction of the relationships and interconnections between organizations and individuals can be seen in **Annex A**.

IRD employees performed key grant management tasks as part of the Global Health Directorate, including supervising employees of the Indus Hospital. As such, the Indus Hospital's responsibilities as Principal Recipient are linked to the actions of its supplier, IRD. Similarly, IRD's actions must be viewed in the context of both its role within the Global Health Directorate and its separate roles and responsibilities as a supplier. Lastly, as the owner of IRD has majority-ownership of IHS with his wife, the actions of IRD and IHS must also be analyzed taking this association into account.

## 2. Detailed Findings

2.1 Unmitigated conflicts of interest, collusive and anti-competitive practices resulted in US\$1,062,076 of non-compliant expenditures, of which US\$341,791 is considered a loss

### **Collusive and anti-competitive practices**

The Indus Hospital selected IRD as a supplier for four projects before starting the formal bid process and before the Global Fund had approved budgets and workplans for the projects. Prior to the tenders being advertised, IRD was aware of their assigned budgets. Prior to the tendering process, Indus Hospital employees supervised by an IRD executive manager as part of the Global Health Directorate were involved in the preparation of the grant reprogramming budget for the four projects, and IRD employees were involved in the preparation of Statements of Work for at least two of the projects.

IRD was engaging with Global Health Directorate employees with knowledge of the budgeted amounts. Simultaneously, IRD was undertaking preparatory work for the projects which it would later seek reimbursement for. While a contractor doing preparatory work in advance is not in itself problematic, and such work could even be retroactively funded following the award, this indicates IRD's confidence in the outcome of the procurement process.

While their signature was not dated by the parties, the service agreements between IRD and the Indus Hospital for implementing the four projects were to be effective three weeks before bidders were supposed to submit their proposals. IRD had begun preparing project activities and budgeting, hiring field workers and signing employment agreements, up to five months before the bid deadline.

The Indus Hospital told the OIG that the Secretariat had pre-approved the outsourcing of the four projects to IRD, but could not provide any evidence of this<sup>2</sup>. Evidence shows the Secretariat agreed to the implementation of the four projects, and that it may have been notified of the intention to select IRD for some of the projects, but not to having pre-approved or otherwise endorsed their award to IRD outside of a competitive process. In any event, if the Secretariat had pre-approved IRD as a supplier, it is unclear why the Indus Hospital would have conducted the subsequent tender as it did, and this hypothesis would also involve anti-competitive practices.

When the Indus Hospital subsequently officially advertised for suppliers, following a request by the administration of the Indus Hospital, despite ostensibly having already selected IRD as a supplier, the process was flawed and non-compliant with the requirement of the grant agreement. In particular, the tender did not provide all information necessary for a prospective bidder to prepare a bid, and was not based upon a clear and accurate description of the proposed terms and conditions of the contract and the goods or services to be acquired. Furthermore, it limited the number of potential eligible bidders by publishing only one, instead of four separate, tender advertisements, it did not specify the criteria that bidders would be evaluated against,

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<sup>2</sup> IRD provided an email in which an executive manager of IRD informed the Secretariat prior to the tender that the TB prevalence survey would be led by IRD.



and contained incomplete or misleading information about the scope and nature of the services, all of which limited the transparency and competitiveness of the process.

The Indus Hospital staff reporting to IRD employees prepared the evaluation criteria to assess bidders' technical proposals. These criteria were narrowly tailored and favorable to the bids submitted by IRD. Bid evaluation minutes reflect an unfair evaluation of the technical proposal of a losing bidder. Some information from the competing bidders' technical proposal was omitted by the evaluation team, e.g. the technical proposal of a losing bidder showed experience of the team in conducting research including baseline surveys and impact assessment; however, the evaluation committee did not give any score to the competing bidder against this criteria. No evidence indicates that bidders were present during the opening of proposals, as required by the procurement rules of the Indus Hospital. Whether bidders were not present, or whether the internal rules regarding recording their presence during opening were not followed, the process was in breach of the Indus Hospital's own procurement manual. The bids by IRD to perform the work under the four projects equaled or differed only slightly from the assigned budgets.

The Indus Hospital awarded the four research and implementation service projects to IRD for the period 1 March to 31 December 2017:

- Psychosocial Support Intervention (PSSI) services to vulnerable Multi Drug-Resistant TB patients;
- TB Prevalence Survey in Karachi, as part of the 'Zero TB' initiative;
- Gender Access: training 10,000 schoolgirls to conduct verbal screening in communities and search for presumptive TB cases; and
- Antenatal Control: verbally screening and providing care to pregnant women and newly born children

Subsequently, IRD provided technical advice and oversight over its own implementation of the projects through its work with the Global Health Directorate.

