

INVESTIGATION REPORT

Global Fund Grants to Nigeria

Society for Family Health and the National
Malaria Control Programme

GF-OIG-14-016 ■ 9 October 2014



Investigation of Global Fund Grants to Nigeria

Society for Family Health (SFH) and the National Malaria Control Programme (NMCP)

GF-OIG-14-016

Categories – Fraud/misappropriation of funds or other assets

Non-compliant expenditures:	US\$354,680
Recovered funds:	US\$ 300,982
Proposed recoveries:	US\$ 53,698

Report published on 9 October 2014

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1. Background and Scope

The Global Fund to Fight AIDS, Tuberculosis and Malaria has been supporting health programs in Nigeria since 2004. Nigeria has a severe disease burden for HIV and malaria. Currently there are six active Global Fund malaria grants. To date, Nigeria malaria health programs have disbursed a total of approximately US\$ 623 million.

From 01 March to 15 April 2010 an audit of grant programs in Nigeria was undertaken by the Office of the Inspector General (OIG). The OIG audit identified multiple irregularities in the records of Principal Recipients and sub-recipients that required a follow up audit mission. The audit also triggered two investigations by the OIG Investigations Unit. The first investigation involved a former Principal Recipient Yakubu Gowon Centre (YGC). This report was issued on 31 October 2011 and is available on the Global Fund website.

The second investigation focused on the activities of a further two Principal Recipients, the Society for Family Health (SFH) and the National Malaria Control Programme (NMCP). The investigation centered on four issues:

1. Unreported profit accrued from the mark-up of Long-Lasting Insecticidal Nets (SFH)
2. Submission of fictitious airline ticket reimbursements (NMCP)
3. Irregularities in the procurement of six motor vehicles (NMCP)
4. Irregularities in the procurement of IT equipment (NMCP)

Overview of Grants Investigated

SFH, a Nigerian non-profit organization, was the Principle Recipient for the Global Fund grant NGA-407-G10M to fund a Round 4 Malaria Program starting on 1 January 2008. The grant supported a program that aimed to contribute significantly to the reduction of malaria-related morbidity and mortality in children less than five years old and pregnant women in 18 Nigerian states over a period of two years.

NMCP was a sub-recipient of the Yakubu Gowon Centre (YGC) under Global Fund grants NGA-202-G04-M-00 (Round 2) and NGA-407-G10-M (Round 4), and a Global Fund Principal Recipient under NGA-809-G14-M (Round 8). NMCP was a department under the Nigerian Directorate of Public Health within the Federal Ministry of Health. NMCP was led by a National Coordinator with a direct reporting line to the Director of Public Health. The Round 2 grant aimed to contribute significantly to the reduction of malaria-related illnesses and deaths in children under age five and pregnant women in 12 states. The Round 4 grant aimed at improving malaria case management through promotion and distribution of pre-packaged artemisinin-based combination therapy and training of health service providers. The Round 8 grant aimed at rapid and sustained scale-up of malaria control interventions for impact in Nigeria.

NMCP and SFH continue to play a critical role in malaria control in Nigeria, and have been proposed as Principal Recipients in the Nigeria Malaria Concept Note under the Global Fund's new funding model. NMCP is proposed as the lead national entity responsible for the coordination and implementation of Nigeria's malaria response, focusing on the public sector. SFH is proposed as a national NGO focusing on private sector prevention and case management activities.

2. Executive Summary

This investigation found evidence of fraudulent practices and other procurement irregularities between 2008 and 2010. OIG investigators found that a total of US\$354,680 was non-compliant with grant agreements.

1. Unreported Profit Accrued from the Markup of Long-Lasting Insecticidal Nets (SFH)

The OIG investigation found that SFH did not comply with the terms and conditions of the grant agreement by not accounting for and using the profits earned from the mark-up of bed nets, also known as Long-Lasting Insecticidal Nets (LLINs), solely for the purpose of the grant program. The OIG determined that the total profit earned by SFH from the bed nets mark-up was US\$ 300,982, or an average of US\$ 0.71 per unit, for the 426,000 bed nets which had been self-procured by SFH.

SFH fully cooperated with the investigation and in November 2013, SFH repaid US\$ 300,982 to the Global Fund relating to the bed nets mark-up.

2. Fictitious Airline Ticket Reimbursements (NMCP)

The OIG investigation found that NMCP staff submitted fabricated airline tickets to NMCP with the intent to deceive NMCP senior management and the Global Fund and to trigger an illegitimate reimbursement. The total illegitimate reimbursement generated by submission of fictitious expenses was US\$ 11,189.

3. Irregularities in the Procurement of Six Motor Vehicles (NMCP)

Under the Round 8 Malaria Grant, NMCP was a Principal Recipient for the procurement of motor vehicles. The OIG investigation found that NMCP contravened its internal procurement policy by procuring vehicles on a non-competitive basis. As a result, the OIG identified a total amount of US\$ 29,300 being excessively charged to the Global Fund grant program.

4. Irregularities in the Procurement of IT Equipment (NMCP)

The OIG investigation into the procurement of IT equipment found signs that suggested collusion and shared ownership between DKR Investment Company (DKR) and vendors that provided quotations for vehicles. The OIG found that the price paid by NMCP for the IT equipment was US\$ 13,209 in excess of fair market prices.

The OIG acknowledges that NMCP fully cooperated throughout the course of the investigation. NMCP has agreed to explore 'all avenues' to ensure that the total sum of US\$ 53,698 spent on fictitious air tickets, six vehicles and IT equipment procurements is recovered and reimbursed to the Global Fund.

Action already taken

Since the Global Fund re-structuring in 2012, which resulted in the significant expansion of the Nigeria Country Team and the Global Fund's increased focus on operational risk management, the management of the Nigeria portfolio has become substantially more rigorous, particularly the identification and mitigation of financial and programmatic risks. The Local Fund Agent monitors non-health procurement processes and adherence to procedures and also conducts regular spot-checks. These measures have contributed to an improvement in the performances of both SFH and NMCP.

