

INVESTIGATION REPORT

Global Fund Grants in Namibia

Misappropriation of daily subsistence allowances

GF-OIG-21-012
29 July 2021
Geneva, Switzerland

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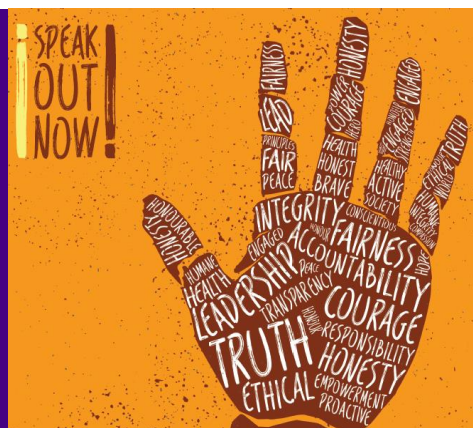


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1. Investigation at a glance

1.1 Executive Summary

Staff at the Ministry of Health and Social Services (MOHSS), a Principal Recipient for Global Fund grants in Namibia, misappropriated US\$89,476 from program bank accounts by diverting daily subsistence allowances from their intended recipients.

Staff members systematically fabricated payment documentation, switching bank account details and transferring money to themselves and multiple accomplices. Insufficient control mechanisms at MOHSS meant the fraud went undetected for 18 months.

MOHSS has since implemented new internal controls to address the issues identified in this report. The misappropriated amount of US\$89,476 is non-compliant and is recoverable by the Global Fund.

1.2 Genesis and Scope

In early 2019, the Global Fund Secretariat notified the Office of the Inspector General (OIG) that a MOHSS investigation had found that a staff member had misappropriated US\$11,775 of Daily Subsistence Allowances (DSAs). MOHSS initiated an internal disciplinary process and referred the matter to the Namibia Police, who initiated an investigation and arrested the implicated staff member. Based on the issues highlighted by the MOHSS investigation, the Global Fund Secretariat commissioned a review of 2017 and 2018 DSA transactions by its Local Fund Agent; in parallel, the OIG opened an oversight investigation to monitor the progress of the Secretariat review. The Local Fund Agent's review corroborated the MOHSS findings and revealed additional DSA transactions that had potentially been misappropriated.

Based on the findings of MOHSS and the Local Fund Agent, the OIG converted its oversight case into a full investigation in 2020, to identify if the fraud was ongoing and if additional MOHSS employees were involved. The investigation's scope was expanded to include 2019 DSA transactions, to identify the total amount lost to fraud.

The OIG examined 446 DSA payment transactions identified as high-risk, based on a statistical sampling of all DSA transactions during the review period. This represented around 9.5% of the total value of all DSA transactions. Due to COVID-19 related challenges, travel restrictions and limited supporting resources on the ground in Namibia, the OIG analyzed these DSA payments through a remote investigation.

1.3 Findings

- Over a period of 18 months, two MOHSS staff systematically fabricated Daily Subsistence Allowance documentation to transfer US\$89,476 to themselves and their accomplices.
- Gaps in MOHSS internal controls facilitated the wrongdoing and led to the misappropriation of the DSA payments. MOHSS used unsigned and undated lists of participants in editable electronic format to process DSA payments, and did not verify payments against participant lists or reconcile them with bank confirmation letters.

1.4 Context

The Ministry of Health and Social Services (MOHSS) is Principal Recipient for the Global Fund's TB/HIV and Malaria grants (NAM-C-MOH and NAM-M-MOH) in Namibia. A Project Management Unit (PMU) within the MOHSS is responsible for administering the grants, including making payments from grant funds.

Global Fund program beneficiaries such as Community Health Workers are supposed to receive Daily Subsistence Allowances when traveling to attend program activities or training courses. The allowances provide compensation to participants, who are typically low-income volunteers.

Between July 2017 and December 2019, DSA payments worth US\$1.9 million were made from MOHSS Global Fund bank accounts. All DSA claims were paid through bank-to-bank Electronic Fund Transfers (EFT). PMU Finance Assistants were responsible for preparing EFT payment vouchers and executing DSA payments.

