



Investigation Report

Global Fund Grants in Sierra Leone

Fraudulent procurements and payments under
Global Fund grants

GF-OIG-20-011
23 April 2020
Geneva, Switzerland

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1. Investigation at a glance

1.1. Executive summary

There were over US\$2 million of non-compliant and fraudulent transactions in purchases of goods and services under the Global Fund's HIV/AIDS and TB/malaria/Health System Strengthening grants in Sierra Leone, during 2016, 2017 and 2018.

For the HIV/AIDS grant, non-compliant procurements included bid-rigging, overcharging, product substitution and non-delivery of goods. The TB/malaria/Health System Strengthening grant was affected by fraudulent procurements and payments, and by overcharging for hotels and catering.

Oversight errors by the Global Fund's Fiscal Agent, as well as weaknesses in the terms of the Fiscal Agent's contract, facilitated these non-compliant and fraudulent transactions.

1.2. Genesis and scope

A 2018 OIG audit of grants in Sierra Leone, published in 2019, found serious deficiencies in financial controls, assurance activities and governance. Auditors found numerous indicators of fraud at grants implemented by Principal Recipient 1 (PR1) and Principal Recipient 2 (PR2) including bid-rigging, falsified documents and invoices, illegal payments and per-diem fraud.

OIG's Investigations Unit visited Sierra Leone in November 2018 and April 2019, examining financial records and computer data, verifying physical assets, and interviewing employees, suppliers and bidders. OIG investigators visited hospitals, District Health Offices and other health units across the country. Investigators also sought to confirm the Local Fund Agent's report of per-diem fraud, fraudulent overcharges and falsified invoices affecting HIV and TB Community Health Worker programs.

The scope of the investigation covered the years 2016, 2017 and 2018.

1.3. Findings

- Significant levels of fraud, collusion, overcharging and non-compliant procurements affected the HIV/AIDS grant.
- Fraudulent procurements, payments and overcharging impacted the TB/malaria/Health System Strengthening grant.
- Community Health Worker programs suffered from theft, fraud, and non-compliant payments.
- The Fiscal Agent incorrectly approved non-compliant procurements and payments. The Fiscal Agent's contract was insufficient to detect fraud.

Non-compliant expenditures:
US\$2,331,127

Proposed recoverable amount:
US\$946,726

Start of wrongdoing:
July 2016

OIG alerted to wrongdoing:
August 2018

Source of alert:
Referral from OIG Audit

1.4. Impact

This investigation exposed frauds relating to the training of sex workers and stipends for community health workers, which resulted in the diversion of funds for critical programmatic work. This compromises the fight against the three diseases and citizens' right to health. The removal of concerned employees from Global Fund programs, and the recovery of associated funds, are the subjects of Agreed Management Actions. In addition, the investigation exposed weaknesses in the Terms of Reference of the Fiscal Agent, and the potential for improvements to the Global Fund's assurance activities, that will also be addressed through Agreed Management Actions. Specifically, to better mitigate the risk of fraud and improve programmatic delivery, the Secretariat will re-focus its assurance in Sierra Leone using a risk-based approach, agreeing to:

- make on-going adjustments of budgets based on market price analysis
- perform unannounced verifications of goods and activities
- request that PRs require an activity report for all activities

OIG concludes that US\$2,331,127 in expenses incurred by PR1 and PR2 is non-compliant. Of this amount, OIG recommends that the Secretariat recovers US\$946,726¹ because of fraudulent practices and theft, of which US\$704,887² is attributable to PR1 and US\$241,839³ to PR2.⁴

To address the issues identified during the investigation, the PRs, with the support of the Fiscal Agent, have instituted a list of pre-approved suppliers and signed framework agreements. The Fiscal Agent's Procurement Specialist has increased its capacity building efforts for PR procurement teams, including training on procurement regulations and best practices. The Fiscal Agent is conducting more frequent physical verification of goods delivered, including random, independent verification of IT equipment, and Activity Reports are now a mandatory requirement. The Secretariat will also enhance the services of the Fiscal Agent in Sierra Leone by introducing a fraud risk management specialist to the team.

In addition to actions agreed with the Secretariat, the OIG will also evaluate the referral of the investigation findings to Sierra Leone's national law enforcement authorities for their consideration.

