



## Investigation Report

# Global Fund Grants to Cambodia National Centre for Parasitology Entomology and Malaria Control (CNM)

GF-OIG-17-004

3 March 2017

Geneva, Switzerland

Non-compliant Expenditure: US\$3,940

Proposed recoveries: US\$3,940

Categories: Fraud – misrepresentation of information

 **The Global Fund**

Office of the Inspector General

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# I. Background and Scope

In October 2015, the Office of the Inspector General (OIG) initiated an investigation into allegations involving the National Centre for Parasitology, Entomology and Malaria Control (CNM) in the Kingdom of Cambodia. The allegations, referred by the Global Fund Secretariat and through the OIG's reporting hotline, included the following suspected fraudulent practices within CNM:

- double billing to multiple donors for the same field missions;
- relatives of CNM management assigned to undertake technical tasks on field missions without being appropriately qualified or skilled;
- misuse of incentive payments for Village Malaria Workers.

CNM was the subject of a previous OIG investigation. In 2013, the OIG published an investigation report, which prompted the suspension of two long lasting insecticide treated nets suppliers, who paid kickbacks worth US\$410,712 to two Cambodian officials working at CNM. The misappropriated funds have since been fully refunded. Since this time, UNOPS has been appointed as the Principal Recipient and CNM continues to be an implementing partner as a Sub-recipient under UNOPS. CNM manages the implementation of anti-malarial activities financed by the Global Fund throughout Cambodia. Since 2015, PricewaterhouseCoopers has been the Local Fund Agent in Cambodia. In late 2015, the GFA Consulting Group began overseeing CNM's financial activities as Fiscal Agent.

The OIG investigation examined documentation and records from 1 June 2014 to 31 May 2016. CNM did not perform any anti-malarial activities for five months from July to December 2015 while it delayed signing a Sub-recipient agreement with UNOPS under the Global Fund's new funding model. CNM field missions recommenced on 7 December 2015. The five-month delay resulted from CNM's lack of agreement to revised risk mitigation measures, including the verification of travel expenditures, demanded by the Global Fund following the 2013 OIG investigation.<sup>1</sup> Subsequent delays in establishing Memoranda of Agreement between CNM and 21 Provincial Health Departments, together with delays in delivering training, resulted in over US\$1,400,000 of allocated funds not reaching the areas most at risk of malaria in Cambodia until December 2016. With limited funds, the provincial-level activities could not be implemented as planned and budgeted.

As of February 2017, the Global Fund had disbursed US\$427,831,856 to Cambodia, out of a total commitment of US\$440,676,614. To date, 58,000 people are on HIV antiretroviral therapy, 143,000 new smear-positive tuberculosis cases have been detected and treated and 7,590,000 insecticide-treated nets distributed.

Whilst the grants subject of this investigation are due to end in December 2017, the Global Fund will continue to invest in and implement malaria programs in Cambodia. Therefore, the need to strengthen financial and programmatic controls will be critical to the impact and success of Global Fund grants in Cambodia.

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<sup>1</sup> 'Risk Mitigation Measures Concerning Travel Related Costs', dated 9 November 2015. The risk mitigation measures were later simplified as detailed in the 'Guidance on simplified Travel Plans under the cost input of Travel Related Costs', dated 29 April 2016.

## II. Executive Summary

The OIG investigation found that different donors to CNM were billed for activities conducted by the same CNM staff over the same time periods. CNM staff submitted fraudulent per diem claims that were not detected by CNM's Finance or Administration Units. This resulted in non-complaint expenditure of US\$3,940 between 1 June 2014 and 31 May 2016, representing 0.26% of CNM's total expenditures in the related cost categories.

Several conflicts of interest across the hierarchy of CNM led to the recruitment of family members without a transparent or independent recruitment process. This in turn facilitated the opportunity for improper financial gain through increased mission travel for CNM staff with family connections.

With operational and financial decisions controlled by a few influential members of CNM staff, nepotism led to the selection of family members in mission travel, which the Director of CNM approved. Delays in the approvals process for mission travel, including the release of financial advances, resulted in the delay or cancellation of planned anti-malarial activities. Furthermore, CNM staff have not complied with agreed risk mitigation measures for field mission verifications.

The OIG did not find any evidence of misappropriation of funds related to payments for Village Malaria Workers. However, there were substantial delays in the payment of incentives to Village Malaria Workers due to a lack of disbursements at the provincial level throughout Cambodia.

### Root causes

CNM has not implemented an effective system of internal controls to safeguard grant funds and ensure they are not misused. The Director of CNM approved expenditures and field missions without effective oversight and control. The Administration Bureau Chief did not track field mission activity, as required, and the Finance Unit processed fraudulent per diems claims of double-billed activity.

During an 18-month period of program inactivity at the provincial level, UNOPS focus was on signing Memoranda of Agreement between CNM and 21 Provincial Health Departments, as well as training provincial staff on guiding rules, policies and procedures. In 2014/15, UNOPS had limited oversight of CNM financial processes, which meant that double billing went unnoticed. From 2016, this risk was mitigated by the use of a Fiscal Agent.

Although the embedding of a Fiscal Agent reduced the instances of administrative staff conducting field missions, reduced double billing and acted as an effective deterrent to prevent fraudulent expense claims, the travel cost verification processes have not been managed efficiently, causing lengthy delays and unnecessary bottlenecks.

### Secretariat actions

Following CNM's refusal to sign the Sub-recipient agreement with UNOPS in July 2015, the Secretariat worked closely with the Country Coordinating Committee, the Local Fund Agent, multiple Principal Recipients and Sub-recipients, including UNOPS and CNM, to develop risk mitigation guidelines to support Global Fund implementers in Cambodia. Following agreement by all stakeholders to a proposed solution for improving the monitoring of travel-related costs, CNM signed its Sub-recipient agreement in November 2015 and commenced anti-malarial field activities in December 2015. The risk mitigation guidance was further simplified in April 2016 following strategic engagement by the Secretariat.

