



## **Audit and Investigations**

# **Final Investigation Report Misuse of Gavi Funds in the Papua New Guinea National Department of Health**

22 November 2016

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## 1. Executive Summary

- 1.1 Gavi's audit and investigations team has found that Gavi funds were misused by the Expanded Programme on Immunisation (EPI) unit at the Papua New Guinea National Department of Health (NDoH). The misuse comprised of irregular procurement practices.
- 1.2 The majority of these procurement practices were conducted, controlled or authorised by a senior EPI official. The methods of misuse included forging quotations; colluding with suppliers to overcharge for purchases; awarding contracts for supplies that were not needed or delivered; and, making duplicate payments for the same purchase.
- 1.3 There was a lack of proper control in place over the expenditure of Gavi funds within the EPI unit, and while more stringent controls and verification could have reduced the opportunities for misuse, even the observance of normal controls should have given the Finance Unit the ability to question much of the expenditure.
- 1.4 The total expenditure questioned in this investigation is US \$408,942 (which comprises approximately 42% of all procurement expenditure in 2013-15), comprised as follows:

| <b>Description</b>   | <b>Amount</b>         |
|--|-----------------------|
| Inflated prices for purchase of office supplies ( <i>paragraph 3.18</i> )        | 6,878                 |
| Inflated prices for printed supplies ( <i>3.30</i> )                             | 122,126               |
| Manipulated procurement process by fabricated quotations ( <i>3.38</i> )         | 63,940                |
| Unjustified repeat procurements of factsheets ( <i>3.48</i> )                    | 39,220                |
| Unjustified and manipulated procurement of labels / packing tape ( <i>3.61</i> ) | 34,441                |
| Printing of unsuitable booklets ( <i>3.70</i> )                                  | 20,195                |
| Goods not delivered or misappropriated ( <i>3.78</i> )                           | 18,678                |
| Manipulated procurement process – faulty cold storage ( <i>3.92</i> )            | 25,403                |
| No evidence of services supplied for cold store maintenance ( <i>3.96</i> )      | 21,170                |
| Duplicate payments paid by Gavi and another donor ( <i>3.105</i> )               | 7,875                 |
| Unnecessary/unjustified purchase of safety boxes ( <i>3.112</i> )                | 17,324                |
| Unnecessary/unjustified purchase of indelible markers ( <i>3.113</i> )           | 17,870                |
| Unnecessary/unjustified purchase of toner cartridges ( <i>3.114</i> )            | 5,936                 |
| Award of business to dormant vehicle hire companies ( <i>3.118</i> )             | <u>7,886</u>          |
| <b>Total estimated value (USD)</b>   | <b><u>408,942</u></b> |

- 1.5 The Gavi investigation team recommends that EPI procurement responsibilities are transferred to a centralised function within NDoH, and that the Finance Unit should be more stringent in rejecting payment requests based on documentary irregularities. It further recommends that NDoH consider whether any conduct by individuals within the EPI team should be referred for further action by the appropriate national authorities.
- 1.6 The NDoH has not responded to the findings or recommendations in this report.

## 2. Introduction

- 2.1 Concerns over procurement practices were first raised when Gavi conducted a routine programme audit at the NDoH in January 2016, which reviewed a number of programmatic and financial activities taking place since 2012.
- 2.2 In the course of this audit, Gavi noted multiple irregularities in a number of procurements undertaken by the EPI department. These included excessively high prices; discrepancies in tender practices; missing records; questions as to the need for some of the purchases; and, the veracity of assorted documentation.

- 2.3 The majority of questionable procurements took place between 2013 and 2015, under the management of a senior EPI official. As of January 2016, the official had been replaced on an interim basis by an EPI programme officer.
- 2.4 After consultation with senior officials at the NDoH, Gavi considered that there was a prima-facie case of misuse of its funds within the EPI programme and agreed with the Health Secretary that Gavi would consider the possibility of an investigation.
- 2.5 Subsequently, Gavi commenced an investigation pursuant to section 22 of Annex 2 of the Partnership Framework Agreement dated 29 November 2013 between Gavi and the NDoH. The purpose of the investigation was to establish whether misuse occurred; and to assess the extent of any funds involved. An investigation team returned to the NDoH from 23 May to 3 June 2016.
- 2.6 The investigation focussed on the activities of the EPI team, and consisted of reviews of the documents; interviews with staff; liaison with in-country partners; and, visits to suppliers.
- 2.7 The investigation team also conducted a forensic analysis of computers used in the EPI team. This identified several company header/quotation templates in the computer used by one senior EPI official, and other information suggestive of forgery or collusion. The analysis pointed towards such documents having been modified on the computer, but stored on a separate external disc, which was not provided to the investigation team.
- 2.8 In this report, employee and supplier names have been redacted or changed to maintain the confidentiality of the investigation process. Cheque numbers are however provided throughout the report to facilitate NDoH's review of documents.
- 2.9 A draft copy of this report was sent to the NDoH on 20 October for comment. Despite following up, no response has been received, and Gavi therefore maintains the findings and recommendations unchanged in this final report.
- 2.10 Amounts in local currency are converted to US dollars at the date of payment, where applicable.

### **3. Investigation**

#### ***Background***

- 3.1 NDoH Procurements must adhere to the Public Finance (Management) Acts of 1995 and 2013 which requires them to be fair, equitable, transparent, competitive and cost-effective. However, the investigation found that this was not the case in many instances and misuse was perpetrated using a variety of methods.
- 3.2 In almost all cases described herein, payments were made to a small number of suppliers who appear to have been favoured by individuals in the EPI team at the expense of other vendors. In each case, the existence of documentary irregularities was identified, the use of which helped to circumvent proper procurement procedures, but which also presented opportunities for the finance unit to identify unusual transactions. Whilst a few suspicious transactions were indeed detected and challenged, most were not.
- 3.3 A number of the procurements were authorised during the absence of the relevant Executive Manager who oversaw the activities of the EPI team. This allowed procurements to be authorised by others without the expertise or scrutiny that would ordinarily have been applied.

#### ***Favoured Suppliers***

- 3.4 Certain suppliers to the EPI team appeared to receive favourable treatment, and payments to these vendors form the majority of expenses questioned by Gavi in this report.

