



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

EXECUTIVE SUMMARY

FINAL REPORT OF INVESTIGATION OF MAURITANIA MALARIA (2 & 6) AND TUBERCULOSIS (2 & 6) AND HIV/AIDS (5) GRANTS

AND A CASE STUDY ON THE ROLE OF THE SECRETARIAT,
THE LOCAL FUND AGENT, THE COUNTRY COORDINATING
MECHANISM, and UNDP IN FIDUCIARY OVERSIGHT AND
GRANT MANAGEMENT

Investigations Report No.: GF-OIG-11-009

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I. EXECUTIVE SUMMARY

1. This Report presents the results of investigations conducted between 2009 and 2011 by the Investigations Unit of the Office of Inspector General (OIG) of all grants made by the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) to the Islamic Republic of Mauritania between 2004 and 2008. The first OIG investigation covered an HIV/AIDS Round 5 Grant managed by the Government of Mauritania's (GoM) Secretariat Executif, Comité National de Lutte Contre le SIDA (SENL) between 2006 and 2011. The second covered four grants—two for malaria (Rounds 2 and 6) and two for tuberculosis (TB) (Rounds 2 and 6) that were managed by the United Nations Development Program (UNDP).

2. In connection with the HIV grant, the OIG has identified a US\$ 4.23 million loss (68% of the funds examined and 61.5% of the US\$6.8 million of the funds disbursed), of which US\$ 1.74 (28%) constituted loss arising from intentional fraud and financial abuse. The OIG initiated its first investigation of the HIV grants in 2009 in response to concerns of fraud expressed in 2008 by the Local Fund Agent (LFA), the third in a series of accounting firms hired by the Global Fund to conduct in-country supervision of the Mauritania. The fraud had not been identified by the previous two LFA teams, from 2004 through 2007, even though pervasive episodes of invoicing fraud were ongoing since 2004. Ultimately, in 2008, the third LFA had noted that "potential fraudulent practices" at the levels of governmental and non-governmental sub-recipients of the grants had occurred. As a result of its investigations, the OIG has identified a US\$ 4.23 million loss. The GoM has repaid the loss.

3. In connection with the UNDP managed TB and Malaria grants, the OIG was not able to investigate at the PR level as a result of UNDP's invocation of privileges and immunities. The OIG concentrated its efforts at the SR and SSR level, where it identified a US\$ 2.5 million loss, 71% of the amounts examined and disbursed (i.e. the OIG examined *all* (100 %) of the SR expenditures). Of this, approximately US\$ 2.4 million of the loss, or 70%, was caused by the submission by sub-recipients of fabricated supporting documentation for the provision of purported goods and services that were not in fact rendered, in order to trigger payments of grant funds, as well as collusion in procurement. UNDP has performed its own calculation of loss, and has estimated it to be US\$1.06 million. The basis for the OIG's calculations and evidence is set forth herein, and the OIG recommends seeking reimbursement from UNDP. To date, UNDP has not made any reimbursement of the loss, either the principal, or interest arising from the length of time the amount owed has been outstanding.

A. SUMMARY OF INVESTIGATIVE FINDINGS OF SENLS-MANAGED HIV/AIDS GRANT

4. In the case of the HIV/AIDS Round 5 Grant, the OIG found that, between September 2006, the inception of the Grant, and September 2008, multiple senior officials and staff within the Principal Recipient, SENLS, coordinated an organized kickback scheme in which it required a payment of a sum of money, typically between 10 and 50% of the grant, as a pre-condition for the Sub recipients (SRs) or NGOs to participate in the grant program and receive grant funds. Further, the scheme included efforts whereby (i) the SRs submitted

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proposals for trainings that were either never intended or planned to be significantly smaller in scope than represented, (ii) SRs fabricated false supporting documentation, which were either completely fictitious expenses or fraudulently overcharged expenses, and (iii) SRs returned cash (i.e., a kickback) to the PR prior to the submission of the next activity proposal, which was then used for the PRs own purposes – inconsistent with the grant. Multiple witnesses confirmed that this scheme had been ongoing prior to Global Fund funding, under the financing of another international donor organization. In that regard, it is important to stress that the OIG has identified evidence that the schemes that are identified herein are not unique to the Global Fund, but can and have affected all organizations, international, national and multi-lateral that support and finance these activities.

5. The losses identified in the HIV/AIDS Round 5 Grant totaled US\$ 4.23 million.¹ This amount is comprised of four categories: intentional misappropriation of grant funds, ineligible expenses, lack of sufficient supporting documentation, and unjustified disbursements.