In order to further mitigate financial risks and strengthen financial oversight, the Secretariat embedded a Fiscal Agent within CNM to work closely with the management of CNM and UNOPS. The Fiscal Agent reviews, pre-approves and verifies all transactions at CNM, including travel-related costs and per diems claimed by staff. This has resulted in a significant reduction of administrative staff conducting field missions and of overlapping field missions. The Fiscal Agent continues to work closely with the Local Fund Agent to conduct unannounced spot checks of approved CNM field missions as one of the agreed risk mitigation measures. The Local Fund Agent performs additional verification during regular reviews via Progress Update/Disbursement Request reports. In 2017, the Secretariat will strengthen the Local Fund Agent's verification of field missions, with increased focus on the quality of training and supervision field missions, as well as attendance of scheduled travelers.

In mid-2016, the Secretariat began planning with UNOPS to increase its financial oversight and capacity building at CNM. An improvement plan is under discussion which will allow UNOPS to have an embedded team at CNM to support financial management and accounting. A UNOPS Risk & Compliance Officer will support the program in 2017. This will improve the capacity, human resources and internal controls at CNM through increased financial management and accounting oversight by UNOPS, both at central and provincial levels. The Secretariat will work closely with UNOPS to prioritize the reprogramming of activities for maximum impact to fight malaria throughout Cambodia.

#### Agreed Management Actions

The Global Fund Secretariat and the OIG have agreed on specific actions that require UNOPS and CNM to address and prevent the recurrence of financial, oversight and management issues identified in this report for grants implemented by UNOPS. The actions are set out in detail in Section V, and include:

- The recovery of an appropriate amount based on the findings of this report.
- The development of a conflict of interest policy and code of conduct applicable to CNM.
- The design and implementation by UNOPS of a Development Plan to enhance oversight and supervision over CNM in respect of planning, controlling and executing training and travel activities; coordinating with major donors in tracking and documenting travel events funded by different donor sources and facilitating the enhanced verification conducted by Local Fund Agent.

It should be noted that the Secretariat agreed to the UNOPS Development Plan but could not make a commitment as to its actual implementation. Therefore, the OIG cannot be assured of the effectiveness of this plan. OIG will plan a follow-up mission to CNM in early 2018 to evaluate the status of the implementation arrangements.

### III. Findings and Agreed Management Actions

#### 01 Double Billing of Field Missions

The OIG investigation found evidence of small-scale fraudulent payments of per diems totaling US\$3,940 for field missions undertaken by central-level CNM staff. The payments were for field missions financed by the Global Fund and another international donor to CNM. CNM systematically submitted multiple financial claims related to field missions conducted throughout Cambodia by the same staff members across overlapping time periods.

In order to identify instances of double billing, the OIG requested permission from three international donors to review Mission Orders of CNM travel they had financed. The OIG received permission from one of these donors to review 108 Mission Orders for CNM travel it had financed between 1 June 2014 and 30 June 2015. In total, the OIG analyzed 654 Mission Orders for authorized travel conducted by 156 different members of CNM staff for a combined total of 12,573 days of field mission travel from 1 June 2014 to 31 May 2016.

The OIG found that 197 days of per diem payments were billed to the Global Fund and another donor simultaneously, which involved 84 different Mission Orders, or 13% of those analyzed. The value of the double billed missions is US\$3,940 and involves 21 CNM staff members<sup>2</sup> who, according to the authorized Mission Orders, conducted multiple field missions in different locations throughout Cambodia during overlapping time periods. The evidence demonstrates that double billing occurred between field missions financed solely by the Global Fund, and between field missions financed by the Global Fund and another donor to CNM. The Director of CNM has overall responsibility for CNM's expenditure of donor money.

The Global Fund provides an advance payment of 80% of the per diems to the Chief of Mission for the total number of overnight stays conducted by all field mission attendees. The remaining 20% is paid at the completion of the mission. The other donor paid per diems in cash to CNM staff in the field for all identified overlapping field missions. The OIG concludes that all identified overlapping field missions financed by the Global Fund were claimed fraudulently and are therefore considered to be non-compliant expenditures.

Several CNM staff conducted excessive amounts of field missions, including overlapping missions attended by relatives of senior CNM managers. Fraudulent per diem payments were made for field mission travel exceeding the number of available days in a given month, which were approved by CNM management.

Close relatives of the Administration Bureau Chief and the Technical Bureau Chief conducted the highest number of field mission overnight stays of all CNM staff during the scope of the OIG's investigation (1 June 2014 to 31 May 2016), as described below.

##### *Son of the Administration Bureau Chief*

A former CNM Administration Unit Assistant (*CNM Staff A*) and now Epidemiology Unit Assistant, was recruited by his father, the Administration Bureau Chief, (see Finding 03). *CNM Staff A* conducted the third highest number of field missions of all CNM staff during the scope of the OIG's investigation. The OIG found evidence of *CNM Staff A* participating in authorized field missions in overlapping time periods in provinces far apart. In total, the OIG found 13 overlapping missions involving *CNM Staff A* out of 38 in total, or 34%, with non-compliant per diem payments of US\$800 charged to the Global Fund.

When shown examples of identified overlapping field missions, *CNM Staff A* could not recall any field missions undertaken and stated he had not received any money from per diems. However, financial General Journals authorized by CNM's Director, Technical Bureau Chief and Chief of Finance confirm the advance payment and subsequent settlement of per diems for missions on which *CNM Staff A* participated, including identified overlapping missions. Moreover, CNM's senior management authorized the payment of per diems for field missions funded by the Global Fund, when the same staff were conducting field missions funded by another donor to CNM.

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<sup>2</sup> This represents 13% (21/156) of all CNM staff who conducted mission travel between 1 June 2014 and 31 May 2016.

In March 2015, *CNM Staff A* is recorded as being on mission for a total of 33 days, including overlapping mission dates for which he received per diem payments. This exceeds the total number of days available in the month.

*Brother of the Administration Bureau Chief*

A CNM driver (*CNM Staff B*), who is the brother of the Administration Bureau Chief, conducted two overlapping missions with the total value of non-compliant per diem payments of US\$100 charged to the Global Fund.