- 3.5 Many of the questioned transactions related to printing. This is a high risk activity, partly because printing can be easy to justify even where the benefit may be questionable, but also because of the difficulties in establishing value for money, and verifying quantities and specifications of printed items delivered. Together with the fact that printed items are fungible, this makes it difficult to determine whether value was received and heightens the risks of misuse. Gavi notes that printing and stationery firms dominated the list of vendors that appear to have been favoured by individuals within the EPI team.
- 3.6 Among these suppliers were five businesses, each ostensibly individual entities. However, further inquiries showed that they are either owned by the same person, or someone with the same surname; and/or share an addresses indicating ownership by the same family. Further, a comparison of some of the invoices showed that some vendors in the group shared almost identical invoice wording and templates and/or consecutive phone numbers. One of these vendors has previously failed to deliver the invoiced quantity of goods and was the subject of NDoH internal audit inquiries. In each case where Gavi identified the use of one of these businesses, there were significant irregularities in the procurement process. Each of these companies were awarded EPI contracts at different times, but there was no acknowledgment that the companies were related. In some instances, the companies competed in the same tender which helped to steer the winning contract to the same people. A senior EPI official also had a copy of one of the supplier's quotation templates on his computer. These vendors are referred to as **CW, VB, IS, GP** and **ST**.
- 3.7 Another company, **MM**, appeared to be in collusion with a senior EPI official. As with the above suppliers, a quotation template for this business was found on the senior EPI official's computer. On 22 May 2014, this vendor sent the employee an email with the subject header, "Child Health Register". The text stated, "[EPI Official's name], you are full of it. You have orchestrated this all long [sic] along for your own personal gain."
- 3.8 Another supplier was company **VY** which was owned by an NDoH employee who worked closely with the EPI team. The employee has subsequently left NDoH employment. A strategy used to award business to this vendor was to acquire competing quotes from overseas – rather than local – suppliers, in order to make VY appear more competitive.

### ***Document Irregularities***

- 3.9 In awarding contracts, particularly to favoured suppliers, the investigation observed a pattern of irregularities in the procurement documentation. These included:
- Missing documents, including quotations, invoices and delivery notes;
  - Frequent absence of justification for purchases;
  - The absence of correspondence with vendors;
  - Purchase orders being submitted after the supply has taken place;
  - Payment before delivery;
  - The lack of inventory records for non-vaccine stock; and,
  - Forged documents.
- 3.10 Despite various irregularities and the absence of critical documents, few payments were questioned by the finance unit, who proceeded to process payment in almost all cases.

### ***Specific Instances of Misuse***

- 3.11 The investigation found specific instances of misuse, which were either used alone or in conjunction with other types of misuse, as described below.

### *Inflated Prices of Goods*

- 3.12 The price of many goods purchased was significantly higher than expected. Most inflated prices were for printed goods (described further, below) but in one procurement (NDoH cheque number 214820) it applied to the purchase of stationery items.
- 3.13 In this instance, the EPI team was procuring ordinary plastic biro pens – ordinarily worth just a few cents – at the equivalent of \$3 each. This was despite the fact that the same unit had procured pens in another procurement (cheque 213521) at just \$0.27 (PGK 0.80) per packet of 12. The EPI unit also procured 4gb USB drives at \$60 each, despite them being readily available at retail outlets for just \$10 each (PGK 29 to 30).
- 3.14 Given the need to show that winning bids are the most competitively priced, anyone manipulating the procurement process in favour of an over-priced supplier has to show that competing bids are priced even higher still. This was achieved through at least two different methods: forged documentation and ‘support quotes’. Sometimes – as in this case – both methods were used together. (Support Quotes are where a company deliberately prepares a quotation with inflated prices. These may be prepared by employees without authorisation, often as a favour to – or in return for a small payment from – the person asking for the quote. These quotes are then presented as legitimate quotes in a procurement in order that another bidder can be selected for presenting lower – but still overinflated – prices.)
- 3.15 In this procurement, a losing quotation from a legitimate supplier was forged. The employee named on the quote confirmed that it was a legitimate quote but when shown the NDoH copy, advised that the prices were inflated. The font for the inflated figures was slightly different to the rest of the text suggesting software was used to configure forged quotes. (Gavi’s computer forensic analysis also revealed that various supplier headers and quotation templates were created on the computer of a senior EPI official, suggesting that manipulation of quotations may have been attempted on multiple occasions, as described further in this report).
- 3.16 The other losing quotation was a support quote. The vendor confirmed that the quote with their letterhead indeed contained inflated prices and was not officially authorised by them, but rather appeared to have been issued by a former employee. Both suppliers provided Gavi with actual prices for the goods quoted:

| Supplier                              | Method        | Inflated Quote | Actual Price | Excess in Kina    | Excess in USD @2.77 |
|---------------------------------------|---------------|----------------|--------------|-------------------|---------------------|
| A1*                                   | Forged Quote  | 25,431.34      | 6,148.72     | 19,282            | 6,961               |
| A2*                                   | Support Quote | 26,556.20      | 5,468.98     | 21,087            | 7,612               |
| ST                                    | Winning Quote | n/a            | 24,522.30    |                   |                     |
| Excess paid over lowest correct quote |               |                |              | 19,053.32 Kina or | <b>\$6,878</b>      |

*\* Quotes may vary by about 50 kina due to different packet sizes for pencils*

- 3.17 The purchases were for a workshop in the region of Lae. However, rather than procure the goods locally, the purchase was made at inflated prices to supplier ST, based in Port Moresby. EPI staff could not explain why the goods were procured centrally, thus requiring staff to transport a heavy consignment of paper, toner cartridges, several hundred pens, a hundred calculators and other assorted items in their luggage.
- 3.18 Gavi therefore questions the sum of **US\$6,878**.

*Inflated Prices for Printing of Temperature Charts and Vaccine Order Forms*

3.19 The investigation also found irregularities in the procurement of various printed goods, including temperature monitoring charts and vaccine order forms. The procurements were supported by fabricated vendor quotations; the price paid for the goods was excessive (some were inflated by over 1,000%); there was no documented business need for the procurement; no assurance that the goods were delivered; and, no stock/distribution records were available.

|                     | # | Winning Supplier | Cheque | Quotations                             | Stated Delivery                   | Total Paid (PGK) |
|---------------------|---|------------------|--------|--|-----------------------------------|------------------|
| Monitoring Charts   | A | MM               | 210269 | Vendor 1 & 2 - 400<br>Vendor 3 - 500   | No delivery note (paid 14 Nov 13) | 37,582.60        |
|                     | B | Delisted         | 213495 | Vendor 1 & 2 - 500<br>Vendor 3 - 3,000 | 16-Dec-14                         | 50,600.00        |
| Vaccine Order Forms | C | MM               | 210268 | Vendor 1 & 3 - 400<br>Vendor 2 - 500   | Not available                     | 37,582.00        |
|                     | D | Delisted         | 213725 | Vendor 1 & 2 - 500<br>Vendor 3 - 3,000 | 16-Dec-14                         | 50,600.00        |
|                     | E | IS               | 213540 | Quoted - 2,000<br>Supplied - 700       | 19-Dec-14                         | 137,500.00       |
| Other               | F | CW               | 212708 | 20,000<br>Four form types              | 28-Aug-14                         | 157,294.50       |

*Procurements of printed goods – two separate tenders for monitoring charts, three for vaccine order forms and one for other forms.*

3.20 The above table shows the inconsistencies in the quotes received. There was no evidence that the EPI team communicated the correct specifications to the vendors. Given the different quantities quoted by suppliers, it was not possible for EPI to fairly compare prices across the different tenders and there was no indication that they queried the inconsistencies.

3.21 These procurements were conducted without defining the business needs either for the products themselves or the quantities. The senior EPI official told Gavi that all the procurements between 2013 and 2015 were done on ad-hoc basis.