Loss to Global Fund under Mauritania HIV/AIDS Round 5 Grant

Category	Description	Total USD	% of Funds Investigated
TOTAL HIV/AIDS FUNDS OIG INVESTIGATED		\$ 6.18 million	100%
<i>Findings of Confirmed Fraud and Abuse</i>			
1	Expenditures for ineligible expenses	\$ 0.07million	1%
2	Expenditures with evidence of wrongdoing	\$ 1.67 million	27%
Total Fraud and Abuse		\$ 1.74 million	28%
<i>Findings of Loss other than Fraud and Abuse</i>			
3	Expenditures not adequately substantiated	\$ 0.74 million	12%
4	Expenditures missing supporting documentation	\$ 1.95 million	32%
Total Initial Findings of Loss		\$ 4.43 million	72%
<i>Deduction from Initial Findings of Loss</i>			
5	Additional expenditures substantiated by Government of Mauritania	\$ 0.202 million	3%
TOTAL LOSS TO THE GLOBAL FUND (REPAID)		\$4.23 million	68%

6. A criminal investigation initiated by the Mauritanian Inspector General (IG) resulted in the arrest of three senior SENLS officials and issuance of an arrest warrant for a fourth staff member. The OIG has been informed that all SENLS staff members working on Global Fund grants, including the Executive Director, have been replaced.²

¹ Initially, the OIG identified US\$ 4.4 million but upon being given an opportunity to provide further evidence, the GoM was able to substantiate US \$202,003 in previously unjustified disbursements.

² Mauritania_StatusReport_4March2011.docx

B. SUMMARY OF INVESTIGATIVE FINDINGS OF UNDP-MANAGED MALARIA AND TB GRANTS

7. Under the two Malaria and TB Grants managed by the UNDP, the OIG finds that, between April 2004 (soon after the beginning of the first grants) and December 2009, credible and substantive evidence has been identified that senior officials and staff within the SRs and SSRs (the Malaria and TB national programs—PNLP and PNLT respectively; two NGO networks—ROMATUB and RNLPV; and the national laboratory, INRSP) together with third party vendors and other individuals, engaged in multiple widespread schemes to misappropriate Global Fund funds and defraud the Global Fund in the amount of at least US\$ 2.4 million, or 70% of the grant funds examined by the OIG. Schemes included a continuous practice of (i) producing fabricated documentation used to justify expenditures for goods and services that were not in fact rendered; and (ii) steering grant funds to external persons through collusive procurement exercises. In addition, the OIG found US\$ 0.7 million in insufficiently substantiated funds, bringing the total loss to US\$ 2.5 million, or 71% of funds investigated.

Loss to Global Fund under Mauritania Malaria, TB (Rounds 2 & 6) Grants

Category	Description	USD	% of Funds Investigated
TOTAL MALARIA AND TB FUNDS OIG INVESTIGATED		\$ 3.5 million	100%
<i>Findings of Confirmed Fraud and Abuse</i>			
1	Fabrication of false supporting expenditure documentation	\$ 1.9 million	54%
2	Fraud determined through totality of circumstances	\$ 0.25 million	7%
3	Collusion in procurement	\$ 0.3 million	9%
<i>Total Fraud and Abuse at SR and SSRs</i>		\$ 2.4 million	70%**
<i>Findings of Loss other than Fraud and Abuse</i>			
4	SR and SSR expenditures not adequately substantiated	\$.07 million	2%
TOTAL LOSS TO THE GLOBAL FUND AT THE SR & SSRs		\$ 2.5 million	71%**

* This includes two disbursements made to the UNDP since the investigation began.

** Percentage difference due to decimal rounding

1. Creation of False Supporting Documentation

8. The OIG investigation has identified credible and substantive evidence that officials within the PNLT, PNL, RNL, and ROMATUB³ created fake supporting documentation to present the illusion of legitimate invoices, receipts, bid documents and *per diem* sheets in order to trigger payments of grant funds to themselves and others not entitled to the funds. In other cases, third party vendors admitted to either fabricating documents for program

³ The OIG found that INSRP officials forged signatures, but no other evidence of fabrication of fraudulent documents was found, unlike in the case of other entities in the TB and Malaria Programs.

officials, or providing officials with blank templates of their invoices. Finally, officials falsified *per diem* sheets, which purportedly recorded program staff and training participants' receipt of daily allowances, by forging signatures.

9. The illegitimate documents primarily related to program activities such as trainings, sensitization sessions, tracking of patients, and supervision missions. In most of these cases, false and fictitious documents comprised the majority of the submissions used to justify the existence of these purported activities. As a result, it is evident that many of these activities did not occur. A similar conclusion was drawn by a GoM audit team mandated to review the Malaria and TB Programs.