SFH has returned all the funds identified in the report to the Global Fund (US\$300,982) and NMCP, following a leadership change, has formally committed to doing the same. Importantly, both recipients now procure all LLINs through the Global Fund's Pooled Procurement Mechanism and the Global Fund Secretariat has revised its procedures concerning instances of non-competitive, self-procurement in response to the findings of the report.

Agreed Management Actions

In response to the OIG findings, the Global Fund's Nigeria Country Team has agreed to implement a number of robust actions aimed at preventing the recurrence of the irregularities identified in this report.

For immediate action, the Secretariat will seek to recover funds from the National Malaria Control Programme (NMCP) of Nigeria. The recovery amount to be proposed to the Recoveries Committee will be US\$ 53,698.

The Secretariat will now receive confirmation from the grant recipient that the price charged to the Global Fund corresponds to the price paid originally by the grant recipient. Going forward, the reimbursement process for NMCP will require event participants to submit their original boarding passes to obtain reimbursement for flights.

Additionally, grant recipients will be required to strictly adhere to a competitive vendor selection process and perform basic due diligence checks in order to detect possible conflict of interest/collusive bidding by affiliated vendors. As part of the grant making process, the Secretariat will update the risk profiles and implementation arrangements of both recipients. Institutional capacities will be reviewed with mitigation measures further built into the grant agreements.

3. Findings and Agreed Actions

3.1 Procurement of Long-Lasting Insecticidal Nets (SFH)

Overview

In its Procurement and Supply Management Plan, submitted to the Global Fund on 24 September 2007, the Society for Family Health (SFH) stated that it would purchase 853,488 bed nets at a purchase price of US\$ 6.65 per unit. SFH planned to obtain the bed nets for the Global Fund in two tranches of 426,744 each over the course of two years. SFH made a biennial budget provision of US\$ 5,675,696 (or US\$ 2,837,848 a year) for this purpose. SFH proposed procuring the first tranche of mosquito bed nets for the Global Fund (426,744) locally from its own stockpile of one million bed nets. This stock was obtained through a Supply and Warehousing Agreement between SFH, Populations Services International (PSI), a non-profit health organization, and the manufacturer Vestergaard Frandsen, and a Purchase and Supply of Goods Contract (Purchase Contract) between PSI and the manufacturer. Under the agreement, valid from 23 April 2007, Vestergaard Frandsen had to supply a total of one million bed nets to SFH by 25 June 2007. According to SFH, the bed nets were shipped to and warehoused in Nigeria for use by SFH in its Enterprise Fund project which had commenced before the Round 4 grant was signed.¹

The practice of charging against the Global Fund grant the price of assets already purchased and held as inventory, is referred to as 'self-procurement' in this report.

LLIN Prices Charged to the Global Fund by SFH

Despite SFH's reference in its Procurement and Supply Management Plan to PSI's ability to attain significant discounts on bed nets, the Global Fund was not informed of the reduced purchase prices PSI and SFH had obtained from Vestergaard Frandsen.

Approximately two months after SFH submitted its Procurement and Supply Management Plan to the Global Fund, the Fund Portfolio Manager for Nigeria at the time raised questions regarding SFH's self-procurement. On 28 November 2007, the Fund Portfolio Manager for Nigeria emailed a SFH senior manager with several questions from the Global Fund's procurement team regarding SFH's Procurement and Supply Management Plan, including the following: "The PR has indicated that they will 'use their own stock of previously procured LLINs to kick-start the grant.' Although this is a pragmatic and feasible proposal, we advise that the PR provides in advance the Unit Cost and confirms that the LLINs in question are WHOPEs² approved in order for you to approve this request." In response, the SFH senior manager replied, "We have already discuss [sic] this and its is [sic] OK."

The response did not reveal that the mark-up imposed by SFH or the unit cost at which they procured the bed nets from Vestergaard Frandsen.

¹ SFH's response, dated 9 September 2014, to the OIG's Letter of Findings.

² The World Health Organization Pesticide Evaluation Scheme (WHOPEs)

Several months later, on 5 March 2008, an SFH senior manager emailed the Fund Portfolio Manager for Nigeria to inform him/her that SFH considered it “an appropriate time to take in the 426,000 LLINs that are locally available as discussed with and approved by you in the PSM plan.” The SFH representative also went on to state, “Each will cost US\$ 6.33 which is lower than the budgeted US\$ 6.65.” S/he did not provide any explanation in the email for the reduction in price. On the same day, the Global Fund manager consented to the proposed procurement of the revised number of bed nets at the revised price, adding the proviso “provided all the information you have given me is true!” On 6 March 2008, an SFH senior manager responded that the information “are all [sic] correct, so we are going ahead with the procurement.” At no stage during these communications did SFH inform the Fund Portfolio Manager that SFH had in fact purchased the majority of the bed nets at prices lower than the amount SFH quoted, and subsequently charged, to the Global Fund.

SFH ultimately invoiced the Global Fund a total of US\$ 2,696,580 for 376,000 rectangular bed nets and 50,000 circular bed nets at a cost of US\$ 6.33 per LLIN. See Annex B Table 1.

Although SFH’s email on 5 March 2008 to the Fund Portfolio Manager gave the impression to the Global Fund that the recipient was generating grant savings by procuring bed nets at US\$ 6.33 per unit, contrary to the budgeted amount of US\$ 6.65 per unit, SFH did not state its actual purchase price. PSI and SFH did not procure the bed nets from Vestergaard Frandsen at the unit price of US\$ 6.33. Instead, PSI paid 10-20 percent less for the majority of the bed nets, thanks to its Supply and Warehousing Agreement with Vestergaard Frandsen. The Global Fund was unaware of the actual prices paid by PSI for the bed nets and the SFH mark-up.