*Brother-in-law of Technical Bureau Chief*

The Chief of the Vector Control Unit (*CNM Staff C*), who is the brother-in-law of CNM's Technical Bureau Chief, conducted four overlapping missions with the total value of non-compliant per diem payments of US\$220 charged to the Global Fund.

*CNM Staff C* is recorded as being on mission for a total of 40 days in October 2014, including overlapping mission dates for which he received per diem payments. This exceeds the total number of days available in the month.

*A CNM Deputy Director*

A CNM Deputy Director (*CNM Staff D*), conducted four overlapping missions financed by the Global Fund within the same time period as those financed by another CNM donor. The total value of non-compliant per diem payments that *CNM Staff D* charged to the Global Fund is US\$160.

*Two CNM Drivers*

A CNM driver, *CNM Staff E*, conducted 11 overlapping field missions with non-compliant per diem payments charged to the Global Fund totaling US\$500, second only to *CNM Staff A*. Another CNM Driver, *CNM Staff F*, conducted four overlapping field missions with non-compliant per diem payments charged to the Global Fund totaling US\$120. It is noted that both *CNM Staff E* and *CNM Staff F* were recommended for employment by CNM's Chief of Finance Bureau.

In response to the OIG's findings, the CNM Director claimed that events identified as overlapping were due to cancellations for which no documentation could be provided. The OIG found evidence of confirmed financial payments to CNM staff for field missions that the CNM Director claimed had been cancelled. This further demonstrates the lack of auditable systems and processes at CNM regarding field mission activity. CNM does not separately account for and track cancelled field missions from those that took place. CNM does not have a document management system to track field missions that can be accurately audited.

The fraudulent payments associated with overlapping field missions occurred in 2014 and 2015. In 2016, the Fiscal Agent reviewed all proposed field mission travel by CNM staff against an agreed Quarterly Travel Plan and found no overlap. The combined work of the Local Fund Agent and Fiscal Agent in conducting spot checks in the field has prevented any further fraudulent per diem claims being charged to the grant.

*Agreed Management Action No. 1: The Global Fund Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount, based on the findings of this report. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.*

## 02 Unauditable and Inefficient Systems and Processes

The OIG investigation highlighted dysfunctional and unauditable systems and processes within CNM. As a result, fraudulent expense payments were not detected by CNM's Finance and Administration Units and CNM did not track the mission activity of its staff. Additionally, CNM staff have not complied with agreed risk mitigation measures for field mission verifications.

For example, CNM did not maintain a central database for field missions financed by the Global Fund and other donors. The Administration Bureau Chief, responsible for the production of Mission Orders following approval by CNM's Director, is responsible for tracking the availability of staff for field missions. However, no centralized records were maintained of field missions conducted by CNM staff funded by its donors, including the Global Fund. With no central record for reference, the Administration Bureau Chief was not aware of vital information when determining the availability of staff for field missions, including mission participants, dates, location, purpose and funding source.

CNM's Director informed the OIG that it is the Administration Bureau Chief's responsibility to check the number of days requested for mission travel so there are no overlapping missions and that the staff proposed are available. The OIG investigation found that 13% of Mission Orders analyzed included overlapping field missions that resulted in fraudulent double billing of financial payments totaling US\$3,940 (see Finding 01). The lack of a centralized mission order tracking system prevented the overlapping field missions and subsequent double billing of per diems to multiple donors from being detected or audited.

In response to the OIG's findings, the CNM Director confirmed that in mid-2016, CNM implemented a Human Resource Management Tool to track staff conducting field missions, to keep an audit trail of cancelled field missions and to identify any overlapping Mission Orders.

The above measures have been introduced by CNM since the OIG conducted its in-country investigation. UNOPS will periodically verify the effectiveness and sufficiency of the Human Resource Management Tool.

#### Compliance issues with travel verification procedures resulted in unverifiable field missions

CNM staff did not fully comply with agreed travel verification procedures and UNOPS did not provide the appropriate level of oversight or timely information to ensure adherence. This resulted in 76% of budgeted travel expenditure within a 6-month period in 2016 not being verified.

Since February 2016, the Local Fund Agent and the Fiscal Agent have undertaken unannounced and random spot checks of approved field missions conducted by CNM staff. The purpose of the spot checks is to verify approved missions in the field, as per the agreed Travel Plan, including verification of persons conducting the field missions.

Between February and early August 2016, 123 spot checks of CNM field missions were verified. The outcomes of these spot checks are as follows:

- 40 missions (33%) were either cancelled after the start date, were cancelled without timely notification to the Local Fund Agent and Fiscal Agent or staff were not at the stated location;
- 55 missions (45%) were verified in full with no observations made;
- 17 missions (14%) had staff either missing or there was a change to the approved mission staff without prior notification; and
- 9 missions (8%) had staff who refused to be verified.

The agreed travel verification procedures were not followed by CNM staff as shown by the high occurrence of cancelled field missions. CNM is required to provide three business days' advance notice to the Principal Recipient, Local Fund Agent and Fiscal Agent of any changes to mission personnel, location or even cancellation. Forty missions were either not reported within three business days, or, in some cases, not reported at all, demonstrating a lack of adherence by CNM to follow agreed processes.

The evidence also demonstrates that some field missions were conducted at times, locations and by people not included in the pre-approved Travel Plan. There were several instances of mission participants not being in locations as per the approved Mission Order and mission participants reporting the cancellation of a mission due to the lack of an approved cash advance.<sup>3</sup> There were several instances where staff did not cooperate in the verification procedure by refusing to sign documents confirming their names and attendance for a particular activity, including a CNM Deputy

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<sup>3</sup> This represents 6% of the total number of CNM field missions conducted during the scope of OIG's investigation.

Director and staff from the Monitoring & Evaluation Unit, Finance Unit and drivers. These missions were pre-approved and were supposed to have taken place without cancellation or delay, as per the Travel Plan.