3.22 Purchases A and C were awarded to supplier MM. Both tenders involved the same winning and losing companies. The senior EPI official maintained graphical files containing the logos and headers of various suppliers on his computer. Amongst the files found were electronic copies of quotation forms from the two losing bidders. In one instance, the official had the blank template form, while in the other the form had an identical quote number but the date and the contents were different, thus suggesting these documents were fabricated. There was also no evidence of delivery for these purchases.

- 3.23 In Procurements B and D, it was noted that the supplier was removed from the PNG national register of companies on 4 December 2014, i.e. 12 days before it issued an invoice to the NDoH or allegedly delivered the books in question. Moreover, the purchase order was not raised for a further two days after the invoice date, and the samples of the form on file were printed by a different company to the winning bidder, casting further doubt on whether the winning supplier was properly selected and/or actually undertook and delivered the order.
- 3.24 All the quotations were at inflated prices: The per unit price (PPU) paid by EPI was PGK 93.96 for procurement A and PGK 101.20 for procurement B. The investigation team obtained quotations from two reputable local vendors, according to which the average price per unit was under PGK 11. In comparison, the average price paid by EPI was PGK 98 suggesting, i.e. 796% higher. The price inflation was even higher in relation to vaccine order form books, reaching 1,100%.

| Purchase     | Price per Unit | Market Price | Excess | Total Paid     | Max Payable   | Overpaid (PGK) |
|--------------|----------------|--------------|--------|----------------|---------------|----------------|
| A            | 93.96          | 10.88        | 796%   | 37,582         | 5,440         | 32,142         |
| B            | 101.20         |              |        | 50,600         | 5,440         | 45,160         |
| C            | 93.96          |              | 1100%  | 37,582         | 5,440         | 32,142         |
| D            | 101.20         |              |        | 50,600         | 5,440         | 45,160         |
| E            | 196.43         |              |        | 137,500        | 21,760        | 115,740        |
| <b>Total</b> |                |              |        | <b>313,864</b> | <b>43,520</b> | <b>270,344</b> |

- 3.25 According to the winning quotation in purchase A, a single booklet of temperature monitoring charts contained 24 pages of 80gsm standard quality A4 paper, as used in office environments. However, when shown samples of the temperature monitoring chart obtained from the procurement file, local vendors confirmed to Gavi that the paper was of a lower specification, i.e. 60 gsm.
- 3.26 Gavi interviewed the relevant EPI staff members, and even though various staff's names were on the quotations, all staff denied being involved, and stated that other staff members had put their names down as contact points. Ultimately nobody in the EPI team took responsibility for obtaining the quotes or could explain how they were obtained, and Gavi suggests that this is further indicative of misuse.
- 3.27 The temperature monitoring charts were meant to be used at the provincial vaccine storage facilities. However, no stock records were maintained to show the receipt or distribution of the procured materials, and thus there was no assurance that they were received, especially given that the delivery note to the NDoH was unsigned.
- 3.28 Procurement E was won by supplier IS, who offered 2,000 units for PGK 137,500. However according to the delivery note and invoice, only 700 units were delivered but the EPI team nevertheless made the full payment. No follow-up for the incomplete delivery was conducted, and no EPI officials could explain the discrepancy. Furthermore, the goods were purportedly delivered the day after the purchase order was issued – which would allow insufficient time for the supplier to receive, print, check and deliver the order. Further, the invoice date of 12 June was several months before the quotation date of 6 November 2014. In view of the irregularities, Gavi visited a local vendor whose name appeared on one of the losing quotes. The company confirmed that the quotation was not legitimate and contained several errors, e.g. the phone number and email address in the header were incorrectly formatted and did not match the details at the bottom of the same quotation.



Furthermore, the individual who had allegedly signed on the quotation had left the organization before the date on the quotation.

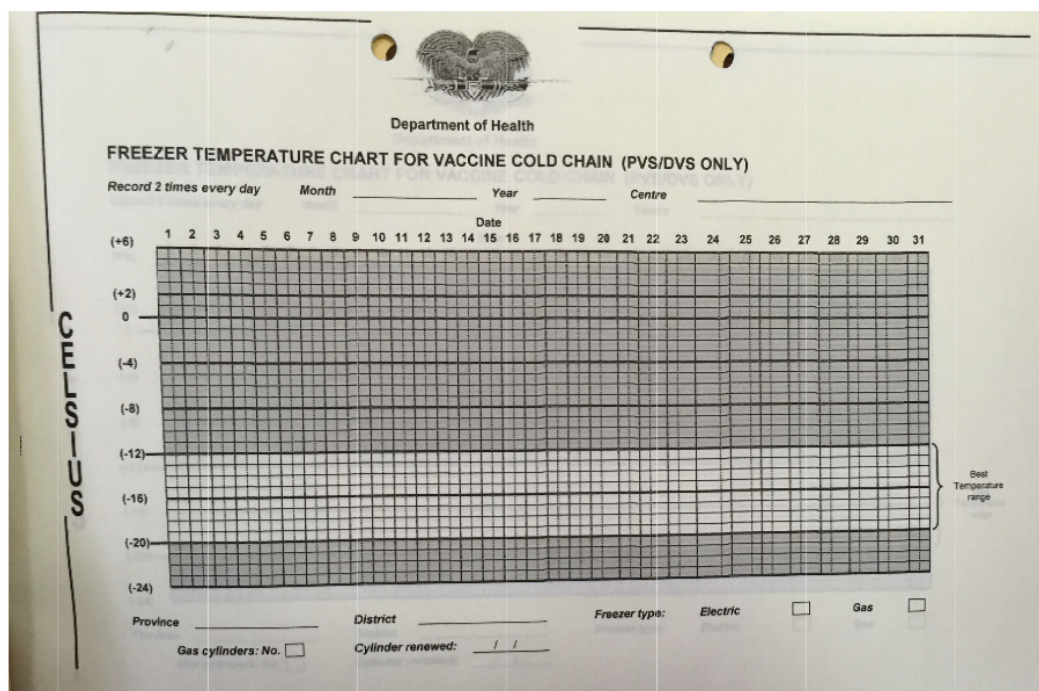
- 3.29 Consistent with the findings in other procurements and applicable to all the purchases of vaccine order forms described above, there was no documented justification or other evidence for the need to purchase either the temperature monitoring charts or the vaccine order forms, or that the procured quantities were appropriate. In addition, the absence of stock records raises questions as to whether these forms were received or distributed appropriately.
- 3.30 While the inflated prices are calculated to have cost a premium of PGK 270,344, or US **\$105,192** (at the exchange rate of 2.57), in the absence of any proof of delivery Gavi questions the full amount of the purchase in the sum of PGK 313,864 or **US\$122,126**.