MOHSS confirmed that their policy did not allow payments for multiple persons to be collated and made into one bank account.

1.5 Impact of the investigation

This OIG investigation highlights that DSA payments remain inherently high-risk transactions which are vulnerable to fraud. While individual DSA payments are relatively small in value, during the review period the MOHSS made about US\$1.9 million of DSA payments, representing around 3% of total program expenditure. The lack of internal controls within MOHSS around DSA payments made it possible for the fraud scheme to continue for a lengthy period of time.

To mitigate the risks, MOHSS has implemented new internal controls which seek to address the issues identified in this investigation. These include:



Bank confirmation letters are required to confirm the identity of bank account owners before payment.



Use of consent forms for payments made into a coordinator's bank account and disbursed to community volunteers.



Senior Finance Officer checking key details (account/total/bank account number per person) to confirm the accuracy of DSA payments. Bank account numbers to be checked against bank confirmations.



Senior Program Officers are required to sign DSA summary sheets before submitting them to Finance.

The two staff involved in the DSA fraud are no longer employed by MOHSS. MOHSS will further strengthen its policies and procedures regarding DSA payments. It will define roles and responsibilities for DSA management and payments and will include a methodology for conducting monthly reviews of sample DSA payments. The Secretariat agreed to include verification of the DSA payments in the scope of LFA reviews in Namibia going forward. The OIG recommends recovering the ineligible amounts due to fraud.

The above risk-mitigating measures and improved controls provide examples to Global Fund implementers and other stakeholders on how to strengthen their procedures for DSA management.

2. Findings

2.1 Gaps in internal controls allowed MOHSS staff to misappropriate US\$89,476 of daily subsistence allowances

Over 18 months, MOHSS staff members fabricated payment documentation and made 186 fraudulent payments worth US\$89,476 to themselves and multiple accomplices.

A Finance Assistant and a Senior Assistant within the MOHSS Project Management Unit fraudulently transferred 186 payments of DSAs, amounting to US\$89,476, to their own and accomplices' bank accounts, by altering bank account details in the EFT payment schedule.

The OIG obtained information from two commercial banks in Namibia which revealed multiple payments where the real recipients differed from the intended recipients. At least 27 different bank accounts were used to process ineligible DSA payments.

At least five beneficiaries complained to the PMU after they did not receive their DSA. In two such cases, the Finance Assistant repaid the complainants by diverting someone else's DSA to the complainant's bank account, thereby creating a new 'victim'.

The Finance Assistant admitted to the OIG to fraudulently changing bank account details, replacing recipients' bank account details with their own details or of their accomplices, and falsifying supporting documentation. When presented with the 27 bank accounts used to process DSA payments, the Finance Assistant said that 11 of them were their friends, neighbors, or acquaintances.

Example: an MOHSS staff member was eligible for a DSA payment of US\$266 for attending a five-day training course on Adolescent Girls and Young Women. The original schedule of banking details listed their bank account number; this was then changed to the account number for one of the accomplices. Consequently, the staff member did not receive their DSA.

The Finance Assistant was removed from their Global Fund-financed post at the PR in January 2019. Disciplinary action was subsequently initiated and the staff member resigned in September 2020. Analysis of MOHSS disbursements for 2019 did not identify further DSA diversions. This coincides with the removal of the Finance Assistant from their position.

An MOHSS Senior Assistant was responsible for confirming attendance lists for training courses, meetings, and workshops. Following an event, this staff member received attendance registers and prepared a Requisition for Expenditure for the payment of DSA to eligible participants, passing this information to the Finance Assistant for payment. The Local Fund Agent review of 2018 DSA transactions found that, on three occasions, the Senior Assistant diverted relatively small DSA payments to their own bank account by swapping the original recipient's bank details with their own. The subsequent OIG investigation found that the Senior Assistant doctored original attendance forms, adding in participant names and forging signatures, causing the finance team to make transfers of DSA to 'ghost' participants (in practice, to their own or accomplices' bank accounts).