Considering the totality of the evidence available, the OIG established the following:

- A decision had already been taken by the Indus Hospital to retain IRD for these projects prior to the tender process. IRD was made privy to information conferring it an advantage in the tender. The tender process was intended to create a paper trail supporting the award.
- The Indus Hospital did not uphold fair and transparent practices in procurement and engaged in anti-competitive and collusive practices with IRD in the procurement process of the four projects pursuant to the Grant Agreement.
- IRD engaged in collusive and anti-competitive practices pursuant to the Code of Conduct for Suppliers in their bid for the four projects.
- Routine grant oversight processes had flagged potential irregularities in relation to the procurement process for the four projects. Conflicts of interest and procurement irregularities were also flagged. The Secretariat ultimately endorsed the procurement process for the four projects. There is no evidence the conflict of interest and potential mitigation measures were specifically considered by the Secretariat when making this determination.

Considering the Secretariat's retroactive approval of the selection of IRD to implement the four projects, the OIG is not proposing recovery of losses in relation to the procurement. However, the subsequent issues with the performance of IRD and the oversight by the Indus Hospital in implementing these projects are separate from this approval. Therefore, the OIG proposes recoveries in relation to these issues.

#### **Insufficient risk mitigation of declared conflicts of interest by the Global Fund Secretariat**

In November 2016, IRD submitted conflict of interest declarations to the Secretariat, acknowledging the fact that five individuals associated with IRD or IHS would be involved with providing services to the Indus Hospital under the LTTA agreement, that they had business interests with the Indus Hospital, IRD, and/or IHS, and that these individuals would refrain from taking part in discussions and decision-making pertaining to the terms of agreement, negotiations, contract signing and/or transactions with these entities.

No additional conflict of interest declaration was made by IRD in relation to the involvement of IRD employees in the preparation of the project, the procurement process or the subsequent negotiation and oversight of the projects, or in relation to the supervision of the Indus Hospital employees involved in those same activities.

The OIG identified the following contributory factors:

- IRD was in a conflict situation by having its employees, or supervising employees of the Indus Hospital, preparing budgets and work plans for services IRD was intending to bid for, and implement, as a service provider.
- IRD was in a conflict of interest situation in bidding on the four projects. An executive manager of IRD had a personal financial interest in IRD and had hierarchical authority over certain employees of the Indus Hospital through the organogram of the Global Health Directorate and over certain IRD employees working in the Global Health Directorate. These individuals, even if not directly associated with other activities of IRD, could not ignore the interests of their employer or of their line manager and the conflict resulting from this situation. The Project Director, and the Deputy Project Director working at the TIH Project Management Unit, reported to IRD executives. They designed the scoring for evaluating the bidders for the four research and implementation projects, and approved the evaluation of the technical proposals in the tender in which IRD participated.
- Neither the Indus Hospital nor IRD explicitly informed the Global Fund of additional events pursuant to the initial conflict of interest disclosure. IRD's actions constituted a breach of the undertakings in their conflict of interest declaration not to participate in the discussion and decision-making pertaining to the terms of agreement, negotiations, contract signing and/or transactions with IRD or IHS.
- The Indus Hospital failed to mitigate the conflicts of interest, as the accountability for the proper use of grant funds and the activities of the Global Health Directorate rests with them as Principal Recipient.
- The Secretariat did not take tangible or effective action after receiving those initial conflict of interest declarations to assess or mitigate this conflict of interest. However, as internal Global Fund processes are not prescriptive in this respect, and accountability for managing and avoiding conflicts lies with the Principal Recipient, the OIG makes no specific finding of wrongdoing.

## Unsupported and exaggerated programmatic achievements

Following the award of the four projects to IRD, the OIG found that IRD then overcharged the Indus Hospital in the course of implementation of three out of the four projects, which show evidence of non-delivery, unsupported and exaggerated programmatic achievements, and unsupported expenses. In some cases, these were found to have constituted a loss to the program. Illustrations of the types of problematic expenditures and associated support are presented below.

While there was retroactive endorsement provided by the Secretariat in relation to the procurement process and conflict of interest issues, as noted in the section above, the issues described in this section relate to issues subsequent to the award and must be considered on their own merit.

The investigation notably found that activities for the Psychosocial Support project were poorly implemented, reached too few patients and/or were implemented too late, resulting in a loss of US\$39,996 of grant funds, which represent the portion of IRD staff salaries paid for under-delivered services. For example, out of 240 Multi-Drug Resistant TB patients selected to receive services under the project, only 16 received life-skills training, none received vocational training, and only 10 patients' homes were renovated. Very few of the life-skills training activities were supported by activity reports.