*Fabricated Quotations*

- 3.31 Another procurement which was neither fair nor transparent was in the printing of vaccine temperature management forms (cheque 212708). Vendor quotations were fabricated to give the impression that the procurement was competitive, when in fact the contract was awarded to vendor CW, which was owned by the same owners of other favoured suppliers and who were known to have previously failed to deliver on contracts to NDoH.
- 3.32 In this purchase, the following quotations were found in the procurement file:

| Vendor             | Quantity | Total      | PPU    |
|--------------------|----------|------------|--------|
| Vendor CW - winner | 20,000   | 157,294.50 | 7.8647 |
| Vendor 2           | 20,000   | 158,378.90 | 7.9189 |
| Vendor 3           | 20,000   | 159,159.00 | 7.9580 |

- 3.33 The Gavi investigation team visited the two losing vendors (2 and 3), who stated that the quotes found in EPI's procurement files were not issued by them. Although the name of individuals that purportedly issued the quotes were actual employees of the vendors, the signatures in both the quotes were fabricated. Both losing vendors had previously provided quotes to NDoH and according to them it appeared as if the earlier quotations were altered to serve as a new quote. Vendor 3 also mentioned that the company logo in the quotation was outdated and had not been in use at the time of the fabricated quote in June 2014.
- 3.34 These vendors also stated that the product specifications in the quotations were vague and insufficient for them to be able to quote a price and proceed with production. The product descriptions were also not comparable across vendors. For instance, one of the fabricated quotes mentioned a different (but still vague) product description of "International Review" compared with the other two quotes, for "Effective Vaccine Management Forms".
- 3.35 The quotation from the winning bidder referred to 20,000 copies of a single item. However the payment voucher referred to four different types of vaccine management forms, thus suggesting other irregularities, e.g. a delivery that did not match the goods ordered. Indeed, the lack of care that went into the product requirement was demonstrated through a sample of one of the forms attached to demonstrate proof of purchase, which were for freezer temperature charts indicating an optimal vaccine storage temperature range of -12 to -20c. However, Gavi does not support vaccines requiring freezer storage in PNG. Gavi supported vaccines require an optimal storage range of +2 to +8c of vaccines supported by Gavi in PNG. Thus, the purchase (even if delivered) was not fit for purpose.



*Vaccine forms specifying incorrect temperature range*

- 3.36 Gavi found two almost – but not fully – identical copies of an original invoice from the winning supplier on the procurement file, which had the same invoice number and other details, but where the printing was aligned differently in each case and contained slightly different signatures. It is unclear why the EPI team would need to have different copies of the same incomplete supplier invoice, and this suggests some EPI involvement in the production of these documents. Multiple copies of the same invoice were found on other occasions from the same group of companies, as described further on in this report.
- 3.37 No warehouse records were maintained to demonstrate that printed goods were received and distributed to the provinces.
- 3.38 Gavi therefore questions the amount of PGK 157,294.50, or US **\$63,940** (at the exchange rate of 2.46).

*Repeat procurement of identical materials*

- 3.39 The procurement of printed materials was further questioned in relation to the purchase of Frequently Asked Questions (FAQs) and Factsheets relating to Pneumococcal Conjugate Vaccine (PCV-13). The investigation found that favoured suppliers were used once again, and the EPI team had conducted repeat procurement of identical materials without appropriate identification of business need, supporting documentation or proof of delivery. Some quotations were fabricated, and prices were inflated:

| Incidence                               | Purchase Order | Delivery date                 | Invoice Date | Cheque date | Units  | Amount in PGK |
|---|----------------|-------------------------------|--------------|-------------|--|---------------|
| Purchase G<br>Chq 210187<br>Supplier CW | 31 Oct 13      | 04 Nov 13                     | 4 Nov 13     | 31 Oct 13   | FAQ - 500<br>Factsheet - 500<br>(Total 1,000)    | 50,545.00     |
| Purchase H<br>Chq 210277<br>Supplier MM | 19 Nov 13      | No<br>evidence<br>of delivery | 5 Nov 13     | 19 Nov 13   | FAQ - 500<br>Factsheet –<br>500<br>(Total 1,000) | 51,791.84     |

|  |                  |  |                  |                                |                    |                   |
|--|------------------|--|------------------|--------------------------------|--------------------|-------------------|
| <b>Total</b>   |                  |  |                  |                                |                    | <b>102,336.84</b> |
| <i>Purchase J<br/>Chq 213518<sup>1</sup><br/>Supplier CW</i> | <i>18 Dec 14</i> | <i>Non-<br/>delivery<br/>See para<br/>3.47</i> | <i>19 Dec 14</i> | <i>19 Dec 14<br/>cancelled</i> | <i>FAQ - 2,000</i> | <i>76,780.00</i>  |

- 3.40 PCV-13 was to be introduced in the second quarter of 2013, and FAQs and factsheets are usually distributed at the time of the vaccine introduction. However, the introduction of PCV-13 was delayed and did not take place in either 2013 or even 2014. Accordingly, there was no business need for these purchases at the time, and no justification was available.
- 3.41 There was also no justification for the quantities to be procured or any documented reason for making a second identical purchase shortly after the first one. Both involved 500 copies of the FAQ and the Factsheet, which is a disproportionately low number for a national roll-out. (In comparison, UNICEF supplied 10,000 such factsheets in October 2014 in anticipation of the roll-out).
- 3.42 Despite the low quantities, the amount spent was more in alignment with the cost expected in a high quantity of printed materials. The investigation questions the price of over 50,000 Kina per order, or about 50 kina or US \$20 per FAQ booklet or factsheet, which is disproportionate to the value received. Indeed, using a sample of the same printed materials, the Gavi investigation team approached two other reputable local vendors who quoted prices at a third of those paid by the NDoH:

| Description                                   | FAQ          | Factsheet    |
|---|--------------|--------------|
| Average PPU paid by EPI for Purchases G and H | 52.89        | 49.44        |
| Market survey PPU                             | 14.22        | 18.59        |
| Difference                                    | 38.67 (272%) | 30.85 (166%) |

- 3.43 In purchase G, the winning vendor (supplier CW) and one of the losing vendors (ST) were part of the same group of companies, thus giving the false appearance of competition, and the third vendor was supplier MM, thus allowing the pricing of the quotes to be distorted. In fact the very same losing quote from MM became the winning quote in purchase H.
- 3.44 The unfair competition is also seen in other irregularities. In Purchase G, the quotation from the winning vendor was dated 11 days before they were invited to bid by a letter dated 22 October 2013. The invitation letter was fabricated as evidenced by the signature which did not match that of the signatory (another EPI employee) who confirmed that it was not their own. In addition, a cheque was issued to the vendor before the goods were reportedly delivered or the invoice was received. In procurement H, the vendor invoice was dated 5 November 2013, which was a week before the purchase requisition request, and two weeks before the purchase order. There was no evidence of any form of communication between EPI and the vendors in the procurement files, which would have been a necessity given the need for product specifications and/or artwork and content for the materials to be printed.

<sup>1</sup> In relation to Procurement J, the payment to a vendor was withheld for an incomplete delivery of goods. Paragraph 3.47 refers.