As a result of the spot checks conducted between February and early August 2016, 76% of field missions could not be verified or were verified with adverse findings during field verification according to the approved Travel Plan. The per diems relating to these unverified field missions had a budget value of US\$64,958 and were not paid. It should be noted travel expenditures classified as “not verified” or “verified with findings” is not a final classification used to determine recoverable amounts. Further work is carried out by the assurance providers and UNOPS, including reviews of documents to support mission travel and activities conducted. The Local Fund Agent verifies expenditures on a routine basis, including a check to ensure no payment was made for mission travel that was not verified or verified with findings. Post-facto verification conducted by the Local Fund Agent found there were no non-compliant travel expenditures between January and June 2016 (93% sampling) and US\$244 of non-compliant expenditures from July to September 2016 (100% sampling).

The Principal Recipient is responsible for ensuring that the Local Fund Agent and Fiscal Agent are provided with timely information of any changes made to mission travel, including cancellations. There were instances when notifications of cancelled CNM missions were not communicated within the required timeframes due to the late provision of information by CNM. This resulted in wasted resources of both the Local Fund Agent and Fiscal Agent in attempting to verify field missions that did not take place.

In response to the OIG’s findings, UNOPS confirmed that it will continue to support CNM to ensure that all staff share timely information regarding changes to field missions and that they are aware of the expectations of the field mission verification mechanism. UNOPS will continue to coordinate and support the Local Fund Agent’s review and verification of Sub-recipient expenditures on a quarterly basis. The CNM Director confirmed that CNM will continue to work closely with UNOPS to improve the efficiency of the field mission verification process, including sharing documentation and information of any changes to planned field missions in a timely manner.

### 03 Conflict of Interest and Nepotism at CNM

The OIG investigation found evidence of several conflicts of interest within CNM across the hierarchy of the organization. This led to senior CNM managers recruiting their family members, sometimes without a transparent or independent recruitment process. It also increased the opportunity for improper financial gain through extra mission travel for CNM staff with family connections.

A lack of segregation of duties for senior staff at CNM resulted in financial and operational decisions being controlled by a few influential individuals. This led to the selection of family members to participate in mission travel, which the Director of CNM approved without effective oversight and control. Furthermore, the Director of CNM did not effectively delegate financial responsibility, resulting in delays to the approval of expenditures and the subsequent delay or cancellation of some planned anti-malarial activities.

#### Recruitment of family members

The OIG investigation found evidence of family connections across CNM’s hierarchy, with several government-paid staff related to senior management. This included two Deputy Directors, the Technical Bureau Chief and the Administration Bureau Chief. In some instances people were hired by their own family members, some did not have the adequate skills and qualifications for the roles they were hired for and some procedures, such as interviews, were bypassed.

Although the hiring of family members is not prohibited under Cambodia law, the Global Fund and UNOPS did not have oversight on the recruitment of government-funded staff related to senior CNM managers.

The following family connections were identified in CNM’s hierarchy:

- A Deputy Director of CNM

- Malaria Specialist – brother-in-law
- Assistant, Helminthiasis Unit – niece
- Officer, Laboratory Unit – sister-in-law
- A Deputy Director of CNM
  - Team Leader, Entomology Unit – niece
  - Driver – nephew
  - Vector Control Unit – sibling
- Technical Bureau Chief and Global Fund Principal Implementing Partner Manager
  - Chief, Vector Control Unit – brother-in-law
- Head of Dengue Program and Head of Research Unit
  - Assistant, Health & Education – brother-in-law
- Administrative Bureau Chief
  - Assistant, Epidemiology Unit – son
  - Assistant, Health Research Unit – son
  - Driver – brother

Some of the recruitments of the above CNM staff were conducted by relatives in positions of authority at CNM. The Administrative Bureau Chief wrote three letters of guarantee in 2014, 2015 and 2016 to the Ministry of Health to support the awarding of yearly contracts to his son, *CNM Staff A*, who did not have any previous work experience. Under the supervision of his father, *CNM Staff A* conducted the third highest number of field missions of all CNM staff during the scope of the OIG's investigation (253 overnight stays). Following his transfer to the Epidemiology Unit in 2016, where he was managed by a non-family member, *CNM Staff A* conducted just one mission in the first five months of 2016 (3 overnight stays).

The Administrative Bureau Chief also wrote a letter of guarantee to the Ministry of Health to assist the job application for another son, *CNM Staff G*, who was accepted for employment at CNM without taking part in a job interview, as other government-funded contract staff did.

After working for 10 years as the CNM Librarian, *CNM Staff H* resigned in 2015. She was then interviewed by her Aunt, a CNM Deputy Director (*CNM Staff D*), and was awarded a government contract position, although on a voluntary basis with no pay. Initially assigned to the Administration Unit, her only source of income at CNM was from per diem payments gained from conducting field missions, which she regularly did in 2014 and 2015 (142 overnight stays) when she was supervised by the Administration Bureau Chief and her Aunt. However, following her transfer in early 2016 to the Helminthiasis Unit, *CNM Staff H* conducted one mission during the first five months of 2016 (3 overnight stays). *CNM Staff H* does not have the appropriate skills or qualifications to perform the technical work required in her current role, such as the detection or treatment of Schistosomiasis.

The same CNM Deputy Director (*CNM Staff D*) also conducted a job interview with her sister-in-law, *CNM Staff I*, who was subsequently offered a position at the CNM Laboratory Unit, although she does not receive payment from CNM or the government. As with *CNM Staff H*, her only source of income was from per diem payments gained from conducting field missions of which she conducted 105 overnight stays during the scope of the investigation.

A lack of oversight from and occasional participation by CNM's management resulted in the recruitment of many government-funded contract staff, several of whom are related to CNM managers. Some of these government-funded contract members of staff are sent on field missions for which they receive Global Fund-financed per diem payments that far exceed their monthly incomes or can comprise their sole income.

In response to the OIG's findings, UNOPS confirmed that its Human Resource department provides the required level of support to CNM for the recruitment of Global Fund contract staff, including involvement in all known recruitments in 2016. UNOPS confirmed that recruitment panel members must declare any conflict of interest (family relation) before each panel interview. The CNM Director confirmed that UNOPS is also represented on the committee to recruit volunteers, and that there are currently no conflicts of interest on any recruitment committee. CNM will also monitor and evaluate

staff performance. Although the OIG found some CNM staff conducting technical roles with no prior experience, skills or qualifications, the CNM Director informed the OIG that CNM staff conducting technical functions receive on-the-job training to perform the required roles and that CNM will prioritize training for government staff.