Inadequate planning and resourcing for the TB Prevalence Survey resulted in US\$98,437 of expenditures which did not result in the implementation of the approved activities, contrary to the provisions *regarding Use of Grant Funds* in the Grant Agreement. Whereas the survey was supposed to reach 40,000 adults and 6,000 children, it only managed to reach a total of 5,231 people in 2017 and had to be fully re-performed at an additional cost to the Global Fund of US\$154,136. IRD's project progress report attributed the poor results to "lack of a data management team, low participation rates due to inadequate community mobilization, and a lack of guaranteed availability of mobile X-ray trucks<sup>3</sup>." Notably, IRD's Principal Investigator for the survey was physically located outside of Pakistan for most of the survey period in 2017, while reporting working 80% on this project.

IRD reported project data for the Gender Access project which could not be verified as part of this investigation, as supporting documents were not made available for OIG review<sup>4</sup>. OIG review of IRD's project documentation found discrepancies between the numbers reported by IRD and those contained in participant spreadsheets, and between the numbers of households visited and household forms prepared. 10% of reported teachers and presumptive clients, 21% of reported students, and 18% of household forms could not be verified. Based on an analysis of Books and Records showing material deficiencies, the OIG identified an amount of US\$103,675 as loss to the Program in relation to these expenditures.

For the same Gender Access project, IRD reported to have found "more than 400" new TB cases; according to the service agreement, they were expected to find 3,840 new TB cases. As such, the Global Fund grant was charged eight times the expected cost per case notification (US\$1,026 compared to US\$130). In reporting its 2017 results, IRD included participants who only enrolled in 2018-2019, and who were financed separately by the 2018-2020 grant.

In a related activity but separate from the contracts for the implementation of the four projects, the Indus Hospital also procured ultraviolet germicidal lights installation services directly from IRD without any tender

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<sup>3</sup> Ensuring availability of this equipment was the responsibility of the Indus Hospital.

<sup>4</sup> IRD was also unable to provide documentary evidence for the reported achievements.

process, contravening its own procurement rules, resulting in a non-compliant amount of US\$88,022. Lastly, across all four projects, advance payments of US\$99,683 unspent by IRD by the projects end date (December 2017) has still not been returned to the Indus Hospital<sup>5</sup>, this amount is recommended to the Secretariat for recovery.

While unforeseen programmatic and operational considerations may result in delays and higher resources required to perform activities, the scale and materiality of the issues linked to the management of these projects exceeds what can be reasonably expected as solely caused by external factors. Principal Recipients are required to prudently manage funds, ensure they are used solely for program purposes, manage and utilize Global Fund resources in a transparent, fair, accountable and honest manner, maintain Program Books and Records, and ensure quality and accuracy in Monitoring and Evaluation activities.

The OIG reviewed documents and justifications provided by the Indus Hospital IRD, adjusted potentially recoverable amounts accordingly. While fully taking into account the operational challenges facing implementers, the OIG found a lack of proper planning or oversight, as well as a lack of prudent management of funds to ensure all funds were used for grant programs. This situation could not plausibly be caused by external operational factors. As these contracts were structured as fixed-price payments linked to project deliverables, the risk of non-delivery should in any event rest with the supplier rather than the program.

Consequently, the OIG considers that the amount of US\$1,062,076, corresponding to funds paid by the Indus Hospital to IRD in connection with these projects, as well as the funds paid for the procurement of germicidal lamps and the unrefunded advances, are non-compliant with the terms of the grant agreement and ineligible for funding. Regarding instances where there is no evidence that the activities occurred at all, or when expenditures are linked to unsupported and exaggerated programmatic achievement in the performance of projects, the OIG found an amount of US\$341,791 constituting loss to the Program and which is proposed to the Secretariat for recoveries<sup>6</sup>.

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<sup>5</sup> as of July 2020. While the contracts were ostensibly “fixed price contracts”, in practice the Indus Hospital and IRD engaged in a verification of costs actually incurred. The OIG is relying on this process to assess losses.

<sup>6</sup> Establishing the respective responsibility of the Indus Hospital, or IRD in the loss goes beyond the scope of this investigation. The quantification of losses and proposed recoverable amount should be understood with in context.

2.2 Unmitigated conflict of interest, collusive, fraudulent and anti-competitive practices in the procurement of IT services resulted in US\$1,070,085 of non-compliant expenditures, of which US\$519,624 is considered a loss

**Anti-competitive, fraudulent and collusive practices with a third-party supplier to obtain a falsified financial proposal**

According to the Indus Hospital, IHS was the only vendor to submit technical and financial proposals in response to their newspaper advertisement for the supply of IT services. A staff member of the Indus Hospital explained that when only one vendor submits a proposal, their general practice was to republish the tender advertisement, however in this case this was not done as *“there was no guarantee to receive another one and time was against us.”* After the Indus Hospital Board requested that IHS’s financial proposal be compared to the market, the Indus Hospital’s Procurement Committee sent a Request for Quotation for IT-related services to a local IT service provider, inviting them to submit their own quotation.