- 3.45 No register was maintained at the central medical warehouse to confirm the receipt or movement of these goods, and there was no evidence of onward distribution of the materials to its intended users. In procurement H, there was no delivery note available.
- 3.46 Gavi therefore contends that the procurements were not fair, transparent, or provided value for money. Indeed, Gavi questions whether the procurements took place at all as the irregularities point to the enrichment of favoured suppliers over fulfilling a legitimate business need.
- 3.47 The issues relating to these first two procurements were duplicated in a further attempted procurement from CW, (the winner of procurement G). In this case, (procurement J), CW won another contract for the same goods. However, the NDoH identified that the vendor had not properly fulfilled the order and withheld payment. This further calls into question whether CW actually supplied the goods paid for in procurement G.
- 3.48 Gavi questions the sum of 102,336.84 or US **\$39,220** (PGK 50,545 at 2.64 and PGK 51,791.84 at 2.58).

*Irregularities in Purchase of Labels and Packing Tape*

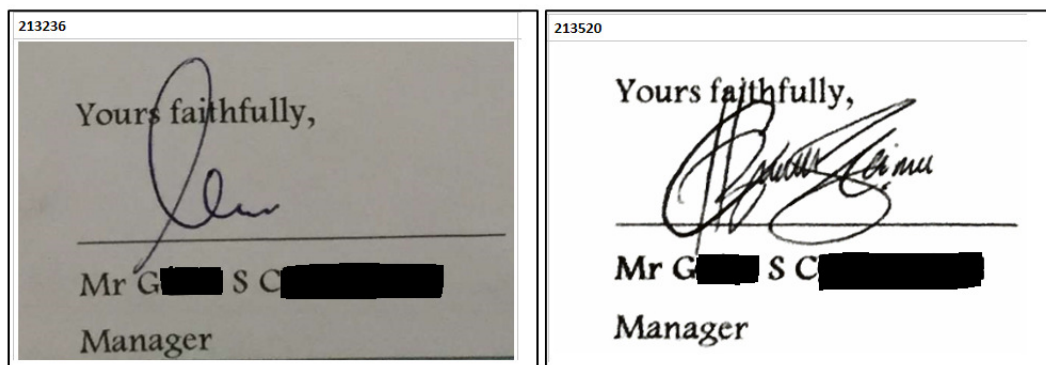
- 3.49 Another repeat purchase without the appropriate justification was in the use of Gavi funds for the procurement of ‘vaccine rush’ delivery labels and packaging tape. These purchases were made from favoured suppliers; vendor selection was not transparent; supporting documents were fabricated; there was no justification for making two separate purchases, and there was no evidence that the goods were delivered.

| Procurement              | Supplier | Cheque date | Units   | Cost (PGK)    |
|--------------------------|----------|-------------|---|---------------|
| Purchase K<br>Chq 213236 | VY       | 24 Nov 14   | 5,000 units each of:<br>– vaccine rush label (Item 1)<br>– packaging tape (Item 2)                                | 47,300        |
| Purchase L<br>Chq 213520 | GP       | 19 Dec 14   | 5,000 units each of:<br>– vaccine rush label (Item 1)<br>– packaging tape (Item 2)<br>– serum rush label (Item 3) | 41,030        |
| <b>Total</b>             |          |             |   | <b>88,330</b> |

- 3.50 Purchase K was made from supplier VY, owned by an NDoH colleague who left after his association with the company was discovered. Purchase L was made from supplier GP, a supplier associated with vendors CW, VB, IS, and ST.
- 3.51 Inquiries at the warehouse confirmed that the vaccine rush and serum rush stickers as being the same item. However in Purchase L, the labels were described as two separate items and were procured twice with different names without any justification or documented business need.
- 3.52 UNICEF advised that vaccine deliveries are labelled as ‘Time & Temperature Sensitive’, consistent with IATA’s perishable cargo regulations, and vaccine manufactures routinely label the vaccine boxes as such at source. Vaccines are usually packed in Styrofoam boxes for transportation from central to provinces. The warehouse staff advised that there was a shortage of Styrofoam boxes and therefore the vaccines were transported in cardboard boxes and hence the need for the labels. However, given that vaccines are packaged in boxes (together with pre-printed labels) appropriate to the quantity delivered, it is unclear

why there would be such a shortage of boxes, or a need for further labels. Further, there was no clear reason for having two separate purchases just a few weeks apart.

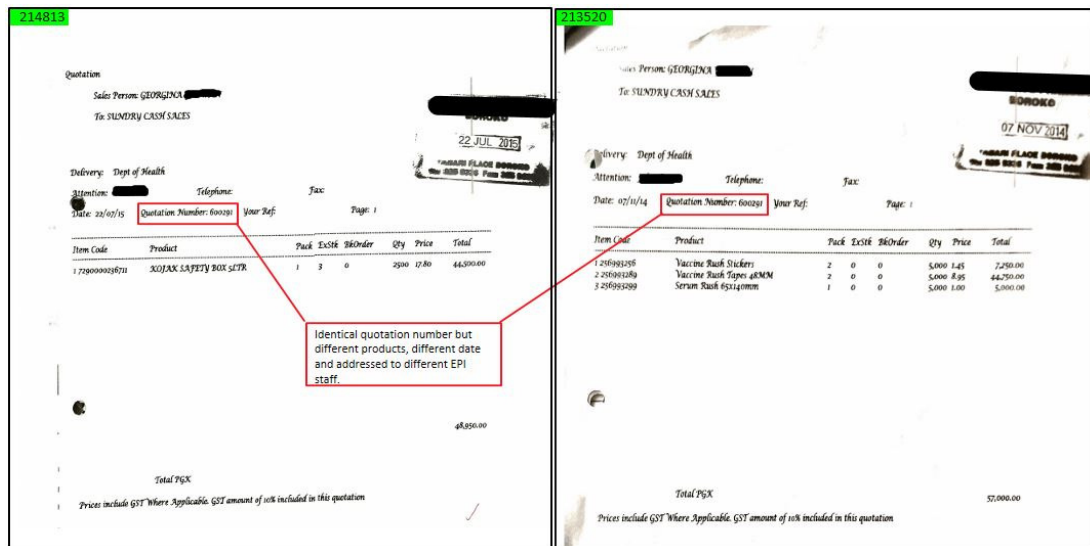
- 3.53 In Purchase K, there were four quotes on the file, rather than three as in every other procurement file reviewed. The file for purchase K contained an internal memo about the need for the labels (but not packaging tape) dated 16 October 2014. However, all four quotations were dated prior to October 2014 suggesting an attempt to justify the procurement retrospectively. EPI staff could not explain this anomaly.
- 3.54 Two of the losing quotes were obtained from overseas suppliers, instead of local companies. This was one of only two instances (the other also involving company VY – (see paragraph 3.113) where Gavi observed the use of overseas – rather than local – suppliers for no documented reason. This helped ensure that the prices were higher than those quoted by the EPI team’s colleague at Supplier VY.
- 3.55 While the two overseas quotes were obtained in September 2014, the other losing quotation was the one dated six months earlier, in March. This was from favoured supplier, GP, the winning vendor in procurement L for the same goods. However, a comparison of the losing quote of 26 March in procurement K and the winning quote of 10 November in procurement L show that they had the same quote reference (‘5002’), but different dates and prices. The signatures on the two quotes (from the same person) were also different, thus pointing to at least one set of falsified documents:



*Quotes from the same supplier (GP) in two procurements six months apart using the same reference number and the same employee but different signatures*

- 3.56 Neither winning vendor was issued with a purchase order (all five copies remained on the NDoH file despite one being a customer copy issued as standard in all government contracts) thus leading the investigation to question whether the orders were legitimately placed.
- 3.57 In purchase K, all three quotes were addressed to one EPI official, and the fourth to another. However, both denied being involved in obtaining the quotations. Separately, in purchase L, all three quotations, were addressed to another official, who also denied obtaining the quotations, stating that he had been on long term leave at the time. There was no evidence of communication with the vendors in either of the procurements.
- 3.58 In Purchase L, the Gavi investigation team visited two vendors that had allegedly provided quotations. Neither recognised having issued the quotations found in the EPI file and neither did they not stock the goods in question. Indeed, one of these falsified quotations was almost identical to a losing quote in a separate procurement, with the date stamp appearing to be aligned in an identical manner but with different dates, thus suggesting graphical manipulation. The quotes were dated four months apart but had an identical quotation number:





*Similarities between falsified supplier quotations in separate purchases. The vendor confirmed that this was not their own quotation template or typeface.*

- 3.59 The file for Purchase K did not contain any evidence of delivery of the goods. The purchase order, invoice and cheque were issued on the same day. It is unlikely that the purchase order was approved and issued; the vendor was able to provide samples and receive feedback thereon, produce, check, pack and deliver the goods; the EPI team was able to validate the samples and confirm receipt of the same goods and communicate this to the Finance Unit; and that the Finance Unit could process and issue the cheque all within the same day. In Purchase L, while there was a handwritten delivery note, this was issued by a favoured vendor and there are no stock records to confirm receipt of the goods.
- 3.60 Also, the procurement file contained two copies of the winning vendor's invoice. One invoice had a company header and the other did not. Neither invoice had a company stamp or the signature of a company representative. It is unclear why the EPI team would need to have different copies of the same incomplete supplier invoice, and this suggests some EPI involvement in the production of these documents, consistent with other purchases (see for example paragraph 3.36).
- 3.61 The investigation questions the payments of PGK 88,330 or US **\$34,441** (exchange rates of 47,300 at 2.56 and PGK 41,030 at 2.57)

*Printing of unsuitable booklets*

- 3.62 Another purchase for printed materials in the sum of PGK 51,700 on 28 October 2014 (cheque 212969) does not appear to have been valid under the terms of the Gavi funding. This was for assorted booklets.
- 3.63 It is not known how the winning vendor was identified as a potential supplier. The Gavi investigation team attempted to visit the firm but could find no trace of it even at the address specified on their company registration form.
- 3.64 One of the booklets procured in this exercise related to Vitamin A, which was not financed by Gavi at the time. Additionally, the printed books clearly state that they relate to NDOH, UNICEF and WHO. There is no reference to Gavi, whose budget should not have been used for the purchase.
- 3.65 Also included within the procurement file were other sample printed booklets to show what had been printed. However, one sample on file was for Japanese Encephalitis which was not specified on the invoice/quotation. Gavi does not support this vaccine in PNG, and



- 3.73 There was no invoice on the file to substantiate the purchase, and no delivery note to corroborate the delivery of the goods. However, unlike the majority of instances where quotations were addressed to junior EPI staff, the quotations in this procurement were addressed directly to the senior EPI official.
- 3.74 The senior official stated that the camera was to be purchased on behalf of the communications team to assist with EPI publicity but he could not explain why the communications team were unable to procure their own equipment, or why such an expensive camera was needed instead of a more basic one at a fraction of the price.
- 3.75 The goods were recorded as being received by the warehouse official who confirmed receiving them but stated he had handed them over to the senior EPI official. However, the latter denied having received them. Given that the goods were acquired in mid-December, the Gavi investigation team asked whether the goods had been ordered as Christmas gifts for others, rather than for EPI business. The official denied this.
- 3.76 Gavi noted that there were no newly procured computers in the EPI team, and that some of the employees were even resorting to using their private computers.
- 3.77 The senior EPI official was told by NDoH senior management to bring the camera and computer hardware in his possession to the NDoH premises to show to the Gavi investigation team, but he came without any assets, saying they were never in his possession.
- 3.78 Gavi therefore questions the sum of PGK 48,002.90, or **US \$18,678** (at an exchange rate of 2.57).

*Purchase of Faulty Cold Storage Containers*

- 3.79 An effectively functioning cold chain is fundamental to the success of any vaccination program. The poor management of cold storage needs can lead directly to ruined vaccines and would be considered a key failing in performance deficiency by the EPI team.
- 3.80 The investigation established that two used refrigerated containers, locally known as reefers, were procured by EPI with PGK 63,000 of Gavi funds (cheque 212964). Neither was functional. They were procured without assessing business needs or developing product specifications; they were unsuitable for vaccine storage; and, were not purchased transparently or with the proper authority. One of the reefers was delivered to the EPI warehouse in Port Moresby but was faulty and of the wrong specification for vaccine storage. The second reefer was delivered to Wewak province in October 2014 but was never actually installed or functioning.
- 3.81 The same supplier was also engaged to provide repair and maintenance services for existing cold room facilities. The senior EPI official initiated the engagement with the vendor in April 2014.
- 3.82 In PNG, the local UNICEF office provides technical support to EPI on the cold chain and vaccine management matters. The EPI team did not consult UNICEF over the cold chain needs or any other aspects of this procurements. Asked about this, the senior EPI official stated that UNICEF was “somehow missed out”.
- 3.83 In addition, despite the value of these procurements, the senior EPI official attempted to sole-source them (further quotes were only obtained late in the process on the intervention of a high ranking NDoH official); a final invoice and delivery documentation were not available and there were multiple inconsistencies in the procurement files.
- 3.84 According to a senior EPI official the reefers were designated as a permanent storage for Gavi supported vaccines. He cited the breakdown of existing cold storage and a large