In contrast, SFH’s next two procurements of bed nets went through a competitive tender process, allowing the Global Fund to be aware of the exact prices of the bed nets obtained.

PSI’s Mark-up Calculation

In response to the OIG’s audit and subsequent investigation of SFH’s self-procurement of 426,000 bed nets, PSI sent the OIG a spreadsheet detailing the mark-up and the profits made by SFH and PSI. PSI stated that the total mark-up charged to the Global Fund was US\$ 257,276. PSI’s mark-up calculation submission to the OIG did not include supporting invoices to confirm the prices actually paid.

OIG Calculation of the LLIN Markup

The OIG performed a forensic accounting review of PSI’s calculation of the bed nets mark-up. The review found that 301,970 of the 376,000 rectangular bed nets sold to the Global Fund program were sourced from Vestergaard Frandsen’s last remaining stock held at SFH’s warehouse in Lagos. These were delivered under the Supply and Warehousing Agreement, between February 2007 and April 2007, according to shipping and stock receipt records. SFH purchased the bed nets from Vestergaard Frandsen as part of two separate purchase transactions: 200,000 bed nets through Invoice #SI21283 (dated 31-Mar-08) and 101,970 bed nets through Invoice #SI21604 (dated 19-May-08). The unit prices paid by SFH to the manufacturer ranged between US\$ 5.49 and US\$ 5.76 depending on the net’s package (institutional or retail) and its color (white or blue),

according to the invoices. The unit prices paid by SFH reflected the unit prices provided for SFH and PSI under the Supply and Warehousing Agreement. See Annex B Table 2.

The remaining 74,030 rectangular and the 50,000 circular bed nets were sourced from the stock that PSI had purchased directly from Vestergaard Frandsen under the Supply and Warehousing Agreement and the Purchase Contract. There were three separate purchase transactions: 66,700 bed nets through Invoice #SI04440 (dated 23-Apr-07), 33,300 bed nets through Invoice #SI21041 (dated 29-Jan-08) and 86,400 bed nets through Invoice SI#22315 (dated 20-Jan-08).

The unit prices paid by PSI for the 74,030 rectangular bed nets ranged from US\$ 5.18 to US\$ 5.50 including add-on surcharges, or a weighted average of US\$ 5.28, and represented the unit prices provided for PSI under the Supply and Warehousing Agreement and Purchase Contract. See Annex B Table 3.

The unit price paid by PSI to Vestergaard Frandsen for the 50,000 circular bed nets was US\$ 6.49, made up of US\$ 5.94 for the base contract unit price plus US\$ 0.55 of add-on costs for freight, insurance and oil surcharge. The unit price paid by PSI, including the add-on costs, reflects the unit price provided for PSI under the Purchase Contract, as amended. See Annex B Table 3.

Based on the purchase and sale documentation provided by SFH, PSI, and Vestergaard Frandsen, the unit price of the rectangular bed nets sold to the Global Fund program was marked up by US\$ 0.57 to US\$ 1.15 per unit (or 10 to 20 percent). On the other hand, when the add-on charges are included, the unit prices of the circular bed nets sold to the Global Fund Program by PSI was marked down US\$ 0.16 per unit (or minus 2 percent).

SFH's mark-up of unit prices on the rectangular bed nets generated a profit of US\$ 309,077, and its markdown of unit prices on the circular bed nets generated a loss of US\$ 8,095. In total, SFH's net profit was US\$ 300,982, or an average of US\$ 0.71 per unit. See Annex B Table 4.

SFH's Justifications for Self-Procurement

In September 2007, as part of its Procurement and Supply Management Plan, SFH proposed procuring 'locally' the first of the two tranches of 426,744 bed nets under the Global Fund grant agreement, "so that the project can start off immediately." According to the SFH Procurement and Supply Management Plan, the justifications for sourcing locally to start up the project were:

- International tender and importation can take at least six months. This will impact negatively on delivery targets.
- The government recently annulled all duty waivers granted by the previous administration creating uncertainty on the status of imported health products like artemisinin-based combination therapy and bed nets that had previously been granted duty waivers.
- SFH has a stockpile of approximately one million WHOPES recommended LLINS procured through a PSI/SFH negotiated agreement with the LLIN manufacturer, Vestergaard Frandsen. The stockpiled bed nets were procured in accordance with

the existing global agreement and highly competitive prices offered to PSI by Vestergaard Frandsen.

The plan went on to describe PSI as having “vast experience and wide contacts” in bed net procurement, and emphasized that, as a result of PSI’s status as the second largest purchaser of bed nets globally, PSI is “able to negotiate and obtain substantial price discounts from the LLIN manufacturer, Vestergaard Frandsen.”

Local Fund Agent

The Local Fund Agent, KPMG, initially flagged the issue of the self-procurement of the bed nets, and recommended that a letter of ‘no objection’ be obtained by SFH from the Global Fund prior to the Grant being signed. However, the Fund Portfolio Manager at that time did not follow this recommendation. When the OIG asked KPMG whether they had followed up on the issue after the self-procurement of the bed nets, they answered, “Given our recommendation that this ‘no objection’ be completed before the signing of the Grant Agreement, it would not have been a Condition Precedent³, and accordingly the Local Fund Agent would not formally track the issue following grant signing as is done with condition precedents.” KPMG also stated “it is at the discretion of the Global Fund to determine whether the nominated PR must comply with the Local Fund Agent’s recommendation before the signing of the Grant Agreement. Therefore, although we did follow up with the PR regarding the letter, KPMG holds that it was not within our scope of work as Local Fund Agent to do so.”