OIG’s review found that the local IT service provider’s financial quotation was based on IHS’s own proposal (that ordinarily they should not have seen), repeating almost word for word IHS’s text, and providing prices that were direct multipliers of those in IHS’s quotation. If generated independently, it is highly unlikely that each cost proposed by the local IT service provider could be higher by the same percentage as the IHS rates.

The Indus Hospital admitted to OIG that they shared IHS’s financial proposal with the local IT service provider, as they had a long history of working with that supplier.

OIG therefore concludes that the Indus Hospital engaged in anti-competitive practices, and in collusive practices with the local IT service provider, to obtain a falsified financial proposal for comparison with IHS’ financial proposal.

Furthermore, misrepresenting the financial proposal as a legitimate representation of market prices misled internal control bodies within the Indus Hospital and/or the Global Fund in order to avoid having to perform a competitive procurement process, constituting fraudulent practices. These anti-competitive, collusive and fraudulent practices, prohibited both by the Code of Conduct for Suppliers and the Grant Agreement, compromised the eligibility of the expenditures resulting from this procurement process.

Routine Global Fund oversight processes flagged the contracting of IHS as potentially irregular. Based on the facts known at the time, the Secretariat ultimately endorsed the procurement, acknowledging however the conflicts of interest and the need to comply with applicable processes given the associated sensitivity. The Global Fund however was not aware of the fraudulent and collusive nature of the local IT service provider’s proposal which had led to this contract being awarded to IHS.

## **After the Indus Hospital paid IHS US\$1,070,085 to provide IT services, IHS only spent US\$550,461 on delivering the work**

The Indus Hospital contracted IHS to develop a TB Medical Information System, a GxAlert system, (an application that transmits results data from diagnostics machines to data collection points) and a patient call centre. The Indus Hospital paid IHS US\$1,070,085 for this work. Analysis of IHS's expense reports indicates that IHS only spent US\$550,461 on delivering the services.

An executive manager of IHS told OIG that the US\$519,624 difference between the contract amount and actual costs represented "*profit on the project*" derived from a fixed-price contract. The OIG does not conclude on the overall reasonableness of potential profits on the part of IHS. However, because this contract was won by IHS in a tender compromised by collusive and fraudulent practices, with no market benchmarking of the contract price (please see sub-section above), the difference between amounts paid and actual costs (US\$519,624) may be considered as a basis to determine the resulting loss, and this amount is therefore proposed to the Global Fund Secretariat for recoveries.

The endorsement provided by the Secretariat in relation to using IHS as a supplier, acknowledged the procurement process and conflict of interest issues, but this endorsement cannot reasonably be understood as having accepted underlying collusive and fraudulent practices. Therefore, the OIG is identifying an amount of loss in relation to this contract, and a proposed recoverable amount<sup>7</sup>.

## **The procurement and award of the contract for IT services was compromised by unmitigated conflicts of interests proving IHS an undue advantage**

The OIG found that IRD was in a conflict situation in the procurement and award process of IT services to IHS. An executive manager of IRD, which also has majority ownership with his wife of IHS, participated in the preparation of the PAK-T-TIH grant budget, which contained the budget for IT-related services. An IRD Director prepared the Statement of Work for IT-related services. Both actions are contrary to the undertakings of their conflict of interest declaration from November 2016. The fact that the executive manager of IRD, having majority ownership of IHS with his wife, had hierarchical authority over certain employees of the Indus Hospital through the organogram of the Global Health Directorate and over certain IRD employees working in the Global Health Directorate, gave IHS an undue advantage over any competition. These individuals, even if not directly associated with other activities of IRD, could not ignore the interests of their employer or of their line manager, as the case may be, and the conflict resulting from this situation. The OIG considers that the Indus Hospital also failed to mitigate this conflict of interest, as the accountability for the proper use of grant funds and the activities of the Global Health Directorate rests on them.

As IRD is a related party to IHS, this also breached the Indus Hospital's own instructions to bidders. The tender of IT-related services also contravenes the provisions of the Global Fund's Code of Conduct for Recipients and Guidelines for Grant Budgeting as effective in 2016 and 2017.

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<sup>7</sup> Establishing the respective responsibility of the Indus Hospital, IHS or IRD in the loss goes beyond the scope of this investigation. The quantification of losses and proposed recoverable amount should be understood with in context.