Example: a 2018 malaria program training course paid US\$15,275 of DSA to 48 supposed participants. The original list of participants contained 37 names; 11 names were then added by the Senior Administrative Assistant. Of the 11 new participants, nine had bank accounts registered to the Senior Administrative Assistant or accomplices.

The Senior Assistant, whose contract was not renewed after it ended on 31 August 2020, admitted to the OIG that they had falsified beneficiary details and made fraudulent payments. The OIG did not find evidence that, other than the Finance Assistant and the Senior Assistant, other MOHSS staff were involved in the DSA fraud.

This investigation also found applications of incorrect DSA rates and claims for overlapping dates/events, which resulted in the grant being overcharged by US\$7,189. The OIG considers these amounts as ineligible and recoverable.

Weak internal controls, including a lack of clarity concerning segregation of duties, facilitated the wrongdoing.

Several control gaps within the MOHSS project facilitated the fraud scheme. Following an event, unsigned and undated lists of participants in editable electronic format (as opposed to pdf), were submitted to the PMU staff for processing. Regarding the verification of the supporting documentation for DSA payments, there was a lack of clarity concerning the segregation of duties. PMU staff did not carry out verification or reconciliation between original and final participant lists, nor check recipients' bank accounts against bank letters confirming their account details. Event attendance lists were also not validated against hotel records to flag potential over/under claims.

MOHSS informed the OIG that since the fraud came to light, it has taken a number of steps to improve internal controls and to mitigate the risk of similar fraud. MOHSS now:

- requires bank confirmation letters to verify the true owners of bank accounts before payment;
- verifies key details (account/total/bank account number per person) to confirm the accuracy of DSA payments;
- requires DSA summary sheets to be signed before they are submitted to the Finance Department for verification;
- mandates the use of consent forms for payments made into a coordinator's bank account for disbursement to community volunteers.

3. Global Fund Response

Action to be taken	Due date	Owner
1. Based on the findings of the report, the Global Fund Secretariat will finalize and pursue from the Principal Recipient an appropriate recoverable amount. 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 2021	Head, Recoveries Committee
2. To better mitigate prohibited practices, the Secretariat will recommend the Principal Recipient to further strengthen their policies and procedures around Daily Subsistence Allowance (DSA) payments and verification in Namibia.	30 June 2022	Head, Grant Management Division
3. The Global Fund Secretariat will ensure that routine spot checks are expanded to include sample testing of DSA claims in Namibia.	30 June 2022	Head, Grant Management Division

Annex A: Methodology

Why we investigate: Wrongdoing, in all its forms, is a threat to the Global Fund’s mission to end the AIDS, tuberculosis and malaria epidemics. It corrodes public health systems and facilitates human rights abuses, ultimately stunting the quality and quantity of interventions needed to save lives. It diverts funds, medicines and other resources away from countries and communities in need. It limits the Global Fund’s impact and reduces the trust that is essential to the Global Fund’s multi-stakeholder partnership model.

What we investigate: The OIG is mandated to investigate any use of Global Fund funds, whether by the Global Fund Secretariat, grant recipients, or their suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with grant agreements. The Global Fund Policy to Combat Fraud and Corruption¹ outlines all prohibited practices, which will result in investigations.

OIG investigations aim to:

- (i) identify the nature and extent of wrongdoing affecting Global Fund grants;
- (ii) identify the entities responsible for such wrongdoing;
- (iii) determine the amount of grant funds that may have been compromised by wrongdoing; and
- (iv) place the Global Fund in the best position to recover funds, and take remedial and preventive action, by identifying where and how the misused funds have been spent.

