

Board Chair Cover Note

Audit & Investigation Reports issued by the Global Fund's Office of the Inspector General on 1 November 2011

Dear Reader,

Today, the Global Fund has released eight audit reports, three investigation reports and one review of Global Fund systems by its Office of the Inspector General. The Inspector General regularly conducts audits and investigations. **The audits are part of the Global Fund's** regular and routine efforts to ensure that grant money is used as efficiently as possible. The investigations have arisen out of suspected wrong-doing found during audits.

It is unusual to release so many reports at one time. Ordinarily, reports of the Office of the Inspector General are released to the Board as and when they are finalized. **On this occasion we agreed that these reports would be finalized after completion of the 'The Final Report of the High Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund.'** This ensured that the Global Fund Board, Secretariat and Inspector General could focus fully on the report of the High Level Panel and its recommendations.

The reports are:

- Audit Reports: Dominican Republic, Sri Lanka, Nigeria, Swaziland; four reports relating to the work of Population Services International (South Sudan, Madagascar, Togo, and Headquarters)
- A Review of the Global Fund Travel and Travel-related Health and Security policies
- Investigation Reports: Mauritania, India, and Nigeria

The country-specific reports cover grants from different **Global Fund financing 'Rounds'**, and have implementation start dates commencing at various times since early 2004. Together, the reports review around US\$ 1 billion of grant financing. These reports take into account as far as **possible, a number of the High Level Panel's recommendations.** The Reports include comments from the Principal Recipients and contain a thorough management response and action plan from the Secretariat. Increased attention has been paid by the Office of the Inspector General to the tone of the Reports, without diluting the important message that each carries.

Specifically, the Reports tell us that the Global Fund must seek to recover up to US\$ 19.2 million from grants in eight countries. Around US\$ 17 million of this amount is for activities that are poorly accounted for, were not budgeted in the work plan, or fall within **the Global Fund's current definition of an ineligible expense,** which is an area that the High Level Panel report suggested be clarified for Principal Recipients. Some of the grant implementer responses contest relevant findings. From the perspective of the Office of the Inspector General, the reports present the evidence that has been found and recovery should be sought in full.

The Nigeria investigation report, which led from the audit, brings to the surface once again issues with the Local Fund Agent engagement model – raised very proactively also in the Inspector **General’s reports for Mali in December of last year.**

Whilst in no way seeking to reduce the importance of the concerns that come from the three investigation reports, they do come at a time when the Global Fund knows that it has to transform how it manages its grants – and how – most importantly – it proactively addresses risk in its portfolio. This cannot entirely prevent mismanagement in all grants, but it will certainly provide a better framework on which resources are channeled to partner countries.

At its November 2011 meeting, the Global Fund Board will consider a Consolidated **Transformation Plan to bring into effect the High Level Panel’s recommendations on risk,** grant management and improved fiduciary oversight.

More reports will come from the Inspector General and irregularities will continue to be found given the increasingly complex environments in which the Global Fund works. The Global Fund continues to strive to prevent loss, and we must ensure that the organization has the systems that enable us to take purposeful and immediate action when irregularities are discovered. Where there is dishonesty, we must pursue those involved.

The Global Fund is committed to the mission of saving lives and assisting countries in building strong and sustainable health systems. Emerging as an issue over the last years, but now very firmly confirmed from the Report of the High Level Panel, the Global Fund must be transformed at all levels.

The Consolidated Transformation Plan will provide the Secretariat, the Office of the Inspector General, and the Board with the means to make this transformation, and ensure ongoing service and accountability to the people whose lives we must save, and to those that fund that cause.

Best regards,

Simon Bland
Board Chair



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

FINAL REPORT OF INVESTIGATION OF GLOBAL FUND GRANTS TO NIGERIA

PART ONE: PRINCIPAL RECIPIENT YAKUBU GOWON CENTRE FOR NATIONAL UNITY AND INTERNATIONAL COOPERATION (YGC)

Report No: GF-OIG-11-011

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I. EXECUTIVE SUMMARY

1. This Report presents the results of an investigation, by the Investigations Unit of the Office of the Inspector General (OIG) for the Global Fund to Fight AIDS, Tuberculosis and Malaria (The Global Fund), of the Yakubu Gowon Centre for National Unity and International Cooperation (hereinafter “YGC”), a Principal Recipient (PR) of Global Fund grant funds in Nigeria. The investigation focused upon, in particular, YGC’s practice of conducting foreign currency exchange transactions between 2005 and 2009 on Nigeria’s parallel currency market in order to exchange Global Fund grant funds delivered to them in US dollars for Nigerian Naira. The OIG investigation found that, between 2005 and 2009, YGC conducted at least 61 of these currency exchange transactions, exchanging approximately US\$ 22 million in grant fund disbursements with 35 different companies and four individuals. These transactions went undetected and uninterrupted until the OIG Audit Unit discovered them during the course of their audit of the Global Fund grants to Nigeria in 2010. The Audit Unit has prepared a separate report detailing separate analyses. Although the reports are being released simultaneously, they address separate issues and separate loss amounts.

2. The OIG investigation has revealed that, by conducting these transactions, YGC exposed the Global Fund to the risk that grant funds would be delivered to prohibited parties and used for illicit purposes, a loss of grant funds and the unjust enrichment of YGC from diverting some of the exchange proceeds. In particular, YGC segregated a portion of the returned funds in Nigerian Naira and delivered them to a separate entity and account, which were then not repatriated to Global Fund dedicated accounts, or used for program purposes. As a result of the practice, at least US\$ 824,626 of Global Fund monies were lost, as the funds were not returned to YGC’s Global Fund-dedicated bank accounts and used for program purposes. The OIG has identified direct evidence that YGC diverted at least NGN 3,878,013 (US\$ 29,260) to separate uses.

3. YGC also diverted proceeds of currency transactions to non-Global Fund-related bank accounts. The OIG could not determine the full extent of this practice, or quantify the full amount of the losses, based upon YGC’s failure to fully cooperate with the investigation by disclosing its Operations Bank Account. If the pattern of similar diversions also permeated the other transfers that were not analyzed, as much as US\$ 914,000 of Global Fund resources would have been diverted based upon the practice and percentage of the transfers identified. Because of the lack of cooperation by YGC and the inability of the OIG to fully examine all YGC bank accounts, the OIG cannot quantify the full amount of diverted funds or determine whether in fact additional funds were lost.

4. The transactions identified by the OIG auditors and examined by the OIG Investigations Unit also exposed Global Fund monies to the acute risk of association with money laundering and other serious criminal activities. In some cases, these risks materialized in the form of transactions with an entity subsequently debarred by a national authority for links to serious criminal activity, entities subject to Suspicious Activity Reports (SARs) by their banking institutions, and entities owned by Politically Exposed Persons (PEPs).

5. The OIG has found credible and substantive evidence that, by conducting these transactions, YGC has misappropriated the missing and diverted funds. Additionally, the OIG investigation has found that YGC committed other abuses, including breaching provisions in the Program Grant Agreement with the Global Fund requiring: that recipients ensure that Global Fund grant funds are properly managed and used solely for program purposes; that recipients of Global Fund grant funds cannot benefit from any revenue that may be earned through the use of the Global Fund grant funds; and prohibiting recipients from engaging in transactions funded by the Global Fund Program Grant Agreement with an entity in which a family member has a financial interest.

6. YGC officials involved in the currency exchange transactions failed to cooperate with the OIG's investigation and engaged in multiple acts of misrepresentation to OIG investigators. The lack of cooperation and misrepresentations significantly lengthened the investigation and forced the OIG to expend significant additional resources, including on multiple additional in-country missions. The OIG is seeking to be reimbursed for these expenses.

7. After being notified by the OIG of these transactions, the Secretariat has asserted that KPMG, the Local Fund Agent in place at the time of the majority of transactions, did not identify, object to, or inform the Global Fund of, this currency exchange practice. KPMG has recently asserted that they did inform a Regional Team Leader for the portfolio of these risks. However, KPMG has not provided written support for this particular contention, and the former Global Fund official denies the claim. In addition, even if such notice was made, the failure to put the issue in writing is a deficiency. As a result, KPMG cannot adequately demonstrate that it protected the Global Fund from losses and risks related to this practice in a satisfactory manner.

8. On the basis of the investigation, the OIG recommends that the Global Fund:
- (i) prohibit Global Fund grant recipients from using any parallel currency market to exchange Global Fund monies and include this prohibition in all future Grant Agreements;
 - (ii) immediately seek to recover from YGC all missing funds and diverted proceeds;
 - (iii) seek appropriate reimbursement from YGC to compensate for the costs of the investigation, including expenditures incurred relating to repeated OIG missions necessitated by the OIG as a result of YGC's misrepresentations and failure to cooperate;
 - (iv) immediately terminate YGC as a Principal Recipient and bar any future participation of this entity in any capacity in Global Fund grant programs;
 - (v) Consider whether KPMG's failure to report appropriately on third party currency exchange transfers in Nigeria has implications in relation to their continued engagement as LFAs in Global Fund grant programs globally.

II. OIG INVESTIGATIONS UNIT

9. The Office of Inspector General (OIG) Investigations Unit of the Global Fund is responsible for conducting investigations of allegations or red flags of fraud, abuse, misappropriation, corruption and mismanagement (collectively, “fraud and abuse”) within the Global Fund and by Principal Recipients (PRs) and Sub-Recipients (SRs) (collectively, “grant implementers”), Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs), as well as third party vendors.¹

10. OIG is an administrative body with no law enforcement rights. OIG does not have subpoena power or search and seizure authority, and cannot charge anyone with a crime. As a result, its ability to obtain information is limited to the rights the Global Fund reserves vis-à-vis the entities under investigation and on the willingness of witnesses and other interested people voluntarily to provide the investigation with information. The OIG can, however, coordinate its efforts with law enforcement to obtain evidence, and evidence collected by the OIG can be used by law enforcement to enforce violations of domestic law.

11. OIG establishes findings of fact by applying a “credible and substantive evidence” standard, consistent with its Charter and Terms of Reference. This is an administrative standard, akin to a preponderance of the evidence, or “more likely than not,” administrative standard commonly used by International Financial Institutions (IFIs) and other international administrative oversight bodies.²

12. The goal of OIG investigations is to: (i) identify the specific nature and extent of fraud and abuse of Global Fund funds, if any, including the participants in the scheme(s); (ii) identify the staff or private entities participating in the schemes, and their role; (iii) identify and quantify the amount of funds misappropriated; and (iv) locate misappropriated funds so as to place the Global Fund in a position to effectuate full and complete recoveries so that grant funds can be used for those intended the patients and those affected by AIDS, tuberculosis, and malaria. In connection with its efforts, the OIG then makes recommendations to the Global Fund for recovery of losses, charges of misconduct of Global Fund staff, if appropriate, and sanctions of vendors, as appropriate. It also provides the Global Fund Board and Secretariat with an analysis of lessons learned for the purpose of preventing future harm to grants due to fraud and abuse. Finally, in possible criminal cases, the OIG makes referrals to national authorities for prosecution of any crimes or other violations of national laws, and supports such authorities as necessary throughout the process.

¹ *The Global Fund Charter and Terms of Reference for the Office of the Inspector General*

² This standard is adopted by all International Financial Institutions (IFIs) for purposes of sanctioning vendors found to have engaged in fraud, corruption, collusion, and coercion in IFI-financed contracts.

III. RELEVANT GLOBAL FUND PROGRAM GRANT PROVISIONS AND CONCEPTS OF FRAUD AND ABUSE

13. As a Global Fund Principal Recipient, YGC is bound by its Program Grant Agreements with the Global Fund.³ Specific articles of the Program Grant Agreement⁴ relevant to the OIG investigation described herein include:

- **Article 5(d). Compliance with Laws:** *The Principal Recipient's activities are operated in compliance with Host Country law and other applicable law, including but not limited to intellectual property law. In addition, the Principal Recipient is generally aware that laws exist that prohibit the provision of resources and support to individuals and organizations associated with terrorism and that the European Union, the U.S. Government and the United Nations Security Council have published lists identifying individuals and organizations considered to be associated with terrorism.*
- **Article 9. Management of Grant Funds:** *The Principal recipient shall ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant Funds are used solely for Program purposes and consistent with the terms of this Agreement. Accordingly, the Principal Recipient shall use its reasonable efforts to ensure that Grant funds are not used by it or by any Sub-recipient to support or promote violence, to aid terrorists or terrorist-related activity, to conduct money-laundering activities or to fund organizations known to support terrorism or that are involved in money-laundering activities.*
- **Article 11(c). Revenues:** *Any revenues earned by the Principal Recipient or Sub-recipients from Program activities, including but not limited revenues from "social marketing" activities, shall be accounted for and used solely for Program purposes.*
- **Article 21(b). No Corruption:** *The Principal Recipient shall not, and shall ensure that no Sub-recipient or person affiliated with the Principal Recipient or any Sub-recipient: participates in the selection, award, or administration of a contract, grant or other benefit or transaction funded by the Grant, in which the person, members of the person's immediate family or his or her business partners, or organizations controlled by or substantially involving such person, has or have a financial interest.*

14. The Global Fund Code of Conduct for Suppliers and the draft Code for Recipients provides the following definition of "fraudulent practice":

³ As described in more detail below, YGC signed four Program Grant Agreements with the Global Fund during its tenure as Principal Recipient.

⁴ The specific articles, and language, contained within YGC's four Program Grant Agreements with the Global Fund varied between the individual Program Grant Agreements. This report uses the language from YGC's Program Grant Agreement with the Global Fund for Round Four, Malaria Phase 2, signed by YGC on 12 December 2007.

*any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a person or entity to obtain a financial or other benefit or to avoid an obligation.*⁵

15. This report also uses the following additional concepts of law:

- *“misappropriation,” defined as the knowing or intentional use of the property or funds of another person for one’s own use or other unauthorized purpose, particularly by a public official, or by any person with a responsibility to care for and protect another’s assets (a fiduciary duty).*⁶
- *“misrepresentation,” defined as a false statement or omission that is made with intent to mislead or with reckless disregard for the truth.*⁷

16. These concepts of law apply per Article 5(d) of YGC’s Program Grant Agreement with the Global Fund.

IV. DUE PROCESS

17. The OIG provided the Global Fund Secretariat, the CCM, the LFA, and the subjects of the investigation an opportunity to review and comment on the investigation’s findings prior to the publication of the report. These comments have been considered prior to the finalization of the report, and incorporated where deemed appropriate.

18. As explained further below, the OIG repeatedly requested from YGC an explanation of certain transactions described in this report. During the investigation, YGC did not respond fully to all of these requests nor account for the missing funds related to these transactions.

19. Despite the lack of full cooperation, the OIG invited senior YGC officials to its Geneva headquarters to review the draft report. The OIG attempted to facilitate the travel of the President of the Organization and his senior advisors to Geneva to review the report, and assisted with travel arrangements. However, YGC was unable to attend as two members of the YGC delegation were denied visas. As a result, the OIG provided the relevant portions of the report to YGC by email for it to review. YGC was given multiple extensions within which to respond to the report, and the issuance of the report was delayed as a result. Ultimately, YGC responded to the report, and their comments are reflected in the Annex, attached hereto.

⁵ The International Financial Institution (IFI) Anti-Corruption Task Force provides similar definitions of “fraudulent conduct”.

⁶ This definition was applied by the United Nations’ Procurement Task Force (PTF) in its investigative reports. See Black’s Law Dictionary, 7th Edition (2000), p. 811 (defining “misappropriation” as “the application of another’s property or money dishonestly to one’s own use”).

⁷ This definition conforms with the definition of fraudulent practice described above. Also, see Black’s Law Dictionary, 7th Edition (2000), p. 813 (defining “misrepresentation” as “the act of making a false or misleading statement about something usually with the intent to deceive.”)

20. The OIG also traveled to Lagos, Nigeria during the investigation in August 2011 specifically to meet with representatives from the LFA, KPMG, to discuss YGC's third party currency exchange practices which occurred during KPMG's tenure as LFA. OIG repeatedly requested KPMG to provide all documentation or correspondence, directly pertaining to KPMG's role as LFA in identifying YGC's third party currency exchange practice, and notifying the Global Fund of this issue.

21. The OIG met with a senior member of KPMG prior to the issuance of the report, and discussed the issues identified in this report, in depth. The OIG showed the KPMG representative the full display of all of the diverted transfers, and asked him to research his files concerning any interaction with the Secretariat in connection with these transactions, and to present any relevant materials to the OIG. The OIG also requested that KPMG offer a statement regarding the issue. The report was slightly delayed to accommodate KPMG, and any response from the Secretariat. KPMG did respond, offering a statement and presenting a graph of alleged notifications to the Secretariat regarding this issue. The OIG carefully studied the submission and reviewed all of the KPMG report summaries issued at the time, in full. The OIG then contacted the former official to whom KPMG asserted it had alerted to the currency exchange practice at the time. The former official was provided an opportunity to comment and present a statement concerning the claim that he may have been told of the currency exchange practice. The official did make an oral statement to the OIG, and the results of the statement are set forth herein.

22. The OIG has also provided the draft report to the CCM, asked for their comments. The CCM was given extensions within which to respond, and represented to the OIG that it would respond by 27 October 2011. No response has been received from the CCM by the time of issuance.

V. OVERVIEW OF GRANTS PROVIDED TO YAKUBU GOWON CENTRE FOR NATIONAL UNITY AND INTERNATIONAL COOPERATION (YGC)

23. YGC is an indigenous not-for-profit and non-governmental organization located in Abuja, Nigeria. YGC was established in 1992 in honour of General Dr. Yakubu Gowon, the former Head of State of the Federal Republic of Nigeria (from 1966-1975). The organization was commemorated in Dr. Gowon's name for his achievements in maintaining unity in the country. In 2003, YGC applied for, and was then appointed by the Global Fund, as a Principal Recipient (PR) of Global Fund grants for the Round 1 HIV/AIDS grant, and, later, the Round 2, 4 and 8 Malaria grants. The approved grants and amounts disbursed by the Global Fund as of 2011 are summarized in the table below. In total, YGC received a sum of US\$ 145,120,199, the amounts actually dispersed, out of a total US\$ 172,365,527 pledged as total grant amounts.

| Round | Component | Grant number | Grant amount (US\$) | Disbursed (US\$) |
|------------|-----------|-----------------|---------------------|------------------|
| 1 | HIV/AIDS | NGA-102-G02-H-0 | 1,687,599 | 816,305 |
| 2 | Malaria | NGA-202-G04-M-0 | 20,994,149 | 20,241,784 |
| 4 | Malaria | NGA-404-G05-M | 43,900,696 | 38,481,707 |
| 8 | Malaria | NGA-809-G13-M | 105,783,083 | 85,580,403 |
| Sub- total | | | US\$ 172,365,527 | US\$ 145,120,199 |

A. HIV/AIDS, ROUND 1

24. The GF's first grant to YGC was for a Round 1 HIV/AIDS program, NGA-102-G02-H-00, which started on December 1, 2003.⁸ The grant supported a program that aimed to reduce HIV-related morbidity and mortality through improved coordination of civil society organizations, and dissemination of lessons learned.⁹ The planned activities under the grant were to¹⁰:

- (i) Hire and train staff of the Civil Society Consultative Group on HIV/AIDS in Nigeria;
- (ii) Conduct an assessment of the existing databases of civil society organizations working on HIV/AIDS;
- (iii) Identify good practices in a range of key thematic areas, and disseminate them in the form of a brochure; and
- (iv) Establish resource centers in under-served states.

25. Although the initial grant budget was for US\$ 1,687,599, the GF disbursed US\$ 816,305, or 48% of committed funds, with the last disbursement occurring on November 30, 2004. As planned, the grant program ended on November 30, 2004.¹¹ This grant had only a Phase 1 component.

⁸ Program Grant Agreement, NGA-102-G02-H-00, p. 1.

⁹ Program Grant Agreement, NGA-102-G02-H-00, Annex A, p. 1.

¹⁰ Program Grant Agreement, NGA-102-G02-H-00, Annex A, p. 2.

¹¹ See the Country Grant Portfolio Summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-102-G02-H-00?lang=en>.

B. MALARIA, ROUND 2

26. The Malaria Round 2 grant to YGC, NGA-202-G04-M-00, began on November 1, 2004.¹² The goal of the malaria grant was to reduce malaria morbidity and mortality in children under five and in pregnant women by scaling up the use of Insecticide Treated Nets (ITNs) for children under five and pregnant women, and improving case management of malaria and initiating Intermittent Preventive Treatment (IPT) for pregnant women.¹³ Planned activities included:

- (i) The procurement, distribution and promotion of the appropriate use of ITNs;
- (ii) Regular re-treatment of the nets distributed;
- (iii) The procurement and distribution of pre-packed Artemisinin-Based Combination Therapy (ACT) drugs and capacity improvement for malaria drug handlers, mothers and home-caregivers;
- (iv) The procurement and distribution of Sulphadoxine-Pyrimethamine (SP) and capacity strengthening of Health Managers on the use of SP for Intermittent Preventive Treatment (IPT); and
- (v) The strengthening of capacity for a robust Monitoring and Evaluation of the strategies for malaria prevention and management.