Subsequently, IHS's work was accepted, and invoices were approved, by the grant Deputy Project Director at The Indus Hospital's GHD Project Management Unit, who reported to the Project Director, who reported to the executive manager of IRD with an ownership stake in IHS with his wife. This employee was not in a position to act independently or without bias when evaluating the deliverables of a company partially owned by a supervisor. This is inconsistent with the terms of the Global Fund's Code of Conduct for Recipients and Guidelines for Grant Budgeting.

The evidence does not indicate that the Secretariat took tangible or effective action beyond receiving the initial conflict of interest declaration to mitigate the overarching conflicts of interest, or that the Indus Hospital or IRD explicitly informed the Global Fund of additional events pursuant to the initial disclosure.

### 2.3. Irregularities in a long-term technical assistance agreement, resulted in US\$310,174 of ineligible expenditures, which are considered a loss

#### **The Secretariat endorsed the non-competitive pre-selection of a supplier by a Principal Recipient**

Global Fund budgeting guidelines stipulate that “[t]echnical assistance providers should be selected through a competitive process, in compliance with the relevant article on Contracts for Goods and Services of the Standard Terms and Conditions of the Global Fund grant agreement”. Global Fund Grant Regulations (2014) state that “No more than a reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to obtain goods and services”. In this case, the Secretariat did not mitigate conflicts of interest, such as budget design and service implementation being performed by the same individuals (referenced in 2.2), contrary to the Global Fund processes governing technical assistance supplier selection and budget approval.

The Indus Hospital told OIG that the Long-Term Technical Assistance agreement (LTTA) formed part of the initial grant signed with the Global Fund (“it was a pre-negotiated contract”) and that therefore no competitive procurement process was performed. Indeed, the contract was signed April 2016, a month before the signature of the grant agreement with the Global Fund. The Secretariat had endorsed this situation and did not ask for a competitive process to be undertaken.

In November 2016, IRD submitted conflict of interest declarations to the Secretariat, acknowledging that five individuals associated with IRD were providing services to the Indus Hospital, including under the LTTA agreement, and undertaking that these individuals would refrain from taking part in discussions and decisions making pertaining to the terms of agreement, negotiations, contract signing and/or transactions with IRD, IHS or other IRD affiliates. This notably included the executive manager of IRD referred to in this report, who has majority ownership of IRD with his wife.

In endorsing IRD as a LTTA provider, the Secretariat did not follow the aforementioned budgeting guidelines: the Secretariat explained that IRD’s approval was an exemption from the budgeting guidelines due to an ‘atypical’ grant structure, whereby the Indus Hospital and IRD came as a package, with IRD providing experience and knowledge, and the Indus Hospital actually implementing the grant (as discussed in the Context section above).

As part of endorsing the direct selection of IRD, the Secretariat approved an undetailed, lump sum amount of US\$1,918,801 for the services for the 2016-2017 period, without any of the usual routine budget assumptions validation such as consultants’ rates, budgetary assumptions for other costs, and without any documented benchmarking process or specific review of the final amount. This runs contrary to the principles of the Global Fund Guidelines for grant budgeting; however, this is not currently prohibited, or subject to a specific internal approval process.

It should be noted that IRD’s status as a third-party service provider meant that the Local Fund Agent could not directly access IRD’s financial, HR or programmatic documents during its routine reviews, beyond the reporting provided by IRD to the Indus Hospital; if IRD had been a grant sub-Recipient, the Local Fund Agent would have had full visibility on these books and records. This situation resulted in an assurance gap where the grant did not benefit from the accountability mechanisms offered by either the modalities applicable to



implementers, with a transparent cost structures, or to suppliers, with competitive sourcing and specific deliverables.

**Costs charged to the grant did not reflect the true nature of the amounts invoiced, and in some instances, costs invoiced could not be supported**

Global Fund grant funds were used by the Indus Hospital to pay US\$2,064,777 to IRD under the LTTA agreement for the period May 2016 to December 2018 (US\$1,807,640 in 2016-2017, and US\$257,137 following a service agreement extension in 2018). From 2016-2017, US\$1,395,945 was charged for IRD staff costs and in 2018 US\$257,137.

However, in the course of the investigation, the OIG conducted an analysis of the costs of the service delivered by IRD and invoiced to the Indus Hospital and the Grant, and this analysis showed irregularities.

OIG compared the salary amounts which IRD invoiced with the labor contracts IRD signed with its advisors and other elements charged to the grant. The salaries, which IRD presented to the Global Fund and the Indus Hospital were between 14% and 64% higher than those actually paid in 2016-2017 and were 24% higher in 2018. IRD explained part of the difference as medical and pension benefits, however a total amount of US\$257,363 for both periods remained either inadequately supported, unsupported, or represented expenses not allowed under Global Fund guidelines for grant budgeting.