In January 2009, the Global Fund changed its Local Fund Agent in Nigeria to PwC. When the OIG asked PwC if it had taken any steps to oversee these procurements, PwC answered that, during its first Progress Update/Disbursement Request (PUDR) review, it had been presented with email correspondence between the Fund Portfolio Manager and SFH which showed Global Fund approval to self-source the bed nets. As a result, PwC stated that they had not explored the procurement issue further.

Global Fund Secretariat: Fund Portfolio Manager

The Fund Portfolio Manager for Nigeria had responsibility for overseeing Grant implementation. Whilst the Fund Portfolio Manager at that time no longer works with the Global Fund, Fund Portfolio Managers generally work closely with the Local Fund Agents using their recommendations and advice to assist in the management of the country portfolio. In this instance, it appears that the Local Fund Agent did provide timely and relevant information to the Fund Portfolio Manager, which could have allowed early detection and prevention of the issues highlighted in this report regarding SFH. Other technical advisors within the Secretariat also brought to the Fund Portfolio Manager’s attention specific aspects and risks of the proposed arrangements between SHF and PSI, which did not result in management actions according to the evidence reviewed. The Fund Portfolio Manager at the time told the OIG that SFH had neither provided a breakdown of the US\$ 6.33 per bed net price nor had they mentioned the mark-up. The Fund Portfolio Manager also stated that, the Global Fund was ‘in a hurry’ to distribute the bed nets. The manager said that the Global Fund had never received any information on

³ Condition Precedent: in a contract, an event which must take place before a party to a contract must perform or do their part.

the price that SFH had paid for the bed nets nor the price they had subsequently charged the Global Fund.

Agreed Action 1: In any instances of noncompetitive self-procurement, the Secretariat will receive confirmation from the grant recipient that the price charged to the Global Fund corresponds with the price(s) paid for by the grant recipient; this confirmation and related procurement processes and financial transactions will then be verified on a sampling basis, by the Local Fund Agent, or another suitable mechanism.

3.2 Fictitious Airline ticket reimbursements (NMCP)

The standard practice at NMCP was to advance funds to staff for the implementation of program activities. Staff members were required to justify the advances by presenting supporting documents for the expenses incurred. During the 2010 OIG audit, the OIG Audit team reviewed a sample of airline tickets submitted to NMCP by its staff in support of the expenditures. The expenditures were incurred between August 2008 and February 2010. These expenses were related to conferences and meetings conducted while NMCP was a sub-recipient. The OIG audit, from the samples reviewed, identified that at least 54 airline tickets had been forged. Consequently, the OIG investigation requested that NMCP provide all expense forms and documentation relevant to the conferences and meetings.

The OIG investigation reviewed a total of 224 air-tickets issued by 14 different domestic airlines in Nigeria. The OIG contacted several of the airline companies to ascertain the validity of tickets presented for reimbursement within NMCP. From the total of 124 tickets, 73 were identified as fictitious⁴ by the airline companies. The airline companies contacted were Arik Air (Nigeria's largest carrier), Air Nigeria (also known as Virgin Nigeria), and IRS Airlines.

In addition, the OIG conducted interviews of the Program Manager, the Project Accountant of NMCP and the Cash Officer of NMCP.

The OIG did not verify the remaining 100 tickets for various reasons ranging from airline companies no longer in operation; no responses received from the airline companies; and/or insignificant monetary value of the air tickets.

Of the 124 airline tickets reviewed by the three responsive airlines, 73 airline tickets, or 59 percent, were determined not to be authentic. The total face value of those airline tickets was NGN 1,477,000 (US\$ 11,189⁵), see table 5.

Full details of the fictitious airline tickets (including traveler names, airline, carrier, ticket number) and total amount of improper disbursement for each airline ticket, have been submitted to NMCP.

Agreed Action 2: NMCP reimbursement process will require employees to provide their original boarding passes to obtain reimbursement for flights.

⁴ Not issued by the airline company.

⁵ Based on Oanda's average exchange rate of US\$1=NGN132 for the period 2008-2009.

3.3 Irregularities in the procurement of six motor vehicles (NMCP)

The work plan and budget for the Round 8 Grant included the procurement of six vehicles. The procurement process consisted of NMCP requesting quotes from three suppliers: Lakebus Limited, Cute on Wheels Limited, and Zenith Renovations Limited. All three companies submitted quotes for the procurement. NMCP Management indicated that these suppliers were solicited using a World Bank list that could not be verified.

NMCP awarded the contract to Lakebus Limited, which had provided the lowest quote of NGN 4,482,500 per vehicle, for a total contract price of NGN 26,895,000 (US\$ 179,300).

NMCP's procurement process for the six vehicles did not involve any advertising and was contrary to NMCP's own procedures, which called for open bidding when procurement exceeds US\$ 50,000.

The OIG conducted inquiry/visit to the vendor addresses in order to verify their physical address on the record. The OIG found that Lakebus Limited, the successful bidder, had apparently moved to a new location in Abuja. When the OIG visited this new location, investigators spoke to an attorney and learned that Lakebus did not actually maintain an office or storefront at the location, but instead was represented by an attorney at one of the law firms at the address. Investigators then attempted to locate one of the other bidders, Zenith Renovations, which also had an address of record in the same building as the new location for Lakebus. A Zenith Decoration office was located and enquiries there resulted in Investigators being directed to the office of Zenith Renovations, apparently co-located within the same law firm as Lakebus. The last bidder, Cute on Wheels, also shared the same business address in the same building.

The OIG obtained a sample quote from Elizade Nigeria Limited, the first vehicle supplier on NMCP's approved supplier list, for the same six vehicles procured by NMCP. Elizade Nigeria Limited's quote per unit price was NGN 3,750,000 totaling NGN 22,500,000 (US\$ 150,000) for the six vehicles. The total price quoted by Elizade was less by NGN 4,395,000 (US\$ 29,300) compared to what NMCP had paid to Lakebus Limited for the procurement, which also approximately corresponded to the price of one vehicle.