10. The OIG finds that the NGO network under the TB Program, ROMATUB, engaged in extensive episodes of fraud during the lifetime of the grants: as it submitted photographs of the same people, standing in the same manner and order, and in the same location, to justify multiple payments of funds for purportedly different "sensitization" sessions claimed to have been held in different villages across the country. The fabricated pictures were submitted in order to trigger reimbursements for purportedly different sessions, when under closer scrutiny and further investigation, it is evident that separate sessions did not occur. Therefore, the NGO was not entitled to these sums. ROMATUB also falsified the documentation justifying "perdus de vue" activities, whereby NGOs allegedly searched for TB patients who had stopped receiving TB treatment mid-way to encourage the patients to complete treatment.

11. The OIG also found that officials in the regional offices of the MoH, tasked with Program implementation outside of Nouakchott, Mauritania's capital, were complicit in the fraudulent schemes because funds were sent directly to the regional office bank accounts via wire transfers, but the supporting documentation purportedly justifying the expenses was produced by program officials in Nouakchott.

2. Collusion in Procurement

12. PNLT, PNLP and INRSP program officials also colluded with third party vendors and individuals to create the appearance of competitive procurement practices when in fact program expenditures were intentionally steered to specific external individuals through fictitious bids prepared by the same person. Program officials obtained goods and services by proactively inviting a limited (3) group of vendors to bid. However, these pre-selected vendors were, in fact, owned by the same individual(s). As a result, the bidding process was not competitive and lacked integrity. The investigation also uncovered extensive separate collusive bidding rings, on some occasions comprising as many as 10 vendors, in which the vendors purported to bid against one another, when in reality these entities were actually owned or operated by the same individual who had pre-agreed with program officials on the strategy and outcome of the tender process. Program officials proactively targeted these vendors to bid against each other, and colluded with the owners of these vendors to steer contracts to them. The OIG is unable to establish whether any goods or services were delivered as a result of these procurements given that no proof has been provided, and the OIG has not identified evidence, to this effect.

C. FINDINGS PERTAINING TO ALL FIVE GRANTS

1. Performance Indicator Results Were Falsely Inflated

13. The OIG finds that program officials across all Mauritania Grants falsely exaggerated their scores under the “performance indicator” that reported the numbers of people trained under the programs. On average, the programs would report to the Global Fund that they achieved 96% of their targets, when in fact these results were illegitimate in that falsified training attendance *per diem* sheets served as a basis to substantiate that number. The Global Fund Secretariat also used such data, in part, as the basis for its decisions to disburse funds to Mauritania.

D. LIMITATIONS

1. Substantial Accounting and Financial Management Deficiencies Existed in all Programs Investigated

14. Due to substantial deficiencies in all of the Programs’ accounting and record-keeping, as well as due to the absence of supporting documentation for certain program withdrawals, the OIG was required to expend significant time and resources recreating an electronic record of program disbursements and expenditures in order to adequately examine grant expenditures and conduct thorough investigations. This circumstance significantly delayed the investigation and the ability of the OIG to report earlier. Confirmation of the existence, or non-existence, of misappropriation would not have been possible without these steps.

15. The OIG ultimately acquired, scanned, data-entered and analyzed over 50,000 pages of program documentation. OIG investigators interviewed close to 800 individuals, including program staff, third party vendors, as well as the staff of the structures responsible for program oversight, including the LFA, the multi-stakeholder country-level coordinating body (the CCM), and Global Fund staff. As a result of the investigative processes undertaken, the OIG identified thousands of fake, fictitious or fabricated documents that were used to support alleged program activities in order to trigger expenditures of grant funds to which they were not entitled to, and for activities that did not occur and goods that were not in fact delivered.

16. Had a sufficiently robust system been in place to properly manage disbursements of grant funds, much of the fraud might have been identified earlier, and the investigation would have concluded sooner.

2. UNDP as Principal Recipient

17. Given that the PR for the Mauritania Malaria and TB grants was the UNDP, a UN institution, the OIG has been unable to either investigate, or obtain sufficient information to provide assurances as to the fiduciary health of the PR’s direct expenditures. UNDP has invoked “privileges and immunities” for its lack of willingness to share information,

documents and provide access to witnesses or UNDP staff. This limitation pertains to approximately US\$ 7.4 million, or 67% of total grant expenditures.