The above measures have been introduced by CNM since the OIG conducted its in-country investigation. As such, UNOPS will be required to periodically assess the level of training given to CNM staff conducting technical roles.

**CNM Bureau Chiefs approved family members to conduct technical field missions that led to improper financial gain**

Between 2014 and 2015, the OIG Investigation identified that CNM staff with family connections conducted more mission travel than those without family connections. The OIG’s analysis of 654 Mission Orders show that nine out of the sixteen identified staff with family connections conducted more field missions than the average number conducted across all CNM staff. This provided more opportunity for these members of staff to increase their financial gain through per diems associated with conducting field missions, as shown in the table below:

Field mission travel between 1 June 2014 and 30 June 2015 by CNM staff with family connections			
Position/Unit in CNM	Family connection	Total per diem claims	Per diem payments (US\$)
CNM Staff A, Assistant, Epidemiology Unit	Son of the Administration Bureau Chief	250	5,000
CNM Staff C, Chief of the Vector Control Unit	Brother-in-law of the Technical Bureau Chief	224	4,480
CNM Staff D, Deputy Director	Aunt of CNM Staff H and sister-in-law of CNM staff I	146	2,920
CNM Staff H, Assistant, Helminthiasis Unit	Niece of a CNM Deputy Director and daughter of CNM Staff J	142	2,840
CNM Staff B, Driver, Administration Unit	Brother of the Administration Bureau Chief	132	2,640
CNM Staff J, Malaria Specialist	Brother-in-law of a CNM Deputy Director and father of CNM Staff H	127	2,540
CNM Staff I, Officer, Laboratory Unit	Sister-in-law of a CNM Deputy Director	102	2,040
CNM Staff K, Driver, Administration Unit	Nephew of a CNM Deputy Director	96	1,920
The Administration Bureau Chief	Father of CNM Staff A and G, brother of CNM Staff B	95	1,900

With some of the above CNM members of staff working as volunteers with no salary and others earning US\$35 per month, those employees with family connections to CNM management substantially increased their annual income. For example, *CNM Staff A* increased his annual income by over 1,000% and *CNM Staff B* by over 500% between 1 June 2014 and 30 June 2015. All CNM Mission Orders were reviewed by the Technical Bureau Chief and Administration Bureau Chief before they were authorized by the Director of CNM, including the overlapping field missions that resulted in double billing (see Finding 01).

Following observations made by the Fiscal Agent in late 2015 of “administrative” staff conducting a high number of technical field missions, several CNM staff were moved from administrative units and placed in technical units in early 2016, such as *CNM Staff A* and *CNM Staff H*. Together with the introduction in November 2015 of risk mitigation measures concerning travel-related expenditures, there has been a significant reduction in the number of field missions conducted by these staff.

*Agreed Management Action No. 2: The Global Fund Secretariat shall work with the Principal Recipient and CNM to develop a conflict of interest policy and code of conduct applicable to CNM, including guidance on the delegation of authority.*

## 04 Lack of Effective and Efficient Oversight

The investigation noted that the Global Fund program experienced substantial delays in disbursing money to the 21 provinces and the resulting impact to the malaria program. The failure to disburse funds has directly impacted the planned and budgeted anti-malarial activities and those living in the affected provinces. There was also a lack of monitoring of financial expenditures and limited communication on the expectations and requirements of an agreed travel verification process.

UNOPS, as a Principal Recipient of Global Fund grants in Cambodia, is responsible for the financial and programmatic oversight of CNM's activities.<sup>4</sup>

CNM's management did not provide sufficient oversight, which resulted in the systematic approval of fraudulent mission travel. A lack of effective delegation of financial authority led to the cancellation of some planned and budgeted activities. Furthermore, some CNM staff members were not qualified to fill technical roles assigned on field missions. This is because only the technical capability of the Chief of Mission was verified and not that of the entire field mission staff.

#### Lack of incentive payments for Village Malaria Workers

Although it had been alleged, the OIG did not find evidence of misuse of incentive payments allocated for Village Malaria Workers. However, the lack of financial disbursements at the provincial level for over 18 months after the signing of the grant agreement, meant no incentive payments were made to over 2,500 Village Malaria Workers. The workers are supposed to receive an incentive of US\$10 per worker (US\$20 per village, when there are two workers) for coordinating monthly village malaria meetings. Without the incentive payments, the workers either coordinate these meetings on a voluntary basis, or not at all.

In response to the OIG's findings, UNOPS confirmed it has strengthened its oversight of CNM, with dedicated resources specializing in financial management, compliance, and programmatic monitoring and evaluation at CNM. Furthermore, a UNOPS finance team has conducted nine financial verification field missions at the provincial level since the OIG's in-country mission. UNOPS will continue to ensure CNM and all other Sub-recipients receive adequate grant management support for timely implementation of activities with high levels of accountability and transparency.

In addition, the CNM Director confirmed that in collaboration with UNOPS, CNM will continue to strengthen its internal management and oversight functions. Furthermore, CNM has formed a Regional Task Force led by its Deputy Directors to closely monitor the implementation of activities by region in order to achieve program targets.

The above measures have been introduced by CNM since the OIG conducted its in-country investigation. UNOPS will periodically verify the effectiveness and sufficiency of CNM's internal management and oversight functions, including the Regional Task Force.

#### Inefficient mission travel verification procedure that is not widely understood by CNM staff

The current travel-related costs verification procedure, although providing an effective deterrent to prevent fraudulent expense claims, is not efficient. CNM staff did not fully understand or engage in required risk mitigation measures that provide assurance of travel-related expenditure to the Global Fund. UNOPS did not provide sufficient oversight and guidance to CNM, which resulted in pre-approved field missions being cancelled without following the agreed-upon procedures.