27. The GF disbursed US\$ 20,241,784 out of US\$ 20,994,149 budgeted for this grant, or 96% of committed funds, with the last disbursement being made on March 26, 2007.¹⁴ Although initially scheduled to end on October 31, 2006, the program continued until May 31, 2007.¹⁵ This grant had only a Phase 1 component.

C. MALARIA, ROUND 4

28. The Malaria Round 4 grant to YGC, NGA-402-G05-M, began on 1 January 2005,¹⁶ and aimed to reduce malaria morbidity and mortality in children under five years of age in six states (Bayelsa, Borno, Enugu, Federal Capital Territory (FCT), Oyo, and Sokoto) over a period of two years through improving case management of malaria. The planned activities of the grant included:

- (i) Development and distribution of Information, Education and Communication (IEC)/ Behavior Change Communication (BCC) materials and advocacy for ACTs;
- (ii) Procurement and administration of ACTs;

¹² Program Grant Agreement, NGA-202-G04-M-00, p. 1.

¹³ Program Grant Agreement, NGA-202-G04-M-00, Annex A, p. 1.

¹⁴ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-202-G04-M-00?lang=en>.

¹⁵ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-202-G04-M-00?lang=en>.

¹⁶ Program Grant Agreement, NGA-404-G05-M, p. 1.

- (iii) Training of care givers at all levels of the health care system in malaria case management; and
- (iv) Strengthening the capacity for monitoring and evaluation of malaria prevention and case management.

29. Over Phases I and II, the GF disbursed US\$ 38,481,707 out of a total of US\$ 43,900,696 budgeted for this program, or 88% of committed funds.¹⁷ The last disbursement was made on 24 October 2008. The program ended on 30 June 2010.¹⁸

D. MALARIA, ROUND 8

30. Finally, the Round 8 Malaria grant to YGC, NGA-809-G13-M, which began 1 November 2009, sought to contribute to universal coverage of long-lasting insecticide-treated bed nets (LLINs) through mass campaigns and routine distribution, increased rollout of ACT in the public and private sectors, and increased malaria diagnosis using microscopy at referral centers and rollout of rapid diagnostic tests at primary health facilities. The program sought to target pregnant women, children under age five, the rural poor and health workers, as well as the general population.¹⁹

31. The GF disbursed US\$ 86,115,313 out of a budgeted total of US\$ 103,171,584, or 84% of committed funds.²⁰ Of the total funds disbursed, US\$ 79,389,663 was transferred directly to accounts of procurement agents for procurement of ACT (US\$ 4,546,558) and LLIN (US\$ 74,264,982) and associated distribution costs, and US\$ 6,725,651 was transferred to the account of YGC to support program activities and administrative costs. The last disbursement was made on October 26, 2010.²¹

VI. YGC'S USE OF NIGERIA'S PARALLEL CURRENCY MARKET TO EXCHANGE GLOBAL FUND MONIES

32. From 01 March 2010 through 23 April 2010, the OIG's Audit Unit conducted a country-wide audit of the Global Fund Grants in Nigeria. Among its many findings during the audit, the OIG auditors identified that YGC conducted with third parties, via the Nigerian parallel currency market, 41 foreign currency exchange transactions of Global Fund distributed US Dollars, in exchange for Nigerian Naira, the local currency. The total amount

¹⁷ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-404-G05-M?lang=en>. For phase I the amount budgeted was US\$ 20,467,000; for phase II it was US\$ 23,433,696, for a total of US\$ 43,900,696.

¹⁸ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-404-G05-M?lang=en>. For phase I the amount budgeted was US\$ 20,467,000; for phase II it was US\$ 23,433,696, for a total of US\$ 43,900,696.

¹⁹ Grant Performance Report, NGA-809-G13-M, p. 3

²⁰ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-809-G13-M?lang=en>.

²¹ Country Grant Portfolio summary at <http://portfolio.theglobalfund.org/Grant/Index/NGA-809-G13-M?lang=en>.

of these third party currency exchange transfers, as identified by OIG audit, was approximately USD 14 million. The OIG audit further identified that YGC conducted these third party currency exchange transactions with over 35 private entities located throughout the world.

33. At the outset, it should be noted that there is nothing improper with currency exchange of Global Fund dollars, per se. Indeed, Principal Recipients in many programs are required to engage in foreign exchange as they receive Global Fund grant funds in the form of US Dollars, wired from the Global Fund accounts held at the World Bank, as Trustee. However, most exchanges, are, and should be, conducted through established, licensed, regulated and approved financial institutions. Use of “agents,” or third parties, to engage in this practice, presents a variety of risks, including reputational, if indeed Global Fund grant monies are used in money laundering efforts, and criminal parties receive such funds.

34. Whilst the OIG audit revealed these third party currency exchange transfers, the scope and scale of the wider scheduled programmatic OIG audit of the Global Fund grants in Nigeria precluded further detailed analysis and, therefore, the issue was referred to OIG’s Investigations Unit. As set forth below, the OIG has identified that YGC used Nigeria’s parallel currency market to effectuate transfers to: a third party recipient that was subsequently debarred by a national government for links to serious criminal activity; two third party recipients, which were subject to Suspicious Activity Reports (SAR) issued by their respective banking institutions and had their bank accounts closed as a result; and five third parties owned by a Politically Exposed Person (PEP).

35. Based upon the OIG Audit team’s initial findings, the OIG commenced a detailed forensic accounting review of YGC’s Round 2 and Round 4 US Dollar and Nigerian Naira bank accounts. This entailed a review of YGC’s call and fixed deposit accounts to identify the population of third party currency exchange transfers YGC conducted on the parallel currency market. In addition to the acquisition of original bank statements, OIG also analyzed YGC’s manual and electronic cash books. In addition to the 41 third party currency exchange transfers identified by OIG audit, the OIG investigation identified an additional 20 such transfers, within the 2005 to 2009 period, bringing the total amount to 61 currency exchange transfers with third parties located throughout the world. These 61 third party currency exchange transfers involved approximately US\$ 22 million of Global Fund provided grant monies. Via reference to the original bank statements, and manual and electronic cash books,, together with the YGC Transfer of Funds Forms, and the corresponding Bank Telex forms, OIG was able to reconstruct both the US Dollar and Nigerian Naira sides of the majority of the third party currency exchange transactions conducted with Round 2 and Round 4 funds, from 2005 to 2009. Through these efforts, there is confidence that all US Dollar withdrawals YGC used for third party currency exchange transfers, and the majority of the corresponding NGN deposits, have been identified. However, there was some USD 824,626 worth of US Dollar outflows that could not be traced back to Global Fund dedicated program accounts.

36. Rather than conducting the currency exchange within financial institutions where their US Dollar funds were held, YGC engaged in these third party currency exchange

transfers on Nigeria's parallel currency market. Each of the 61 third party currency exchange transactions involved YGC disbursing Global Fund grant funds, in the form of US Dollars, to a third party, whether a Nigerian or foreign business enterprise, currency trader, or individual(s). Twenty-two of these third party currency exchange transfers were with funds dispersed from Global Fund Round 2 grant funds, totaling US\$ 8.04 million, and 39 third party currency exchange transfers were with funds dispersed from Global Fund Round 4 grant funds, totaling US\$14.05 million.²²

37. In utilizing the parallel currency market, YGC received a small premium of approximately 1.0 to 1.2%, on average overall, of the gross amount of the funds exchanged over the exchange rates published by the Nigerian Central Bank, and the rates it likely would have received in utilizing its two banks in an intra-bank transfer. This calculation was reached on the basis of the forensic accountancy review of the third party currency exchange transaction related Nigerian Naira that was reverted into YGC's dedicated Global Fund bank account.²³ As such, YGC appeared to have received slightly more Nigerian Naira than what they otherwise would have received through utilizing the chartered banks that held their funds.

38. The investigation has identified that most of the Nigerian Naira received by YGC in the exchange transactions was paid to YGC in the form of cheques, which appear to have been drawn on local Nigerian banks. However, a minority of Nigerian Naira received by YGC was in the form of wire transfers, interbank transfers via the Nigeria Interbank Settlement System (NIBSS) and the Real Time Gross Settlement (RTGS) mechanism (a transfer system for large-value interbank funds transfers), and cash. In 2009, YGC abandoned this practice and began exchanging US Dollars for Nigerian Naira with its commercial bank via internal direct transfers between its US Dollar and Nigerian Naira accounts within the same bank (i.e. Intra-bank Direct Foreign Exchange transfer).

A. OVERVIEW OF YGC'S USE OF THE NIGERIAN PARALLEL CURRENCY MARKET

39. YGC's Round 2 and Round 4 Global Fund grants were disbursed by the Global Fund to YGC in United States Dollars, and deposited into YGC's [approved] Round 2 and Round 4 US Dollar accounts at Access Bank and Guaranty Trust Bank. Throughout each grant's life cycle, YGC exchanged about one-third of its US Dollar Global Fund grant distributions for Nigerian Naira to be used for local program expenditures.²⁴ YGC conducted these US Dollar/Nigerian

²² The US Dollar component of one of YGC's 61 third party currency exchanges, in the amount of US\$ 250,000, was recalled then re-issued to another third party. The recalled portion of the transaction, which was with Round 4 funds, is not included in this report's totals or data points.

²³ Premiums estimated based on the value of NGN deposited by YGC from the third party currency exchange transfers. The exchange rates YGC received for intra-bank transfers, on average, were very close to the rates posted by the Nigerian Central Bank at the time.

²⁴ YGC received its initial distributions from the Global Fund for Round 2 on 23 November 2004 and Round 4 on 4 January 2005. YGC initiated the third party currency exchange transfers on 17 January 2005 for Round 2 and on 25 February 2005 for Round 4, less than two months after receiving its initial distributions for those two grants.

Naira exchanges largely on Nigeria's parallel currency market with various third parties. These third party currency exchange transfers were conducted with 35 different companies and four individuals located throughout the world.

40. For each third party currency exchange transfer, grant funds in the form of US Dollars were wired to a third party's bank account which, for many of these entities, was located outside Nigeria. In exchange, YGC would receive from the third party, or from another entity or individual associated with the third party, Nigerian Naira at foreign exchange rates slightly more favorable than the foreign exchange rates published by the Nigerian Central Bank, or that YGC would have likely received had it exchanged its funds via an Intrabank Direct Foreign Exchange transfer.

41. In an interview with OIG, personnel from one of the recipient third parties of a currency exchange transfer explained the transfer process. They stated that for each of the third party currency exchange transactions with YGC, they had been contacted by a representative of Access Bank, and that they never had any direct contact with YGC. They explained that they offered to use the official bank rate as a benchmark for the currency exchange transaction, and then the representative negotiated with them to achieve a better rate. They said that individuals and companies typically are willing to pay a premium in order to avoid the bureaucracy involved in going through the official foreign exchange system, adding that parallel market exchanges are quicker, involve little paperwork, and provide the ability to avoid scrutiny. These officials acknowledged that there would certainly be some type of benefit bestowed upon bank personnel for arranging these third party currency exchange transfers for a client. For example, the client may conduct more of their business with that bank.

42. OIG investigators interviewed YGC officials concerning this practice. YGC personnel confirmed aspects of the above, and stated that representatives from Access Bank and Guaranty Trust Bank contacted YGC with the names and details of third party entities seeking to buy US Dollars in exchange for Nigerian Naira.²⁵ YGC asserted that, based on the bank's directions regarding the third party entities seeking US Dollars, YGC personnel then completed a Transfer of Funds Form detailing the name, address, and account information of the recipient of the US Dollars. The Transfer of Funds Forms also detailed the amount to be exchanged and the YGC account from where the money was to be transferred. All of the Transfer of Funds Forms were signed by the YGC Chief Accountant and YGC Deputy Chief Executive (DCE). YGC officials stated that the Transfer of Funds Forms were then provided to either Access Bank or Guaranty Trust Bank, and the transfer of US Dollars was carried out.

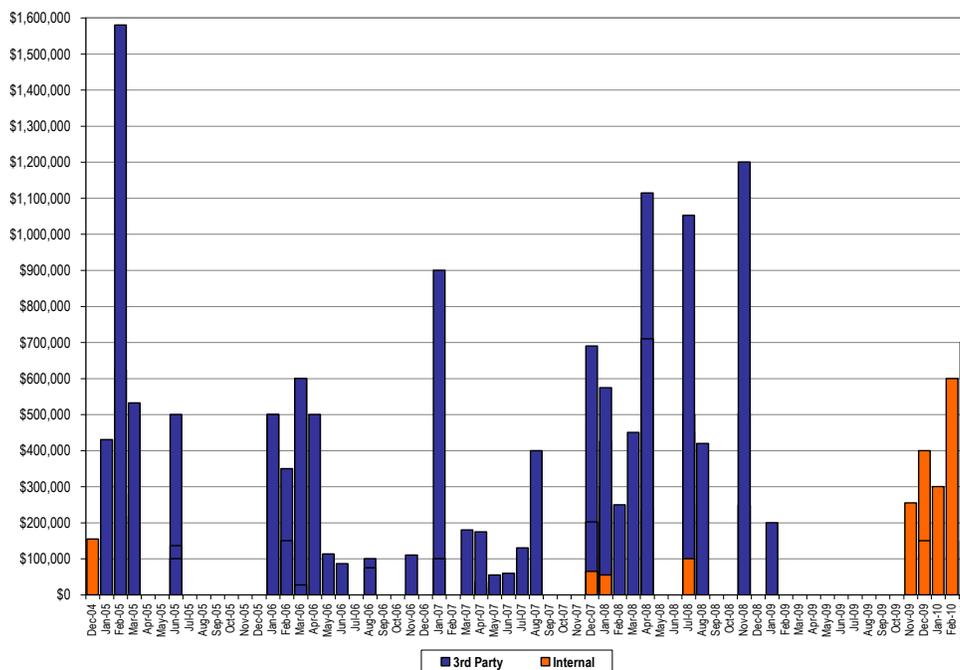
43. However, in interviews with OIG, Access Bank and Guaranty Trust Bank employees denied providing all of the names and details of third party entities to YGC. Both Access Bank and Guaranty Trust Bank employees claimed that it would be against their banks' policies,

²⁵ See ROC with YGC Chief Accountant, July 2010. He/she later recanted his statement regarding GTB Bank.

and interests, to provide such information and steer clients away from exchanging foreign currency directly with their bank.

44. The Figure below displays YGC’s third party currency exchange transfer for its Round 2 and Round 4 grants from December 2004 to March 2010 via third party currency exchange transactions and Intrabank Direct FX transfer, known to the OIG to date. With the exception of YGC’s first funds transfer in December 2004, and a few small transfers in late 2007 and 2008 (orange on chart), all other transfers up to January 2009 were conducted via Nigeria’s parallel currency market.

Summary of YGC’s Third Party Currency Exchange Transfers for Round 2 and Round 4 on the parallel Currency Market and Intrabank Transfer, by Month, December 2004 to March 2010



B. THIRD PARTY RECIPIENTS OF THE CURRENCY EXCHANGE TRANSFERS

45. The OIG investigation has identified that the 61 third party currency exchange transfers were conducted with 39 different participants, including 35 companies and four individuals, using banks located in 15 different countries. None appeared, at least on their face, to be governments or NGOs. At least two participants admitted to OIG to be parallel currency market traders, acting on behalf of clients. Only four of the third parties participated in more than two transactions: Manor Concessions (11), entities owned by a

Politically Exposed Person (PEP) (5), ESP International Ltd. (4), and Homeland & Overseas (3).²⁶

46. The dollar size of each currency transfer averaged about US\$ 360,000, but varied substantially between the participants, ranging from US\$ 10,000 to US\$ 1.20 million per transaction.

47. Two-thirds of the transfers were sent through banks located in Nigeria (15), the United States (10), and the United Kingdom (17). Other country locations to which funds were transferred within Europe were Norway (2), Germany (2) and France, Italy, Netherlands, and Switzerland at one transfer each. Funds transferred outside of Europe included to Hong Kong (4), South Africa (2), Senegal (1), and the United Arab Emirates (1).²⁷

C. NIGERIAN NAIRA REPAYMENT SCHEME: SPLIT PAYMENTS

48. In most instances, a third party paid Nigerian Naira into a designated YGC account by a single cheque or wire transfer in a one-for-one exchange between YGC and the third party. However, the Nigerian Naira received for 16 of the 61 exchange transactions occurred in multiple components of cheques, or cash, totaling at least two or more, and included up to 14 Nigerian Naira cheques for a single US Dollar withdrawal. According to a number of third parties who participated in these transactions, and individuals familiar with Nigeria's parallel currency market, the method of payment and number of payment components was based on the wishes of the facilitating party which held the US Dollars (i.e., YGC in these cases), and the request for multiple cheques was not uncommon. For some of the multi-NGN deposits, the cheques comprising the deposit appeared sourced from the same bank; possessing similar textual descriptions and even sequential cheque numbers. On other multiple deposits, however, the funds appeared sourced from a variety of banks/places.

49. For example, on 14 June 2005, the Nigerian Naira paid to YGC in exchange for its US\$ 500,000 to Bikasu SA was paid via four cheques totaling NGN 66.41 million. The bank names appearing on each of the four deposit components were different, indicating that the funds were sourced by Bikasu SA from different banks and likely from different and unrelated parties. The YGC officials responsible for these transactions have failed to provide the OIG with all relevant details concerning these third party currency exchange transfers.

²⁶ Manor Concessions and Homeland & Overseas are currency traders on the parallel currency market for their clients. Homeland & Overseas directly participated in two transactions and indirectly participated in a third, on behalf of Weblink International, its client. Note that ESP International also appears as EPS International on some trades; OIG was not able to confirm the entities' correct name, since it is believed the entity has since dissolved.

²⁷ Represents recipient bank location only, which is not necessarily the participant's domicile.

An Example of a Multi-Component NGN Deposit of Different Amounts Sourced from Different Banks

| NGN Value Date | NGN Description | NGN Amount |
|----------------|------------------------------------|-------------------|
| 13-Jun-05 | PLATINUM 4331714 DEP BY [REDACTED] | 20,500,000 |
| 13-Jun-05 | STB 345850 DEP BY [REDACTED] | 22,800,000 |
| 13-Jun-05 | UTB 8903 DEP BY [REDACTED] | 22,000,000 |
| 13-Jun-05 | EQUITY 77201 DEP BY [REDACTED] | 1,115,000 |
| TOTAL | | 66,415,000 |

VII. LOSSES RELATED TO THIRD PARTY CURRENCY EXCHANGE TRANSACTIONS

50. YGC employees claimed that they conducted the currency exchanges on the parallel currency market to obtain a better exchange rate and to increase the amount of funds available for YGC projects. In a July 8, 2010, letter to OIG, the YGC Deputy Chief Executive wrote:

“What we did was done in good faith with the best intention from our heart. We were concerned that the resources at our command are not diminished through the vagaries in the foreign exchange market that will in any way affect adversely the Global Fund programme that was ameliorating the sufferings of our people.”

51. Notwithstanding these claims, the OIG’s investigation has identified that US\$ 824,626 related to the third party currency exchange transactions is missing from YGC’s dedicated Global Fund bank accounts. In addition to these missing funds, the OIG investigation has uncovered that by using the Nigerian parallel currency market, YGC was able to divert proceeds gained from these third party currency exchange transactions, amounting to at least NGN 3,878,013 (US\$ 29,260), to non-Global Fund-related bank accounts.

52. With respect to the missing funds, Article 9 of the YGC Program Grant Agreement states that the Principal recipient “shall ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant Funds are used solely for Program purposes . . .” During the investigation, YGC has failed to explain the missing funds and, as noted above, based on the totality of the evidence, the OIG has concluded these funds were misappropriated. These missing grant funds constitute a violation of YGC’s Program Grant Agreement since they were not prudently managed and were not used solely for program purposes.

53. With respect to the diverted proceeds, Article 11(c) of YGC’s Global Fund Program Grant Agreement establishes that any revenues earned by a Principal Recipient must be used solely for Program purposes:

Any revenues earned by the Principal Recipient or Sub-recipients from Program activities, including but not limited to revenues from “social marketing” activities, shall be accounted for and used solely for Program purposes.

54. Thus the diversion of proceeds represents a violation of Article 11(c), as well as Article 9.

55. The OIG concludes that there is substantive and credible evidence (i.e., it is more likely than not) that YGC misappropriated the missing and diverted funds. Misappropriation, as outlined above, is defined as “the knowing or intentional use of the property or funds of another person for one’s own use or other unauthorized purpose, particularly by a public official, or by any person with a responsibility to care for and protect another’s assets (a fiduciary duty).²⁸ YGC’s failure to revert the missing US\$ 824,626 to its Global Fund-dedicated program accounts, as well as its diversion of proceeds from third party currency transactions to non-Global Fund-related accounts (YGC’s Operations Account and the undisclosed “YGC Dev. Fund” account), represents a knowing use by YGC (an entity with a responsibility to protect Global Fund monies) of the property of another (the Global Fund program) for one’s own use.

