

# Archive PDF

## Message from the Executive Director – Nigeria Reports

03 May 2016

The Global Fund has zero tolerance for corruption or fraud. When any misspent funds are identified, the Global Fund pursues recovery, so that no donor money is lost to fraud or ineligible expenses.

The Office of the Inspector General (OIG) is an integral and important part of risk management and controls, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund.

The publication of all OIG reports, including two on Nigeria today, demonstrates the Global Fund's strong commitment to transparency and accountability, a key element of driving change in countries for better fiduciary responsibility and health outcomes.

Managing risk is part of the Global Fund's work, and strong monitors and controls detected suspicious activity in Nigeria, and led to this investigation by the OIG.

The Global Fund exists to end the epidemics of HIV, tuberculosis and malaria while strengthening resilient and sustainable systems for health. Nigeria has extremely high levels of disease burden, including 24 percent of the world's cases of malaria, largest in the world; 9 percent of HIV disease burden, second-largest in the world; and 7 percent of the TB burden, also second-largest.

Nigeria has lagged in many areas of health, including these three diseases, as noted by the OIG in these reports. A politically complex nation with a federal-state structure, it presents enduring challenges for financial, fiduciary and program management.

Despite many challenges, Nigeria has achieved progress against HIV, TB, and malaria with international support. Deaths from malaria dropped by 62 percent since 2000.

Incidence of HIV declined by 52 percent since that time. Deaths from TB have declined 13 percent. Overall, programs supported by the Global Fund have saved the lives of 1.2 million people in Nigeria.

## **Findings**

The audit report on Nigeria covered US\$889 million of Global Fund grants, and found systemic weakness in the controls in various government entities. The investigation report found fraud and collusion in the amount of US\$3.8 million.

### **Audit Report**

The audit identified US\$19.8 million (rounded up in the report to US\$20 million) as expenditure for which NACA was unable to provide supporting documentation during the audit. Supporting documentation for all US\$19.8 million was located after the audit period closed. These supporting documents confirm that a) expenditures were made for legitimate contracts with a reputable international procurement agent, and b) all commodities purchased under these contracts were delivered.

In addition, the audit identified a lack of documentary evidence related to human resources and payment approval processes, with US\$7.65 million identified as unsupported expenditures. Following work performed by a third party fiscal agent, US\$5.2 million now has been verified based on a review of supporting documentation that was not available during the audit; US\$0.9 million requires further clarification; US\$ 0.25 million is ineligible/unsupported, and US\$1.3 million of expenditure that has not yet been reviewed due to timing. We expect to be able to provide a final, comprehensive view of these expenditures by 13 May.

The Global Fund Recoveries Committee will evaluate the information in the audit and investigation, together with additional information obtained by the Local Fund Agent, PricewaterhouseCoopers, and the Fiscal Agent, GFA Consulting, on new supporting documentation that was obtained after the OIG auditors left Nigeria. The amounts of misused funds, to be fully recovered, will include all funds found to be unsupported.

[This section updated on 7 May 2016]

### **Investigation Report**

The investigation examined the work of a sub-recipient, Nigeria's Department of Health Planning, Research & Statistics (DPRS). It found evidence of systematic embezzlement, and identified US\$3.8 million of irregular spending.

As the OIG notes in the report, the investigation began in late 2014 after a spot check from the Global Fund's Local Fund Agent identified forged and missing expenditure documents. The investigation confirmed the Local Fund Agent's initial findings and found seven out of

ten DPRS staff and three consultants were linked to the misappropriation of funds, including through inflating hotel bills, falsifying receipts, claiming expenditures for travel not taken, and colluding with and receiving kickbacks from hotels and suppliers.

The OIG concluded that DPRS did not have an effective system of internal controls to safeguard grant funds.

### **Actions Taken**

Strong action has already been taken against those responsible for the misspent funds in Nigeria:

- Immediately upon identifying a problem with accounts of the Department of Health Planning, Research & Statistics, assets were frozen and the matter was referred to the OIG, as required by operating policy.
- After learning the audit report's specifics on weaknesses at two federal agencies in Nigeria, the Global Fund suspended all disbursements to both of them: the National Agency for Control of AIDS (NACA) and the National Malaria Elimination Program (NMEP). The Global Fund also executed an Additional Safeguards Policy.
- A letter from the Executive Director to the President of Nigeria informed him of the suspension and of executing the Additional Safeguards Policy.
- The Global Fund provided all relevant information to law enforcement authorities in Nigeria.
- Management worked with the Minister of Health to secure a commitment that the government 1) will repay amounts determined to be recoverable from the audit and investigation; 2) will convene partners to conduct a full assessment of the capacity and gaps of the entire health system and develop an actionable accountability framework.