Before any field mission activity can go ahead, both CNM staff and staff from UNOPS, the Local Fund Agent and Fiscal Agent are involved in the authorization of Quarterly Travel Plans, Mission Orders and Statements of Expenditures. For any changes made to approved field missions, the authorization process is restarted, adding delays or even cancellations to planned anti-malarial activity. The evidence of last-minute changes to field missions not being communicated on a timely basis to the Local Fund Agent and Fiscal Agent has resulted in waste of resources during field mission verifications. Furthermore, instances of a lack of authorization by CNM management to release mission travel funds resulted in further delays and cancellation of planned field missions.

However, the travel verification work conducted by the Local Fund Agent and Fiscal Agent has prevented mission costs being incorrectly charged to the grant. This includes field missions that were determined to be *cancelled*, *not verified*, or *verified with findings*, that otherwise would have been paid in full had they not been verified.<sup>5</sup> Instances of such adverse findings have reduced since the introduction of field mission spot checks. However, the assurance provided to the Global Fund by

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<sup>4</sup> Sections 4.3(2) and 11.2(1) of the Global Fund Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015, and Article 10 b. of the grant agreement CAM-M-UNOPS.

<sup>5</sup> *Cancelled* – CNM field mission cancelled outside of the agreed advance notification period, *Not Verified* – CNM field mission that could not be verified due to staff not being at pre-designated locations or who refused to be verified, *Verified with Findings* – CNM field mission that was verified but with adverse findings, including staff not present.

the Fiscal Agent comes at a high financial cost and administrative burden on the programs. The staff working for the Fiscal Agent and Local Fund Agent travel thousands of kilometers throughout Cambodia checking the physical presence of CNM staff and whether field missions are being conducted as per an agreed Travel Plan.

OIG investigators interviewed CNM staff at all levels. In general, CNM staff claimed either not to be aware of, fully understand, or engaged in the verification function performed by the Local Fund Agent and Fiscal Agent on travel-related expenditure. These claims come despite multiple discussions between the Fiscal Agent and Local Fund Agent with the Country Coordinating Committee, all Principal Recipients and senior Sub-recipient management to ensure full understanding and acceptance of travel expenditure verifications. At staff level, there remains a lack of understanding and acceptance of the travel-related verification work. There is a lack of clear understanding amongst CNM staff as to the roles performed by the assurance providers and the purpose of the travel-related verification work, with some staff fearing they are being monitored and watched by the Global Fund.

CNM staff have conducted field missions that do not match the pre-approved Travel Plans. Associated costs would have been charged to the grant had they not been detected by the travel verification work. This includes 33% of CNM field missions within a six-month period in 2016 that were cancelled outside of the agreed verification process; and missions where some CNM staff refused to provide their names for verification or were otherwise not at the agreed locations.

Both the Local Fund Agent and Fiscal Agent are currently involved in the verification process in order to be able to cover around 90% of activities with an increased verification team. This assurance function discourages fraudulent activities and mitigates the risk of higher ineligible expenditures. The Local Fund Agent's 2017 work plan will focus on the verification of specific field missions conducted by CNM, including high value and higher risk activities, as well as the quality of work conducted in the field. The Local Fund Agent and Fiscal Agent provide periodic updates on issues and trends upon request by the Country Coordinating Committee.

In response to the OIG's findings, both UNOPS and CNM informed the OIG that each Provincial Health Department and Operational District will be directly managing the implementation of activities with technical support from CNM. Consequently, all national and sub-national staff subject to travel-related costs verification, have recently received training to increase their knowledge of guiding rules, policies and procedures and to remind all staff of their continued compliance to the ongoing verification of travel expenditures.

#### Repayment of ineligible expenses by CNM staff

In 2015, CNM management requested staff to personally contribute to the repayment of ineligible expenditures totaling US\$1,680, identified during expenditure verifications conducted by the Local Fund Agent at CNM. The amount that each CNM employee was required to contribute was calculated as a percentage of their salary, regardless of whether the staff were involved in the activity related to the ineligible expenditures. The collection and retention of money was directed by a senior manager holding three positions at CNM (Technical Bureau Chief, Global Fund Principal Implementing Partner Manager and Head of CNM's malaria, dengue and national tropical disease programs). At the time of the OIG's in-country mission, the collected funds had not been deposited in CNM's bank.

However, CNM management informed staff of their collective responsibility for paying ineligible expenditures, despite these not being associated to the work they performed at CNM. The CNM Director informed the OIG that the financial contributions made by his staff were done so on a voluntary and transparent basis.

Such ineligible expenditures are normally refunded by the organization responsible. The OIG therefore concludes that CNM management abused its position of authority and oversight by requiring CNM staff to contribute to the cost of ineligible expenditures, without any notification or oversight from UNOPS.

*Agreed Management Action No. 3: The Global Fund Secretariat will work with the Principal Recipient to enhance the oversight and supervision over CNM in terms of planning, controlling and executing training and travel activities; coordinating with major donors in tracking and documenting travel events funded by different donor sources and facilitating the enhanced verification conducted by Local Fund Agent. Such improvement activities will be presented by UNOPS through a comprehensive Development Plan to be approved by the Secretariat. The OIG Investigations Team will conduct an implementation review in Qtr. 1 2018.*

## IV. Conclusion

The OIG investigation concludes that weaknesses in CNM's management and internal controls led to improper financial gain through mission travel conducted by government staff related to CNM management. Subsequently, donor funds were misused through fraudulent double billing of activities, which resulted in non-compliant expenditures of US\$3,940.

Limited financial and programmatic oversight by UNOPS resulted in substantial delays in financial disbursements to CNM and subsequently to 21 provinces in Cambodia. Furthermore, there was limited monitoring of financial expenditures and communication on the expectations and requirements by CNM staff on the verification of authorized travel-related expenditures.

CNM did not comply with agreed risk mitigation measures for field mission verifications and the level of assurance provided by Global Fund assurance providers, while effective, has not been efficient. Due to the significant delays in grant signing and activity, including the late disbursement of funds to the most at-risk provinces, CNM will have to work closely with UNOPS to strategically plan anti-malarial activities to have the most impact on the people of Cambodia through to the end of the grant in December 2017.