A. YGC’S USE OF NIGERIA’S PARALLEL CURRENCY MARKET RESULTING IN MISSING FUNDS

56. For each of the 61 currency exchange transactions, OIG’s forensic accountancy review attempted to identify all corresponding US Dollar outflows and all Nigerian Naira inflows to and from YGC’s dedicated TGF bank accounts. This review established that the corresponding Nigerian Naira deposits, totaling NGN 106,556,540, for seven of the 61 third party currency exchange transfers, equating to US\$ 824,626, was not returned to YGC’s dedicated TGF bank accounts. There is no evidence that these funds were returned to a dedicated program account and used for program purposes, or otherwise accounted for in YGC’s program books and records, or by YGC personnel. Based on available evidence, as explained below, it is OIG’s calculation at this time that at least US\$538,536 of these missing funds were deposited into YGC’s non-Global Fund Access Bank account ending in #7452 (YGC’s “Operations Account”). YGC has repeatedly denied OIG full access to its Operations Account, despite the evidence that Global Fund monies, or their equivalents, were deposited into this account. Such refusal has frustrated the investigation, and delayed it. Regardless of whether the missing funds went to YGC’s Operations Account, the evidence below demonstrates that these monies were transferred out of Global Fund program accounts and were not returned.

²⁸ This definition was applied by the United Nations’ Procurement Task Force (PTF) in its investigative reports. See Black’s Law Dictionary, 7th Edition (2000), p.811 (defining “misappropriation” as “the application of another’s property or money dishonestly to one’s own use”).

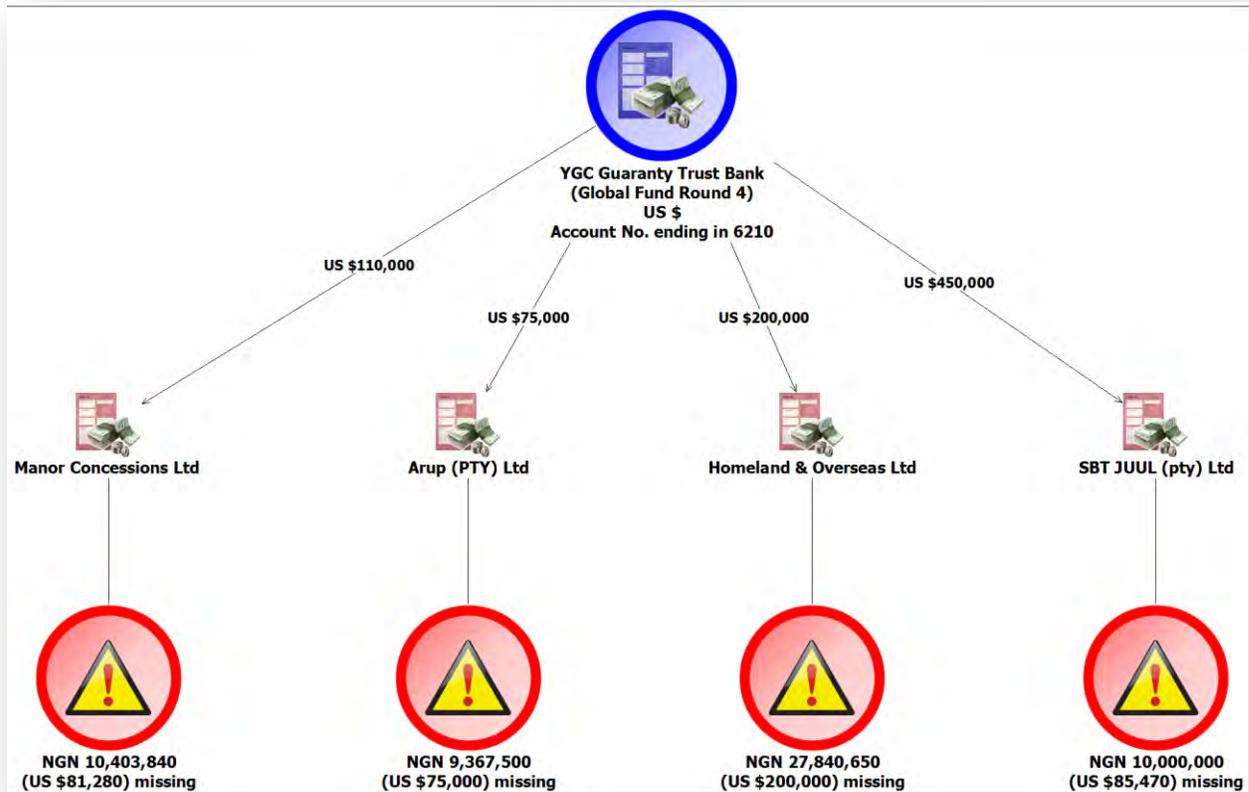
Estimated Quantification of Global Fund Losses Resulting from Missing Funds

| Round | USD Withdrawal Date | USD Withdrawal Amount | USD Withdrawal Recipient | NGN / USD FX Rate [1] | NGN Equivalent of USD Withdrawal [1] | NGN Deposited in GF Program Accounts | NGN Deposit Date [where applicable] | NGN Not Accounted For or Returned [2] | USD Equivalent of Funds Not Accounted For or Returned |
|---------------|---------------------|-----------------------|--|-----------------------|--------------------------------------|--------------------------------------|-------------------------------------|---------------------------------------|---|
| | [a] | | | [b] | [c]=[a]x[b] | [d] | | [e]=[c]-[d] | [e]/[b] |
| R4 | 23-May-06 | \$113,000 | Peri Ltd | 132.85 | 15,012,050 | - | n/a | 15,012,050 | \$113,000 |
| R2 | 9-Jun-06 | \$86,500 | Third Party A | 127.17 | 11,000,000 | - | n/a | 11,000,000 | \$86,500 |
| R4 | 22-Aug-06 | \$75,000 | Arup (PTY) Ltd (Asset & Resource Management Ltd) | 128.50 | 9,637,500 | - | n/a | 9,637,500 | \$75,000 |
| R4 | 1-Nov-06 | \$110,000 | Manor Concessions Ltd | 128.00 | 14,080,000 | 3,676,160 | 1-Nov-06 | 10,403,840 | \$81,280 |
| R2 | 22-Jan-07 | \$900,000 | Manor Concessions Ltd | 127.50 | 114,750,000 | 100,087,500 | 22-Jan-07 | 14,662,500 | \$115,000 |
| R4 | 3-Mar-08 | \$450,000 | SBT JUUL (Pty) Ltd [3] | 117.00 | 52,650,000 | 34,650,000 | 6-Mar-08 | 18,000,000 | \$153,846 |
| R4 | 8-Jan-09 | \$200,000 | Homeland & Overseas Ltd | 139.20 | 27,840,650 | - | n/a | 27,840,650 | \$200,000 |
| TOTALS | | \$1,934,500 | | | 244,970,200 | 138,413,660 | | 106,556,540 | \$824,626 |

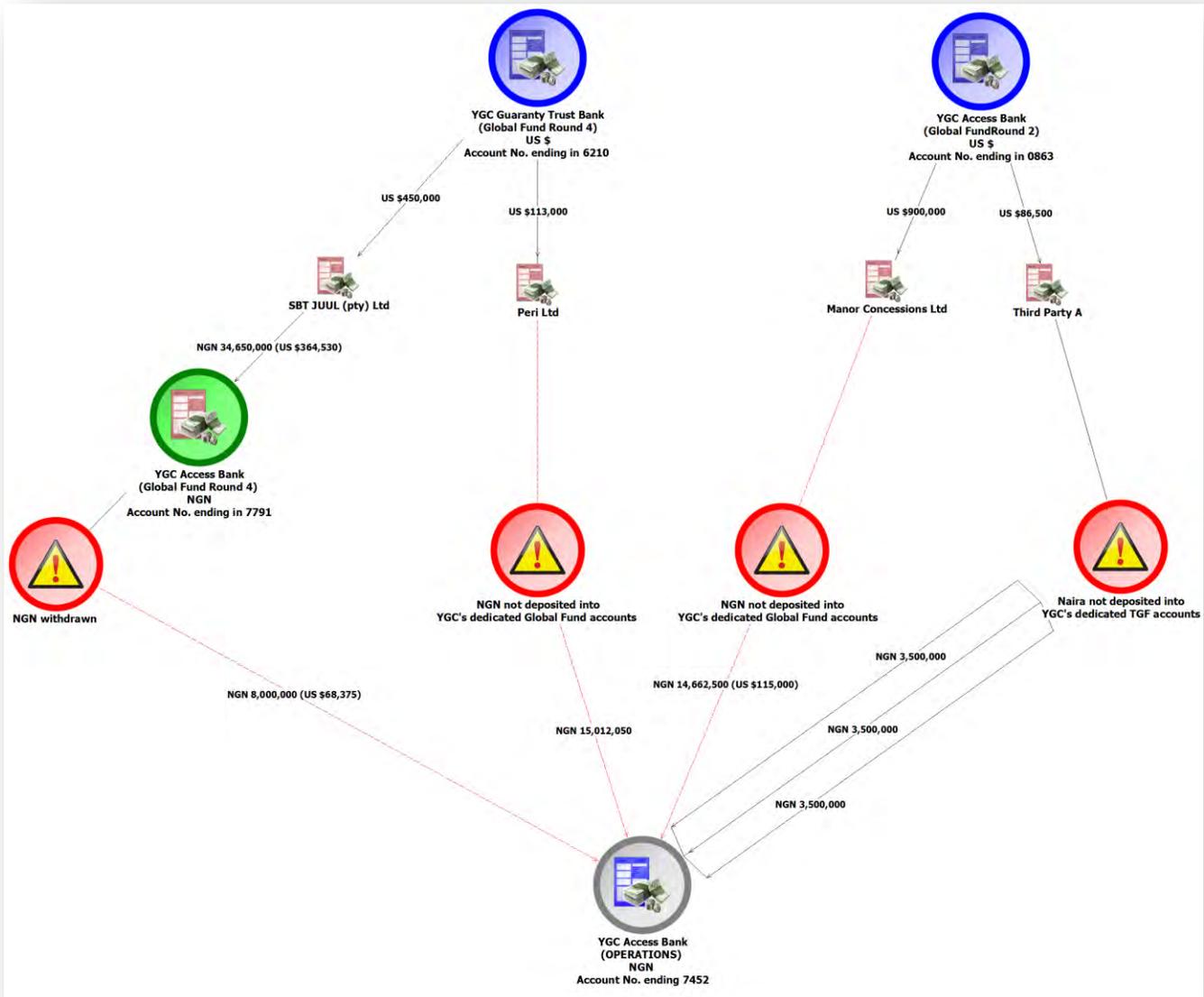
Notes:

- [1] The Naira equivalent of the USD withdrawals for each transaction is an estimate computed by OIG using foreign exchange rates based on:
 - a) rates displayed on YGC's transfer of funds forms provided to OIG documenting NGN amounts actually realised (or using rates actually realised), or
 - b) rates prevailing in the open market (Interbank rate) at the time of the transfer (average of BID and ASK prices for day) if an actual rate wasn't available.
- [2] Includes NGN deposits made to, but subsequently transferred out of the Global Fund program account.
- [3] Naira deposit received excludes the NGN 8,000,000 subsequently transferred out of the Global Fund program account and not returned.

Missing Funds



Missing Funds Deposited into YGC's OPE Account



1. Peri Ltd.

57. On 23 May 2006, YGC wired US\$ 113,000 to PERI Ltd. (PERI), a UK-based engineering firm. YGC wired the US Dollars from YGC's Global Fund GTB account (Global Fund Round 4) ending in #6210.


No 20, Yakubu Gowon Crescent (North), Off Keffi Road, Asokoro.
P. O. Box 3985, Garki, Abuja - Nigeria. Tel 234-09-3140613, Fax: 234-09-3146158
LAGOS OFFICE: Eastwing, WWO, Entrance 3, Tafawa Balewa Square, Lagos. Tel/Fax: 234-01-2645177.
E-Mail: ygc@thelined.abn.net.

22nd May, 2006

The Manager
Guaranty Trust Bank Plc.
Plot 1027 J.S. Tarkwa/Paskari Street
Garki, Area 3.
Abuja

Attention: Juliet Ojiko

Dear Sir,

TRANSFER OF FUNDS

Please we wish to transfer the sum of One Hundred and Thirteen Thousand USD (\$113,000.00) only from our Domiciliary Account No. [REDACTED] to the beneficiary indicated below.

Beneficiary: Perri Ltd.
Bank: [REDACTED]
Sort Code: [REDACTED]
Account No.: [REDACTED]
Payment Details: For Invoice PFSAP41
Amount: USD113,000.00 (One Hundred and Thirteen Thousand USD) only

Thank you. *Access Operations @ #132+851 = ₦15,012,050*

Yours faithfully
For: Yakubu Gowon Centre

[Signature]
Authorized Signatory

[Signature]
Authorized Signatory

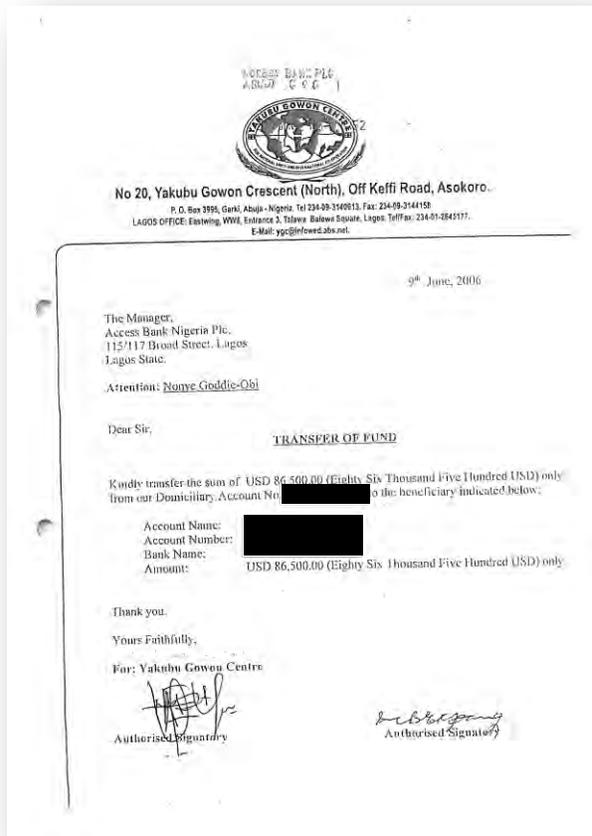
TRUSTFEE: Guaranty Trust Bank Plc. (P.O. Box 3985, Garki, Abuja - Nigeria)

58. The handwritten notation on the Transfer of Funds Form represents that NGN 15,012,050 (USD 113,000) was transferred to “Access Operations” (i.e. YGC’s Operations Account). An OIG forensic accountancy review of YGC’s dedicated Global Fund bank accounts determined that the Nigerian Naira-related component of this third party currency exchange transaction was not returned to any of YGC’s Global Fund bank accounts. The handwritten notation on YGC’s associated Transfer of Funds Form, and the manner in which the transaction was coded and described in YGC’s cashbooks (payment to “PR”), indicates that the third party currency exchange transfer-related Nigerian Naira was transferred to YGC’s Operations Account. OIG requested from YGC an explanation of the currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

2. Third Party A

59. On 01 November 2006, YGC wired US\$ 86,500 (NGN 11,000,000) to Third Party A, a Nigerian telecommunications operator. YGC wired the US Dollars from YGC’s Global Fund GTB Account (Global Fund Round 4) ending in #6210.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)



60. An OIG forensic accountancy review of YGC’s dedicated Global Fund bank accounts determined that the Nigerian Naira-related component of the third party currency exchange transfer was not returned to any of YGC’s dedicated Global Fund bank accounts. Similar to the PERI Ltd. third party currency exchange transaction, described above, the associated withdrawal entry in YGC’s cashbook, was coded to “PR (YGC).” This notation is also the same as the notation applied in YGC’s cashbook in respect of YGC’s third party currency exchange transaction with Arup PTY, described below.

61. Third Party A paid three cheques to YGC, each dated 09 June 2006, for NGN 3,500,000 (USD 27,500), and made out to “Yakubu Gowon Centre OPS.” YGC instructed Third Party A to pay the Nigerian Naira-related component of the third party currency exchange transaction to its Operations Account, and not to a Global Fund dedicated bank account. OIG requested from YGC an explanation of the third party currency exchange transaction, but YGC did not respond to this request, nor account for these missing funds during the investigation.

3. Arup (PTY) Ltd.

62. On 22 August 2006, YGC wired US\$ 75,000 (NGN 9,637,500) to Arup (PTY) Ltd. YGC wired the US Dollars from YGC's Global Fund GTB bank account (GF Round 4) ending in #6210. The relevant Transfer of Funds Form, shown below, indicates this third party currency exchange transfer was ordered by Asset & Resource Management Ltd., a Nigerian financial services firm.

YAKUBU GOWON CENTRE
No. 45, Yakubu Gowon Centre (Part 1), Off Keffi Road, Asokoro.
Plot 1027 J.S. Tarka/Faskari Street, Garki, Area 3, Abuja.

21 August 2006

The Manager
Guaranty Trust Bank Plc.
Plot 1027 J.S. Tarka/Faskari Street
Garki, Area 3,
Abuja.

Attention: Juliet Olika

Dear Sir,

TRANSFER OF FUNDS

We wish to transfer the sum of Seventy Five Thousand USD (US \$75,000.00) only from our Domiciliary Account No. [REDACTED] to the underlisted beneficiary (with account details):

1. **Beneficiary:** Arup (PTY) Ltd.
(ordered by Asset & Resource Management Ltd.
payment for Professional services).

Bank: [REDACTED]

Swift/Branch Code: [REDACTED]

Account No.: [REDACTED]

Amount: Seventy Five Thousand USD (\$75,000.00)

Thank you.

Yours faithfully
For: **Yakubu Gowon Centre**

[Signature]
Authorized Signatory

[Signature]
Authorized Signatory

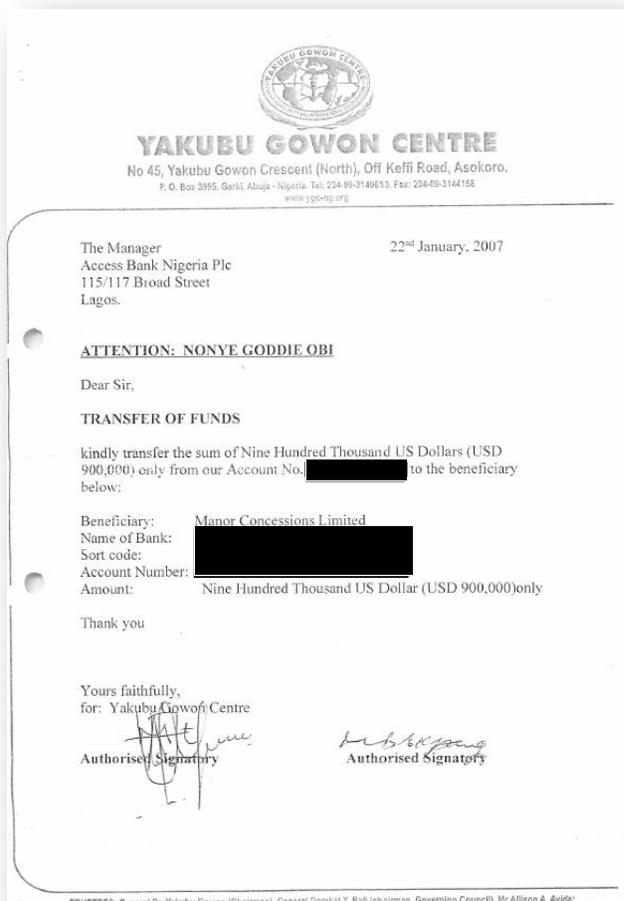
63. An OIG forensic accountancy review of YGC's dedicated Global Fund bank accounts determined that the Nigerian Naira-related component of this third party currency exchange transfer was not returned to any of YGC's Global Fund bank accounts. Similar to the currency exchange transactions described above, in YGC's cashbook, the associated withdrawal entry was coded to "PR (YGC)." OIG requested from YGC an explanation of the currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)

manner in which the US Dollar withdrawal was described in YGC's cashbooks indicates that the remaining unaccounted for US\$ 81,820 (NGN 10,403,840) was transferred to YGC's Operations Account and not returned to any of the Global Fund accounts. OIG requested from YGC an explanation of the third party currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

b) Transaction #2

66. On 22 January 2007, YGC wired US\$ 900,000 (NGN 114,750,000) to Manor Concessions. YGC wired the US Dollars were from YGC's Global Fund Access Bank account (Global Fund Round 2) ending in #0863.



67. An OIG forensic accountancy review of YGC's dedicated Global Fund bank accounts traced this USD 900,000 (NGN 114,750,000) withdrawal to a corresponding Nigerian Naira deposit of only NGN 100,087,500 (USD 785,000) paid into YGC's Global Fund Access Bank account (Global Fund Round 2) ending in #6824 on 22 January 2007. The manner in which the US Dollars withdrawal was described in YGC's cashbooks indicate that the remaining

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)

unaccounted for NGN 14,662,500 (USD 115,000) component of this third party currency exchange transfer was transferred to YGC's Operations Account and not returned to any YGC Global Fund dedicated account. The OIG requested from YGC an explanation of the currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

5. SBT JUUL (PTY) Ltd.

68. On 03 March 2008, YGC wired US\$ 450,000 (NGN 52,650,000) to SBT Juul (Pty) Ltd. (SBT Juul), an African property development company, with an office in Nigeria. YGC wired the US Dollars from YGC's Global Fund GTB account (Global Fund Round 4) ending in #6210.