For example: in support of expenses charged in 2016, 2017 and 2018, IRD provided supporting documentation dated 2019 and 2020, IRD included in their accounts, under a salary cost item, “Board of Directors allowance” and “Benefit pool to cover cost outside of policy”, costs of surgical procedures for IRD employees and owner. By comparison such benefits and operating costs significantly exceeded those agreed by the GF for the TIH staff.

IRD provided supporting documents that contradicted each other – airline tickets of IRD staff show that the staff was outside of Pakistan, whereas the timesheet justifying LTTA invoices show that this staff member attended meetings with location being indicated as the Indus Hospital. Had these costs been adequately and transparently reflected, they may have been allowable, and the OIG has not concluded on the overall reasonableness of potential profits on the part of IRD. However, the misrepresentation of the cost structure and the value of the services invoiced misled the Indus Hospital and/or the Global Fund on the nature of the financial proposal of IRD, and on the reasonableness of costs charged to the grant.

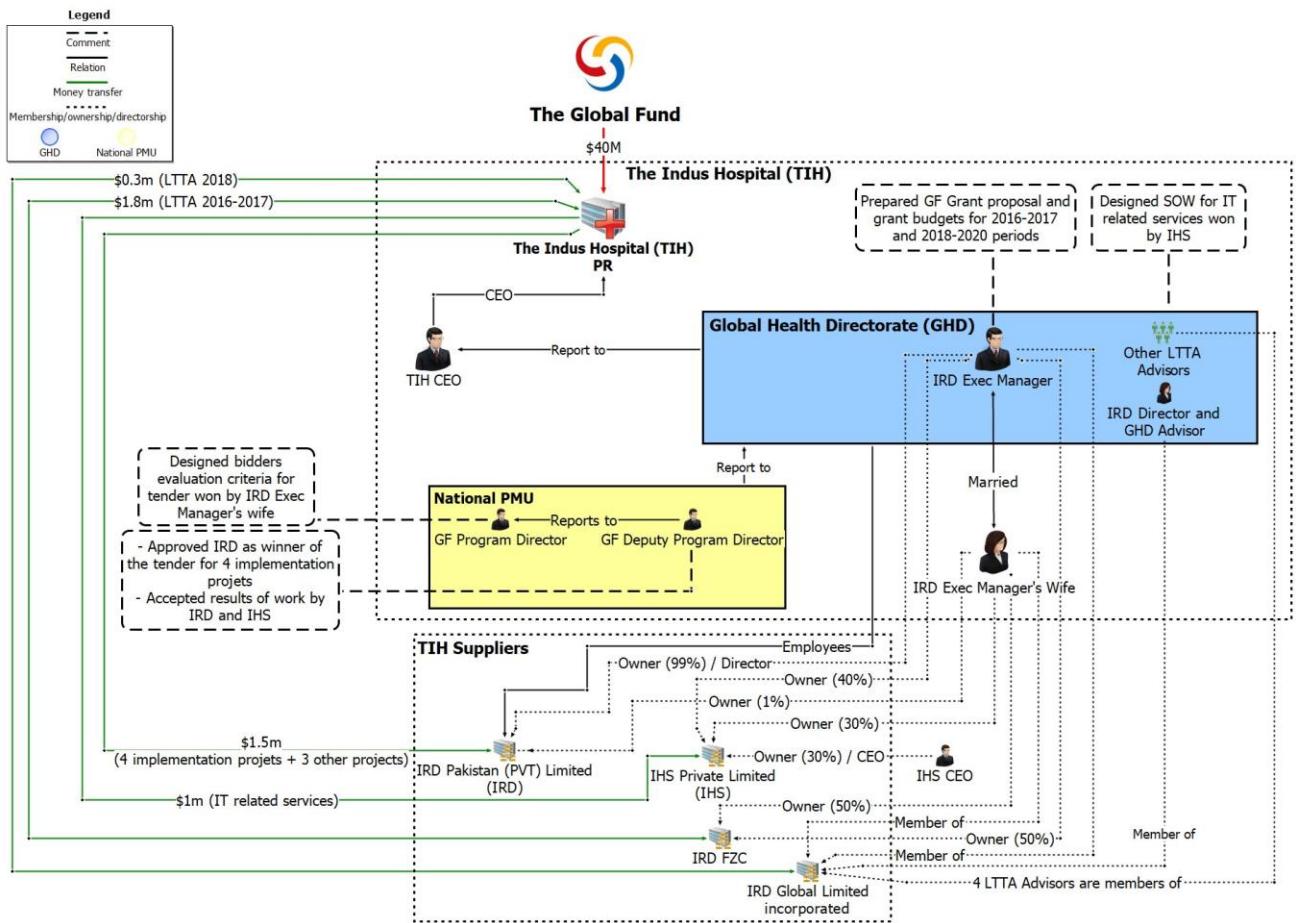
The expenditures associated with the LTTA contract are not characterized in the report as having been inherently ineligible from the implementer’s perspective as a result of the management of the conflict of interest situation. The OIG determined that costs totalling US\$310,174 are ineligible as they correspond to expenditures which cannot be justified as corresponding to services rendered, and this amount is proposed to the Secretariat for recovery. Given that the loss amount is for reasons independent of the selection of IRD and its contracting modalities, this amount is not mitigated by the related approvals given by the Secretariat. IRD has already agreed to return part of this amount, amounting to US\$52,811.