1.5. Context

The Global Fund is a key partner in Sierra Leone, providing funding for 90% of the country's HIV program, 70% of the TB program and 74% of the malaria program.

Figure 1: Global Fund grants in Sierra Leone during the 2016-2018 grant cycle

Principal Recipient	Component	Grant Period	Signed Amount
Principal Recipient 1	HIV/AIDS	01 Jan 2016- 31 Dec 2017	US\$32,318,190
Principal Recipient 2	TB, malaria, HSS	1 Jan 2016- 30 Jun 2018	US\$70,223,713

¹ See Annex B: Methodology for the OIG's criteria for proposed recoverable amounts.

² Equivalent to LE5,615,568,985 based on an exchange rate of 1US\$ = LE7,167.625. This exchange rate is based on an average of the United States Department of the Treasury's quarterly historical exchange rate for the duration of the SLE-H-NAS grant.

³ Equivalent to LE1,766,803,182 based on an exchange rate of 1US\$ = LE7,305.700. This exchange rate is based on an average of the United States Department of the Treasury's quarterly historical exchange rate for the duration of the SLE-Z-MOHS grant.

⁴ See Annex A for a breakdown of the recommended recoveries for each PR.

Principal Recipient 3	Malaria	1 Jul 2016- 30 Jun 2018	US\$3,988,778
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The implementation of the TB, malaria and Health System Strengthening grant was supported by the PR2 Projects Administration Unit (PR2 PAU), which was created in 2016 to serve as a fiduciary unit for PR2, receiving all Global Fund grant money for the PR2, and administering funds.

In response to the OIG's 2019 audit referred to in section 1.2, the Global Fund Secretariat committed to working with the PRs to develop a procurement plan for Global Fund grants and an approved supplier list by 31 December 2019; this is now in place.

2. Findings

2.1. Fraud, collusion and non-compliant procurements under the HIV/AIDS grant

Fraud, collusion and non-compliant procurements involving Principal Recipient 1 (PR1) staff, sub-recipients and suppliers resulted in significant losses, including a US\$558,802 overcharge for vocational training.

(i) Fraud, collusion and non-compliant procurements in providing vocational training to female sex workers

PR1 engaged four sub-recipients (Sub-Recipient 1, Sub-Recipient 2, Sub-Recipient 3 and Sub-Recipient 4) to implement program activities for female sex workers, including vocational training. Their contracts with PR1 allowed sub-recipients to conduct ‘minor’ procurements, up to a value of US\$8,371, with ‘major,’ i.e. higher-value procurements, to be undertaken by PR1. However, PR1 allowed the four sub-recipients to conduct the procurement of vocational institutes. Each vocational institute contract with the sub-recipients exceeded the US\$8,371 threshold for minor procurements, in contravention of the sub-recipients’ contracts with PR1.

OIG found that the sub-recipients colluded with vocational institutes to inflate tuition fees and materials costs by US\$558,802, so that the total matched the funds available in the grant budget. The sub-recipients discussed the procurement with prospective vocational institutes in advance of the tender, and outside of official national procurement rules and procedures. The OIG concluded that during those discussions, it is more likely than not that the available budget was also discussed with the vocational institutes. Despite considerable variation in the nature, conditions and capacity of the vocational institutes, all of them charged identical amounts for tuition and training materials.

OIG obtained the price list for one of the vocational institutions that was a comparable, or better institution than the others. The price list stated that the annual, per-student cost was approximately US\$60. In 2016, the Global Fund grant was charged approximately US\$138 per student. In 2017, the grant was charged approximately US\$489 per student.

(ii) Fraud and collusion in the procurement of start-up kits

Under the grant, “start-up” kits were to be provided to female sex workers who had graduated from vocational training, to enable them to pursue their chosen vocation. PR1 and the sub-recipients were aware that the procurement of start-up kits exceeded the value of a “minor procurement” as defined in the contract between PR1 and the sub-recipients, and that the procurements should have been conducted by PR1. Despite this, in 2016 PR1 allowed three of the sub-recipients to conduct the procurement of start-up kits, totaling US\$49,241, themselves.

Lack of supporting documentation, no assurance over delivery for 2016 start-up kits

Two 2016 payment vouchers related to sub-recipients’ procurement of start-up kits, totaling US\$33,793, lacked supporting documentation such as requests for quotations, competitive bid documents, pro-forma invoices, purchase orders, and/or contracts. PR1 only provided documentation to support the delivery of US\$13,324 in start-up kits to graduates. OIG was unable to obtain reasonable assurance of delivery for the remaining US\$20,469 in start-up kits procured in 2016.