69. The handwritten notation on the Transfer of Funds Form, above, indicates that the third party currency exchange transfer-related USD 450,000 (NGN 52,650,000) was deposited into the following accounts:

- (i) "Access operations" (i.e. YGC's Operations Account): NGN 8,000,000 (USD 68,375)

- (ii) “Access RD4” (i.e. YGC’s Global Fund Access Bank account for Round 4): NGN 34,650,000 (USD 296,155)
- (iii) GTB District Call: NGN 10,000,000 (USD 85,470)

70. An OIG forensic accountancy review of YGC’s dedicated Global Fund bank accounts determined that NGN 42,650,000 (USD 364,530) (the sum total of the NGN 8,000,000 and NGN 34,650,000 deposits described above) was deposited into YGC’s Global Fund Access Bank account (TGF R2) ending in #6824 on 3 March 2008.²⁹ Three days later, on 6 March 2008, NGN 8,000,000 (USD 68,375) was transferred out of account #6824 to another YGC Access Bank account, which is only partially identified on YGC’s bank statement. However, based on the handwritten notation on the Transfer of Funds Form, shown above, is believed to be YGC’s Operations Account.³⁰ Regardless of whether the funds went to YGC’s Operations Account, the evidence shows that these monies were transferred out of Global Fund program accounts and were not returned. Furthermore, whilst the handwritten notation on the SBT Juul Transfer of Funds Form, indicates that NGN 10,000,000 (USD 85,470) relating to the third party currency exchange transaction should have been deposited into YGC’s non-Global Fund Guaranty Trust Bank Call Account, an OIG forensic accountancy review of this account found no such deposit. The OIG requested from YGC an explanation of the currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

6. Homeland & Overseas Ltd.

71. The OIG investigation has revealed that on 08 January 2009, YGC wired US\$ 200,000 (NGN 27,840,650) to Homeland & Overseas Ltd. While initially cooperative, Homeland & Overseas refused to provide details of this third party currency exchange transfer to the OIG. YGC wired the US Dollars from YGC’s GTB bank account (GF Round 4) ending in #6210. While YGC was unable to produce the associated Transfer of Funds Form to OIG, YGC’s GTB Bank Account (Round 4) US Dollar bank statements showed this third party currency exchange transaction. The OIG forensic accountancy review of YGC’s dedicated Global Fund bank accounts determined that the Nigerian Naira-related component of this third party currency exchange transfer was not returned to any of YGC’s Global Fund dedicated bank accounts. The OIG requested from YGC an explanation of the third party currency exchange transaction, but YGC did not respond to this request nor account for these missing funds during the investigation.

²⁹ The deposit of Nigerian Naira into a Round 2 bank account may have been an error. At the time of this third party currency exchange transaction, YGC’s Access Bank account (Global Fund Round 2) ending in #6824 was essentially dormant (the last time it had been used for program activities was in July 2007). The transfer of funds from the Round 2 account into the Round 4 account, albeit only partial amounts, may therefore represent an attempt by YGC to correct the deposit account error.

³⁰ The recipient account number as printed on the bank statement was truncated and not available. According to the truncated printed notation on YGC’s associated Access Bank account, on 06 March 2008, NGN 8,000,000 was transferred from this account to “FT FRM 0090010006824 TO 009001 . . .”

B. DIVERSION OF THIRD PARTY CURRENCY EXCHANGE TRANSACTION PROCEEDS

72. In addition to the US\$ 824,626 of third party currency exchange related Global Fund monies that are missing from YGC's dedicated Global Fund bank accounts, the OIG investigation uncovered that YGC diverted proceeds earned from their currency exchange practice to non-Global Fund accounts.

1. Diversion of Proceeds to Account in the Name of "Yakubu Gowon Dev. Fund"

73. As explained further below, a number of third party recipients interviewed by OIG confirmed that they were instructed to divert portions of the Nigerian Naira third party currency exchange transactions to the "Yakubu Gowon Dev. Fund", a non-Global Fund account. OIG cannot make a final determination, at this stage, as to how many of the third parties were instructed to divert portions of the Nigerian Naira component of the third party currency exchange transactions to non-Global Fund bank accounts. OIG cannot make this determination because the Global Fund does not possess the mandate to compel third party recipients and Nigerian banking institutions to disclose this information. The OIG has identified at least NGN 3,878,013 (US\$ 29,260) in proceeds from the third party currency exchange transactions that were diverted by YGC.

Diverted Proceeds of Third Party Foreign Exchange Transactions to 'Yakubu Gowon Dev. Fund'

| USD Payment Date | Recipient | US\$ Payment | Actual FX Rate | NGN Deposit | NGN Diverted | Percent of Deposit Diverted | US\$ equivalent |
|------------------|---------------|--------------|----------------|-------------|--------------|-----------------------------|-----------------|
| 17-Feb-05 | Third Party B | \$624,235 | 132.50 | 82,711,138 | 3,433,293 | 4.15% | 25,912 |
| 15-Jun-05 | Third Party C | \$136,000 | 132.83 | 18,064,880 | 444,720 | 2.46% | 3,348 |

Notes:

[1] The amount of diverted NGN excludes the commission payment to Multi Lynx Ltd

74. At no time did YGC disclose the Yakubu Gowon Dev. Fund account to the OIG. To the contrary, the Global Fund was led to believe that all amounts had been transferred back to YGC's Global Fund dedicated bank accounts. The OIG was able to discover the existence of this account only through the investigation, and cooperation, of certain third parties. Based on the totality of the evidence - most notably the name on the bank account and similar diversions to YGC's Operations account (another non-Global Fund-dedicated bank account) - the OIG concludes that it is more likely than not that the account "Yakubu Gowon Dev. Fund" is linked to YGC personnel.

75. In addition, the OIG investigation has revealed that the "Yakubu Gowon Dev. Fund" bank account was not registered with the relevant Nigerian authorities, contrary to local law. OIG's review of the Nigerian Corporate Affairs Commission register also revealed that no "Yakubu Gowon Dev. Fund" or "Yakubu Gowon Development Fund" has been registered.

77. In return, on the same day, Third Party B Affiliate, an affiliate company of Third Party B, deposited NGN 82,711,138 (USD 624,235) into YGC’s Access Bank account (TGF Round 2) ending in #6824. Whilst OIG’s forensic accountancy review confirmed this repayment, OIG’s wider investigation into the third party recipients of the currency exchange transfers revealed that an additional currency exchange transaction related payment was made to a non-Global Fund bank account. In order to follow this transaction through, OIG investigators contacted Third Party B and obtained the related Third Party B Affiliate bank statement. This document revealed that on 17 February 2005, an additional diversionary payment of NGN 3,433,292.50 (USD 25,912), related to relevant third party currency exchange transaction, was deposited by Third Party B Affiliate to a previously unidentified entity called the “Yakubu Gowon Dev. Fund.” Third Party B informed OIG that it was instructed to pay this diversionary payment to this non-Global Fund bank account.

| | | | | | | |
|-------------|--|--------------|-----------|---------------|---------------|---------------|
| 14-FEB-05 | [REDACTED] | [REDACTED] | 14-FEB-05 | 1,000,000.00 | | 801,094.17 |
| 16-FEB-05 | [REDACTED] | [REDACTED] | 16-FEB-05 | | 84,271.725 00 | 85,072,819.17 |
| 16-FEB-05 | [REDACTED] | [REDACTED] | 16-FEB-05 | | 7,496.940 00 | 87,569.759.17 |
| ✓ 17-FEB-05 | FT B/D [REDACTED] PROJECT IFO YAKUBU GOWON | 000000000035 | 17-FEB-05 | 82,711,137.50 | | 4,858,621.67 |
| 17-FEB-05 | [REDACTED] | [REDACTED] | 17-FEB-05 | 100,000.00 | | 4,758,621.67 |
| ✓ 18-FEB-05 | BC 1040 IFO YAKUBU GOWON DEV FUND | 000000000038 | 17-FEB-05 | 3,433,292.50 | | 1,325,329.17 |
| 18-FEB-05 | [REDACTED] | [REDACTED] | 17-FEB-05 | 100.00 | | 1,325,229.17 |
| 18-FEB-05 | [REDACTED] | [REDACTED] | 17-FEB-05 | 5.00 | | 1,325,224.17 |

78. These proceeds related to the currency exchange transaction should have been reverted to YGC’s dedicated Global Fund bank accounts and applied to Global Fund projects, as stipulated in Articles 9 and 11(c) of YGC’s Program Grant Agreement with the Global Fund. OIG’s calculation at this time indicates that the account holders of The “Yakubu Gowon Dev. Fund” obtained diverted funds, and Global Fund grant resources, from the third party currency exchange transaction with Third Party B.

B. Third Party C

79. On 15 June 2005, YGC transferred US\$ 136,000 to Third Party C, a Nigerian information technology company, from YGC’s Access Bank account (Global Fund Round 2) ending in #0863.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)

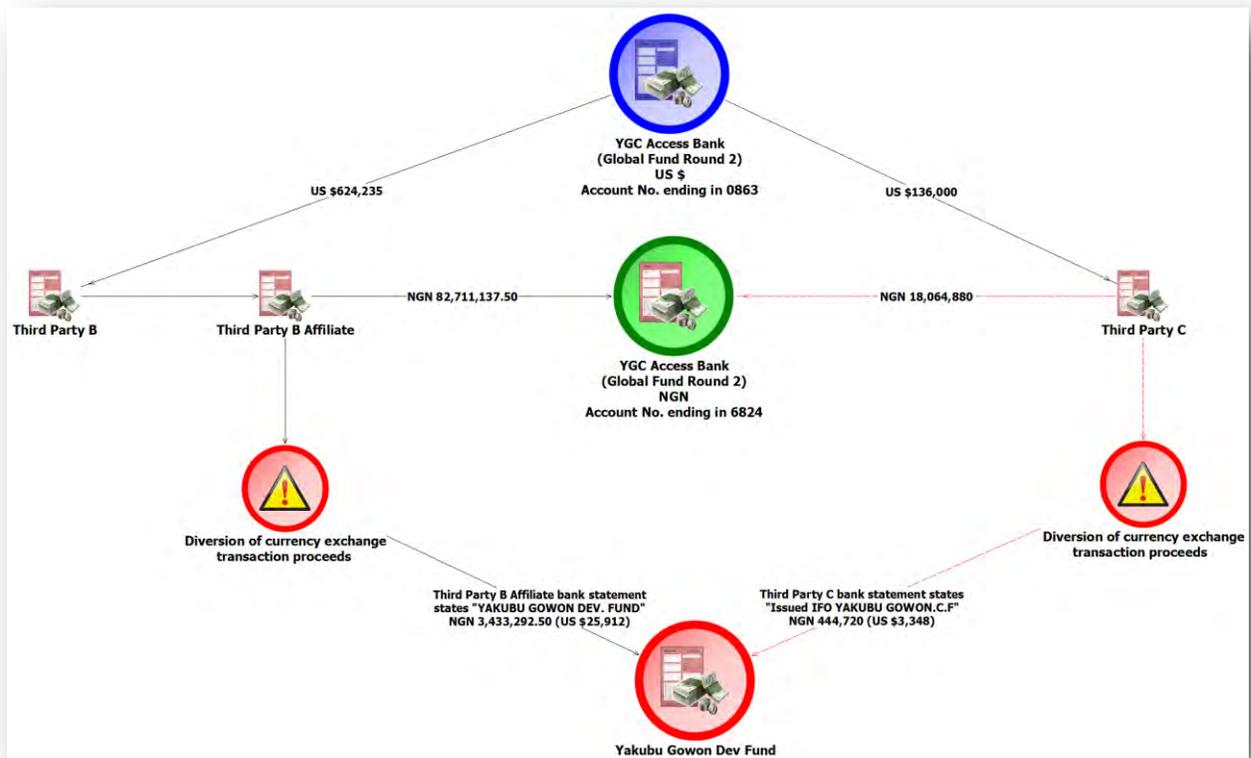
| | | | | | |
|----------------------|------------|--------------|--|--------------|--------------------|
| 13/06/05 21:05:03 | 13/06/2005 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 13/06/05 21:05:03 | 13/06/2005 | 000000004103 | VI BC 14209 ISSUED IFO YAKUBU.G .C | 18,064,880.0 | - 14,760,469.83 |
| 13/06/05 21:07:10 | 13/06/2005 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 13/06/05 21:07:10 | 13/06/2005 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 13/06/05 21:07:10 | 13/06/2005 | 000000004104 | V/I BC 14206 ISSUED IFO YAKUBU GOWON.C.F | 444,720.0 | - 15,205,399.83 |
| 13/06/05 21:09:34 | 13/06/2005 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 13/06/05 21:09:34 | 13/06/2005 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

<https://ebank.accessbankplc.com/corporate/entry> 17-Aug-11

account activity Page 6 of 7

| | | | | | |
|----------------------|------------|--------------|---|------------|--------------------|
| 13/06/05 21:09:34 | 13/06/2005 | 000000004105 | V.I BC 14210 ISSUED IFO MULTI LYNX LTD | 394,400.0 | - 15,600,009.83 |
| 13/06/05 21:29:36 | 13/06/2005 | [REDACTED] | [REDACTED] | 0.01 | [REDACTED] |
| 13/06/05 21:29:36 | 13/06/2005 | [REDACTED] | [REDACTED] | 178,013.33 | [REDACTED] |

82. Third Party C personnel confirmed to OIG that the payment to “Yakubu Gowon C.F.” was made to the Yakubu Gowon Dev. Fund. These amounts should have been reverted to YGC’s dedicated Global Fund bank accounts and applied to Global Fund projects, per YGC’s Program Grant Agreement. As such, the diversion of these currency exchange transactions violates Article 11(c) of YGC’s Program Grant Agreement.



2. Diversion of Proceeds to YGC's Non-Global Fund-Related Operations Account

83. The OIG investigation also identified two deposits totaling NGN 400,000 (USD 3,400) to YGC's Operations Account. As illustrated below, evidence obtained by the OIG investigation indicates that these deposits relate to third party currency exchange transaction proceeds, and therefore constitute a further diversion of Nigerian Naira away from YGC's dedicated Global Fund bank accounts. As such, this is a violation of Articles 9 and 11(c) of YGC's Program Grant Agreement with the Global Fund. Despite repeated requests by the OIG, YGC has refused OIG full access to the Operations Account, which would enable OIG to make a more concrete determination on this issue.

i. Homeland & Overseas

84. On 07 November 2008, YGC transferred US\$ 248,000 from YGC's GTB bank account (TGF Round 4) ending in #6210 to Homeland & Overseas, a Nigerian parallel currency market exchange firm.


YAKUBU GOWON CENTRE
No 45, Yakubu Gowon Crescent (North), Off Keffi Road, Asokoro.
P. O. Box 3995, Garki, Abuja - Nigeria. Tel: 234-9-3148613, Fax: 234-9-3144158
Website: www.ygc-ng.org

5th November 2008
1000
5 P 2 00
S.G. 611
YAKUBU GOWON CENTRE

The Manager,
Guaranty Trust Bank Plc,
Plot 1027 J. S. Farika/Faskari Street,
Garki, Area 3,
Abuja.

Attention: Olunike Oduwale,

Dear Sir,

TRANSFER OF FUNDS

Please we wish to transfer the sum of Two Hundred and Forty Eight Thousand USD (\$248,000) only from our Account No. [REDACTED] in the beneficiary below:

Corres. Bank: [REDACTED]
SWIFT Code: [REDACTED]
Beneficiary Bank: [REDACTED]
Address: [REDACTED]

Beneficiary Name: Homeland & Overseas Ltd.
Account No: [REDACTED]

Thank You.

Yours Faithfully,
For: Yakubu Gowon Centre


Authorized Signatory

5/11/08

FD
Oceanic Bank #29,164,800


Authorized Signatory

TRUSTEES: General Dr. Yakubu Gowon (Chairman), General Domkat Y. Baki (Chairman, Governing Council), Mr. Alikon A. Ayida.

85. An OIG forensic accountancy review determined that on 07 November 2008, NGN 29,164,800 (USD 248,000) was deposited by Homeland & Overseas into YGC's non-Global Fund Oceanic Bank account ending in #5799. This amount was later transferred to YGC's Global Fund GTB Account (TGF Round 4) ending in #6110.

86. The OIG identified two additional deposits, by Homeland & Overseas to YGC's Operations Account. The evidence available to OIG at this time indicates that these two deposits are related to the above currency exchange transaction, by virtue of the identity of the depositor and the date of the deposit. On 10 November 2008, three days after the relevant currency exchange transaction, Homeland & Overseas deposited two payments of NGN 99,200 (USD 843) and NGN 300,800 (USD 2,557) into YGC's Operations Account.

YGC Operations Account Statement

AMINU KANO, ABUJA BRANCH
 PLOT 118 AMINU KANO CRESCENT WUSE II (OPP. AMAL COURT)
 ABUJA, ABUJA

access

Account Statement

Summary Statement for 01-Nov-2008 To 15-Dec-2008
 Currency Naira
 Account Name YAKUBU GOWON CENTRE FOR NATIONAL UNITY AND INTERNATIONAL COOPERATION

Summary Details

ACCOUNT NO. -
 OPENING BALANCE -
 TOTAL WITHDRAWALS -
 TOTAL LODGEMENTS -
 CLOSING BALANCE -
 CLEARED BALANCE -
 UNCLEARED BALANCE -

PRIVATE & CONFIDENTIAL

CURRENT ACC., CORPORATE

| Date | Transaction Details | Reference | Value Date | Withdrawals | Lodgements | Balance |
|-----------|------------------------------------|--------------|------------|--------------|--------------|--------------|
| 01-Nov-08 | | | | | | 2,728,912.27 |
| 04-Nov-08 | | | 04-Nov-08 | 36,000.00 | | 2,692,912.27 |
| 05-Nov-08 | | | 10-Nov-08 | | 50,000.00 | 2,742,912.27 |
| 05-Nov-08 | | | 05-Nov-08 | 1,235,740.00 | | 1,507,172.27 |
| 07-Nov-08 | | | 07-Nov-08 | 445,021.00 | | 1,062,151.27 |
| 10-Nov-08 | PHB 17162640/HOMELAND OVERSEAS LTD | 000017162643 | 13-Nov-08 | | 99,200.00 | 1,161,351.27 |
| 10-Nov-08 | PHB 17162640/HOMELAND OVERSEAS LTD | 000017162640 | 13-Nov-08 | | 300,800.00 | 1,462,151.27 |
| 10-Nov-08 | | | 10-Nov-08 | 800,000.00 | | 662,151.27 |
| 17-Nov-08 | | | 17-Nov-08 | 346,332.80 | | 315,818.47 |
| 17-Nov-08 | | | 17-Nov-08 | 81,800.00 | | 234,018.47 |
| 20-Nov-08 | | | 20-Nov-08 | | 7,487,970.37 | 7,721,988.84 |
| 10-Nov-08 | PHB 17162640/HOMELAND OVERSEAS LTD | 000017162643 | 13-Nov-08 | | 99,200.00 | 1,162,351.27 |
| 10-Nov-08 | PHB 17162640/HOMELAND OVERSEAS LTD | 000017162640 | 13-Nov-08 | | 300,800.00 | 1,463,151.27 |
| 21-Nov-08 | | | 21-Nov-08 | 1,000,000.00 | | 463,151.27 |
| 21-Nov-08 | | | 21-Nov-08 | 700,000.00 | | 233,151.27 |
| 25-Nov-08 | | | 25-Nov-08 | 2,500,000.00 | | 2,181,878.20 |
| 25-Nov-08 | | | 01-Dec-08 | | 24,102.30 | 2,215,980.50 |
| 26-Nov-08 | | | 26-Nov-08 | 681,820.00 | | 1,534,160.50 |
| 27-Nov-08 | | | 27-Nov-08 | 5,250.00 | | 1,528,910.50 |
| 27-Nov-08 | | | 27-Nov-08 | 5,250.00 | | 1,523,660.50 |
| 28-Nov-08 | | | 28-Nov-08 | 381,000.00 | | 1,142,660.50 |
| 28-Nov-08 | | | 28-Nov-08 | | 4,851,500.00 | 5,994,160.50 |
| 28-Nov-08 | | | 28-Nov-08 | 790.42 | | 5,993,370.08 |
| 28-Nov-08 | | | 28-Nov-08 | 15,808.38 | | 5,977,561.69 |
| 02-Dec-08 | | | 02-Dec-08 | 1,000,000.00 | | 4,977,561.69 |
| 02-Dec-08 | | | 02-Dec-08 | | 1,641,192.00 | 6,618,753.69 |
| 04-Dec-08 | | | 04-Dec-08 | 217,613.00 | | 6,391,140.69 |
| 05-Dec-08 | | | 05-Dec-08 | | 90,000.00 | 6,481,140.69 |
| 15-Dec-08 | | | | | | |

87. In an interview with OIG, personnel from Homeland & Overseas stated that the two deposits, totaling NGN 400,000, were likely related to a third party currency transaction which YGC conducted with Homeland & Overseas. They also confirmed that it was not unusual for the Nigerian Naira component of a parallel currency market exchange transaction to be paid in multiple cheques, or a combination of cheques and cash. They further stated that it was not unusual for the Nigerian Naira payments to be divided into large cheques and much smaller cheques, similar to the amounts shown in the Operations Account, to allow for the recipient parties to take their own cut of the transaction.