The OIG conducts administrative, not criminal, investigations. It is recipients’ responsibility to demonstrate that their use of grant funds complies with grant agreements. OIG findings are based on facts and related analysis, which may include drawing reasonable inferences. Findings are established by a preponderance of evidence. All available information, inculpatory or exculpatory, is considered by the OIG.² As an administrative body, the OIG has no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, its ability to obtain information is limited to the access rights it has under the contracts the Global Fund enters into with its recipients, and on the willingness of witnesses and other interested parties to voluntarily provide information.

The OIG bases its investigations on the contractual commitments undertaken by recipients and suppliers. Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including those disbursed to Sub-recipients and paid to suppliers. The Global Fund’s Code of Conduct for Suppliers³ and Code of Conduct for Recipients provide additional principles, which recipients and suppliers must respect. The Global Fund Guidelines for Grant Budgeting define compliant expenditures as those that have been incurred in compliance with the terms of the relevant grant agreement (or have otherwise been pre-approved in

¹ (16.11.2017) Available at https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

² These principles comply with the Uniform Guidelines for Investigations, Conference of International Investigators, 06.2009; available at: http://www.conf-int-investigators.org/?page_id=13, accessed 1.12.2017.

³ Global Fund Code of Conduct for Suppliers (15.12.2009), § 17-18, available at: https://www.theglobalfund.org/media/3275/corporate_codeofconductforsuppliers_policy_en.pdf, and the Code of Conduct for Recipients of Global Fund Resources (16.07.2012), §1.1 and 2.3, available at: https://www.theglobalfund.org/media/6011/corporate_codeofconductforrecipients_policy_en.pdf. Note: Grants are typically subject to either the Global Fund’s Standard Terms and Conditions of the Program Grant Agreement, or to the Grant Regulations (2014), which incorporate the Code of Conduct for Recipients and mandate use of the Code of Conduct for Suppliers. Terms may vary however in certain grant agreements.

writing by the Global Fund) and have been validated by the Global Fund Secretariat and/or its assurance providers based on documentary evidence.

Who we investigate: The OIG investigates Principal Recipients and Sub-recipients, Country Coordinating Mechanisms and Local Fund Agents, as well as suppliers and service providers. Secretariat activities linked to the use of funds are also within the scope of the OIG's work.⁴ While the OIG does not typically have a direct relationship with the Secretariat's or recipients' suppliers, its investigations⁵ encompass their activities regarding the provision of goods and services. To fulfill its mandate, the OIG needs the full cooperation of these suppliers to access documents and officials.⁶

Sanctions when prohibited practices are identified: When an investigation identifies prohibited practices, the Global Fund has the right to seek the refund of grant funds compromised by the related contractual breach. The OIG has a fact-finding role and does not determine how the Global Fund will enforce its rights. Nor does it make judicial decisions or issue sanctions.⁷ The Secretariat determines what management actions to take or contractual remedies to seek in response to the investigation findings.

However, the investigation will quantify the extent of any non-compliant expenditures, including amounts the OIG proposes as recoverable. This proposed figure is based on:

- (i) amounts paid for which there is no reasonable assurance that goods or services were delivered (unsupported expenses, fraudulent expenses, or otherwise irregular expenses without assurance of delivery);
- (ii) amounts paid over and above comparable market prices for such goods or services; or
- (iii) amounts incurred outside of the scope of the grant, for goods or services not included in the approved work plans and budgets or for expenditures in excess of approved budgets.

How the Global Fund prevents recurrence of wrongdoing: Following an investigation, the OIG and the Secretariat agree on management actions that will mitigate the risks that prohibited practices pose to the Global Fund and its recipients' activities. The OIG may make referrals to national authorities for criminal prosecutions or other violations of national laws and support such authorities as necessary throughout the process, as appropriate.

⁴ Charter of the Office of the Inspector General (16.05.2019), § 2, 10.5, 10.6, 10.7 and 10.9 available at:

https://www.theglobalfund.org/media/3026/oig_officeofinspectorgeneral_charter_en.pdf

⁵ Charter of the Office of the Inspector General § 2, and 18.

⁶ Global Fund Code of Conduct for Suppliers, § 16-19

⁷ Charter of the Office of the Inspector General § 9.1