Collusion to undertake a non-competitive procurement process

PR1 gave conflicting statements regarding how start-up kits were procured in 2017. Officials initially told OIG that sub-recipients had “pre-selected” the suppliers. These officials later changed their statements or requested that their previous statements be withdrawn. One sub-recipient’s representatives told OIG that it was not involved in the procurement of start-up kits. However, two of the bids were addressed specifically to this sub-recipient. Correspondence between PR1 and the sub-recipients indicated that the list of goods had not yet been finalized seven days after the Request for Quotations had purportedly been sent out. A sub-recipient representative who attended PR1’s procurement evaluation committee meeting suggested that the quantity of catering start-up kits be split between two suppliers whose bid prices were identical. These divided amounts were already reflected in the suppliers’ bids, indicating that they were already aware of the split in quantities.

OIG established that in 2017 the sub-recipients pre-selected vendors, and that PR1 was aware of this pre-selection and colluded with the sub-recipients to undertake a non-competitive procurement process, ensuring that the pre-selected vendors were awarded contracts totaling US\$217,171. The OIG concluded that PR1 officials facilitated this non-competitive procurement process due to perceived pressure to spend unutilized grant funds, which could not be carried over to 2018.

In 2016, the price invoiced by sub-recipients per start-up kit was US\$97. In 2017, the price more than doubled, to US\$197. PR1 initially told OIG that the price increase was due to inflation and the exchange rate, even though the country’s inflation rate between 2016 and 2017 was only 18%. PR1 subsequently told OIG that the increase in price was due to more items being included in the start-up kits from 2016 to 2017. The documentation provided by PR1 to support this explanation did not include invoices or delivery notes from the 2016 procurement of the start-up kits, or the associated cost. Rather, PR1 provided limited documentation supporting the delivery of some start-up kits by sub-recipients to graduates. However, most of this documentation pertained to the distribution of start-up kits procured in 2017, not 2016. Given the lack of supporting documentation regarding the increase in the cost of start-up kits and the non-competitive nature of the procurement, OIG considers the full procurement of start-up kits totaling US \$217,171 to be non-compliant.

Lack of supporting documentation, no assurance of delivery for 2017 start-up kits

In 2017, PR1 required the sub-recipients to confirm delivery of the start-up kits by 31 December 2017, in part by providing photographs of the delivery. Sub-recipient A confirmed to PR1 delivery of 106 catering start-up kits to its office. However, the photographs provided to PR1 were altered photographs of a delivery of start-up kits made to sub-recipient B. Both sub-recipients told OIG that the 106 catering start-up kits were not delivered to sub-recipient A’s office, as originally confirmed to PR1, but rather were delivered to sub-recipient B’s office, from which sub-recipient A collected them. Given the inconsistent accounts of the sub-recipients and the absence of evidence supporting the delivery of catering start-up kits to sub-recipient A, OIG concludes that US \$20,921 is non-compliant and potentially recoverable due to fraud and non-delivery.

Sub-recipient C confirmed delivery of 50 electrical and welding start-up kits: 31 electrical start-up kits, and 19 welding start-up kits. This delivery was confirmed by sub-recipient C to PR1. However, the number of kits did not conform to the number of students for each vocation. There were 18 students enrolled in the electrical vocational training program, and 32 students enrolled in the welding vocational training program. In response to OIG’s findings, PR1 told OIG that rather than provide one toolkit for one person, graduates were grouped together, and a start-up kit was provided to each group. However, the start-up kit distribution list, signed by graduates, that was provided by sub-recipient C to OIG, states that each graduate received one kit. This documentation indicates that there were 34 graduates of the welding training program, which exceeds the 19 kits

delivered. The cost of the 50 electrical and welding kits, US\$9,868, is therefore also non-compliant and potentially recoverable due to fraud and no reasonable assurance of delivery.

Based on the above findings, the US\$49,241 paid to sub-recipients for the procurement of start-up kits in 2016 is non-compliant due to breach of the PR-SR contract and the Global Fund Code of Conduct for Recipients of Global Fund Resources. The full amount, US\$217,171, paid in 2017 is also non-compliant, due to fraud and collusion.