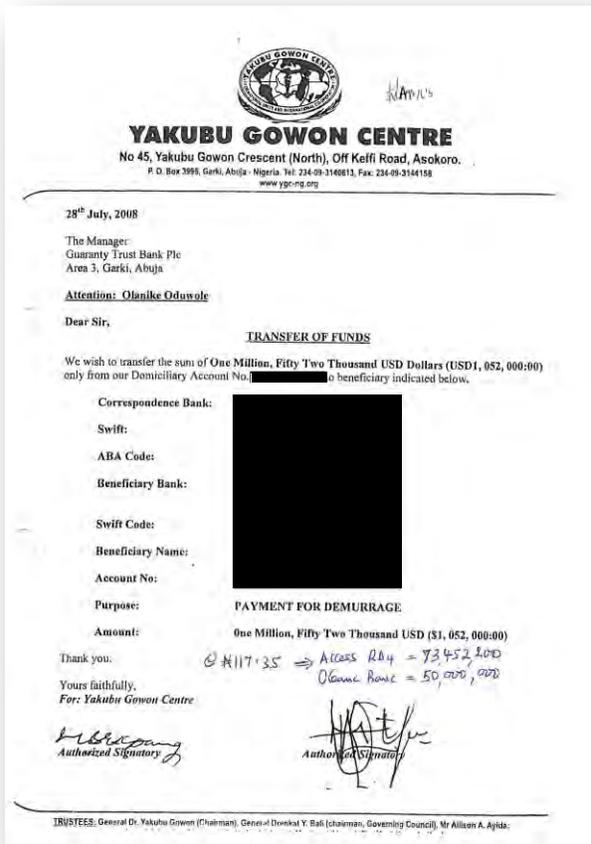
VIII. RISKS ASSOCIATED WITH YGC'S USE OF NIGERIA'S PARALLEL CURRENCY MARKET

88. By utilizing Nigeria's parallel currency market, and exchanging dollars outside of the Nigerian central banking system with third parties, YGC exposed Global Fund monies to association with two third party recipients which had Suspicious Activity Reports (SAR) issued against them by their respective banking institutions and had their bank accounts closed as a result; one third-party recipient identified as a Politically Exposed Person (PEP); and one third-party recipient subsequently debarred by a national government for links to serious criminal activity. As such YGC breached Article 9 of its Program Grant Agreement with the Global Fund, requiring Principal Recipients to:

use its reasonable efforts to ensure that Grant funds are not used by it or by any Sub-recipient to support or promote violence, to aid terrorists or terrorist-related activity, to conduct money-laundering activities or to fund organizations known to support terrorism or that are involved in money-laundering activities.

A. RECEIPT OF GLOBAL FUND PROVIDED US DOLLARS BY A THIRD PARTY SUBSEQUENTLY DEBARRED BY A NATIONAL GOVERNMENT FOR LINKS TO SERIOUS CRIMINAL ACTIVITY

89. The OIG investigation found that one of the recipients of YGC's third party currency exchange transfers went to an entity for which there is credible and confirmed information about its status and involvement in extended and serious illegal activity.



90. On 30 July 2008, YGC transferred US\$ 1,052,000 million to this entity. The transfer initially was sent through BNP Paribas Paris, via BNP Paribas New York.

91. Information identified by the OIG establishes that the principal of this entity had been arrested in 2003, along with his wife and several colleagues, in relation to allegations of money laundering, fraud, and smuggling conflict diamonds. In 2009, the owner of the entity was debarred by a national government for links to serious criminal activity, which was followed by the debarment of the entity in 2010 by a national government for these same reasons.

92. The OIG's forensic accountancy review of YGC's TGF-related Bank Accounts confirmed that, on 22 August 2008, an inflow payment to YGC's Global Fund Round 4 Access bank account, ending in #7791, was made for NGN 73,452,200 (US\$ 619,202). This payment was made three weeks *after* YGC's Global Fund-provided US Dollars were transferred to the debarred entity. The OIG has however, been unable to positively identify which individual repaid the NGN 73,452,200 into YGC's TGF R4 Access Bank Account #7791, due to YGC's failure to fully respond to OIG's request for associated deposit receipt, and cheques.

93. The Transfer of Funds Form above indicates that a separate payment of NGN 50,000,000 (approximately US\$ 400,000) was paid into “Oceanic Bank”. The OIG’s forensic accountancy review was unable to confirm this inflow payment into YGC’s Oceanic bank account ending in #5799, as YGC did not produce the relevant bank statements. However on August 25, 2008, this amount was transferred to YGC’s Oceanic Bank fixed deposit account. In January 2009, this amount was transferred to YGC’s Global Fund Round 4 Guaranty Trust Bank account ending in #6110.

B. RECEIPT OF GLOBAL FUND-PROVIDED US DOLLARS BY THIRD PARTIES SUBJECT TO SUSPICIOUS ACTIVITY REPORTS

94. The OIG investigation has also revealed that at least two of the third party recipients which received currency transfers of Global Fund program funds, in the form of US Dollars, have had Suspicious Activity Reports (“SARs”) issued against them by their respective banks.³³ SARs are required to be filed by banks in certain jurisdictions when the bank maintains concerns about the third party. More specifically, financial institutions within a number of countries are required by law to issue SARs where customer activity is in some way suspicious and may indicate money laundering or terrorist financing. These two third party recipients which had SARs issued in respect of their bank account activity, subsequently had their bank accounts closed by their banking institutions, as a result of the SARs being issued against them.

C. RECEIPT OF GLOBAL FUND-PROVIDED US DOLLARS BY ENTITIES OWNED BY A POLITICALLY EXPOSED PERSON (“PEP”)

95. On five separate occasions within a four-month period, YGC exchanged a total of US\$ 3.07 million with several subsidiaries of a certain Nigerian company. The transactions ranged in size from USD 250,000 to USD 1.14 million and involved subsidiaries in Nigeria and Senegal.

96. The head of the entity has been identified as a Politically Exposed Person (PEP) by the global compliance database, World Check.

97. According to KPMG, “‘PEP risk’ is now universally used as a risk factor”.

98. According to a World Bank report PEPs represent a “greater money laundering risk because of the possibility that such individuals may abuse their position and influence to carry

³³ Further details in relation to this component of OIG’s investigation are restricted to ensure any investigation by law enforcement agencies are not prejudiced.

out corrupt acts, such as accept and extort bribes and misappropriate state assets, then use domestic and international financial systems to launder the proceeds.”³⁴

99. The designation of the owner of these subsidiaries as a PEP does not necessarily support the determination that funds provided to his/her organization were used for criminal activity. Rather, it means that heightened scrutiny should have been involved in any transaction with his/her company as such dealings bear a greater risk of potential involvement in illicit activity, as stipulated by the World Bank report.

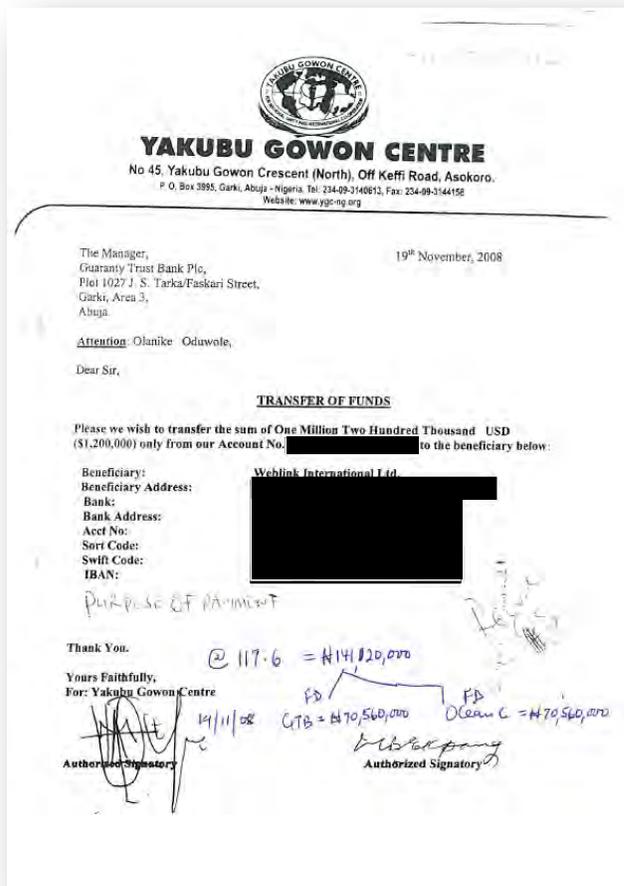
D. TRANSFERS OF GLOBAL FUND-PROVIDED US DOLLARS THROUGH MULTIPLE ENTITIES

100. In addition to YGC transferring US Dollars to third parties that the OIG investigation confirmed are involved in criminal activity, the parallel currency market exchange process also led to the related-Nigerian Naira components being funneled through a number of intermediaries before being deposited into YGC’s dedicated Global Fund bank accounts. This practice increased the risk that funds were exposed to entities engaged in criminal activity.

101. For example, on 19 November 2008 YGC transferred US\$ 1.2 million to Weblink International Ltd. (“Weblink”).

³⁴ Theodore S. Greenberg et al., “*Stolen Asset Recovery: Politically Exposed Persons A Policy Paper on Strengthening Preventive Measures.*” (World Bank, 2009). PDF file, p. 3.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)



102. Weblink personnel informed the OIG that on 18 and 19 November 2008, Tamrose Ventures Limited, one of Weblink’s clients, paid currency exchange transfer-related Nigerian Naira into a bank account of Homeland & Overseas. Homeland & Overseas reportedly then transferred the third party currency exchange transfer-related Nigerian Naira to YGC. Thus, by utilizing the parallel currency market, as opposed to Nigeria’s central banking system, YGC exposed itself to dealings with multiple entities, and did not know exactly to which entity Global Fund US dollars were being sent, nor from which entity it was receiving Nigerian Naira.

E. DELAYED RECEIPT OF NGN FOLLOWING DEPOSIT OF US DOLLARS

103. For twelve of the 61 third party currency exchange transfers (totaling US\$ 6,874,681³⁵) the NGN funds were deposited *after* the US Dollars were wired out of YGC’s bank

³⁵ For 18, or 33%, of the 61 third party currency exchange transfers, the Nigerian Naira funds were deposited prior to the US Dollars being wired out (ranging from 1 to 6 days), and therefore constituted a low risk of exposure to transaction default (i.e., that the third party would default on their end of the transaction — in whole or in part — by

accounts. This delay between the US Dollars being wired out, and the Nigerian Naira being returned to YGC, ranged from one to 23 days. Such transactions constituted a high risk of transaction default given that YGC paid out its US Dollars before it received Nigerian Naira from the third parties, exposing YGC, and the Global Fund, to potential losses, should the third party renege on its payment. Moreover, several of these transactions occurred with high-risk entities. If YGC had utilized the Nigerian central banking system, no such delay, or associated risk, would have occurred.

Third Party Currency Exchange Transactions for which Nigerian Naira was Deposited One or More Days After Payment of US Dollars

| USD Payment Date | NGN Deposit Date | Date Difference (in days) | Recipient | US\$ Amount |
|------------------|------------------|---------------------------|----------------------------|--------------------|
| 30-Jul-08 | 22-Aug-08 | 23 | [Debarred Entity] | \$1,052,000 |
| 7-Feb-05 | 25-Feb-05 | 18 | Shitole Sudhakar DhananJay | \$218,800 |
| 7-Feb-05 | 23-Feb-05 | 16 | Shitole Sudhakar DhananJay | \$279,700 |
| 25-Feb-05 | 7-Mar-05 | 10 | INEMO Services Ltd | \$1,580,000 |
| 8-Aug-06 | 15-Aug-06 | 7 | Collins C Chikeluba | \$100,000 |
| 16-Mar-05 | 22-Mar-05 | 6 | INEMO Services Ltd | \$532,500 |
| 21-Aug-08 | 26-Aug-08 | 5 | ACE Import | \$420,000 |
| 28-Dec-07 | 31-Dec-07 | 3 | Benitra BY BA | \$690,000 |
| 28-Dec-07 | 31-Dec-07 | 3 | Greenview International Co | \$202,465 |
| 1-Nov-06 | 2-Nov-06 | 1 | Manor Concessions Ltd | \$110,000 |
| 24-Jan-08 | 25-Jan-08 | 1 | PEP affiliated entity | \$574,500 |
| 2-Apr-08 | 3-Apr-08 | 1 | PEP affiliated entity | \$1,114,716 |
| TOTAL | | | | \$6,874,681 |

Notes: A portion of the multiple NGN deposit for four additional transactions was not received until after the US Dollars were paid. They are not listed herein.

IX. YGC'S MISREPRESENTATIONS TO, AND LACK OF COOPERATION WITH, THE INVESTIGATION

104. As demonstrated above, YGC officials involved in the currency exchange transactions failed to provide the OIG with critical information regarding the currency exchange transfers. In particular, YGC refused to disclose details concerning YGC's non-Global Fund bank accounts into which currency exchange transaction related Global Fund monies were deposited. Additionally, despite repeated requests for cheques and other

not making the Nigerian Naira payment, or the full Nigerian Naira payment, and YGC, then, losing the funds). For 24, or 44%, of the 61 third party currency exchange transfers, the Nigerian Naira funds were deposited on the same day the US Dollars were wired out. These transactions may be considered medium risk of transaction default, *unless* the US Dollars withdrawal instructions were physically made after it was known the related NGN had been deposited. In such instances, the risk would also be considered low.

payment and financial data, YGC failed to produce the vast majority of requested documentation to the OIG during the course of the investigation. This lack of cooperation with a number of requests for documents and records highly relevant to the investigation prolonged the investigation and resulted in a considerable delay in reporting results.

105. Additionally, YGC officials involved in the third party currency exchange transfers concealed their ties to certain recipients of the third party currency exchange transfers; provided conflicting information as to the role and identity of Nigerian bank personnel involved in the third party currency exchange transfers; and failed to provide requested information as to certain third parties involved in the third party currency exchange transfers.

106. As a result of YGC's lack of cooperation, misrepresentations, and failure to fully cooperate with OIG, contrary to their obligations as set forth in their Program Grant Agreement with the Global Fund, OIG was required to conduct four separate fact-finding missions to Nigeria to obtain the information and evidence presented in this report. With full and proper cooperation, these missions and considerable expense could have been avoided, and reporting could have been accomplished in a much more timely fashion.

A. YGC PERSONNEL MISREPRESENTED THEIR CONNECTION TO THIRD PARTY RECIPIENTS OF THE CURRENCY TRANSFERS

107. A central question of the OIG investigation was the relationship, if any, between YGC and the third parties to whom Global Fund grant funds had been transferred via the third party currency exchange transactions. During several initial interviews, at the outset of OIG's investigation, YGC employees involved in the third party currency exchange transactions stated to the OIG that they did not know any of the third parties with which YGC conducted the third party currency exchange transactions.³⁶ However, OIG identified that one of YGC's top officials, its then Deputy Chief Executive, facilitated a third party currency exchange transfer of Global Fund grant funds to his brother-in-law, Anthony Bisong. On 18 January 2008, YGC wired US\$ 33,603 (NGN 3,945,350) to Anthony Bisong, an individual residing in the United States. YGC wired the US Dollars from YGC's Global Fund GTB bank account (TGF Round 4) ending in #6210.

³⁶ See OIG ROC with YGC Chief Accountant, July 2010; See OIG Record of Conversation with YGC Deputy Chief Executive, July 2010.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)


YAKUBU GOWON CENTRE
No 45, Yakubu Gowon Crescent (North), Off Keffi Road, Asokoro.
P. O. Box 3985, Garki, Abuja - Nigeria. Tel: 234-90-2140613, Fax: 234-90-2144158
www.ygc-ng.org

17th January, 2008
The Manager
Guaranty Trust Bank Plc
Plot 1072 J.S. Tarka/Faskari Street
Area 3, Garki
Abuja

[Signature]

Attention: Olanike Oduwole

Dear Sir,

TRANSFER OF FUNDS

We wish to transfer the sum of _____ only from our Domiciliary Account No. _____ to beneficiary indicated below.

Beneficiary: *Anthony Bisong*

Swift Code: _____

Swift Code: _____

Account No.: _____

Amount: *USD 33,603=*

Bank: _____
Address: _____

Thank you.

Yours faithfully,
For: Yakubu Gowon Centre *Ⓢ #117.4106478 = GTB #3945350*

[Signature]
Ambassador-M.B. Ekpong
Deputy Chief Executive

[Signature]
Miku Oyeleke
Chief Accountant

TRUSTEES: General Dr. Yakubu Gowon (Chairman); General Ibrahim Y. Rabo (Chairman); General Abacha A. Abacha

108. After initially denying any knowledge of the recipients of the third party currency exchange transfers, YGC's Chief Accountant eventually admitted in an interview with OIG investigators that third party currency exchange transfer recipient Anthony Bisong was related to YGC's former Deputy Chief Executive. According to YGC's Chief Accountant, YGC's Deputy Chief Executive called him/her to his/her office, where Mr. Bisong was present. According to, YGC's Chief Accountant, the Deputy Chief Executive informed him/her that Mr. Bisong had come to Abuja, Nigeria from the United States and needed to exchange Nigerian Naira for US Dollars. The Chief Accountant further stated that Mr. Bisong later returned to YGC's offices and handed over an undisclosed amount of Nigerian Naira in cash to him/her. The Chief Accountant could not recall if he/she, or another YGC employee, went to the bank to deposit the cash.

109. An OIG forensic accountancy analysis identified two Nigerian Naira payments to YGC's Global Fund GTB bank account (TGF Round 4) ending in #6110 which are potentially related to this third party currency exchange transfer. On 16 January 2008, a cash deposit of NGN 2,570,000 (USD 21,889) was paid into this bank account. On 31 January 2008, a further cash deposit of NGN 1,375,350 (USD 11,714) was deposited into this account.

110. This transaction between a YGC senior employee and their family member violates Article 21 (b)(i) of YGC's Program Grant Agreement with the Global Fund which stipulates that Principal Recipients shall not:

Participate[s] in the selection, award, or administration of a contract, grant or other benefit or transaction funded by the Grant, in which the person, members of the person's immediate family or his or her business partners, or organizations controlled by or substantially involving such person, has or have a financial interest.

111. YGC personnel were untruthful about this family connection. Also, the Nigerian Naira was initially brought directly to YGC's premises. In light of similar diversions of proceeds generated from third party currency exchange transactions, these circumstances provided the opportunity for a similar diversion of proceeds.

B. YGC STAFF MISREPRESENTED THE IDENTITY OF BANK PERSONNEL INVOLVED IN THE CURRENCY EXCHANGE

112. YGC officials involved in the third party currency exchange transactions repeatedly stated to OIG investigators that YGC's banks, Access Bank and Guaranty Trust Bank, identified for YGC the third party recipients for these transfers, and that the third parties were theretofore not known by YGC. In that regard, in July 2010, the YGC Chief Accountant stated to investigators: "I got the names and details of the beneficiaries [of the third party currency exchange transfers] from the bank staff at GTB and Access Bank."³⁷ YGC officials involved in the third party currency exchange transfers stated to OIG that these details were provided outside of the official duties of bank employees, explaining, "You must understand that the providing of this information, the details of the beneficiaries was not officially done. The information came from the Foreign Exchange offices at GTB and Access Bank in Lagos from people I know. It is not the official way of doing these things."³⁸ When asked to provide names and details of the individuals involved, he/she responded, "At the GTB [Employee A] and [Employee B] in the FX Office, at the Access Bank [Employee C] and [Employee D]. I have known [Employee D] at the Access Bank FX department since 2005, [he/she] arranged the first transfers."³⁹

113. YGC's former Deputy Chief Executive also claimed that the third party currency exchange transfers were conducted at the initiative of banking personnel.⁴⁰ YGC's former Deputy Chief Executive explained to OIG investigators, in July 2010, that the Nigerian banks

³⁷ See OIG Record of Conversation with YGC Chief Accountant, July 2010. He/she later recanted his statement regarding GTB Bank.

³⁸ See OIG Record of Conversation with YGC Chief Accountant, July 2010. He/she later recanted his statement regarding GTB Bank.

³⁹ See OIG Record of Conversation with YGC Chief Accountant July 2010. He/she later recanted his statement regarding GTB Bank.

⁴⁰ See OIG Record of Conversation with YGC Deputy Chief Executive, July 2010.

holding YGC's bank accounts knew when US Dollars were dispersed by the Global Fund into those accounts.⁴¹ He/she said that when those US Dollars came in, representatives of the banks approached YGC to discuss a US Dollar for Nigerian Naira currency exchange.

114. However, when interviewed by OIG, bank officials from both Access Bank and GTB provided directly contradictory information. In interviews with the OIG, both Access Bank and GTB employees denied providing the names and details of all of the third parties involved in the third party currency exchange transactions.