18. As a consequence, the OIG has limited its investigation to SR and SSR expenditures, totaling US\$ 3.5 million, under the grant. Throughout its investigation of these expenditures, the OIG identified the following evidence which has raised the OIG's concerns as to the integrity and health of the overall UNDP-managed portfolio in Mauritania:

- The UNDP had failed to provide reasonable oversight and supervision of SRs and SSRs under all four grants. Indeed, there has been significant fraud at the SR and SSR level,
- As a result of this failed supervision, the OIG was able to prove that 71% of SR and SSR expenditures were illegitimate,
- The OIG received several independent reports of weak UNDP country office capacity, unduly close personal relationships between UNDP officials with SR government officials, and allegations against UNDP officials. The UNDP requested the statements of the confidential sources that provided information to the OIG supporting these allegations. However, the sources did not consent to the release of their statements to OAI because of concerns about the independence of the OAI.

19. The OIG offered to conduct a joint investigation of the allegations with OAI. However, OAI declined the OIG offer and has also declined to share the outcome of whatever investigative efforts they may have undertaken.

20. In June 2011 the UNDP Board of Directors issued an opinion permitting the Global Fund access to the OAI's internal audit reports.⁴ In response to this new policy, the OIG requested access to all OAI reviews of the Mauritania programs, and traveled to OAI headquarters in August 2011 to review them *in camera*. The OAI provided the OIG with access to the 2009 internal audit report. It did not provide the OIG with the 2010 "due diligence review."

21. On the basis of its review, the OIG remains unable to provide good faith assurances as to the integrity and proper use of UNDP direct expenditures.

E. FIDUCIARY CONTROL ANALYSIS

22. Four structures—external auditors, the LFA, the CCM, and the Global Fund's own staff—comprised the fiduciary framework that ought to have ensured that funds from the Mauritania Grants were used for their intended purposes. The OIG's investigation, through careful review of key documents issued by these structures, as well as interviews of their key staff, demonstrates that between the start of the Grants in 2004 and late 2008, none of these structures identified the risks that funds were being diverted. The OIG notes, however, that it was a quarterly review performed by a LFA who was newly obtained in response to the efforts of the Global Fund "Fund Portfolio Manager" (FPM) to manage risk, which brought to

⁴ The UNDP's Board of Directors issued a decision in June 2011, in which it decided that "the Administrator of UNDP...may... disclose to a donor intergovernmental organization and the Global Fund... internal audit reports pertaining to a project in which the said donor is financially contributing..." DP/2011/32, para. 6. The OIG has resubmitted its request for OAI reviews of the Mauritania direct expenditures on July 22, 2011 and reviewed the report *in camera* in August 2011.

light initial irregularities and prompted the OIG investigations. As a result of coordinating and consulting with the OIG over the course of the investigation, the Global Fund Secretariat has adopted additional safeguards in 2010 and 2011 in response to several of the observations made this Report.

1. External Audits

23. External audits performed on the HIV/AIDS Grant were not done in a timely manner or in a credible manner. In addition, the auditor did not review the Grant with integrity, in that the same auditor issued an unqualified (*i.e.*, “clean”) opinion during the course of the grants, and at the same time reported serious and pervasive internal control issues to the OIG when interviewed.

24. In the case of the Malaria and TB Grants, the external audit companies, hired by the UNDP, to conduct audits of SRs nor SSRs over the prior to 2010 did not uncover any of the irregularities that a new LFA, the OIG, the UNDP’s OAI, and other audit firms late uncovered in relation to this same period. Also, the UNDP has informed the OIG UNDP direct expenditures were audited as part of general country-office audits, but the Global Fund has neither access to these reports, nor the summaries of their findings. Starting in 2009, the UNDP’s OAI has begun to perform Global-Fund specific audits and the Global Fund now has access to the resulting reports.

2. Local Fund Agent

25. Three separate LFA teams—all from PWC—oversaw the Mauritania portfolio over the years, 2004-2010. The first two teams did not identify the fraud that was occurring. Indeed, episodes of fraud discovered through the OIG investigation were not reported to the Global Fund Secretariat by the LFA at any time prior to late 2008, despite the fact that the fraud was occurring at a significant level since 2004. Further, the LFA’s initial assessments of the UNDP, which were performed before the Grant Agreements were signed, identified many of the serious fiduciary weaknesses (*e.g.*, weak supervision of SRs and SSRs) which in fact materialized, and pervaded the Programs over the years. These weaknesses facilitated the fraud. Thereafter, the LFA’s quarterly reports covering the period between 2004 and late 2008 did not at any time identify fiduciary risk of diversion of funds, despite the fact that such diversion was occurring. Rather, the LFA reviews registered general programmatic progress and registered sporadic concerns (*i.e.*, inability to verify the veracity of reported performance indicator figures), which the Global Fund did not consider as indicators of risk that funds may not be reaching their intended purpose. It was not until the Q3 2008 quarterly review, in which a separate LFA team conducted an in-depth analysis in response to the FPM’s criticisms of insufficient risk assessments, and reported findings of fraud and irregularities.