Review of the sales ledger at Elizade Nigeria Limited showed that three of the vehicles sold to NMCP by Lakebus Limited were purchased from Elizade by Lakebus at US\$ 25,000 each. Therefore, Lakebus purchased the vehicles at a lower price and supplied them to NMCP at a higher price. This resulted in a total loss of US\$ 29,300 to the Global Fund grant. NMCP staff failed to provide a satisfactory explanation to the OIG as to why Elizade Nigeria Limited had not been solicited for a quote. See Annex B Table 6 for details.

Agreed Action 3: Grant recipients will be required to perform basic due diligence checks in order to detect possible conflict of interest/collusive bidding by affiliated vendors i.e. those who share the same physical address, principals, or directors.

3.4 Irregularities in the Procurement of IT Equipment (NMCP)

During Round 8, NMCP also bought computers and other IT equipment, using a procurement process similar to that used for the procurement of vehicles, described above. NMCP invited three vendors to submit quotes. Subsequently, DKR Investment Company Limited (DKR) was contracted to provide the equipment for US\$ 47,375. NMCP's invoice to DKR indicates that NMCP paid US\$ 43,048 for the equipment.

DKR's address in Abuja is listed at the same location as the three vendors that provided the quotation to NMCP for vehicle procurement, see section 3.3 above. Moreover, according to the Corporate Affairs Commission record on DKR, one of DKR's directors is also a director of Zenith Renovations, one of the bidders in NMCP's vehicle procurement. DKR's registration at the Corporate Affairs Commission indicated that DKR's main business was "[t]o provide management support in the areas of record keeping, proper capital structuring and financial reporting to make the prospective enterprise eligible for financial support." This business description is unrelated to the provision of computer equipment.

In addition, the OIG obtained a quotation from another supplier; several months after the procurement, indicating that the same products could be purchased at US\$ 13,209 less than the amount NMCP had paid to DKR, see Annex B Table 7. The OIG could not locate DKR Investment Company at its listed address or reach it by phone.

The OIG investigation findings indicate collusion amongst the vendors involved in the procurement of motor vehicles and IT equipment.

While no direct evidence establishes knowledge of the scheme on the part of NMCP officials, the facts identified by the investigation should have been readily apparent to NMCP officials in charge of procurement and oversight.

Agreed Action 4: The recovery of US\$ 58,395 should be sought from NMCP in relation to the excess charges to the grants related to the fictitious airline tickets, vehicles and IT equipment.

The OIG, prior to issuance of this report, provided the investigation subjects with an opportunity to comment on the investigation findings. A summary of their responses are provided in Annex C of this report.

4. Conclusion

In response to the OIG findings, the Global Fund's Nigeria Country Team and the OIG have agreed on number of agreed actions aimed at redressing and avoiding the recurrence of the irregularities identified by the OIG.

Both SFH and NMCP fully cooperated with the OIG investigations and have either refunded the non-compliant expenditure identified by the OIG or demonstrated a continued commitment in seeking reimbursement. In addition, NMCP has claimed to introduce measures to minimize the risk of such irregularities occurring in future.

The total non-compliant expenditure identified by the investigation in this report is US\$ 354,680 of which US\$ 300,982 relates to SFH's self-procurement of the bed nets/LLINs and US\$ 53,698 relates to non-compliant expenditures found at NMCP.

SFH, in November 2013, refunded US\$ 300,982 to the Global Fund Grant Program. NMCP, in its letter dated 9 September 2014, mentioned that, as of today, they have refunded US\$ 2,090.38 to the Global Fund Grant Program. Therefore, the OIG recommends that NMCP continues to seek a refund for the remaining non-compliant expenditures.

5. Table of Agreed Actions

No.	Action	Due date	Owner
1	In any instances of non-competitive self-procurement, the Secretariat will receive confirmation from the grant recipient that the price charged to the Global Fund corresponds with the price(s) paid for by the grant recipient; this confirmation and related procurement processes and financial transactions will then be verified on a sampling basis, by the Local Fund Agent , or another suitable mechanism.	Dec 2014	Division Head, Grant Management
2	NMCP reimbursement process will require event participants to provide their original boarding passes to obtain reimbursement for flights.	Dec 2014	Country Team, Fund Portfolio Manager
3	Grant recipients will be required to perform basic due diligence checks in order to detect possible conflict of interest/collusive bidding by affiliated vendors i.e. those who share the same physical address, principals, or directors.	Dec 2014	Country Team, Fund Portfolio Manager
4	The recovery of US\$ 53,698 will be sought from NMCP in relation to the excess charges to the grants related to the fictitious airline tickets, vehicles and IT equipment.	Oct 2014	Recoveries Committee

Annex A: 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 and by PRs and SRs, (collectively, “grant implementers”), CCMs and Local Fund Agents, as well as suppliers and service providers.⁶

While the Global Fund does not typically have a direct relationship with the recipients’ suppliers, the scope of OIG’s work⁷ encompasses the activities of those suppliers with regard to the provision of goods and services. The authority required to fulfill this mandate includes access to suppliers’ documents and officials.⁸ The OIG relies on the cooperation of these suppliers to properly discharge its mandate.⁹

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

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.¹⁰

The OIG finds, assesses and reports on facts. On that basis, it makes determination on the compliance of expenditures with the grant agreements and details risk-prioritized Agreed Actions.

Such Agreed Actions may notably include identification of expenses deemed non-compliant for considerations of recovery, recommended administrative action related to grant management and recommendations for action under the Code of Conduct for Suppliers¹¹ or the Code of Conduct for Recipients of Global Fund Resources¹² (the “Codes”), as appropriate. The OIG does not determine how the Secretariat will address

⁶ Charter of the Office of the Inspector General (19 March 2013), available at http://theglobalfund.org/documents/oig/OIG_OfficeOfInspectorGeneral_Charter_en/, accessed 01 November 2013.