115. Following interviews with YGC's Chief Accountant, in May 2011, OIG investigators contacted one of the former Access Bank employees who YGC claimed facilitated the third party currency exchange transactions, by providing names and details of the third parties. This employee, referred to as Employee C, initially confirmed that he/she did facilitate some of the third party currency exchange transfers for YGC, during his/her employment at Access Bank, sourcing a number of the third party recipients which sought to purchase the US Dollars from YGC. However, in August 2011, when faced with further inquiries by OIG, Employee C stated to the OIG investigators that his/her previous statements to the OIG were false, and that he/she had misrepresented his/her actions. He/she then stated that he/she did not conduct any of the third party currency exchange transfers but, rather, was instructed to lie regarding his/her role by another Access Bank employee, Employee E, whose identity and involvement in the third party currency exchange transactions had not previously been disclosed to the OIG by YGC. Employee C stated that he/she left Access Bank in July 2005, prior to the majority of the third party currency exchange transfers taking place.

116. The OIG investigators then met with Employee E in August 2011. During this interview, Employee E denied instructing Employee C to lie on his/her behalf, but subsequently acknowledged that he/she did facilitate at least one of the third party currency exchange transfers for YGC that involved Global Fund monies. The transaction he/she identified occurred on 16 March 2006, wherein YGC wired US\$ 27,887 (NGN 3,197,275) to Ibukun Soyebo.

⁴¹ See OIG Record of Conversation with YGC Deputy Chief Executive, July 2010.

Investigative Report on Global Fund Grants to Nigeria - Part One: Principal Recipient Yakubu Gowon Centre for National Unity and International Cooperation (YGC)

YGC TRF #


No 20, Yakubu Gowon Crescent (North), Off Keffi Road, Asokoro.
P. O. Box 3995, Garki, Abuja - Nigeria. Tel: 234-09-3140613, Fax: 234-09-3144158
LAGOS OFFICE: Eastwing, WWB, Entrance 3, Tafawa Balewa Square, Lagos. Tel/Fax: 234-01-2645177
E-Mail: ygc@infowest.abs.net.

14th March, 2006

The Manager,
Access Bank Plc,
115/117 Broad Street,
Lagos - Nigeria

Attention: Nonye Goddie-Obi

Dear Sir,

TRANSFER OF FUNDS

Kindly transfer the sum of Twenty Seven Thousand Eight Hundred and Eighty Seven US Dollars (USD 27,887.00) only from our Account No. [REDACTED] to the beneficiary below:

Beneficiary: Ibukun Soyobo
Bank: [REDACTED]
Account No: [REDACTED]
Routing No: [REDACTED]
Amount: Twenty Seven Thousand Eight Hundred and Eighty Seven US Dollars (USD 27,887.00)

Thank you.

Yours faithfully
For: **Yakubu Gowon Centre**


Authorized Signatory


Authorized Signatory

TELETYPE: General for Yakubu Gowon (Chairman) General Director; - Ball - Chairman, Governance Council, Mr. Allison A. Ajide

117. The OIG investigation revealed that Mr. Soyobo is the brother-in-law of Employee E. Employee E stated to the OIG that the Nigerian Naira-related component of this third party currency exchange transaction was not paid back to YGC by Mr. Soyobo, but rather from either the bank account of Employee E, or his/her mother. Employee E denied facilitating any other currency exchange transfers for YGC.

118. Similarly, Guaranty Trust Bank staff interviewed by the OIG denied any role in advising YGC as to potential third party recipients of the third party currency exchange transfers. Guaranty Trust Bank officials stated to the OIG that it would be unethical and a conflict of interest for Guaranty Trust Bank to identify third parties to YGC for such transfers. When faced with Guaranty Trust Bank's denial, YGC's Chief Accountant changed his/her story once again, stating that Access Bank personnel informed him/her of all third party recipients, and Guaranty Trust Bank staff were not involved.⁴² YGC's Chief Accountant refused to provide any credible explanation as to who provided the names and details for the third party

⁴² See OIG Record of Conversation with YGC Chief Accountant, July 2010.

currency exchange transactions which went through YGC's Guaranty Trust Bank account, claiming that all transactions were facilitated by Access Bank.

119. The OIG spent considerable time, effort and resources attempting to flush out the full details of the third party currency exchange transactions. YGC's concealment of the identities of relevant bank personnel supposedly involved in the third party currency exchange transactions, and the constant changing of their description as to the involvement of bank personnel in the third party currency exchange transfers frustrated the investigation, and prolonged it. Had these YGC officials been fully transparent with the OIG, and truthful and complete in their responses, this matter would have been concluded much sooner.

C. YGC PERSONNEL PRESENTED CURRENCY EXCHANGE-RELATED DOCUMENTATION CONTAINING MISREPRESENTATIONS TO THE OIG

120. YGC employees involved in the third party currency exchange transfers further complicated the OIG's investigation by presenting documentation containing misrepresentations related to the third party currency exchange transactions, and refusing to providing clarification for these documentation when requested by the OIG. For example, on one of the Transfer of Funds Forms, the "Purpose" of the third party currency exchange transfer was entered as "Payment for Demurrage", meaning a payment related to certain unspecified shipping charges. However, this was not a true statement. YGC's Chief Accountant confirmed to the OIG investigators that the third party currency exchange transfer was actually for the purposes of a foreign exchange (US Dollars for Nigerian Naira).⁴³ When questioned by the OIG investigators as to why they, as author, and co-signatory of the Transfer of Funds Form, inserted erroneous information in respect of the "Purpose" of the transfer, the YGC Chief Accountant replied that they were instructed to do so by the Guaranty Trust Bank official who facilitated the transfer. When asked by the OIG investigators which bank official facilitated the transfer, YGC's Chief Accountant stated he/she could not recall. However, as explained above, YGC's Chief Accountant later stated that no Guaranty Trust Bank officials were involved in third party currency exchange transactions.

121. Similarly, the OIG investigation has revealed that some of the handwritten notations made by YGC personnel on the Transfer of Funds Forms were inaccurate. As highlighted in the report section covering YGC's third party currency exchange transaction with SBT Juul (PTY) Ltd., the handwritten notation on the Transfer of Funds Form, indicates that NGN 10,000,000 (USD 85,470) relating to the third party currency exchange transfer was deposited to YGC's non-Global Fund GTB Call Account. The OIG investigation did not find this deposit in YGC's GTB Call Account, and YGC failed to provide any explanation for these missing funds.

⁴³ See OIG Record of Conversation with YGC Chief Accountant, May 2011.

122. The OIG investigation also revealed that a number of third party currency exchange-related deposit slips contained inaccurate information. For example, YGC submitted to the OIG Access Bank deposit slip No. 1495191, dated 17 January 2005, which stated that the depositor was YGC's Chief Financial Accountant. However, when asked by the OIG, he/she stated that he/she did *not* make the relevant deposit. He/she said they did not know who made the deposit. He/she did not have an explanation as to why his/her name was on the deposit slip. YGC also submitted to OIG Access Bank deposit slip No. 9366750, dated 22 January 2008, which stated that the depositor was YGC's Chief Financial Accountant. However, again, he/she stated to OIG investigators that he/she did *not* make the relevant deposit. This deposit was connected to the entity whose principal had been arrested due to allegations of smuggling conflict diamonds and money laundering. Once again, he/she said they did not know who made the deposit. He/she did not have an explanation as to why his/her name was on the deposit slip.

X. LOSS TO THE GLOBAL FUND

A. GF'S RIGHT TO REIMBURSEMENT

123. Under Article 27 of the Global Fund's Grant Agreement with YGC⁴⁴, the Global Fund has the right to demand repayment from YGC of funds under certain circumstances:

Notwithstanding the availability or exercise of any other remedies under this Agreement, the Global Fund may require the Principal Recipient to immediately refund to the Global Fund any disbursement of the Grant funds in the currency in which it was disbursed in any of the following circumstances: (i) this Agreement has been terminated or suspended; (ii) there has been a breach by the Principal Recipient of any provision of this Agreement; (iii) the Global Fund has disbursed an amount to the Principal Recipient in error; or (iv) the Principal Recipient has made a material misrepresentation with respect to any matter related to this Agreement.

124. The above provision establishes the Global Fund's right to demand restitution of grant funds in both of the following events: when the Principal Recipient breaches the Grant Agreement; and where the PR commits misrepresentation with respect to any matter related to this Agreement. YGC breached the Grant Agreement and committed misrepresentation.

⁴⁴ For purposes of this section, references to the Global Fund's Grant Agreement with YGC signify the Round 4 (Phase II) Grant Agreement.

B. YGC'S BREACH OF THE GRANT AGREEMENT AND MISREPRESENTATIONS

125. Article 9 of the YGC Grant Agreement states that the Principal recipient "shall ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant Funds are used solely for Program purposes..." As noted above, US\$ 824,626 of Global Fund program funds were sent to third parties ostensibly for purposes of currency exchange, without a corresponding Naira transfer into Global Fund program-related accounts. During the investigation, YGC failed to explain the missing funds and, as noted above, based on the totality of the evidence, the OIG has concluded these funds were misappropriated. These missing grant funds constitute a violation of the Grant Agreement since they were not prudently managed and were not used solely for program purposes.

126. Separately, the OIG obtained credible and substantive evidence that YGC diverted proceeds from the third party currency transactions to undisclosed non-Global Fund program-related accounts. Article 11(c) of YGC's Global Fund Program Grant Agreement establishes that any revenues earned by a PR must be used solely for Program purposes:

Any revenues earned by the Principal Recipient or Sub-recipients from Program activities, including but not limited to revenues from "social marketing" activities, shall be accounted for and used solely for Program purposes.

127. Thus the diversion of proceeds represents both a violation of Grant Agreement Article 9, and Article 11(c).

128. Additionally, by engaging in third party currency exchanges, YGC personnel breached the obligation contained in Article 9 requiring Principal Recipients to "use its reasonable efforts to ensure that Grant funds are not used by it or by any Sub-recipient to support or promote violence, to aid terrorists or terrorist-related activity, to conduct money-laundering activities or to fund organizations known to support terrorism or that are involved in money-laundering activities." As noted above, by engaging in such transactions YGC subjected program funds to acute risks. These risks materialized in the form of transactions with an entity subsequently debarred by a national authority for links to serious criminal activity, entities subject to Suspicious Activity Reports (SARs) by their banking institutions, and entities owned by Politically Exposed Persons (PEPs).

129. Moreover, in conducting a third party currency exchange with the brother-in-law of a senior YGC official, YGC breached Article 21(c). That Article stipulates that:

The Principal Recipient shall not, and shall ensure that no Sub-recipient or person affiliated with the Principal Recipient or any Sub-recipient: participates in the selection, award, or administration of a contract, grant or other benefit or transaction funded by the Grant, in which the person, members of the person's immediate family or his or her business partners, or organizations controlled by or substantially involving such person, has or have a financial interest.

130. Additionally, YGC personnel involved in the third party exchange transactions committed misrepresentations, namely, YGC personnel misrepresented their connection to

third party recipients of the currency transfers; misrepresented the identity of bank personnel involved in the currency exchange; and presented currency exchange-related documentation containing misrepresentations to the OIG. These misrepresentations constitute an additional basis for recovery of funds by the Global Fund per Article 27 of YGC's Program Grant Agreement with the Global Fund.

C. CALCULATION OF LOSS

131. As a result of the OIG's investigation of YGC's third party currency exchange transfer, the OIG has calculated a total loss of funds of as follows.

132. In relation to the missing monies from the third party currency exchange transfers conducted by YGC, OIG has identified US\$ 824,626 that YGC should refund to the Global Fund.

Estimated Quantification of Global Fund Losses from Unaccounted for and Unreturned Global Fund-Provided Funds to YGC

| Round | USD Withdrawal Date | USD Withdrawal Amount | USD Withdrawal Recipient | NGN / USD FX Rate [1] | NGN Equivalent of USD Withdrawal [1] | NGN Deposited in GF Program Accounts | NGN Deposit Date [where applicable] | NGN Not Accounted For or Returned [2] | USD Equivalent of Funds Not Accounted For or Returned |
|---------------|---------------------|-----------------------|--|-----------------------|--------------------------------------|--------------------------------------|-------------------------------------|---------------------------------------|---|
| | [a] | | [b] | | [c]=[a]x[b] | [d] | | [e]=[c]-[d] | [e]/[b] |
| R4 | 23-May-06 | \$113,000 | Peri Ltd | 132.85 | 15,012,050 | - | n/a | 15,012,050 | \$113,000 |
| R2 | 9-Jun-06 | \$86,500 | Third Party A | 127.17 | 11,000,000 | - | n/a | 11,000,000 | \$86,500 |
| R4 | 22-Aug-06 | \$75,000 | Arup (PTY) Ltd (Asset & Resource Management Ltd) | 128.50 | 9,637,500 | - | n/a | 9,637,500 | \$75,000 |
| R4 | 1-Nov-06 | \$110,000 | Manor Concessions Ltd | 128.00 | 14,080,000 | 3,676,160 | 1-Nov-06 | 10,403,840 | \$81,280 |
| R2 | 22-Jan-07 | \$900,000 | Manor Concessions Ltd | 127.50 | 114,750,000 | 100,087,500 | 22-Jan-07 | 14,662,500 | \$115,000 |
| R4 | 3-Mar-08 | \$450,000 | SBT JUUL (Pty) Ltd [3] | 117.00 | 52,650,000 | 34,650,000 | 6-Mar-08 | 18,000,000 | \$153,846 |
| R4 | 8-Jan-09 | \$200,000 | Homeland & Overseas Ltd | 139.20 | 27,840,650 | - | n/a | 27,840,650 | \$200,000 |
| TOTALS | | \$1,934,500 | | | 244,970,200 | 138,413,660 | | 106,556,540 | \$824,626 |

Notes:

[1] The Naira equivalent of the USD withdrawals for each transaction is an estimate computed by OIG using foreign exchange rates based on:

- a) rates displayed on YGC's transfer of funds forms provided to OIG documenting NGN amounts actually realised (or using rates actually realised), or
- b) rates prevailing in the open market (Interbank rate) at the time of the transfer (average of BID and ASK prices for day) if an actual rate wasn't available.

[2] Includes NGN deposits made to, but subsequently transferred out of the Global Fund program account.

[3] Naira deposit received excludes the NGN 8,000,000 subsequently transferred out of the Global Fund program account and not returned.

133. In relation to the diverted monies from the third party currency exchange transfers YGC conducted with Third Party B and Third Party C, the OIG has identified US\$ 29,260 that YGC should refund to the Global Fund.

Global Fund Losses from Diverted Proceeds of Third Party Foreign Exchange Transactions

| USD Payment Date | Recipient | US\$ Payment | Actual FX Rate | NGN Deposit | NGN Diverted | Percent of Deposit Diverted | US\$ equivalent |
|------------------|---------------|--------------|----------------|-------------|--------------|-----------------------------|-----------------|
| 17-Feb-05 | Third Party B | \$624,235 | 132.50 | 82,711,138 | 3,433,293 | 4.15% | 25,912 |
| 15-Jun-05 | Third Party C | \$136,000 | 132.83 | 18,064,880 | 444,720 | 2.46% | 3,348 |

Notes:

[1] The amount of diverted NGN excludes the commission payment to Multi Lynx Ltd

134. Associated with this established loss relating to the diverted proceeds of the third party currency exchange transfers, the OIG has estimated possible further losses of between US\$ 543,679 and US\$ 916,722 based on a calculation of the potential value of diverted third party currency exchange funds, using the Third Party B and Third Party C currency exchange transfers as a baseline.

Estimated Quantification of Global Fund Losses from Diverted and Potentially Diverted Proceeds of Third Party Foreign Exchange Transactions

| USD Payment Date | Recipient | US\$ Payment | Actual FX Rate | NGN Deposit | NGN Diverted | Percent of Deposit Diverted |
|--|---------------|--------------|----------------|---------------------|--------------|-----------------------------|
| 17-Feb-05 | Third Party B | \$624,235 | 132.50 | 82,711,138 | 3,433,293 | 4.15% |
| 15-Jun-05 | Third Party C | \$136,000 | 132.83 | 18,064,880 | 444,720 | 2.46% |
| TOTAL VALUE OF 61 TPFx (in USD) | | | | \$22,084,671 | | |
| Potential Value of Diverted TPFx Funds if at | | | 2.46% | \$543,679 | | |
| Potential Value of Diverted TPFx Funds if at | | | 4.15% | \$916,722 | | |

Notes:

[1] The amount of diverted NGN excludes the commission payment to Multi Lynx Ltd

135. In sum, the OIG has identified a total of at least US\$ 29,260 of diverted proceeds. With the added likely loss from the approximated value of diverted currency exchange funds, this amount rises to an amount of at least US\$ 543,679.⁴⁵

XI. FIDUCIARY CONTROL WEAKNESSES

136. Several fiduciary oversight structures exist for oversight of Global Fund monies in Nigeria, including external auditors, the Local Fund Agent (LFA), and the Global Fund's own

⁴⁵ This calculation is based on the potential value of diverted third party currency exchange transfer funds at 2.46%, using the Third Party B and Third Party C currency exchange transfers as a baseline, as illustrated in the table above.

staff. However, none of these entities discovered YGC's practices of engaging third parties via the Nigerian parallel currency market, as opposed to the central banking system, for foreign exchange transactions, or put an end to it, before Global Fund resources were diverted for the benefit of YGC, or transferred to prohibited entities. Despite the significant risks and loss associated with this practice, as described above, the third party currency exchange transfers described above went completely unnoticed until they were discovered by the OIG Audit in the spring of 2010. As such, a full breakdown of controls occurred.

A. EXTERNAL AUDITS

137. Article 13 of YGC's Program Grant Agreement with the Global Fund, Standard Terms and Conditions, states "The Principal Recipients shall have annual financial audits of Program revenues and expenditures conducted by an independent auditor." Per Article 13, the Principal Recipient is responsible for selecting an independent auditor acceptable to the Global Fund, and the Principal Recipient is to provide the audit reports within six months after the end of the period under audit.

138. The Global Fund Guidelines for Annual Audits of Principle Recipients' and Sub-Recipients' Financial Statements explain the purpose of external audits:⁴⁶

*These annual audits are important parts of the assurance process regarding proper use of Global Fund money and provide the basis for decision-making on the disbursement of funds and the renewal of grants within the framework of Global Fund's performance-based funding principles. The audits are to provide the Global Fund with reasonable assurance that disbursed funds were used for the intended purposes in accordance with the Grant Agreement, the approved budget and the Performance Framework.*⁴⁷

139. YGC appointed *Iserhienrhien Sunny & Co.* Chartered Accountants as their external auditors.

140. The OIG reviewed a sample of external audit reports issued during the period that the third party currency exchange transfers occurred (2005 - 2009) and noted that none of these reports in the sample flagged YGC's use of Nigeria's parallel currency market to conduct third party currency exchange transfers as a potential risk. The audit reports also did not identify that third parties, or the parallel currency market, were being utilized by YGC for its foreign exchange needs.

⁴⁶ OIG recognizes this policy may have been updated over the years, and so the auditors may not have been held to this standard over the life of the grants. Available at https://intranet.theglobalfund.org/sites/Operations/EAP/PrivateZone/Papua/Annual%20Reports/Guidelines%20for%20Annual%20Audits%20of%20Financial%20Statements%20_EXTERNAL%20USE.PDF

⁴⁷ The GF Guidelines for Annual Audits of Principle Recipients' and Sub-Recipients Financial Statements, para. 2.3

141. In fact, both a report issued towards the beginning of the third party currency exchange transfers, in October 2005, and a report issued towards the end of the third party currency exchange transfers, in December 2008, contained the exact same statement on foreign currency conversion, and failed to raise any issue with YGC's third party currency exchange transactions:

Transactions in foreign currencies are converted into Nigerian Naira at the rate of exchange ruling at the date of each transaction. In the case of multiple exchange rates, a simple average rate was used for conversion. Balances in foreign currency are translated into Nigerian Naira at the exchange rate ruling at the Balance Sheet date.

142. Thus, at least two reports issued during the period in question failed to raise the issue of YGC's use of the parallel currency market, and the risks associated with this practice.

B. LOCAL FUND AGENT

143. The Global Fund engaged KPMG LLP (KPMG) as LFA in Nigeria from 2003 through December 2008, during the period when the majority of the third party currency exchange transfers occurred. During this period, 60 of the 61 third party currency exchange transfers occurred. In January 2009, the Global Fund changed LFAs in Nigeria from KPMG to PricewaterhouseCoopers (PwC), which continues currently as the LFA in Nigeria. According to the Secretariat, KPMG never raised to Global Fund staff the issue of YGC's use of Nigeria's parallel currency market and the risks and loss associated with the third party currency exchange transactions. When the OIG initially asked KPMG representatives in Nigeria about the third party currency exchange transfers, their representatives stated repeatedly that they should have identified the issue, and reported it to the Global Fund.⁴⁸ Moreover, KPMG's representative in Nigeria stated to the OIG that KPMG would have continued to raise the issue with the Global Fund until the Global Fund approved of the practice, but did not provide specifics or written documentation in support of this contention. However, KPMG management in the United States has recently expressed to the OIG that it raised these issues with the a former Secretariat official, who, KPMG officials now claim, did not provide any further instruction to KPMG on how to address the issue.