The amounts linked to the LTTA were not used and overseen by the Secretariat as would normally be expected of Global Fund grant funds. With respect to the Principal Recipient, the OIG will not consider the entire LTTA contract as ineligible, rather only those amounts compromised by compliance issues unrelated to the Secretariat’s endorsement, have been considered ineligible and are proposed for recoveries.

### 3. Global Fund Response

Action to be taken	Due date	Owner
<p>1. Based on the findings of the report, the Global Fund Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.</p>	31 July 2021	Head, Recoveries Committee
<p>2. The Secretariat, in consultation with the OIG, will report findings of supplier misconduct for potential referral to the Sanctions Panel.</p>	31 July 2021	Head of Grant Management
<p>3. Based on the findings of the report, the Global Fund Secretariat will ensure that the Principal Recipient takes appropriate action towards the individuals responsible for the prohibited practices described in this report, notably to ensure they are not involved with the implementation of Global Fund grants to that Principal Recipient.</p>	30 June 2021	Head of Grant Management
<p>4. To better mitigate prohibited practices and improve programmatic delivery of the TIH, the Secretariat will conduct a baseline fraud risk assessment and agree on a prioritized action plan of the recommendations. This will address the fraud risks identified in this investigation, i.e. non-delivery, unsupported and exaggerated programmatic achievements, and overcharging and unsupported expenses.</p>	31 December 2021	Head of Grant Management

# Annex A: Conflicts of Interest Diagram



## Annex B: Summary of Subject Responses

On 18 June 2020, via email, the OIG provided executive managers of the Indus Hospital, IRD and IHS with a copy of the Letter of Findings, which represented the full record of relevant facts and findings as they relate to TIH, IRD and IHS. TIH, IRD and IHS were also afforded the opportunity to provide comments and supporting documents on the findings and conclusions. TIH, IRD and IHS provided their comments and further documentary evidence on 16 July 2020 and on 11 September 2020.

On 1 December 2020, via email, the OIG provided the Country Coordinating Mechanism (CCM), through its Chair and Vice-chair, with a copy of the draft investigation report for their review and comments on the tone and balance of the report. TIH, IRD and IHS also receive a copy of this document as a courtesy. The CCM Chair provided comments on 15 December 2020.

On 22 January and 16 February 2021, IRD provided additional comments.

At the request of IRD, the OIG exceptionally agreed to circulate the report a second time to the CCM and the subjects, following consideration of the comments received. On 2 March 2021, via email, the OIG provided the CCM, TIH, IHS and IRD with a copy of a second draft investigation report incorporating comments made on the previous draft. The OIG clarified on 8 March to the same parties that it would accept further comments on the report until 15 March 2021. Comments were provided by the CCM, TIH and IRD by that date.

All points made in the responses were duly considered by the OIG and appropriate revisions were made to its findings as part of this final report.

Below is a summary of the main comments.

**Comment on conflicts of interest:** TIH highlighted the mitigating measures they put in place to avoid a conflict of interest with IRD. Moreover, TIH pointed out that the GF was fully aware of IRD's participation in the preparation of GF's grant proposal and budget, in the LTTA agreement and in implementation and IT services. IRD stated that IRD-TIH partnership as well as LTTA agreement were endorsed by the Global Fund from the start. COI declarations were made from 2016 and TIH considers *"procurement and funding decisions where IRD would be a beneficiary were made without involvement of any IRD official"*. IRD stated that the Secretariat did not provide either IRD or TIH with a risk mitigation plan additional to the undertakings in the declarations or forbade related parties to bid for tenders after declaring existing conflicts of interest.

The CCM commented that joint execution of the grant by TIH and IRD was approved by the Global Fund, namely through the Technical Review Panel and the Board's approval of the concept note and funding. The Secretariat, however, confirmed to the OIG that the PAK-T-TIH grant of 2016-2017 did not go through the Grant Approval Committee process and the TRP as the funds were reallocated from previous PAK-T-NTP grant activities.