### *Summary of CNM's non-compliant expenditures*

<b>Description</b>	<b>Non-compliant Expenditure</b>
Value of CNM per diem payments from overlapping Mission Orders in 2014 and 2015	US\$3,940

## V. Table of Agreed Management Actions

#	Category	Agreed Management Action	Target date	Owner
1	Recovery of Funds	The Global Fund Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount, based on the findings of this report. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.	31 December 2017	Recoveries Committee
2	Governance, Oversight & Management Risk	The Global Fund Secretariat shall work with the Principal Recipient and CNM to develop a conflict of interest policy and code of conduct applicable to CNM, including guidance on the delegation of authority.	31 December 2017	Head of Grant Management Division
3	Governance, Oversight & Management Risk	The Global Fund Secretariat will work with the Principal Recipient to enhance the oversight and supervision over CNM in terms of planning, controlling and executing training and travel activities; coordinating with major donors in tracking and documenting travel events funded by different donor sources and facilitating the enhanced verification conducted by Local Fund Agent. Such improvement activities will be presented by UNOPS through a comprehensive Development Plan to be approved by the Secretariat. The OIG Investigations Team will conduct an implementation review in Qtr. 1 2018.	30 June 2017	Head of Grant Management Division

## Annex A: OIG Methodology

The Investigations Unit of the OIG is responsible for conducting investigations of alleged fraud, abuse, misappropriation, corruption and mismanagement (collectively, “fraud and abuse”) within Global Fund financed programs, notably by Principal Recipients and Sub-recipients, (collectively, “grant implementers”), as well as suppliers and service providers.<sup>6</sup>

The authority required to fulfill this mandate includes access to the Secretariat, implementers and suppliers’ documents and officials.<sup>7</sup> The OIG relies on the cooperation of these entities to properly discharge its mandate.<sup>8</sup>

When overseeing grant programs managed by the United Nations and its subsidiary bodies, the OIG respects the Single-Audit Principle applicable to those entities. The OIG and the Internal Audit and Investigations Group of UNOPS have entered into an agreement to improve their collaboration around investigative work related to Global Fund programs.

Investigation methodology in this report included: a forensic analysis of red flag transactions and supporting documentation; review of expenditure verification processes and stakeholder interviews. The OIG also collaborated with the Internal Audit and Investigations Group of UNOPS, with regard to allegations into fraudulent transactions.

The OIG’s investigations aim to: (i) identify the specific nature and extent of fraud and abuse affecting Global Fund grants, (ii) identify the entities and individuals responsible for such wrongdoings, (iii) determine the amount of grant funds that may be compromised by fraud and abuse, and (iv) place the Global Fund in the best position to obtain recoveries through the identification of the location or uses to which the misused funds have been put.

The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts. Findings are established by a preponderance of credible and substantive evidence. All available evidence is considered by the OIG, including inculpatory and exculpatory information.<sup>9</sup>

The OIG is an administrative body with no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, outside of the Secretariat, its ability to obtain information is limited to the rights granted under the agreements with recipients, and on the willingness of witnesses and other interested parties to voluntarily provide information.

The OIG finds, assesses and reports on facts. On that basis, it makes determination on the compliance of expenditures, the applicable contractual instruments and applicable rules and procedures.

The OIG does not determine how the Secretariat will address its findings through operational and managerial actions. Nor does it make judicial decisions or issue sanctions.

As a result of its findings, the OIG does develop, jointly with the Secretariat, risk-prioritized Agreed Management Actions. Such Agreed Management Actions represent a commitment by the Secretariat to implement specific remedial or preventative measures in reaction to the findings, in a specific timeframe, and an agreement by the OIG that the proposed measures will materially contribute to identify, mitigate and manage the risks evidenced through the findings.

Such Agreed Actions may notably include additional work regarding the identification of non-compliant expenditures and the associated determination of appropriate recoverable amounts, recommended administrative action related to grant management. The OIG does not determine how

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<sup>6</sup> Charter of the Office of the Inspector General (19 March 2013), available at: [http://www.theglobalfund.org/documents/oig/OIG\\_OfficeOfInspectorGeneral\\_Charter\\_en/](http://www.theglobalfund.org/documents/oig/OIG_OfficeOfInspectorGeneral_Charter_en/), accessed 01 December 2016.

<sup>7</sup> Ibid., § 17.1 and 17.2

<sup>8</sup> Global Fund Code of Conduct for Suppliers (15 December 2009), § 17-18, available at: [http://www.theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForSuppliers\\_Policy\\_en/](http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/), accessed 1 December 2016 and article 28 e. of the Standard Terms and Conditions of the Program Grant Agreements with UNOPS.

<sup>9</sup> These principles comply with the Uniform Guidelines for Investigations, Conference of International Investigators, June 2009, available at [http://www.conf-int-investigators.org/?page\\_id=415](http://www.conf-int-investigators.org/?page_id=415), accessed 1 December 2016.

the Secretariat will address these determinations and recommendations. Nor does it make judicial decisions or issue sanctions.<sup>10</sup>

Agreed Actions are agreed with the Secretariat to identify, mitigate and manage risks to the Global Fund and its recipients' activities. In addition, the OIG defers to the Secretariat and, where appropriate, the implementers, their suppliers and/or the concerned national law enforcement agencies, for action upon the findings in its reports.

The OIG also provides the Global Fund Board with an analysis of lessons learned for the purpose of understanding and mitigating identified risks to the grant portfolio related to fraud and abuse. Finally, the OIG may make referrals to national authorities for prosecution of any crimes or other violations of national laws, and supports such authorities as necessary throughout the process, as appropriate.

#### Applicable Concepts of Fraud and Abuse

The OIG bases its investigations on the contractual commitments undertaken by recipients and suppliers. It does so under the mandate set forth in its Charter to undertake investigations of allegations of fraud and abuse in Global Fund supported programs.

As such, it relies on the definitions of wrongdoing set out in the applicable grant agreements with the Global Fund and the contracts entered into by the recipients with other implementing entities in the course of program implementation.