144. In support of their contention that they notified a Secretariat official of the third party exchange transactions, KPMG provided the OIG with a summary chart that referenced several LFA report submissions which they claimed related to the third party transfers. Upon careful review by the OIG, none of the written submissions as detailed in the summary chart related specifically to YGC's third party currency exchanges via the parallel market, or referenced the risks associated with this practice - as claimed. KPMG's submission is

⁴⁸ See ROC with KPMG LFA, August 2011.

appended as an Annex. Rather, many of the references highlighted in the reports and contained in the KPMG chart related to exchange *rate* issues and how this affected the cash balance statement.

145. Subsequently, the OIG spoke with the former Secretariat official to whom KPMG asserted they had disclosed the information. The former official denied any such discussion, and offered that he had very little in person interaction with KPMG, and considered their work sub-standard, and had recommended to Global Fund senior management that the contract with KPMG in Nigeria be terminated.

146. There is no evidence that KPMG raised the issue with other senior Global Fund Secretariat officials (nor do they assert this), nor did they put these serious issues in writing, as required.

147. As such, the OIG is left with representations by KPMG that it did alert the Secretariat to the exchanges and the risks, and the Secretariat's representations that no such notice was provided. However, there is no documentation provided by KPMG or the Secretariat, or identified, that supports that KPMG identified the issue, or provided notice to the Secretariat of it. Therefore, the OIG does not find KPMG's notice, even if made, sufficient.

148. To the extent that KPMG did not identify this issue and report on it, its failure was a violation of the LFA's roles and responsibilities, as described in the Global Fund's LFA Manual.⁴⁹ As the Manual states, "The LFA is a crucial part of the GF's system of oversight and risk management."⁵⁰ The LFA is asked to:⁵¹

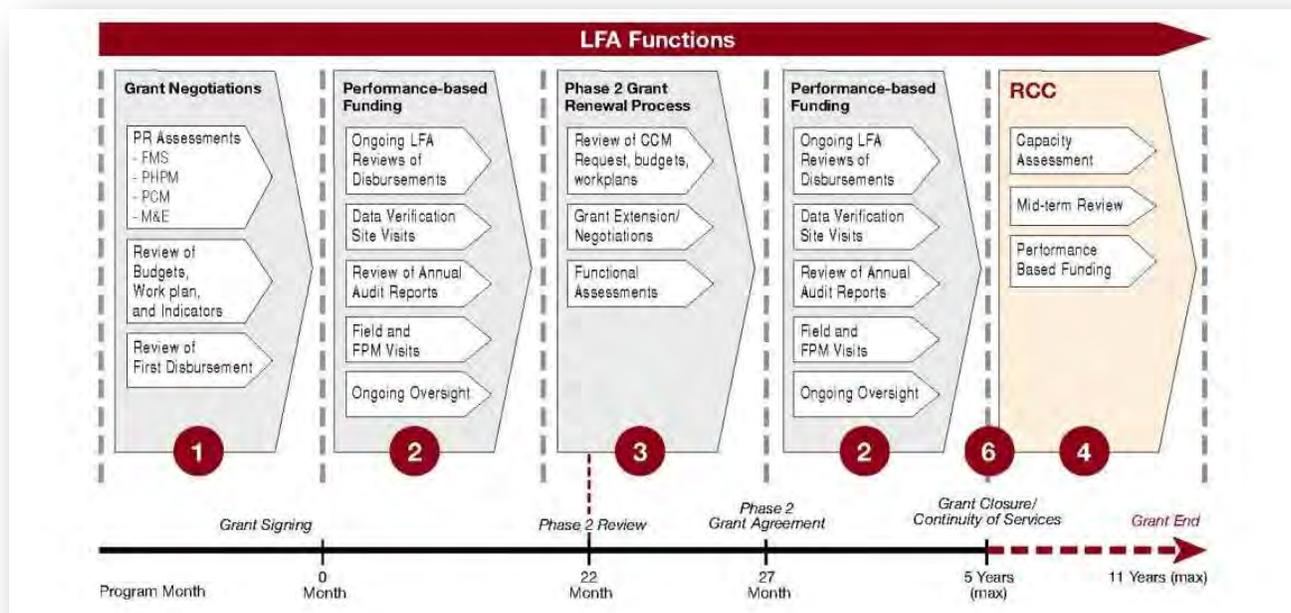
- Provide "informed and independent professional advice" regarding "the capacity of PRs to manage the implementation of activities funded under grants (including a PR's capacity to oversee implementation of activities by Sub-recipients),"
- Make recommendations regarding disbursement of grant funds,
- Review grant performance during the grant's renewal for Phase II, and, importantly,
- Provide the Secretariat on an ongoing basis with relevant information on issues or risks which might affect grant performance.

⁴⁹ Please note that this report cites from the LFA manual dated May 2008, as this manual was published while KPMG was still LFA, and existed during PWC's tenure as LFA. OIG recognizes this policy has been updated over the years, and so the LFA may not have been held to this standard over the life of the grants.

⁵⁰ LFA Manual, Section 6, p. 10.

⁵¹ LFA Manual, Section 6, p. 10.

Schematic of LFA Functions from LFA Manual⁵²



149. As a key fiduciary agent, the LFA is asked to undertake a number of activities which should alert the Global Fund to risk of mismanagement, abuse, fraud, and corruption. Principle among them are:⁵³

- A financial management (FM) assessment of the PR during grant negotiation,
- Ongoing progress reviews of the Disbursement Request and Progress Updates (DR/PUs)
- Enhanced financial reporting,⁵⁴ and
- Review of annual audits reports.

150. As part of the FM assessment,
The LFA is required to determine whether the PR has (or can access) financial management capacity and systems which: (i) Can correctly record all transactions and balances, including those supported by the Global Fund; (ii) Can disburse funds to Sub-recipients and suppliers in a timely, transparent and accountable manner; (iii) Maintains an adequate internal control system; (iv) Can support the

⁵² LFA Manual Section C, p. 33.

⁵³ See Board Document entitled "Fiduciary Arrangements for Grant Recipients."

⁵⁴ Enhanced financial reports were only introduced in 2008, so the FPM was not responsible for this beforehand.

*preparation of regular reliable financial statements; (v) Can safeguard the PR's assets; and (vi) Are subject to acceptable auditing arrangements.*⁵⁵

151. As part of the ongoing progress review,
*The LFA is required to receive and review the DR/PU, and having done so to complete the LFA Progress Review and Recommendation for Ongoing Disbursements form. This [includes]...[c]onfirmation that the bank account information is correct.*⁵⁶

152. As part of enhanced financial reporting,⁵⁷
*The LFA [should] review the completed template at each reporting period to ensure . . . [f]inancial information has been correctly extracted from financial systems and records.*⁵⁸

153. Moreover, the LFA plays a crucial role in ensuring the Principal Recipient's compliance with anti-terrorism efforts. Included in the Global Fund grant agreement is a representation and warranty that:

*[T]he Principal Recipient is generally aware that laws exist that prohibit the provision of resources and support to individuals and organizations associated with terrorism and that the European Union, the U.S. Government and the United Nations Security Council have published lists identifying individuals and organizations considered to be associated with terrorism.*⁵⁹

154. The OIG concludes that neither KPMG nor the Secretariat took sufficient steps to identify the practice of the exchanges, identify and mitigate the risks, identify the misappropriation that resulted or the diversion of resources to problematic entities.

C. GLOBAL FUND SECRETARIAT - FUND PORTFOLIO MANAGER AND FINANCE UNIT

155. Within the Global Fund itself, two offices ("clusters") bear the core responsibilities for ensuring GF funds are appropriately used. The Country Programs Cluster houses the Fund Portfolio Managers (FPMs), the individuals responsible for managing grants.⁶⁰ In addition, the Finance Cluster supports the FPMs in many aspects of their work and provides financial management.

⁵⁵ LFA Manual Section 1.4, p. 36

⁵⁶ LFA Manual, May 2008, Section 1.3, p. 42, *available at* http://www.theglobalfund.org/documents/lfa/LFA_Manual_en.pdf

⁵⁷ Enhanced Financial Reports were introduced by the GF in 2008.

⁵⁸ LFA Manual, Section 2.3, p. 44

⁵⁹ Article 5(d).

⁶⁰ FPMs are supported by Program Officers (POs).

156. The Nigeria grants were managed under the Western and Central Africa Team. In total, one individual fulfilled the role of FPM for the Nigeria grants during the period the third party currency exchange transactions occurred.

157. The FPM's responsibilities include overseeing grant implementation and managing the LFA, as outlined below:⁶¹

Ongoing Grant Management and Disbursement: Review and analyze disbursement requests, associated Local Fund Agent (LFA) reports, country and grant contextual information, deciding on appropriate amounts to be disbursed at regular intervals; manage the ongoing monitoring and assessment of grant implementation process and the key grant-related events.

LFA Management: Manage, supervise and evaluate the in-country LFA work, including the designated budgets and effective management of contracts for grant portfolios;

158. The Finance Unit supports the FPM, including in the following ways:⁶²

Grant Signing and Extensions: Review financial and operational information (including budgets, work plans and financial management aspects of implementation) for new grant signing and grant extensions.

Financial Aspects of Grant Management: Advise the Country Programs Teams in relation to financial aspects of grant management. This includes participation in country visits, and giving financial inputs and guidance (written and verbal) to the Country Programs Teams and in-country actors.

Compliance Reviews: Perform compliance reviews of grant disbursements, in particular liaising with Country Programs Teams to ensure quality of disbursement documentation.

Disbursement: Support the tracking and reporting of the disbursement process and assist in the design of tools to support the disbursement process.

Review EFRs: Review the quality of enhanced financial reports received from implementing countries and support the tracking and perform data analysis on enhanced financial reporting information received from implementing countries.

Knowledge Management: Supervise creation of appropriate financial knowledge management systems for supporting the grant management process.

159. The FPM for Nigeria, who served from November, 2004, to April, 2009, stated that neither KPMG nor PWC raised the third party currency exchange transaction issue.⁶³ When

⁶¹ Vacancy notice sent to OIG by HR as source of official FPM responsibilities. OIG recognizes this policy may have been updated over the years, so the FPMs may not have been held to this standard over the life of the grants.

⁶² OIG recognizes that the scope of responsibility may have evolved over the years. *Available at* https://intranet.theglobalfund.org/Careers/Vacancies/Finance_Analyst_G03_IRC553.doc

⁶³ See ROC with FPM, July 2011.

asked about the third party currency exchange transactions by the OIG and presented with the details, the FPM was surprised by the volume of this practice, stating that while it's common in Nigeria to hedge currency risk, it is not normal at this scale.⁶⁴ The FPM stated that the Global Fund never received any indication from the LFA or YGC that the third party currency exchange transfers were occurring.⁶⁵ The FPM had no independent awareness of the practice either.

160. The FPM stated that he/she had concerns with KPMG's performance as an LFA and became disillusioned with their performance.⁶⁶ The Global Fund replaced KPMG with PWC once the tender process came up.

D. LESSONS LEARNED

161. Lessons can be learned from the OIG's investigation of YGC in order to strengthen the Global Fund's fiduciary framework in future grant programs. The OIG does note that certain changes and remedial actions have already taken place, including changes in the Regional Team and other specialist team compositions since the actions described herein occurred. Additionally, certain financial safeguard measures have been implemented in the Nigeria Round 9 Grant Agreements, formulated in consultation with the OIG, such as the prohibition against third party currency exchanges on the parallel market. Also, YGC has formally agreed to withdraw from its Round 8 Malaria grant.

162. However, additional steps should be taken. Most importantly, the Global Fund should prohibit the practice of recipients of Global Fund monies using the parallel currency market to exchange Global Fund monies for all programs in all recipient countries. This prohibition should be included in all future Program Grant Agreements. A violation of this prohibition by any recipient of Global Fund grant monies should lead to immediate termination. The LFA should be specifically tasked with closely monitoring US Dollar outflows to ensure the parallel currency market exchange practice no longer occurs. In countries where no formal banking system exists, the Global Fund should provide all grant monies in local currency, aside from those amounts where US Dollars are necessitated for specific international procurements. The reputational risk of Global Fund US Dollars being associated with money laundering and other serious illegal activities far outweigh the benefits of Principal Recipients using this approach.

163. In or about November, 2010, the OIG alerted the Secretariat to the risks associated with these third party transfers and the use of the parallel currency exchange market. The OIG asked and recommended to the Secretariat that it halt the practice and bar recipients from exchanging currency with any entity other than regulated and approved commercial financial institutions. There was much discussion and debate over the recommendation.

⁶⁴ See ROC with FPM, July 2011.

⁶⁵ See ROC with FPM, July 2011.

⁶⁶ See ROC with FPM, July 2011.

Ultimately, a week before the issuance of this report, the practice was barred by the Secretariat, as explained in their submission contained in the Annex appended hereto.

XII. YGC RESPONSE TO THE REPORT

164. In its response to the report, YGC explains that the US\$ 824,626 in missing funds involved four categories and amounts (management fees (US\$ 401,702), salaries/allowances (US\$ 320,023), maintenance (US\$ 28,022) and operational expenses (US\$ 74,879)). This is the first time in many exchanges with YGC that they have come forward with this claim. Significantly, these assertions are not accompanied by any supporting documentation or further explanation. It is significant to note that in the full history of this investigation, and the numerous interactions with YGC, this is the first time this breakdown was provided to the OIG. The OIG stands by its analysis of the issue, based on the evidence identified, as set forth herein.

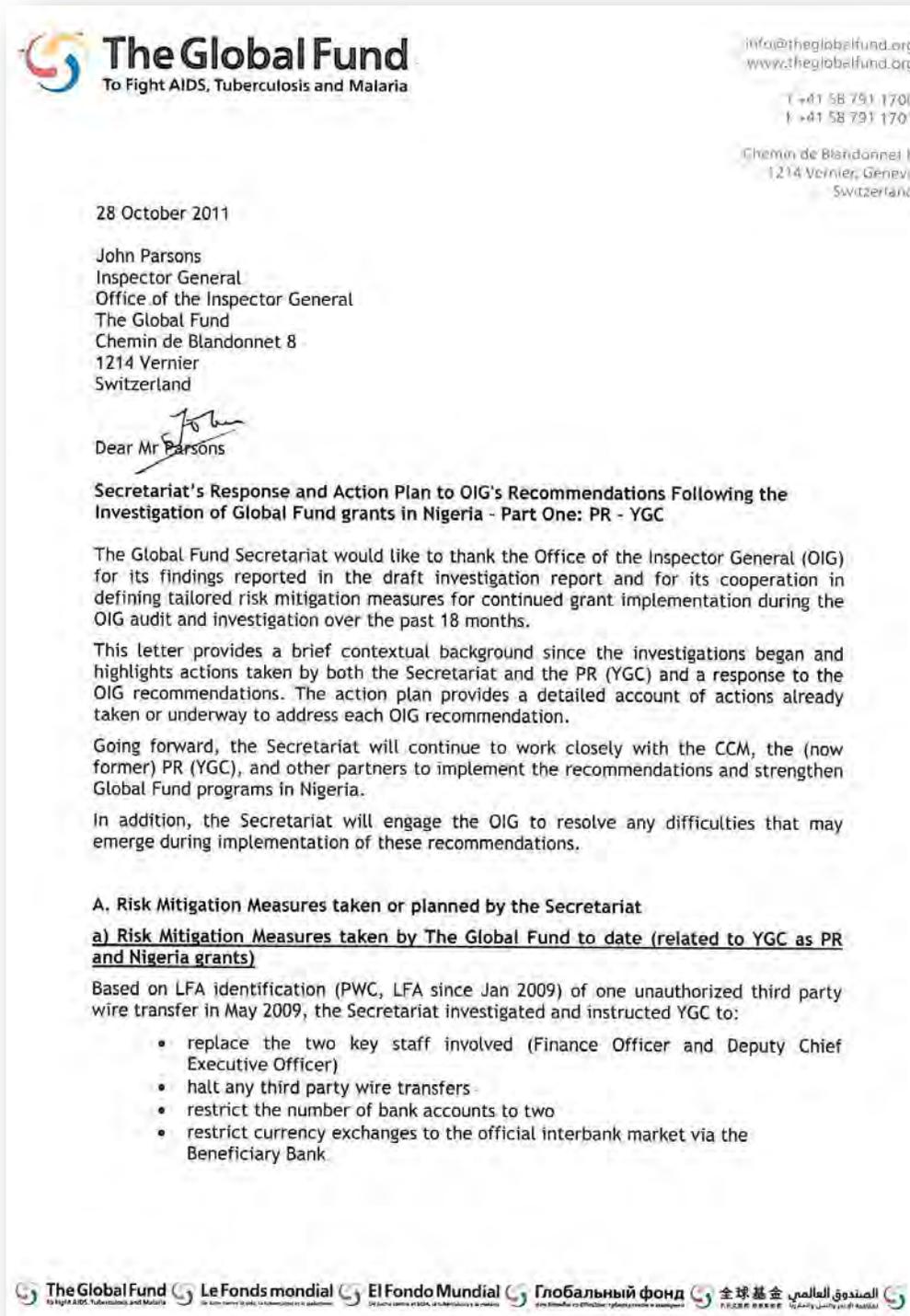
165. Further, YGC contends that it was not provided with the necessary information to respond to the OIG's request to account for the missing funds relating to the third party currency exchange transactions. To the contrary, the OIG met with YGC senior officials in Lagos and disclosed the details of the US\$ 824,626 in missing funds, providing full details of the third parties to which the money was transferred, and requested an explanation. No explanation has been forthcoming. Additionally, the OIG subsequently provided the YGC senior official a formal request for documentation, and further information concerning the missing funds, and attached the relevant Transfer of Funds Forms for these monies to assist YGC in responding to this request. However, YGC did not provide any of the requested information throughout the investigation, responding only when a draft of the investigation report was submitted to them.

166. In addition, in reference to YGC's offer of only limited access to its Operations Account. However, partial access is insufficient in light of its findings identifying at least two deposits into this account related to the third party currency exchange transactions. The merit of the allegations can only be fully tested upon a full review of YGC's Operations Account.

XIII. RECOMMENDATIONS

167. On the basis of the investigation, the OIG recommends that the Global Fund:
1. Prohibit Global Fund grant recipients from using any parallel currency market to exchange Global Fund monies and include this prohibition in all future Grant Agreements;
 2. Immediately seek to recover from YGC all missing funds and diverted proceeds, resulting from the third party currency exchange transactions;
 3. Seek appropriate reimbursement from YGC to compensate for the costs of the investigation including expenditures incurred relating to repeated OIG missions necessitated by the OIG, solely as a result of YGC's misrepresentations and failure to cooperate. (In this regard, it should be noted that GAVI recently included a provision in their grant agreement provided reimbursement by the country government for all costs associated with their audits and investigations);
 4. Immediately terminate YGC as a Principal Recipient and consider barring any future participation of this entity in any capacity in Global Fund grant programs, conditioning re-consideration upon whether full production of the relevant bank records and full restitution has been made;
 5. Consider whether KPMG's failure to report appropriately on third party currency exchange transfers in Nigeria has implications in relation to their continued engagement as LFAs in Global Fund grant programs globally.

XIV. ANNEX 1: SECRETARIAT'S RESPONSE AND ACTION PLAN TO OIG'S RECOMMENDATIONS



Based on the LFA assessment of YGC in 2009, the following risk mitigation measures were implemented prior to Round 8 grant signing or included as conditions in the YGC Round 8 grant agreement (before 1st and 2nd disbursements) and closely monitored by the Secretariat and the LFA:

1. Hire competent management staff (new Program Director reporting to the CEO, Finance Manager, M&E and Procurement Manager) for management of the Round 4 and 8 grants.
2. Strengthen YGC's financial management system, hiring of additional finance and accountant staff, update of financial and procurement manuals (with support by external consultant), training of staff, strengthening of internal audit function and change of external auditor with terms of reference approved by the Global Fund, improved SR monitoring and systems.
3. Strengthen YGC governance structure and internal controls (CP to 2nd disbursement added in September 2010 following OIG audit findings) with Technical Assistance provided by Grant Management Solutions (GMS), as funded by USAID, since Dec 2010.
4. Inserted a legal restriction for YGC and all Nigeria PRs in their grant agreements as of September 2010 addressing the risk of wire transfers to third parties as agreed with the OIG:

"a. The Principal Recipient agrees that: a) all foreign exchange transactions relating to Grant funds shall be carried out by the Beneficiary Bank into which Grant funds are disbursed, unless specifically otherwise authorized in writing by the Global Fund prior to carrying out the exchange; and b) the transfer or disbursement of any Grant funds, by any means, to third parties not directly related to the implementation of the Program and this Grant is strictly prohibited.

b. The Principal Recipient understands and agrees that:

- i. It shall maintain a maximum of two (2) interest bearing accounts with the applicable Beneficiary Bank (the "Permitted Accounts"), and shall not place any Grant funds in time deposit accounts or other investment accounts;*
- ii. Permitted Accounts shall be the only accounts used for the deposit and management of Grant funds including without limitation with respect to all foreign exchange transactions; and*
- iii. Transfers from Permitted Accounts (including transfers to Sub-recipients) shall be effected by using electronic wire transfer and shall be properly recorded."*

Compliance is verified by the LFA on a quarterly basis as part of the PU/DR review, with no violations reported so far. All Nigeria PRs and SRs have been trained on the key financial regulations and restrictions in-country in Feb 2011.