⁷ Charter of the Office of the Inspector General (19 March 2013) § 2, 9.5 and 9.7.

⁸ Ibid., § 17.1 and 17.2.

⁹ Global Fund Code of Conduct for Suppliers (15 December 2009), § 17-18, available at http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/, accessed 01 November 2013. Note: Every grant is subject to the Global Fund’s Standard Terms and Conditions (STC) of the Program Grant Agreement signed for that grant. The above Code of Conduct may or may not apply to the grant.

¹⁰ These principles comply with the *Uniform Guidelines for Investigations*, Conference of International Investigators, June 2009; available at <http://www.un.org/Depts/oios/pages/uniformguidelines.html>, accessed 01 November 2013.

¹¹ See fn. 9, supra.

¹² Code of Conduct for Recipients of Global Fund Resources (16 July 2012) available at http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en/, accessed 01 November 2013. Note: Every grant is subject to the STC of the Program Grant Agreement signed for that grant. The above Code of Conduct may or may not apply to the grant.

these determinations and recommendations. Nor does it make judicial decisions or issue sanctions.¹³

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

The OIG is an administrative body with no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, its ability to obtain information is limited to the rights to it under the grant agreements agreed to with recipients by the Global Fund, including the terms of its Codes, and on the willingness of witnesses and other interested parties to voluntarily provide information.

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 SRs must notably include pass-through access rights and commitments to comply with the Codes. The Codes clarify the way in which recipients are expected to abide by the values of transparency, accountability and integrity which are critical to the success of funded Programs. Specifically, the Code of Conduct for Recipients prohibits recipients from engaging in corruption, which includes the payment of bribes and kickbacks in relation to procurement activities.¹⁴

The Codes notably provide the following definitions of the relevant concepts of wrongdoings:¹⁵

- *“Anti-competitive practice” means any agreement, decision or practice which has as its object or effect the restriction or distortion of competition in any market.*

¹³ Charter of the Office of the Inspector General (19 March 2013) § 8.1

¹⁴ Code of Conduct for Recipients of Global Fund Resources, section 3.4.

¹⁵ Available at

http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en/ and http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/

- *“Collusive practice” means an arrangement between two or more persons or entities designed to achieve an improper purpose, including influencing improperly the actions of another person or entity.*
- *“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.*
- *“Misappropriation” is the intentional misuse or misdirection of money or property for purposes that are inconsistent with the authorized and intended purpose of the money or assets, including for the benefit of the individual, entity or person they favor, either directly or indirectly.*

Determination of Compliance

The OIG presents factual findings which identify compliance issues by the recipients with the terms of the Global Fund’s Standard Terms and Conditions (STC) of the Program Grant Agreement. 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 STC.¹⁶ 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 STC 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 apply to sub-recipients (SRs) as well as Principal Recipients (PRs).¹⁷

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”.¹⁸

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 non-compliant, expending grant funds in breach of other provisions of the Program Grant Agreement also results in a determination of non-compliance.

¹⁶ The STC are revised from time to time, but the provisions quoted below applied to all PRs at the time of the investigation.

¹⁷ Standard Terms and Conditions (2012.09) at Art. 14(b):

http://www.theglobalfund.org/documents/core/grants/Core_StandardTermsAndConditions_Agreement_en

¹⁸ Id. at Art. 9(a) and Art 18(f)

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 STC specifically require that the PR ensures that: (i) contracts are awarded on a transparent and competitive basis, [...] and (iv) that the PR and its representatives and agents do not engage in any corrupt practices as described in Article 21(b) of the STC in relation to such procurement.¹⁹

The STCs explicitly forbid engagement in corruption or any other related or illegal acts when managing Grant Funds:

“The Principal Recipient shall not, and shall ensure that no Sub-recipient or person affiliated with the Principal Recipient or any Sub-recipient [...] participate(s) in any other practice that is or could be construed as an illegal or corrupt practice in the Host Country.”²⁰

Amongst prohibited practices is the rule that the PR shall not and shall ensure that no person affiliated with the PR “engage(s) in a scheme or arrangement between two or more bidders, with or without the knowledge of the Principal or sub-recipient, designed to establish bid prices at artificial, non-competitive levels.”²¹

The Global Fund's Code of Conduct for Suppliers and Code of Conduct for Recipients further provide for additional principles by which recipients and contractors must abide, as well as remedies in case of breaches of said fundamental principles of equity, integrity and good management. The Codes also provide useful definitions of prohibited conducts.²²

The Codes are integrated into the STC through Article 21(d) under which the PR is obligated to ensure that the Global Fund's Code of Conduct for Suppliers is communicated to all bidders and suppliers.²³ It explicitly states that the Global Fund may refuse to fund any contract with suppliers found not to be in compliance with the Code of Conduct for Suppliers. Similarly, Article 21(e) provides for communication of the Code of Conduct for Recipients to all sub-recipients, as well as mandatory application through the SR agreements.²⁴

Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including expenses made by sub-recipients and contractors.²⁵

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.

¹⁹ Id. at Art. 18(a)

²⁰ Id., at Art. 21 (b).

²¹ Id. at Art. 21(b)

²² Available at

http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en
http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en

²³ Standard Terms and Conditions (2012.09) at Art. 21(d)

²⁴ Id. at Art. 21(e)

²⁵ Id. at Art. 14

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. Article 27 of the STC stipulates that the Global Fund may require the PR “to immediately refund to the Global Fund any disbursement of the Grant funds in the currency in which it was disbursed [in cases where] there has been a breach by the Principal Recipient of any provision of this (sic) Agreement [...] or the Principal Recipient has made a material misrepresentation with respect to any matter related to this Agreement.”²⁶

According to Article 21(d), “in the event of non-compliance with the Code of Conduct, to be determined by the Global Fund in its sole discretion, the Global Fund reserves the right not to fund the contract between the Principal Recipient and the Supplier or seek the refund of the Grant funds in the event the payment has already been made to the Supplier.”²⁷

Furthermore, the UNIDROIT principles (2010), the principles of law governing the grant agreement, in their article 7.4.1, provide for the right of the Global Fund to seek damages from the Principal Recipient in case non-performance, in addition to any other remedies the Global Fund may be entitled to.