- volume of incoming vaccines as the main reasons for the need of additional storage capacity. However he could not explain the requirement for the reefer at Wewak province.
- 3.85 The senior EPI official issued a letter dated 15 April 2014 to the vendor requesting the supply and installation of two 'standard' chillers, one destined to National Vaccine Store in Port Moresby and the other to Wewak province. The quotation from the winning bidder was dated 17 July 2014. There was no explanation as to why it took three months for the vendor to submit a quote after receiving the letter.
- 3.86 The reefer delivered to the EPI warehouse initially did not switch on due to an incompatible power supply. After adjusting the power voltage, it was found that the reefer could only maintain the temperature between -5°C to -20°C which was inappropriate for Gavi supported vaccines which require a temperature of between +2°C to +8°C. Upon finding the reefer unsuitable for vaccines, it was used instead for storing ice packs for about one month before it ceased functioning altogether. The reefer was never repaired and was awaiting disposal at the time of the investigation, despite the fact that the same supplier was engaged to provide repair and maintenance services to other cold rooms (see next section). Notably, there was no requirement for the supplier to service and repair the reefers.
- 3.87 According to another EPI employee, given the unsuitability of the reefers for storage of vaccines, the NDoH was obliged to outsource the vaccine storage by contracting a local logistic company. (The investigation has not found these costs being charged to Gavi).
- 3.88 The senior EPI manager stated that he was unaware that the reefers were unsuitable for vaccines and had stopped working after a month.
- 3.89 On 8 August 2014, the EPI unit submitted a purchase requisition. On 21 August 2014, an authorising officer made a remark in the payment vouchers instructing the ex-EPI manager to "provide two more quotations as per the PFMA". Subsequently, quotations from two losing bidders were dated 27 & 28 August 2014. There was no explanation on how these two additional vendors were identified, and no correspondence with them on file. The losing bidders were only allowed 7 days to prepare and submit bids, in contrast to the 90 days for the winning vendor. Also absent was any evidence of communication with these vendors. However, one of the quotes was for one new and one used reefer, while the other quote did not specify whether they were new or used. Accordingly, the quotes were not directly comparable. The senior EPI official mentioned that some of the deficiencies may have been as a result of the urgency of the procurement. However, there was no reference to any urgent need in the procurement file and the whole process took six months thus providing ample time to refine product needs and specifications and conduct a satisfactory procurement exercise. These combined anomalies point to an inequitable selection process.
- 3.90 An undated contract from October specified that the goods had been delivered, implying that the contract was raised only after the delivery (the senior EPI official stated that "it was to formalise payment"). There was no other confirmation of delivery, and no invoice. Nevertheless, payment was made to the supplier on 27 Oct 2014. Further, the procurement contract with the vendor was signed by former EPI manager on behalf of NDoH. In doing so, the former EPI manager acted above his authority as he was not authorised to enter into a contract on behalf of NDoH, a right was reserved for certain senior managers only.
- 3.91 The invalid contract, and absence of a final invoice should have given the finance department sufficient grounds to question and/or delay processing of this payment.
- 3.92 Gavi questions the payment for PGK 63,000 or US **\$25,403** (at an exchange rate of 2.48)

### *Cold Room Maintenance*

- 3.93 Subsequently, on 24 October 2014 EPI paid a further PGK 53,350 from Gavi funds to the same supplier that had provided the faulty reefers. This payment was for the repair and maintenance of cold rooms at Area Medical Stores. The selection of vendor was neither competitive nor transparent and there were inconsistencies in the procurement files.
- 3.94 Though the procurement files contained a basic inspection report which stated the scope of work, it was not costed. There was no other documentation or quotation referring to the cost of the maintenance work and no vendor invoice was available. Indeed there was no evidence to even confirm that any maintenance work had been carried out. The senior EPI manager stated that the Health Facility Standard Branch was involved in assessing required maintenance service, but, there was no confirmation from them as to what work – if any – was performed. The maintenance work was allegedly completed by August 2014 but the purchase order was not issued until October 2014. Therefore, the investigation is unable to gain assurance that the monies paid for the maintenance work was justified.
- 3.95 The contract, which was signed by a senior EPI official who lacked the authority to do so, stipulated that two ‘cool rooms’ were serviced. However, in an earlier inspection the vendor had identified three cold rooms that required maintenance work. It is unclear why one cold room was omitted.
- 3.96 Given the lack of evidence of service delivery, missing documents and various inconsistencies listed above, Gavi considers that the evidence on which the payment was made was unreliable and should have been rejected by the NDoH finance unit. Accordingly, Gavi questions the payment of PGK 53,350, or **US \$21,170** (at an exchange rate of 2.52).

### *Duplicate Payments*

- 3.97 The investigation established that in one programme (‘SIREP+’) which was supported by multiple agencies, the EPI team made duplicate payments to the same suppliers despite knowing that the purchases were also being funded separately.
- 3.98 SIREP+ was launched in August 2015 and introduced Gavi funded vaccines for Measles - Rubella and Inactivated Polio. The program was led by NDoH with support also being channelled through in-country partners, including WHO and UNICEF. A communication and social mobilisation committee was set up with representatives from each of these agencies. The committee was required to authorise the procurement of promotional items including printed materials and T-shirts.
- 3.99 The EPI team made duplicate payments for the same goods. PGK 19,294 of Gavi funds were spent on posters and brochures in two separate payments, but it was established that another agency had paid for some of the same items from the same company separately. The duplicate payments were for item 2 (20,000 A3 posters) and part of item 3 (100,000 brochures) in the procurement, below:

| #                | Item       | Quantity         | Total units | Price     | Duplicate Payments |
|------------------|------------|------------------|-------------|-----------|--------------------|
| 1                | A2 Posters | 25,000 x 3 types | 75,000      | 42,790.00 | n/a                |
| 2                | A3 Posters | 20,000 x 1 type  | 20,000      | 6,231.50  | 6,231.50           |
| 3                | Brochures  | 50,000 x 3 types | 150,000     | 19,030.00 | 13,062.50          |
| 4                | Brochures  | 12,000 x 2 types | 24,000      | 3,690.50  | n/a                |
| <b>Total PGK</b> |            |                  |             |           | <b>19,294.00</b>   |

- 3.100 Gavi funds were used to pay for these items on 7 August 2015, and the items were delivered shortly afterwards. The senior EPI official was on the SIREP campaign committee together with another NDoH official who received the quotes on behalf of the EPI unit. Both would have been aware that the items were also being funded by a partner agency. The purchase requisition was made when the Executive Manager responsible for the EPI team was absent.
- 3.101 One of the losing vendors confirmed it had provided several quotes with different quantities at EPI's request. This allowed the EPI team to submit different quotes from the same vendor to multiple donors.
- 3.102 The relevant procurement files provided to Gavi did not contain the purchase order, invoice or delivery note. The NDoH finance team could not explain how the cheques were issued for payment in absence of key supporting documents.
- 3.103 There would not normally be any motivation to make a duplicate payment unless the company benefiting from it had links to the person arranging the scheme.
- 3.104 In another instance, the EPI unit used Gavi funds to purchase promotional t-shirts from another supplier. The same t-shirts were subsequently part of a separate invoice addressed to another SIREP partner. In this instance, the partner identified that the goods had already been paid for by Gavi, and declined to make further payment. This suggests that the duplicate payment attempts were part of a pattern of behaviour.
- 3.105 Gavi questions the payment of PGK 19,294, or US **\$7,875** (at the rate of 2.45).