Of these amounts, US\$51,258 is potentially recoverable due to no reasonable assurance of delivery, specifically:

- a) US\$20,469 for the 2016 procurement of start-up kits;
- b) US\$30,789 for the 2017 procurement of catering, welding and electrical start-up kits.

(iii) Bid-rigging, fraud, product substitution and non-delivery relating to the procurement of computers

OIG's review of three procurements for 138 desktop computers in 2016 and 2017 found that all three procurements, totaling US\$234,583 were non-compliant because PR1 did not follow national procurement regulations. In two cases, PR1 should have followed an international rather than a national bidding process. In a third instance, PR1 sole-sourced a procurement of 30 computers, contrary to national procurement regulations and the Global Fund Code of Conduct for Recipients of Global Fund Resources.

OIG investigators could not locate US\$16,113 worth of computers paid for through the grant. According to PR1, at least one computer was given to an organization which was no longer a recipient of Global Fund grant funds. OIG also found that PR1 did not inspect the computers that were delivered, and in many instances, suppliers substituted inferior products. The bid specifications required suppliers to provide a specific processor; the OIG found that in many cases, a lower-grade processor was provided. The bid specifications also required a certain amount of Random Access Memory (RAM) to be provided; the OIG found that in many cases, half the required amount of RAM was provided. In one case, where a supplier had omitted operating software for 50 desktop computers, PR1 purchased this software for US\$7,080 rather than holding the supplier responsible. The difference between the market value of the specified products and the lower-grade products received, totaling US\$17,816, is therefore non-compliant and potentially recoverable due to product substitution fraud.

PR1's procurement committee awarded a subsequent contract for computers to the supplier responsible for the product substitution referenced in the above paragraph, despite the existence of an alternative bid that was lower-priced by US\$11,787. This alternative bid was rejected before the evaluation purportedly because it was not responsive. OIG's review of the documentation revealed that the supplier's bid was responsive.

(iv) Fraudulent PR/supplier furniture procurement

OIG found a PR1 procurement of medical furniture and equipment for drop-in centers totaling US\$121,768 was non-compliant because the goods procured did not conform to the standards of the technical specifications. OIG also sought to verify the existence of the medical furniture. When OIG investigators visited six of the ten drop-in centers, it was able to find less than 13% of the medical furniture which had been recorded as procured. OIG extrapolated its findings and concluded that the value of the medical furniture, totaling US\$36,773, is potentially recoverable.

Agreed Management Action 1

Based on the findings of the report, the Global Fund Secretariat will finalize and pursue, from all entities responsible, 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.

Due date: 28 February 2021

Owner: Chair, Recoveries Committee

Agreed Management Action 2

Based on the findings of the report, the Global Fund Secretariat will ensure that the Principal Recipients (PR1 & PR2) take appropriate action towards all parties responsible for the prohibited practices described in this report

Due date: 31 August 2020

Owner: Head, Grant Management

Agreed Management Action 3

The Secretariat will update the risk and assurance plan (which combines programmatic and financial areas) that takes into account the fraud identified in this investigation, prioritizing prevention and detection of those “prohibited practices” that led to non-delivery, under-delivery, or significant overpricing of budgeted activities.

Due date: 30 November 2020

Owner: Head, Grant Management

2.2. Fraudulent procurements, payments and overcharging under the TB/malaria/HSS grant

Collusion, fraudulent payments and rigged procurements affected the grants implemented by Principal Recipient 2 Projects Administration Unit (PR2 PAU), leading to US\$241,839 of overcharging.

(i) Fraudulent payments for training, supervision and meetings

Daily subsistence allowances (DSA) are paid when an official is away from his or her duty station on work business. OIG's review of PR2 PAU financial records found US\$144,748 of fraudulent DSA, transportation and other costs associated with training, supportive supervision and meetings, including:

- staff claiming DSA for multiple events that took place at the same time in different locations
- participants claiming DSA for events without having signed attendance sheets
- sub-recipients billing PR2 PAU for events that did not take place

Of the US\$144,748 found to be fraudulently claimed, US\$27,253 is attributable to Sub-Recipient 5 (SR5). The Program Manager, SR5 Senior Administration and Finance Officer and SR5 Program Finance Officer were found to have claimed DSA for multiple events that took place at the same time. SR5 responded that individuals did not stay throughout a whole event but divided their time between events. The employees, however, claimed the full DSA for all events, and not the proportionate amount spent at each event.