Additional sanctions, including with respect to Suppliers, may be determined pursuant to the Sanction Procedure of the Global Fund, for breaches to the Codes.

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 non-compliant (non-related) to the grant scope or not included in the approved work plans and budgets.

²⁶ Id. at Art. 27(b) and (d)

²⁷ Id.

Annex B: Tables

Table 1: SFH's Procurement of bed nets for Global Fund Malaria Project-2008 (in USD)

Invoice Date	Product	Size	Units	Price Unit	Total Value
5-Mar-08	Rectangular Net	190x180x160cm	200,000	6.33	1,266,000
12-May-08	Conical Net (circular)	1050x56x220cm	24,000	6.33	151,920
	Rectangular Net	1050x56x220cm	26,000	6.33	164,580
16-May-08	Rectangular Net	190x180x160cm	101,970	6.33	645,470
13-Aug-08 ²⁸	Rectangular Net	190x180x160cm	74,030	6.33	468,610
Total			426,000		2,696,580
Total by Product Type					
Rectangular Net		190x180x160cm	376,000	6.33	2,380,080
Conical Net (circular)		1050x56x220cm	50,000	6.33	316,500
Total			426,000		2,696,580

Table 2: Unit Prices Paid by SFH to Vestergaard Frandsen for Purchases of bed nets from Stock of bed nets Held in Lagos under the Supply and Warehousing Agreement (in USD)

VF Invoice	Date Invoiced	Date Paid	Type	Count	Unit Price ²⁹	Total Value
SI21283	31-Mar-08	8-May-08	Instit-White	200,000	5.49	1,098,000
SI21604	19-May-08	18-Jun-08	Instit-White	17,800	5.49	97,722
SI21604	19-May-08	18-Jun-08	Instit-Blue	32,127	5.74	184,409
SI21604	19-May-08	18-Jun-08	Retail-Blue	52,043	5.76	299,768
Total				301,970	5.56	1,679,899

²⁸ The SFH invoice was not provided. Date used here represents the date the stock was transferred to the Global Fund. The Global Fund's program remitted funds to SFH for the purchase on 24-Sept-08

²⁹ The unit prices paid by SFH to VF were the unit prices provided for in the Supply and Warehousing Agreement, Section 8, by net size and type.

Table 3: Unit Prices Paid by PSI to Vestergaard Frandsen for Purchases of bed nets for the PSI LLIN Stock Under the Supply and Warehousing Agreement and Purchase Contract (in USD)

VF Invoice	Dates ³⁰	Type	Count ³¹	Unit Price ³²	Add-on per unit	Unit Price w/Add-on	Total Value w/Add-on
SI04440	R: 25-May-08 I: 8-May-08 P: 24-Sep-07	Instit-White	66,700	4.71	0.47	5.18	345,531
SI21041	R: 15-Apr-08 I: 18-Jun-08 P: 10-Sep-08	Instit-Blue	22,100	4.93	0.48	5.41	119,600
	R: 15-Apr-08 I: 18-Jun-08 P: 10-Sep-08	Retail-White	11,200	4.73	0.48	5.21	58,372
SI22315 ³³	R: 15-Apr-08 P: 15-Oct-08	Retail-White	11,100	4.73	0.55	5.28	58,629
	R: 15-Apr-08 I: 18-Jun-08 P: 15-Oct-08	Retail-Blue	22,000	4.95	0.55	5.5	121,042
Sub-Total Rectangular			133,100	4.79	0.51	5.28	703,174
SI22315 ³⁴	R: 15-Apr-08 I: 29-Jan-08 P: 15-Oct-08	Retail	53,300	5.94	0.55	6.49	346,019
Sub-Total Circular			53,300	5.49	0.55	6.49	346,019
GRAND TOTAL(s)			186,400	5.12	0.51	5.63	1,049,193

³⁰ "R" represents stock received date, "I" represents invoice date and "P" represents payment date

³¹ Total count ordered was 133,000 and total count received was 133,100

³² The unit prices paid by SFH to VF were the unit prices provided for in the Supply and warehousing Agreement, Section 8 by net size and type

³³ Invoice SI22315 dated 01-Sept-08 replaced SI21046, dated 29-Jan-08 to reflect actual quantities received. The date of SI21046 is used here.

³⁴ Ibid.

Table 4: Quantified Effect of SFH's Net Markup of Unit Prices on Self- Procured bed nets Sold to the Global Fund Program in 2008³⁵ (in USD)

SFH Invoice Date	GFMP Payment Date	Count Sold	Unit Sale Price	Sale Value	SFH/PS I Unit Cost ³⁶	Cost Value	Mark-up Unit Price	Mark-up Value
5-Mar-08	18-Mar-08	200,000	6.33	1,266,000	5.49	1,098,000	0.84	168,000
16-May-08 ³⁷	25-Jun-08	17,800	6.33	112,674	5.49	97,722	0.84	14,952
	25-Jun-08	32,127	6.33	203,364	5.74	184,409	0.59	18,955
	25-Jun-08	52,043	6.33	329,432	5.76	299,768	0.57	29,655
13-Aug-08 ³⁸	24-Sep-08	74,030	6.33	468,610	5.28	391,104	1.05	77,506
Sub-Total		376,000	6.33	2,380,080	5.51	2,071,003	0.82	309,077
Circular bed nets 1050x56x220cm								
5-Mar-08	18 Mar-08	24,000	6.33	151,920	6.49	155,806	(0.16)	(3,886)
12 Mar-08	6 Jun-08	26,000	6.33	164,580	6.49	168,790	(0.16)	(4,210)
Sub-Total		50,000	6.33	316,500	6.49	324,595	(0.16)	(8,095)
GRAND TOTAL		426,000	6.33	2,696,580	5.62	2,395,598	0.71	300,982

Table 5: Fictitious Tickets by Airline (in USD)

Airline	Tickets sent for verification	Tickets identified as fictitious	Percent of tickets identified as fictitious	Value of fictitious tickets
Air Nigeria/ Virgin Nigeria	8	6	75	932
Arik Air	95	57	60	8,629
IRS Airlines	21	11	52	1,629
TOTAL	124	73	59	11,189

³⁵ Source: SFH, PSI and VF sales, purchase banking and accounting records.

