



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

## **EXECUTIVE SUMMARY**

# **FINAL REPORT OF INVESTIGATION OF GLOBAL FUND GRANTS TO NIGERIA**

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

Report No: GF-OIG-11-011

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## I. EXECUTIVE SUMMARY

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

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

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

4. The transactions identified by the OIG auditors and examined by the OIG Investigations Unit also exposed Global Fund monies to the acute risk of association with money laundering and other serious criminal activities. In some cases, these risks materialized in the form of transactions with an entity subsequently debarred by a

national authority for links to serious criminal activity, entities subject to Suspicious Activity Reports (SARs) by their banking institutions, and entities owned by Politically Exposed Persons (PEPs).

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

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

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

8. On the basis of the investigation, the OIG recommends that the Global Fund:

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