The Office of the Inspector General provides a key and independent complement to management actions on risk management and controls. The OIG, as it did in this case, often builds upon work performed by the Global Fund's Local Fund Agent. There are now approximately 40 LFA staff conducting oversight in Nigeria. Based on our risk management approach, the Global Fund has implemented additional controls in Nigeria since 2014:

- Strengthening the LFA, as noted above;
- Shifting procurement on major purchases through a pooled procurement mechanism that transfers resources directly from the Global Fund to the suppliers, so that only 25 percent of all procurement is managed in-country. That reduces risk associated with one of the major problems identified in the audit;
- Putting a 17-person fiduciary agent in place in June 2015, embedded in government offices and is responsible for monitoring and control of spending in real-time. That system was not fully in place during the audit period analyzed by the OIG;
- Implementing an integrated approach to supply chain management with partners to reduce risk of stock-outs;

- Coordinating political intervention with major donors to address systemic issues in Nigeria;
- Terminating contracts of Principal Recipients that were underperforming;
- Increasing work with state governments, not just the federal government. As a first step, a state-level grant is being developed with Lagos State in 2016.

All of these measures will build upon the extensive work that has been done, including addressing and implementing 64 agreed management actions from previous audits of grants in Nigeria.

Actions taken have not been limited to Nigeria. A series of reforms at the Global Fund include building a comprehensive risk framework, a new allocation model, more proactive risk management, increased controls and coordinated management measures focused on achieving impact. Overall:

- The Global Fund actively manages risk, with procedures including strict controls and monitoring.
- When fiduciary control mechanisms identify a risk, it is as a matter of policy referred to the Office of the Inspector General, who independently evaluates evidence and decides how to act on it. Since 2012, 130 referrals have been made, leading to 59 investigations.
- As a proactive measure, the Global Fund has installed fiscal agent teams in 20 countries, where extra controls and monitoring are needed.
- Additional Safeguard Procedures have been implemented in another 16 countries.
- When any misspent funds are identified, the Global Fund pursues full recovery, so that no donor money is lost to fraud.
- The Global Fund has already recovered 65 percent of amounts identified in all OIG reports, as of 31 March 2016, and an additional 10 percent is in process of being recovered, while yet another 10 percent was only recently identified and will likely be recovered in the coming year.
- Applying a 2:1 penalty on unfilled recoveries has proven effective, as has withholding new grants until recovery amounts are repaid in full.

Fiduciary risk is not the only risk in countries like Nigeria. As part of the Global Fund's proactive approach to risk management, we identified weaknesses in program quality and data collection as well. Many of these are being addressed in organizational priority projects – Accelerated Integration Management (AIM), Differentiation for Impact and Implementation through Partnership (ITP) – that are having a transformational impact on grant-making and on the effectiveness of our programs. A newly formed project management team has been tasked with tracking progress and ensuring coordination. There are a number of other efforts underway as outlined in the Risk Management Report that will help move us up the maturity scale.

Differentiation – customized approaches to implementation in different circumstances – is a key priority and will be delivered, not just through the Differentiation for Impact initiative,

but also embedded in a number of other ways such as the Challenging Operating Environment policy and the manner in which Country Coordinating Mechanisms are evaluated. The Risk and Assurance project has also progressed with the completion of three pilots and the remaining three started and expected to be completed in Q2 2016.

In late April 2016, after reviewing these reports, the Board of the Global Fund took action to implement significant measures to improve operational and risk-management processes, by building on efforts that have been taken since 2012. The Global Fund is committed to further advancing risk management systems and processes, and to producing an action plan with measureable and time-bound objectives. We plan to report back to the Board within two months.

Managing risk, identifying problems and addressing them forcefully is core work for the Global Fund. The overarching goal is to resolve systemic problems in order to reduce further risk in the years ahead.

Respectfully,

Mark Dybul  
Executive Director