³⁶ Unit Cost includes added surcharges for freight, insurance and oil, where applicable. The unit cost of \$5.28 for the 74,030 LLINs transferred on August 13, 2008 is the blended cost of rectangular bed nets size 190cm computed in table 3

³⁷ Billed in a single invoice to the Global Fund (101,970 LLINs for \$645,470).

³⁸ Sales invoice was not made available by SFH. The invoice date used here is the date the stock was transferred to the Global Fund.

Table 6: Price difference in the vehicles procured (in NGN)

Vendor	No. of vehicles	Price Per Unit	Price Per Unit	Total Paid		Total Paid ³⁹
Lakebus	6	4,482,500	29,883	26,895,000	(A)	179,300
Elizade	6	3,750,000	25,000	22,500,000	(B)	150,000
Difference (A-B)		732,500	4,833	4,395,000		29,300

Table 7: Comparison of Actual Procurement Cost to Quote Obtained by the OIG (in US\$)

Item	Price Quote obtained by OIG	Amount paid by NMCP for Procurement	Difference Between Procurement and Price Quote	Difference Between Procurement and Price Quote (%)
Laptop computers	6,523	11,581	5,058	+78 %
Desktop computers	16,605	24,698	8,093	+49 %
Scanners	1,483	1,356	-127	-9 %
Printers	1,713	1,898	185	+11 %
Digital Copier	N/A	3,535	N/A	N/A
TOTAL (excluding digital copier)	26,324	39,533	13,209	+50%

³⁹ Based on Oanda's average exchange rate of US\$1=NGN150 for the period 2009-2010.

Annex C: Summary of response received from Investigation Subjects

Response from Society for Family Health (SFH):

SFH stated that it intended to generate a profit from the purchase of bed nets from its existing stockpile, which would be absorbed back into SFH's Enterprise Fund project and other charitable objectives. SFH stated further that it did not make any attempt to conceal any information, including the actual unit price at which SFH had purchased the bed nets, from the Global Fund.

Additionally, SFH stated that the Global Fund's Fund Portfolio Manager had never requested SFH to disclose the self-procured unit cost but rather that he/she had requested the unit cost at which SFH was willing to supply the bed nets to the Global Fund. If the Global Fund had requested this information, SFH would have readily provided it.

Lastly, SFH stated that, "in arriving at this [sic] price, SFH had taken into consideration cost of the delivery of the bed nets to Nigeria, including third party warehousing cost and staff time. All these costs, when taken together, would have made it commercially unrealistic for SFH to sell the bed nets to other organisations including the Global Fund at the price it had originally procured them at or had agreed to pay to the manufacturer".

OIG comments:

Article 11. (c) of the Standard Terms and Conditions of the Global Fund Grant Agreement for NGA-470-G10-M requires any revenue earned by the Principle Recipient from program activities to be accounted for and used solely for program purposes.

The Global Fund's Fund Portfolio Manager did query SFH about the unit price of the bed nets to which SFH responded regarding the unit price at which SFH intended to charge the Grant Program (and not the actual unit price at which it had procured the bed nets from the manufacturer). SFH created the appearance of having proposed a competitive price, which led the Fund Portfolio Manager to consent to the downwardly revised unit price proposed by SFH.

SFH, from the onset, had the intention of generating profit from the procurement of bed nets. SFH was found to have concealed the information about the actual unit price of the procured the bed nets. Additionally, SFH did not disclose to the Global Fund the profit it had subsequently generated from the procurement.

If SFH had any concerns regarding surcharges related to the bed nets, SFH should have disclosed to the Global Fund its concerns with a view of arriving at the unit price that was mutually agreed as competitive.

SFH cooperated fully with the OIG's investigation.

Response from (NMCP):

NMCP stated that in response to the OIG findings, it had introduced a number of measures to redress the anomalies and to forestall recurrence of the issues. Some of the measures included but not limited to: (i) Engagement of a travel agency to handle all ticketing for approved tours under the project; (ii) more stringent retirement procedure as an integral part of a broader strengthening of the financial management system; (iii) development and strict adherence to a procurement process guided by a procurement manual mutually developed by NMCP and the Global Fund team; and (iv) disengagement of some of the key staff involved in the issues from NMCP.

NMCP stated that to date, US\$ 2,090.38⁴⁰ had been refunded to the NMCP's Global Fund Grant account.⁴¹

NMCP stated that it continues to explore all avenues to recover the funds deemed non-compliant in the report. While NMCP has actively sought refunds from individuals/entities within its reach, it expressed its limitation in reaching out to the individuals/entities particularly connected with procurement of vehicles and IT equipment. NMCP has also sought involvement of the Federal Civil Service and the Economic and Financial Crime Commission where necessary.

OIG Comment:

NMCP cooperated fully with the OIG's investigation and has undertaken measures to avoid the recurrence of the irregularities described in this Report and to reimburse accordingly.

⁴⁰ N 340,000 at the rate of US\$1=N162.25.

⁴¹ Statement not verified by the OIG.