Significant capacity building at YGC has taken place to date, and has been confirmed by the LFA, to strengthen YGC's financial management system and internal audit function (which reported store renovation irregularities to the LFA and The Global Fund in November 2010). YGC has taken strict management actions in response to irregularities reported (firing of staff involved and collection of funds for reimbursement), but effective strengthening of YGC's governance structure and internal control systems was not completed. In addition, the OIG indicated high risks and serious allegations from the on-going investigations, so the Secretariat therefore withheld the 2nd disbursement under the grant from the PR (see c below).

b) Risk Mitigation Measures to be taken by The Global Fund to address the risk of unauthorized third party wire transfers for all Global Fund grants

The Secretariat will include the following legal provision in the Standard Terms and Conditions of the Grant Agreement applicable for all Global Fund Principal Recipients (as agreed with the OIG based on the finalised investigation) (as outlined above) with immediate effect:

"1. The Principal Recipient acknowledges and agrees that, pursuant to the Global Fund's commitment to strict anti-money laundering procedures:

- i. Any transaction involving the transfer, disbursement, transportation, transmission, or exchange of Grant funds (including wire transfers and currency exchanges) shall be carried out by the Principal Recipient's beneficiary bank into which Grant funds are disbursed, unless another means of transmittal is specifically authorized in writing by the Global Fund prior to carrying out the transaction;*
- ii. Any transaction involving Grant funds that is effected through electronic wire transfer or currency exchange shall be properly recorded;*
- iii. All currency exchanges involving Grant funds will only involve established and regulated financial institutions. Currency exchange operations carried outside of established and regulated financial institutions are not considered program activities (defined as activities directly supporting the program); and*
- iv. The transfer, disbursement, transportation, transmission, or exchange of Grant funds, by any means, (i) to third parties not directly related to the implementation of the Program and this Agreement or (ii) for activities not directly supporting the Program, is strictly prohibited.*

2. The Principal Recipient further acknowledges and agrees that it will include the provisions of Special Condition 1 above (amended to reflect Sub-recipient status) in all Sub-recipient Agreements and that it is responsible for ensuring strict compliance with those provisions by all Sub-recipients.

3. The Principal Recipient further acknowledges and agrees that:

- i. The Global Fund may exercise its right to terminate this Agreement upon the occurrence of any transaction involving Grant funds that contravenes the terms of Special Conditions 1 and 2 above (any such transaction, an "Unauthorized Transaction"); and*
- ii. The Principal Recipient shall bear sole responsibility, financial and otherwise, for any losses resulting from Unauthorized Transactions and shall reimburse the Global Fund for the amount of any such losses."*

Verification of compliance will be included (a) in standards TORs for all external audits, and (b) in standard TORs for all LFAs (spot checks, with frequency defined as per prior risk assessment - min. once per year, max. quarterly - as part of routine PU and PU/DR reviews. LFAs will be requested to report any findings or red flags to Global Fund for immediate follow-up.

c) Replacement of Malaria PR (YGC) and transfer of grant

Based on the draft OIG audit report issued on May 25, 2011 and OIG findings reported therein, the Global Fund, with the agreement of the Nigeria CCM, has instructed the transfer of the YGC grant to a new Replacement PR in June 2011.

In an Implementation Letter dated August 31, 2011 YGC confirmed the transfer of the grant to a selected Replacement PR, the decommitment of funds for such transfer and to orderly close the grant by November 30, 2011.

On October 13, 2011 the Nigeria CCM decided that the YGC grant be transferred to the Round 8 Malaria Co-PRs NMCP and SFH for the remaining period of Phase 1, and to select a new 3rd PR via a transparent and competitive process for Phase 2. The Global Fund is currently in discussions with NMCP and SFH regarding the rapid transfer of the YGC grant which shall be completed by mid-November 2011, and enable continuation of Malaria interventions in the public sector in the 19 YGC States.

B. Secretariat's response to OIG recommendations

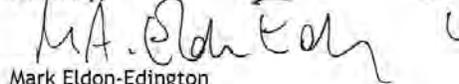
| OIG Recommendations | Secretariat response and measures to address the identified risks and weaknesses |
|---|--|
| <p>1) Prohibit Global Fund recipients from using any parallel currency market to exchange Global Fund monies and include this prohibition in all future Grant Agreements.</p> | <p>The Secretariat agrees with this recommendation.</p> <p>Explicit restrictions already in place for YGC and all PRs in Nigeria as per the new and updated grant agreements signed in September 2010 (as outlined in A.a.5 above), as agreed with the OIG based on the on-going investigation to address these risks.</p> <p>The inclusion of a more comprehensive legal provision in the Standard Terms and Conditions of the Grant Agreement applicable for all Global Fund PRs has also been agreed with the OIG based on the finalised investigation (as outlined in A.b. above) which shall be implemented with immediate effect.</p> |
| <p>2) Immediately seek to recover from YGC all missing funds and diverted proceeds, resulting from the third party currency exchange transactions.</p> | <p>The Secretariat agrees with this recommendation. It is our intention to set against these the withheld disbursement of approximately \$1.9 million, of which the majority covers payment for PR salaries and operational costs already occurred.</p> <p>However the losses reported in the OIG investigation report need to be finalized and reconciled with the OIG audit report findings (e.g. lack of information on benchmark exchange rate of the official interbank market to calculate actual foreign exchange losses and gains; unclear how unsupported transfers reconcile with unsupported expenditures under audit report). OIG should clarify whether losses reported are additional to the losses under the audit or part thereof and whether PR response has been taken into consideration.</p> |
| <p>3) Seek appropriate reimbursement from</p> | <p>Given the unusual and precedent setting</p> |

| | |
|--|--|
| <p>YGC to compensate for the costs of the investigation, including expenditures incurred relating to repeated OIG missions necessitated by the OIG as a result of YGC's misrepresentations and failure to cooperate.</p> | <p>nature of this recommendation, the Secretariat will refer this to the Global Fund Board or appropriate committee to decide on whether the PR should be requested to reimburse any reasonable OIG investigation expenses occurred. - The PR response needs to be considered to make a final conclusion.</p> |
| <p>4) Immediately terminate YGC as a Principal Recipient and consider barring any future participation of this entity in any capacity in Global Fund grant programs.</p> | <p>Already done via the decision on the transfer of the grant to a Replacement PR, the decommitment of grant funds signed and the closure of the grant agreed for Nov 30, 2011 (as outlined in A.c. above). Based on OIG's request in Feb 2011, to enable them to continue and finalize its investigation of YGC, The Global Fund did not terminate the grant at an earlier stage.</p> |
| <p>5) Consider whether KPMG's failure to report appropriately on third party currency exchange transfers in Nigeria has implications in relation to their continued engagement as LFAs in Global Fund grant programs globally.</p> | <p>The LFA contract with KPMG Nigeria was terminated with effect of Dec 2008 as a result of an open competitive LFA re-tender process looking for the best LFA for Nigeria and each country which also took LFA's past poor performance in Nigeria into account. Since Jan 2009 the Secretariat has put in place a robust LFA performance evaluation system to track LFA performance over time and take strong actions including termination of LFA contracts as required to address poor LFA performance (to date 18 LFA contracts, i.e. 14% of the Global Fund grant portfolio, were terminated and LFAs changed due to inadequate LFA services conducted). In addition the Secretariat provides regular guidance and trainings to LFAs to ensure consistent and updated standards in LFA services.</p> |

We understand that the OIG has provided the PR, the CCM and the former LFA (KPMG) an opportunity to respond to selected key findings of the draft investigation report.

We encourage the OIG to also share the finalized investigation report together with a response on comments not taken into consideration in the final version with the PR, CCM and KPMG and any other suspects accused of any misconduct or negligence.

Sincerely,



Mark Eldon-Edington
Director
Country Programs Cluster

XV. ANNEX 2: YGC'S RESPONSE TO THE OIG DRAFT REPORT

**RE: FINAL REPORT OF INVESTIGATION ON GLOBAL FUND GRANTS
TO NIGERIA; PART ONE: PRINCIPAL RECIPIENT YAKUBU GOWON CENTRE (YGC)**

YGC is in receipt of the OIG investigator's report and is grateful that in accordance with the rule of confidentiality, it has been requested to preview the report before publication. We cannot but admire the comprehensiveness of the report. It was well researched and closely reasoned. However, certain explanations will be given hereunder to clarify aspects of the OIG report.

CHALLENGES:

There is substantial difficulty in comprehending fully and commenting on a report, a substantial portion of which has been blotted out. A truncated and incomplete report has limitations. Reasons leading to questions and answers from the paragraphs available are not indicated and so total comprehension of the report is impossible. One is therefore at a disadvantage trying to critique it intelligently. It is unfortunate that the YGC team to visit Geneva could not do so. Perhaps the team might have seen the report unedited or uncensored to enable YGC to comment adequately on it.

Secondly, a forensic audit report which took some three months of hard work and intensive investigation by internationally renowned experts to produce cannot be dealt with satisfactorily in a few days, given the capacity of the Centre and the time frame available to do so. A whole host of issues have been raised. Some are already known but others are new. The latter requires cross checking and confirmation and there is no time to do so.

Thirdly, there is some feeling of disappointment that after the long quality time which the OIG team spent with the President of the Board of Trustees of the Centre, when it was made clear that the subject matter was the work of two operating officers who had neither instructions nor authorization of the Governing Council or the Senior Management of the Centre, the report did not differentiate between YGC as an Institution and the individual officials/employees of YGC. Members of the Governing Council and some Senior Management of the Centre were equally as surprised as the OIG by the facts revealed by the initial OIG report. We think that the report should have reflected this fact as there is no vicarious liability in acts committed under such circumstances. We accept that there were lapses in governance and direct supervision of the staff of the Centre. The management of the Centre did not grow timely and adequately enough to assume full performance of the grant requirements.

Fourthly, the OIG report should have indicated, even tentatively, that the investigators besides in chapter VIII which traced a beneficiary to one Mr. Anthony Bisong, the brother-in-law of the then Deputy Chief Executive, could not identify any senior member of the Centre who was a beneficiary of the transfer.

Fifthly, the OIG investigator's report is obviously a criminal investigation. A number of prominent Nigerians have been included as being associated with some criminal activities. We sincerely hope that these inferences, which are clearly defamatory and liable to long and costly litigation will be deleted completely or suitably modified as they consist voyages of discovery that clearly do not meet international standard and practice of investigation.

COMMENTS AND OBSERVATIONS

We wish to make the following comments and observations pertaining to the OIG investigator's report:

IV. DUE PROCESS

We appreciate the adherence of the OIG to the provisions of article 15(13) of the OIG charter and terms of reference particularly sub paragraph 7 which states "the investigative office shall take reasonable measures to protect as confidential any non public information associated with an investigation including the identity of parties that are subject of investigation and of parties providing testimony and evidence, the manner in which all information is held and made available to parties in each organization or parties outside the organization, including National authorities, is subject to the Organization's rules, policies and procedures".

It is unfortunate that the YGC team could not make it to Geneva for reasons well known to the OIG. In this connection, we must note our disquiet over the repeated assertion in the report that "YGC did not respond fully to all of these (sic) requests nor account for the missing funds related to these transactions". We hope that Mr. Martin Cinnamon's e-mail of October 18 2011 is not evident of this assertion because there was an agreement between the OIG investigators on one hand and the Chief Executive on the other hand, that the investigators would send a report of their findings in Lagos to the latter so that the Centre would be able to assist them in obtaining some additional information that they would like to obtain from the banks. That report was not made available until

now. The officials of the Centre cannot therefore be held responsible for failure to provide the required information.

VI. YGC'S USE OF NIGERIA'S PARALLEL CURRENCY MARKET TO EXCHANGE GLOBAL FUND MONIES: OVERVIEW

We have generally been guided by the standard practice of the Global Fund and the United Nations in the management of the funds remitted to us by the Global Fund. However, it should be noted that under Nigerian law, the use of parallel currency market is permissible and legal. YGC is persuaded that in fact all the transactions of its officials/employees were conducted through the banks as intermediary. No monies were withdrawn from the bank for exchange in the form of cash as done in the "black market".

Having regard to banking practices in Nigeria, YGC officials/ employees could not have known the clients of the banks who needed dollars abroad. Obviously it was the bank employees who approached YGC officials/ employees to participate in the transactions, notwithstanding the protestations of innocence by the bank employees interviewed by the OIG investigators. They naturally wanted to protect their jobs. The investigators themselves made this point at pages 44 and 45 (section 8g) of their report when they recorded their interviews with the officials of Access bank and GTB. Why would the investigators believe those bank staff and not the YGC officials? In fact this was corroborated by the OIG investigators report which said "during this interview employee E denied instructing employee c to lie on his/her behalf, but subsequently acknowledged that he/she did facilitate at least one third party currency exchange transfer for YGC that involved Global Fund monies"

Most of the clients of the banks are well established entities in Nigeria. Their relationships with banks were not known to YGC officials/employees until the banks employees approached them with their requests for conversion of Dollars to Naira.

Internal investigation in YGC has shown that the so called missing funds totaling USD 824,626 were expended for as follows: management fees (USD 401,702), salaries/allowances (USD 320,023), maintenance (USD 28,022) and operational expenses (USD74,879). The uses into which the management fees were put into have been under general PRs consideration in the OIG audit report. It is our understanding that once the amount has been located and identified as

management fees and operational fees under RD 2 and 4, it could no longer be regarded as missing.

Finally, we repeat that all the transactions involving conversion of monies from dollar to Naira were undertaken in the banks and not through black market. We are therefore not aware of the parties who allegedly admitted to the OIG that they were parallel currency traders acting on behalf of clients. Incidentally, did they say that they were licensed bureau de change which is popularly regarded as “parallel currency trader”?

VI.B. THE THIRD PARTY RECIPIENTS OF THE CURRENCY EXCHANGE TRANSFERS

The YGC officials/employees maintained that all the third party currency exchange transfers were effected through the banks and that the various companies and individuals involved were not known to them with the exception of Mr. Anthony Bisong (8(f)). Having regard to the comments at section 8c page 38, we would advise that the reference to the Dangote Group should be deleted or reformulated in less accusatory language. Otherwise, it will expose the Global Fund to serious and costly litigation of libel or defamation. The Group belongs to someone who is regarded by Forbes magazine as the richest man in Africa and who is Nigeria’s foremost industrial icon. In the circumstance, we hold the view that the inference of crime is far-fetched, speculative and can be defamatory.

We deny in the strongest terms any knowledge of the third parties referred to including the one at vii a “...the principal of this entity has been arrested in 2003, along with his wife and several colleagues, in relation to allegations of money laundering, fraud and smuggling conflict diamonds”. The inference on these third parties with respect to their antecedents is too remote for this report.

VI.C. NIGERIAN NAIRA REPAYMENT SCHEME: SPLIT PAYMENTS

It is apparent that YGC could not be party to split cheque payments because nothing is gained from that. Our understanding was that the split payments were made by the clients because the account balances in one of their accounts may have been insufficient, necessitating cheques coming from different bank accounts.

VII. THIRD PARTY CURRENCY EXCHANGE TRANSACTIONS – MISSING FUNDS

Please see above (VI)

VII.A. YGC'S USE OF NIGERIA'S PARALLEL CURRENCY MARKET RESULTING IN MISSING FUNDS

With reference to access to YGC's operational account, we had expected that the OIG investigators would refer to the various discussions which they had with YGC officials as to why they could not be granted blanket access to the operational account of the Centre. They were told specifically that the account in question is the core account of the Centre to which non-Global Fund monies were paid by donors, entities and individuals whose privacy must be respected. In order to satisfy them, the investigators were asked to indicate any special payments or line of account which was of specific interest to them and that every step would be taken to grant access to such information. This was conveyed in writing to the OIG team and they promised to get back to YGC, but did not do so before they left for Geneva. Unless there is an impression that the report on this section was being written from set answers, it is curious that the investigators have kept on hammering on this aspect of so called denial of OIG access to its operational account. This allegation of denial of access and lack of cooperation has become unhelpful and frustrating. The facts on the ground show that the investigators were given every possible assistance and cooperation. Unfortunately, the banks did not respond as quickly as expected. OIG may wish to redraft these sections in appropriate manner and language.

VIII. RISKS ASSOCIATED WITH YGC'S USE OF NIGERIA'S PARALLEL CURRENCY MARKET

We acknowledge that there is an element of risk involved in these transactions; hence an end was put to the practice in February 2009, long before the visit of the OIG. Subsequently, YGC never used the parallel market for currency conversion. In addition, YGC took an insurance policy (fidelity and cash in transit) to further safeguard GF funds. YGC staff did not conduct any forensic investigation or obtained intelligence report on the background of the third party recipients because they were not known to them.

VIII.A. RECEIPT OF GLOBAL FUND PROVIDED US DOLLARS BY A THIRD PARTY SUBSEQUENTLY DEBARRED FOR SERIOUS ILLEGAL ACTIVITY

Please see preceding references

VIII.C. RECEIPT OF GLOBAL FUND PROVIDED US DOLLARS BY POLITICALLY EXPOSED PERSONS (“PEPs”)

Please see our comments above advising against inclusion of this section as it might expose the OIG to serious litigation.

VIII.D. TRANSFER OF GLOBAL FUND- PROVIDED US DOLLARS THROUGH MULTIPLE ENTITIES

We commend the investigators for their unrelenting hard work and forensic skill in identifying the identity and background of some of these third parties. We reiterate that these parties were not personally known to YGC staff.

VIII.E. DELAYED RECEIPT OF NGN FOLLOWING DEPOSIT OF US DOLLARS

There is obvious present and real risk involved in delayed payments. Fortunately, all the organizations paid back the Naira equivalent of the funds transferred to them and none of them renege in payment.

VIII.(Page 41) THE LACK OF COOPERATION WITH THE INVESTIGATION AND ITS CONSEQUENCES.

We regret the impression that YGC did not give investigators full cooperation and that we failed to produce “a vast majority of requested documentation to the OIG”. Supporting documents under the custody of banks were difficult to retrieve and this challenge was promptly made known to OIG investigators in various communications. We do not wish to recollect the embarrassing and humiliating exercise when OIG officials stormed YGC office in January 2011 and collected as exhibits YGC managers’ laptops’ computer etc for scanning. We assumed that OIG was able to obtain full and detailed information about the financial transactions that took place in YGC office. Again we emphasize that YGC is convinced that the staff did not know or have any personal relationship with the third parties other than the single one mentioned in the OIG report.

VIII. f.(Page 41) YGC EMPLOYEES CONCEALED THEIR CONNECTION TO THRD PATY RECIPIENTS OF THE CURRENCE TRANSFERS

We deeply regret the unfortunate incidence of Mr. Anthony Bisong a brother in law of the then Deputy Chief Executive. The incident is condemnable and we note with relief that there were no other similar cases.

VIII.g. YGC EMPLOYEES CONCEALED THE IDENTITY OF BANK PERSONNEL INVOLVED IN THE CURRENCY EXCHANGE

We regret that the YGC officials were not forth coming in releasing information about the bank officials with whom they were dealing. As we noted above, the contradictory and self incriminating statements of some bank officials with whom the investigators interacted cleared the YGC officials of charges of sourcing for clients for the banks.

VIII.h. PRESENTED MISLEADING CURRENCY EXCHANGE-RELATED DOCUMENTATION TO THE OIG

Once again, we regret that our internal investigation revealed that the observations of the OIG investigators were correct. We deny emphatically however that any YGC staff knew about the antecedents

7. (page 47) LOSS TO THE GLOBAL FUND

This is noted.

7B. CALCULATION OF LOSS

We expect that with the identification and location of the so called loss of funds to the tune USD824,625 mentioned above, there is no need to pursue this matter further. Detailed explanation as to how the management fees were spent is being dealt with by the CCM and the other PRs in the OIG audit report.

Abbreviations

| | |
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| ACT | Artemisinin-Based Combination Therapy |
| BCC | Behavior Change Communication |
| CCM | Country Coordinating Mechanism |
| DCE | Deputy Chief Executive |
| DR/PU | Disbursement Request and Progress Update |
| FM | Financial Management |
| FPM | Fund Portfolio Manager |
| FTC | Federal Capitol Territory |
| GPR | Grant Performance Review |
| GTB | Guaranty Trust Bank |
| IEC | Information, Education and Communication |
| IFI | International Financial Institution |
| IPT | Intermittent Preventive Treatment |
| ITN | Insecticide Treated Nets |
| LFA | Local Fund Agent |
| LLIN | Long Lasting Insecticide-treated bed net |
| NGN | Nigerian Naira (Nigerian Currency) |
| NIBSS | Nigeria Interbank Settlement System |
| OIG | Office of the Inspector General |
| PEP | Politically Exposed Person |
| PO | Program Officer |
| PR | Principle Recipient |
| PTF | Procurement Task Force |
| PWC | PricewaterhouseCoopers |
| RTGS | Real Time Gross Settlement |
| SAR | Suspicious Activity Report |
| SP | Sulphadoxine-Pyrimethamine |
| SR | Sub-Recipient |
| TGF | The Global Fund to Fight AIDS, Tuberculosis and Malaria |
| US\$ | United States Dollar |
| YGC | Yakubu Gowon Centre for National Unity and International Cooperation |