US\$65,181 paid to Sub-Recipient 6 (SR6) for several activities was found to be supported with false activity reports and catering invoices. To initiate the release of funds, all activity requests required the approval of the Director of SR6, the HSS Manager, and the Team Lead at PR2 PAU. The HSS Finance Officer, PR2 PAU Accountants and the PR2 PAU Global Fund Grant Officer received the advances for the activities and were responsible for providing supporting documents to clear their advances. OIG found many of these supporting documents to be fraudulent.

The Director of Sub-Recipient 7 received fraudulent advances totaling US\$31,350. The documents provided to clear the advance included fraudulent fuel receipts and attendance sheets.

An additional US\$53,782 of expenses were non-compliant due to a lack of supporting documents.

(ii) Overcharging for hotel venues and catering

The OIG reviewed 28 payments, valued at US\$157,916, made by PR2 PAU for hotels and catering used for events and training. In seven events, representing a value of US\$49,551, the grant was fraudulently overcharged by US\$40,087, either because PR2 PAU:

- paid for an event that did not take place
- paid for more days than the event actually lasted
- paid for more participants than those who actually attended the event

Most of the overcharge, US\$33,907, was attributable to SR6 for training activities; the remaining overcharge was for events hosted by Sub-Recipient 8 and SR5. Fraudulent invoices were provided to PR2 PAU to support payments to four local hotel suppliers for the events.

A further US\$13,978 is non-compliant due to lack of supporting documents.

(iii) Fraudulent and non-compliant procurements conducted by PR2 PAU

OIG found 26 cases of non-compliant procurements with a value of US\$658,704, nine of which were wholly or partially fraudulent. PR2 PAU handled procurements for the renovation of x-ray centers, for purchases of IT equipment and printing services, using Requests for Quotation rather than the required National Competitive Bidding process. 17 procurements with a contract value of US\$603,260, were non-compliant as falsified bid documents were created after contracts were awarded, indicating contract steering by PR2 PAU to preferred suppliers.

The fraudulent procurements resulted in overcharges totaling US\$55,444, which is potentially recoverable. See table 1.

Table 1 – Fraudulent procurements

Voucher Number	Program	Voucher LE	Voucher US\$	Fraud US\$
HSS-12-17-016	SR6	564,320,000	75,242.67	20,119.81
TB-05-18-021	SR5	287,525,000	36,766.37	13,046.13
HSS-11-17-019	SR6	527,500,000	71,283.78	11,105.36
TB-12-17-021	SR5	126,950,000	16,926.67	4,388.40
TB-10-17-012	SR6	18,157,461	2,453.71	2,453.71
HSS-10-17-023	PR2 PAU	127,570,000	17,239.19	1,485.00
TB-10-17-013	SR5	10,657,501	1,440.20	1,440.20
TB-10-17-011	SR5	7,500,000	1,013.51	1,013.51
ML-07-18-004	SR9	411,500,000	48,411.76	391.6

Amount potentially recoverable 55,444

Fraudulent overpayment and non-compliant procurement to a training provider

US\$20,120 is potentially recoverable due to fraudulent overcharges relating to the provision of training services. The provider charged for 32 individuals for 35 days, when the training was found to be for 30 people for a duration of 25 days.

Furthermore, OIG found the full contract amount of voucher HSS-12-17-016 (see table above), US\$75,243, to be non-compliant, as PR2 PAU did not follow the correct procurement method.

Sub-Recipient 5 fraudulent printing expenses

The OIG reviewed two printing service procurements for SR5 and found that both were fraudulent and non-competitive procurements. Therefore, the full contract costs of US\$36,766 and US\$16,926.67 are non-compliant. In one case the costs charged were 55% higher than identical items procured five months earlier, therefore US\$13,046 of the contract is potentially recoverable.

In the second case the OIG compared eight items supplied from Supplier B with the same items that went through a competitive bidding procedure and found Supplier B's bid was 35% higher than the lowest bid in the previous competitive bidding procedure. Therefore, we consider the grant was overcharged by US\$4,388 and this is potentially recoverable.