3. Country Coordinating Mechanism

26. The OIG also uncovered no evidence that the Mauritania multi-stakeholder country coordinating body, the CCM, identified concerns that grant funds were not being used for their intended purposes. Rather, the CCM membership was comprised of the very entities implementing the programs, the PRs, SRs, and the SSRs, that were responsible for the misappropriation identified, and it included many of the individuals who were implicated in

the schemes. This circumstance created an inherent conflict of interest. There was no incentive to bring the irregularities to light as the perpetrators would have had to disclose their own misconduct. As a result, the CCM did not fulfill a meaningful oversight function.

4. Global Fund Secretariat

27. Finally, with one notable exception, most of the Global Fund staff tasked with managing the Mauritania portfolio (FPMs) who managed the grants during the period investigated (2004 - 2009) were not able to identify risk of fraud and abuse in the portfolio, as they lacked the means, capacity and incentives to do so.

28. Despite receiving notice of fiduciary risk during the initial assessment of the UNDP, staff reported that they had “no choice” but to adhere to the recommendation of the Global Fund’s panel of experts, the TRP, and to engage with the proposed PRs. They reported a limited ability to demand stronger controls due to the principle of country ownership and the Global Fund’s own approach of limiting its engagement in grant management. Global Fund staff further reported taking the PRs’ reports at “face value” and basing their sense of progress on the performance indicator data and the high-level feedback from LFAs. Even though most FPMs reported concerns with the strength of the LFA, they also noted that they had little ability to replace the LFAs due to burdensome internal procedures. The Global Fund also did not enforce the audit requirements/options provided the Grant Agreements.

29. The turn-over of FPMs in Mauritania was significant, with six FPMs assigned to manage the Mauritania portfolio at different times between 2004 and the date of this Report’s issuance. Thus, institutional memory regarding the portfolio was limited.

30. While first four FPMs were not able to note risks of fraud, the fifth FPM took proactive steps to identify and mitigate real and perceived risks by putting in place a new LFA team. This change in LFA resulted in the belated identification of fraud under the HIV/AIDS Program.

31. Responding to the LFA’s findings of serious irregularities under the UNDP-managed grants, the Global Fund temporarily stopped disbursements, requested an action plan from the UNDP, and commissioned the LFA to conduct in-depth reviews of the SRs and SSRs. The Global Fund also took action to strengthen the CCM by providing technical assistance on governance and promoting elections to minimize conflict of interest.

32. In response to the LFA’s initial findings, the Global Fund froze disbursements to the HIV/AIDS PR, conducted independent evaluations of medicine stock outs, avoided the involvement of the implicated parties while still delivering medicine, and—upon receiving OIG confirmation of fraud and detailed debriefings of its findings—suspended the HIV/AIDS Grant. The current Global Fund team has represented to the OIG that it has secured the GoM’s repayment of the losses under the HIV/AIDS Program. However, before securing fulfillment of pre-established conditions that the GoM demonstrate to the OIG renewed good faith efforts to address the fraud and abuse uncovered in this Report, the Secretariat lifted suspension of the HIV/AIDS Grant on July 25, 2011—one month before the Grant’s closing—despite having previously agreed with the OIG that suspension should not be lifted. The OIG was not consulted before the issuance of the letter, or concerning the representations made therein by the Global Fund Executive Director that the Government has satisfactorily

established a good faith effort to taking all meritorious criminal cases forward through the country legal system.

33. The OIG notes that the current CCM has, upon reviewing a draft of this Report, did not take issue with any aspect of the report, and expressed overall support for the Report's findings and it has communicated commitment to cooperate with the OIG. Otherwise, there currently is no cooperation with the OIG by the GoM and there have not been sufficient good faith efforts by the GoM within the country to hold those responsible for the fraud to account. The OIG has a wealth of information in its possession concerning individuals and entities that have perpetrated financial misappropriation and corruption in country, as identified herein. The OIG has not been requested to share this information with the appropriate national authorities, despite its offer to do so. The Secretariat did not engage with the OIG on this issue, solicit its views, or achieve its agreement, before the Executive Director's representations were made. Therefore, the OIG does not consider that the commitment to take forward meritorious cases of fraud has been satisfactorily established or fully met. Further, the decision to vacate the suspension was in the OIG's view premature, not based on sufficiently careful consideration, and without the appropriate consultative process with the OIG.