Such agreements with Sub-recipients must notably include pass-through access rights, and be consistent with the substantive terms of the main agreement with the Principal Recipient.

The precise definition of wrongdoing applicable to each agreement may vary, as some agreement make reference to various sets of prohibited behaviors. The Grant Agreements with UNOPS explicitly recognized the prohibition of conflicts of interest and Corrupt Practices,<sup>11</sup> referring notably to the organization's Anti-Fraud Policy. The Agreement between the *Office of the Inspector General of the Global Fund to Fight Aids, Tuberculosis and Malaria and the Internal Audit and Investigations Group of the United Nations Office for Project Services* recognize the need to prevent and detect instances of fraud, corruption or other financial irregularities in Global Fund supported programs.

The OIG defines these prohibited practices as follows:

- *“Conflict of Interest”*: A conflict of interest arises when a Recipient or Recipient Representative participates in any particular Global Fund matter that may have a direct and predictable effect on a financial or other interest held by: (a) the Recipient; (b) the Recipient Representative; or (c) any person or institution associated with the Recipient or Recipient Representative by contractual, financial, agency, employment or personal relationship. For instance, conflicts of interest may exist when a Recipient or Recipient Representative has a financial or other interest that could affect the conduct of its duties and responsibilities to manage Global Fund Resources. A conflict of interest may also exist if a Recipient or Recipient Representative's financial or other interest compromises or undermines the trust that Global Fund Resources are managed and utilized in a manner that is transparent, fair, honest and accountable.
- *“Corrupt practice”* means the offering, promising, giving, receiving or soliciting, directly or indirectly, of anything of value or any other advantage to influence improperly the actions of another person or entity.
- *“Fraudulent practice”* means 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.

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<sup>10</sup> Charter of the Office of the Inspector General (19 March 2013) § 8.1.

<sup>11</sup> Section 6.6(1) of the Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015, and Article 28.a of the Standard Terms and Conditions of grant number CAM-M-UNOPS.

## Determination of Compliance

The OIG presents factual findings which identify compliance issues by the recipients with the terms of the Global Fund's Grant Agreements. Such compliance issues may have links to the expenditure of grant funds by recipients, which then raises the issue of the eligibility of these expenses for funding by the Global Fund. Such non-compliance is based on the provisions of the Grant Agreements.<sup>12</sup> The OIG does not aim to conclude on the appropriateness of seeking refunds from recipients, or other sanctions on the basis of the provisions of the Program Grant Agreement.

Various provisions of the Grant Agreement provide guidance on whether a program expense is eligible for funding by the Global Fund. It is worth noting that the terms described in this section are to substantively apply to Sub-recipients as well as Principal Recipients.

At a very fundamental level, it is the Principal Recipient's responsibility to 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.

In practice, this entails abiding by the activities and budgetary ceilings proposed in the Requests for Disbursement, which in turn must correspond to the Summary Budget(s) attached to Annex A of the Program Grant Agreement. While this is one reason for expenses to be ineligible, expending Grant funds in breach of other provisions of the Program Grant Agreement also results in a determination of non-compliance.

Even when the expenses are made in line with approved budgets and work plans, and properly accounted for in the program's books and records, such expenses must be the result of processes and business practices which are fair and transparent.

The Grant Agreements specifically requires that the Principal Recipient ensures that contracts are awarded on a transparent and competitive basis.<sup>13</sup> Also required is that none of the Principal Recipient or any of its Sub-recipients receives other funding that duplicates the grant funds provided under a grant agreement, as this could result in double billing donors for the same activity.<sup>14</sup>

The Grant Agreement generally forbids engagement in corruption or any other related or illegal acts when managing Grant Funds.

Principal Recipients are contractually liable to the Global Fund for the use of all Grant funds, including expenses made by Sub-recipients.<sup>15</sup>

The factual findings made by the OIG following its investigation and summarized through this report can be linked to the prohibited conducts or other matters incompatible with the terms of the Program Grant Agreements.

## Reimbursements or Sanctions

The Secretariat of the Global Fund is subsequently tasked with determining what management actions or contractual remedies will be taken in response to those findings. Such remedies may notably include the recovery of funds compromised by contractual breaches.<sup>16</sup>

In determining what non-compliant expenditures are to be proposed as recoverable, the OIG advises the Secretariat that such amounts typically should be: (i) amounts, for which there is no reasonable assurance about delivery of goods or services (unsupported expenses, fraudulent expenses, or otherwise irregular expenses without assurance of delivery), (ii) amounts which constitute overpricing between the price paid and comparable market price for such goods or services, or (iii) amounts which are ineligible (non-related) to the scope of the grant and its approved work plans and budgets.

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<sup>12</sup> Note: The Grant Agreements are revised from time to time, and specific terms exist for certain Principal Recipients which are United Nations organizations (including UNOPS) due to their legal status. Every grant is subject to the terms of the Grant Agreement signed for that particular grant.

<sup>13</sup> Section 5.1 (1) of the Global Fund Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015, and Article 17 a. of the grant agreement CAM-M-UNOPS.

<sup>14</sup> Section 8.5 of the Global Fund Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015.

<sup>15</sup> Sections 4.3(2) and 11.2(1) of the Global Fund Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015, and Article 10 b. of the grant agreement CAM-M-UNOPS.

<sup>16</sup> Section 11.1 of the Global Fund Grant Regulations (2014), as amended by the Framework Agreement dated 13 July 2015, and Article 8 of the grant agreement CAM-M-UNOPS.

## Annex B: Summary of Subject Responses

On 18 October 2016, the OIG provided UNOPS and CNM with a copy of its statement of findings from this investigation. The OIG also provided the Local Fund Agent and the Fiscal Agent with a separate statement of findings relevant to both entities on 18 October 2016. The OIG's statement of findings represented the full record of all relevant facts and findings considered in support of this final report. All parties responded to the OIG's findings within the agreed timescales.

The OIG duly considered all points made by the respondents and appropriate revisions were made to its findings in this final report. The OIG then proceeded to the next stage of the investigation as per its [Stakeholder Engagement Model](#).