Non-compliant and recoverable payment for Sub-Recipient 6 information communication and technologies (ICT) equipment

The grant was overcharged by US\$11,105 for 14 desktop computers and a central server, and this amount is potentially recoverable. PR2 PAU steered the contract to the winning supplier by eliminating bidders for infractions that were also found in the winning supplier's bid. In addition, the addresses provided by two suppliers did not exist. PR2 PAU paid US\$1,993 per desktop with monitor; OIG compared this to the average cost of three different brands of desktops with monitors that had the same or higher specifications than those purchased and calculated the cost at US\$1,000, allowing for a 20% shipping cost.

In addition, OIG found that PR2 PAU had used the Request for Quotation method of procurement when the value of the contact was above the threshold for National Competitive Bidding. As this procurement did not follow NPPA procurement regulations, the full contract price for the supply of ICT equipment of US\$71,284 is non-compliant.

Non-compliant and recoverable payments to hotels for Sub-Recipient 5 events

Three payments made by PR2 PAU on behalf of SR5 for the supply of hotel venues and catering, totaling US\$4,907, are non-compliant and potentially recoverable due to fraud.

OIG found evidence that PR2 PAU had allowed SR5 to source the venues and that the three quotations provided to support each of the payments were fraudulent. For example, dates of pro-forma invoices were after the conclusion of the event, two bidders had the same telephone number and in one case all three invoices were written by the same individual.

Non-compliant and recoverable payments for ICT equipment for PR2 PAU and Sub-Recipient 9 (SR9)

OIG found that that the grant was overcharged by US\$1,485 for computers purchased. PR2 PAU had initially submitted the invoice for payment as part of a Framework Agreement, but the Fiscal Agent noted that computers were not part of the Framework Agreement. When PR2 PAU resubmitted the supporting documents the three pro-forma invoices were dated a week prior to the original documentation. PR2 PAU purchased computers with a unit price of US \$1,959 and OIG found that the unit price of other computers purchased during the same timeframe was US\$1,685 and US\$1,662. Therefore, OIG concludes that the grant was overcharged by US\$297 on each of the five computers purchased.

OIG found that laptops purchased for SR9 had inferior RAM and storage memory than required by the bid specifications. The grant was therefore overcharged by US\$392 and this amount is potentially recoverable.

See Agreed Management Actions 1, 2, and 3

2.3. Theft, fraud, and non-compliant payments in Community Health Worker training

Both the Principal Recipient 1 and Principal Recipient 2 grants had non-compliant expenditures and fraudulent procurements and payments in connection with Community Health Worker training.

Under the PR1 grant, Sub-Recipient 10 (SR10) a specialized unit within PR2, was responsible for training Community Health Workers in the use of Logistics Management Information Systems.

Under the PR2 grant, SR5 was responsible for Community Health Worker training related to identifying and testing for tuberculosis in various districts across Sierra Leone. Fraudulent catering invoices triggered overcharges for hall rentals.

For both grants, there was evidence of fraudulent procurements of services, including single-source suppliers and 'bid-rigging', where the quote in an approved bid exactly matched the available budget. OIG review of these vouchers identified US\$21,218 non-compliant expenditures, of which US\$6,818 is potentially recoverable due to fraud. This amount includes a payment of US \$5,258 made by PR1 to a SR10 Finance Officer without any evidence that the training had taken place.

OIG investigators substantiated a Local Fund Agent (LFA) report that monthly allowances were being paid to "ghost" (i.e. non-existent) Community Health Workers. OIG identified five former Community Health Workers who, according to SR10's records, were receiving monthly allowances, when in fact a SR10 Finance Officer was misappropriating the funds for himself. The LFA had already issued a report to the Secretariat in which it recommended recovery of the associated amounts.

See Agreed Management Actions 1, 2, and 3.

2.4. Failures in Fiscal Agent oversight, and weaknesses in Global Fund/Fiscal Agent contracts

The Global Fund’s Fiscal Agent erroneously approved procurement and payments for both grants. Contracts between the Global Fund and its Fiscal Agents are insufficient to detect and prevent fraud.

(i) *The Fiscal Agent erroneously approved procurements and payments for both grants.*

Principal Recipient 1

The Fiscal Agent should have identified that:

- procurements of vocational institutes and the 2016 procurement of start-up kits met the definition of “major procurement”, and should have been conducted by PR1;
- payments for the procurement of start-up kits in 2016 should not have been made directly to sub-recipients;
- PR1's purchase of computers was not compliant with national procurement regulations and should have been conducted via an International Competitive Bidding process.