**Comment on ineligible LTTA expenditures:** IRD informed the OIG that the major reason for differences between the LTTA salaries charged to GF grant and paid by IRD is due to staff benefits, which were managed as per IRD HR policy, exchange rate fluctuations and differences in salaries budgeted versus contracted.

The OIG reviewed additional documents provided by IRD and decreased the potentially recoverable amount accordingly. Please see Finding 2.3 of the report for details.

**Comment on procurement for the four projects:** TIH and IRD maintain that they had proper authorization from the GF to award the four research and implementation contracts to IRD without conducting a standard procurement procedure, yet no documentary evidence of such authorization was provided to the OIG in support of this authorization. IRD claim that the GF was aware that IRD was the author of the four projects, and because of that it was IRD's understanding that the GF was aware or approved that the projects will also be implemented by IRD.

IRD admitted to starting the work on the four projects prior to tender, supporting the finding that the process was pro forma and did not constitute a true and fair competitive process: *"It is common for the preparatory and part of the evaluative work to start before the grant or tender is secured. <...> the work done in respect of each of the projects prior to formal appointment was essential for the implementation of the IRD's work for the projects and is fully claimable"*. The OIG does not find that the fact that work effectively performed before the signature of a contract is inherently ineligible, and the report was clarified to ensure clarity on this point.

**Comment on non-delivery and unsupported and exaggerated programmatic achievements linked to the four projects:** IRD informed the OIG that they faced multiple local operational challenges when implementing research and implementation service projects and lost some documentation during inter-office relocation. IRD clarified some supporting documents were mistakenly associated with the wrong activities and requested they not be considered in the analysis. In relation to the PSSI project, IRD maintained that they fulfilled requirements of the project in every respect.

**Comment on fraudulent practices linked to IT services:** Regarding OIG's finding of fraudulent practices in the procurement of the IT services, TIH acknowledged that they shared IHS' financial proposal with the local IT service provider to validate the competitiveness of IHS' price. TIH further stated that they were not privy to the reasons behind the local IT service provider's estimates of costs being different from IHS' by an exact percentage, but they used the local IT service provider's estimates of costs to assess that his costs were reasonably lower.

**Comment on overcharging in the IT services:** TIH and IHS commented that IHS is a for-profit company and therefore is bound to make some profit. As the contract was a fixed-price contract and IHS did not have access to the detailed specifics of the project requirements, it had to create a buffer to account for their potential financial risks.

The CCM commented that the initial budget for IT services was \$2.1m and the final contract after negotiations amounted to \$1m, indicating that the price was not inflated. The CCM also noted that, should a review of payments be required, the services should be re-assessed on the basis of "value for money principles".

**Comment on the OIG methodology:** IRD claims that the OIG did not follow its own methodology of undertaking investigations in fact-finding manner, with consideration in good faith of all information, whether inculpatory and exculpatory.

In the interest of transparency and in order to allow consideration of all relevant elements of information provided by stakeholders, an updated draft report was recirculated for comments to the Country Coordinating Mechanism as well as TIH, IRD and IHS on 02 March 2021.

## Annex C: 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 Corruption<sup>8</sup> 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.<sup>9</sup> 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 Suppliers<sup>10</sup> 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

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<sup>8</sup> (16.11.2017) Available at [https://www.theglobalfund.org/media/6960/core\\_combatfraudcorruption\\_policy\\_en.pdf](https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf)

<sup>9</sup> 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](http://www.conf-int-investigators.org/?page_id=13), accessed 1.12.2017.

<sup>10</sup> 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](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](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.

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.

**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.<sup>11</sup> While the OIG does not typically have a direct relationship with the Secretariat's or recipients' suppliers, its investigations<sup>12</sup> encompass their activities regarding the provision of goods and services. To fulfil its mandate, the OIG needs the full cooperation of these suppliers to access documents and officials.<sup>13</sup>

**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.<sup>14</sup> 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.

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<sup>11</sup> Charter of the Office of the Inspector General (16.05.2019), § 2, 10.5, 10.6, 10.7 and 10.9 available at: [https://www.theglobalfund.org/media/3026/oig\\_officeofinspectorgeneral\\_charter\\_en.pdf](https://www.theglobalfund.org/media/3026/oig_officeofinspectorgeneral_charter_en.pdf)

<sup>12</sup> Charter of the Office of the Inspector General § 2, and 18.

<sup>13</sup> Global Fund Code of Conduct for Suppliers, § 16-19

<sup>14</sup> Charter of the Office of the Inspector General § 9.1