*Unnecessary Purchases*

- 3.106 A separate issue was the purchase of items for which there appeared to be no legitimate business need.
- 3.107 Safety boxes (cheque purchase 214813) are one example. These are cardboard boxes used for the safe disposal of syringes. Gavi finances the purchase of these from UNICEF in sufficient quantities to match the purchase of syringes for the administration of vaccines.
- 3.108 In May 2015, UNICEF provided EPI with vaccines together with 48,000 safety boxes. However, just shortly afterwards, the EPI team attempted to purchase a further 5,000, despite the absence of a business need for this.
- 3.109 The EPI team noted that two of its suppliers (VB and IS) each had approximately 2,500 boxes in stock despite the unusual nature of the product. In the event, although approval was granted to procure from both suppliers, the second purchase was later cancelled for unspecified reasons.
- 3.110 There was however, a forged quotation from another supplier (see paragraph 3.58, above).
- 3.111 Even if there was a need to procure the safety boxes, the EPI team would be aware that they can be supplied by UNICEF at a low cost. The investigation was advised that UNICEF would have supplied extra boxes at approximately 50 cents each, instead of at the cost of \$5.50 or 17.45 kina as quoted. However, the procurement was conducted in the temporary absence of the relevant Executive Manager who may have been best placed to query such matters, and approval was given by an acting manager from another department.
- 3.112 The delivery of goods is also in question as the delivery note was signed by the NDoH warehouse staff on 8 August 2015, which is the same date as the purchase order but two days before the date of the delivery note itself. In view of the combined irregularities, Gavi questions the purchase PGK 47,987.50 or US **\$17,324** (at the exchange rate of 2.77).

- 3.113 In the case of supplier VY, there was a purchase for 10,000 indelible markers (cheque 214821) which lacked a business case despite being marked as 'urgent'. The procurement was initiated and approved in the one week period when the relevant Executive Manager was absent. There was no justification for the large quantity ordered, and no specifications were communicated to suppliers, who were approached a day before approval for procurement was sought. In this case, rather than the usual practice of seeking quotes from local suppliers, the EPI team sought quotes from overseas companies, which were inherently uncompetitive, particularly when delivery costs are added. The amount questioned is PGK 49,500 or US **\$17,870** (at the exchange rate of 2.77).
- 3.114 Another purchase from supplier VY (cheque number 214829) relates to the acquisition of toner cartridges at a unit cost of PGK 979 (890 excluding GST, or US \$300) when they commonly cost approximately PGK 300, or \$100. The justification presented was that they were required for the printing of SIREP materials, but there was no information as to which materials, and why this was needed when all other printing was being outsourced to printing companies. The total invoiced on 10 August 2015 was US \$16,445, or US **\$5,936** (at the exchange rate of 2.77).

#### *Vehicle Hire*

- 3.115 In two instances, the investigation questions the use of vehicle hire firms, both of which provided quotes directly to a senior EPI official, which was unusual given that most quotes (except for the one for missing IT equipment (see paragraph 3.73)) were addressed to other staff members.
- 3.116 On 22 October 2014, the EPI team spent PGK 11,050 (cheque 212917) on a two week trip to a nearby province. The investigation questions the identification and selection of the vehicle hire business, a company which could not be located at the PNG business registry. The firm issued invoice 9 to NDoH in May 2014, and invoice 10 also to NDoH in October 2014. This sequence of invoice numbering suggests that the company was a largely dormant business. The Executive Manager queried the expenditure in writing to a senior EPI official that "*there will be NO future acceptance of this type of funds commitment*".
- 3.117 The following week, however, when the Executive Manager was away, the EPI team submitted a further invoice for vehicle hire for PGK 11,900 (cheque 212909) dating from 19 July. In avoiding the Executive Manager's scrutiny, this invoice from three months earlier was approved by an acting manager on 8 October. No reason was given for the delay but other irregularities included the fact that the vendor that did not submit a quotation, and one of the losing quotes was invalid, being almost four months older than the other quotes and referring to a different hire duration. There was no indication of who needed the vehicle or any justification for why it was not possible to use NDoH vehicles. The vendor selection is also queried as it is not known how such a small company was identified (the company only having started trading seven months earlier and having only made two previous sales in that time, according to invoice numbering). Accordingly Gavi questions whether the supply took place at all for NDoH business purposes.
- 3.118 Gavi questions the two payments, totalling PGK 22,950, or US **\$7,886** (at an exchange rate of 2.91).

#### *Role of Finance/Admin*

- 3.119 Many of the deficiencies in the procurement process could have been detected by the Finance Unit prior to payment. It is unclear why the Finance Unit processed payments despite the multiple irregularities present in almost all purchases by the EPI unit.

## **4. Analysis**

- 4.1 The purchases described in this report cover the majority of all procurements undertaken by the EPI team, other than for travel (with the national airline, Air Niugini) and hotel accommodation in the provinces. Thus, most of the purchases where the EPI team had discretion to select a local supplier ended in a contract award to a preferred supplier.
- 4.2 These procurements involved inflated prices; unnecessary or unjustified purchases; repeat payments for single purchases; faulty goods; and goods that were not delivered, or where proof of delivery was absent. The repeated use of falsified documentation points to deliberate and systematic misuse of Gavi funds.
- 4.3 The investigation also notes that other IT equipment was not made available for Gavi to inspect. This included various computers provided by one of the favoured suppliers, and an external disc drive identified by the forensic review as having been used by a senior EPI official. The absence of these items is considered to be a significant omission and the investigation is unable to discount the possibility that further evidence of misuse may be concealed therein.
- 4.4 Also of note is the timing of a number of invoice submissions to take place during the absence of the relevant Executive Manager. In avoiding his scrutiny, the EPI team was able to complete a number of procurements through approval by acting managers who may have lacked the expertise necessary to challenge significant irregularities, and this suggests deliberate manipulation of the procurement process in order to circumvent controls.
- 4.5 Notwithstanding any management scrutiny, the next line of defence is the review by the finance unit. The investigation notes that very few procurements were challenged despite the absence of critical documentation – including invoices in some instances. Accordingly, Gavi considers that there is significant scope for the finance unit to query expenditure where issues are noted.
- 4.6 Ultimately, however, responsibility for initiating questionable procurement processes lies with the EPI team itself, and this report indicates that questionable practices operate within the unit, which need to be addressed before making any future payments using Gavi funds.
- 4.7 Pursuant to the Partnership Framework Agreement dated 29 November 2013 between Gavi and the NDoH, Gavi finds that there has been misuse of Gavi funds. This was perpetrated through irregular procurement processes within the EPI team.

## **5. Recommendations**

In the absence of any response to this report from the NDoH, it is recommended that:

- 6.1 All procurement responsibilities using Gavi funds should be removed from the EPI team and placed in a more independent structure, (such as the corporate services branch – see also the Gavi audit report).
- 6.2 Arrangements should be implemented whereby expenditure approvals made in the absence of the appropriate Executive Manager are reviewable on the Manager's return.
- 6.3 The NDoH Finance Team should decline to make payment in the absence of key documentation such as invoices and delivery notes, and should be given the necessary management support when challenging irregular items.
- 6.4 NDoH senior management should consider whether further measures need to be taken in referring any conduct by individuals to the appropriate law enforcement authorities for further action.