Principal Recipient 2 Projects Administration Unit

- the Fiscal Agent should have identified that incorrect procurement methods were being used, for instance, when PR2 PAU was using Request for Quotations when it should have used International Competitive Bidding;
- cash advances to program staff, to pay expenses for activities such as training and meetings, should not have been cleared in the absence of supporting documents (e.g. activity reports).

(ii) *Fiscal Agent contractual terms are insufficient to detect and report fraud*

The primary stated purpose for the installation of a Fiscal Agent is to “mitigate the risk of fraud or misuse of grant funds and minimize ineligible expenditures.” However, contracts between the Global Fund and its Fiscal Agents do not include a requirement either to detect fraud, or to report actual or suspected fraud to the Global Fund. If such requirements were included, the Fiscal Agent in Sierra Leone may have detected and reported some of the fraud identified by this investigation.

Agreed Management Action 4

The Global Fund Secretariat will revise the Terms of Reference for the Standard Fiscal Agent services used across all portfolios, to reflect that, going forward, Fiscal Agents are expected, as part of their normal duties, to identify and report to the Global Fund red flags of prohibited practices as evidenced in the investigation report.

Due date: 31 August 2020

Owner: Finance

3. Table of Agreed Management Actions

Agreed Management Action	Target date
1. Based on the findings of the report, the Global Fund Secretariat will finalize and pursue, from all entities responsible, 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.	28 February 2021
2. Based on the findings of the report, the Global Fund Secretariat will ensure that the Principal Recipients (PR1 & PR2) take appropriate action towards all parties responsible for the prohibited practices described in this report.	31 August 2020
3. The Secretariat will update the risk and assurance plan (which combines programmatic and financial areas) that takes into account the fraud identified in this investigation, prioritizing prevention and detection of those “prohibited practices” that led to non-delivery, under-delivery, or significant over-pricing of budgeted activities.	30 November 2020
4. The Global Fund Secretariat will revise the Terms of Reference for the Standard Fiscal Agent services used across all portfolios, to reflect that, going forward, Fiscal Agents are expected, as part of their normal duties, to identify and report to the Global Fund red flags of prohibited practices as evidenced in the investigation report.	31 August 2020

Annex A: Recommended Recoveries

Recommended Recovery	Breakdown (US\$)	Finding
US\$704,887 (PR1)	558,802	2.1(i) Fraud, collusion and non-compliant procurements in providing vocational training to female sex workers
	51,258	2.1(ii) Non-delivery of start-up kits
	16,113	2.1(iii) Bid-rigging, fraud, product substitution and non-delivery relating to the procurement of computers
	17,816	2.1(iii) Bid-rigging, fraud, product substitution and non-delivery relating to the procurement of computers
	7,080	2.1(iii) Bid-rigging, fraud, product substitution and non-delivery relating to the procurement of computers
	11,787	2.1(iii) Bid-rigging, fraud, product substitution and non-delivery relating to the procurement of computers
	36,773	2.1(iv) Fraudulent PR/supplier furniture procurement
	5,258	2.3 Theft, fraud, and non-compliant payments in Community Health Worker Training (<i>the amount forms part of the US\$6,861 recoverable amount referenced in section 2.3</i>).
US\$241,839 (PR2)	144,748	2.2(i) Fraudulent payments for training, supervision and meetings
	40,087	2.2(ii) Overcharging for hotel venues and catering
	55,444	2.2(iii) Fraudulent and non-compliant procurements conducted by PR2 PAU
	1,560	2.3 Theft, fraud, and non-compliant payments in Community Health Worker Training (<i>the amount forms part of the US\$6,861 recoverable amount referenced in section 2.3</i>).

Annex B: 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 Corruption⁵ 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.⁶ 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 Suppliers⁷ 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 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.⁸ While the OIG does not typically have a direct relationship with the Secretariat’s or recipients’ suppliers,

⁵ (16.11.2017) Available at https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

⁶ 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.

⁷ 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.

⁸ 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

its investigations⁹ 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.¹⁰

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.¹¹ 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.

⁹ Charter of the Office of the Inspector General § 2, and 18.

¹⁰ Global Fund Code of Conduct for Suppliers, § 16-19.

¹¹ Charter of the Office of the Inspector General § 9.1.