



## Investigation Report

# Salary fraud and abuse affecting Global Fund grants

## Kickbacks and other unauthorized uses of funds

GF-OIG-20-004  
28 February 2020  
Geneva, Switzerland



# 1. Investigation at a glance

## 1.1. Executive summary

Since 2016 there has been a noticeable rise in the number of allegations relating to salary fraud and abuse affecting Global Fund grants. They cover a wide range of alleged wrongdoing, including staff being forced to pay regular kickbacks, unauthorized salary contribution schemes, staff not receiving their full salaries, the submission of fraudulent salary claims, and non-staff receiving salary payments from grant funds. They all, however, involve the improper use and misdirection of Global Fund grant funds, which were budgeted for salaries and which were supposed to benefit employees.

This report focuses on two countries where fraudulent or abusive practices relating to salary payments were found. In Nigeria, OIG uncovered a salary kickback scheme where, every month, staff at a sub-recipient of Global Fund HIV grants had to pay back a portion of their salaries in cash to the organization, on the instruction of its senior management. In Indonesia, a sub-recipient implemented a salary subsidy scheme where staff assigned to Global Fund grant projects were required to return part of their salary to the organization, a significant portion of the money going to the Executive Director.

As a result of this investigation, the Global Fund has enhanced its Guidelines for Grant Budgeting to prohibit implementers and Country Coordinating Mechanisms from soliciting payments from staff, or requiring them to contribute to sustainability funds.

## 1.2. Genesis and scope

Since 2016, the Office of the Inspector General has received 33 allegations of salary fraud and abuse from various countries. OIG conducted investigative work in Nigeria in March 2019 and in Indonesia in May 2019, two 'hotspots' for allegations. This report collates findings from both investigations, supplementing them with information from other recent assessments and oversight investigations that OIG has performed.

## 1.3. Findings

- The increase in allegations of salary fraud and abuse affecting Global Fund grants highlights the wide scale of the problem and the need for an institutional response from the Global Fund.
- In Nigeria, senior management directed and enforced a salary kickback scheme resulting in the misappropriation of US\$166,930 of Global Fund grant funds<sup>1</sup>.
- In Indonesia, a salary subsidy scheme resulted in the misdirection of US\$35,310 of Global Fund grant funds<sup>2</sup>.

Non-compliant expenditures:  
**US\$202,240**

Proposed recoveries:  
**US\$202,240**

Start of wrongdoing:  
**April 2017**

OIG alerted to wrongdoing:  
**October 2018**

<sup>1</sup> Where an original amount in NGN has been converted into US\$ the exchange rate used is 1 US\$ = NGN351.45. Oanda.com US\$ to NGN average exchange rate for the period 1 April 2017 to 28 February 2019.

<sup>2</sup> Where an original amount in IDR has been converted into US\$ the exchange rate used is 1 US\$ = 14,007 IDR. Oanda.com US\$ to IDR average exchange rate for the period 1 August 2017 to 30 April 2019.

## 1.4. Impact

In 2019, the Office of the Inspector General published an information video on its [ispeakoutnow.org](https://ispeakoutnow.org) platform, raising awareness of the issue and providing advice to grant implementers on how to spot, and stop, salary fraud and abuse.

As a result of recent OIG investigations into these types of salary kickback schemes, the Global Fund Secretariat, in collaboration with OIG, has enhanced its Guidelines for Grant Budgeting, to explicitly prohibit implementers and Country Coordinating Mechanisms from soliciting payments from or requiring staff to contribute to any funds that will support the organization's operational expenditures. These Guidelines set forth the Global Fund's financial requirements for all stakeholders involved in the development, review and implementation of Global Fund program budgets and specific grant budgets funded by the Global

US\$166,930 was misappropriated under the Nigeria case, and US\$35,310 was misdirected under the Indonesia case, both documented in this report. As these are non-compliant expenditures collected through schemes that constitute fraudulent and abusive practices, the Secretariat will pursue an appropriate recoverable amount. In addition, for the Nigeria case, the Secretariat will ensure that the CCM takes appropriate action towards the individuals responsible, ensuring they are no longer involved in implementing Global Fund grants.

## 1.5. Context

### **Significant financial and programmatic risk to the Global Fund**

15.8% of Global Fund budgets in the 2017-2019 funding cycle, representing US\$1.7 billion, are allocated to salaries. Of this amount, US\$945 million directly relates to salaries for Program Management and US\$790 million is for outreach/health workers salaries. Health workers as well as those working for grant Principal Recipients, sub-recipients and other implementers are all potentially vulnerable to exploitation. A 2018 OIG investigation discovered that employees working in a tuberculosis project in Nigeria had to return up to 40% of their salaries to senior staff or risk losing their jobs.

Staff who fall victim to fraud may: abandon a program, resulting in high staff turnover; be demotivated and underperform; moonlight/take on other jobs to compensate for the loss of salary from their Global Fund program role; or be incentivized to commit improper actions to make up for the shortfall.

Wrongdoers may recruit unqualified staff who, effectively complicit in the scheme, accept a negotiated salary for positions they are unqualified for.

Employing unqualified and/or demotivated staff to implement critical Global Fund programs could lead to dire consequences for the patients who depend on staff to receive life-saving treatment. This form of wrongdoing therefore represents significant reputational risk to Global Fund programs, directly threatening progress in the fight against the three diseases.

## 2. Findings

### 2.1. Widespread increase in allegations of salary fraud and abuse affecting Global Fund grants

Since 2016, the Office of the Inspector General has received 33 separate allegations of salary fraud and abuse affecting Global Fund grants. Reports are increasing, with 26 of the allegations received in the past two years. The OIG has assessed all these allegations pursuant to criteria that determine their credibility and materiality, resulting in a variety of outcomes that include opening cases for further assessment, overseeing investigative work undertaken by stakeholders, and referring to the Global Fund Secretariat for information and risk mitigation purposes. A small number of allegations were converted into full investigations that were either conducted, such as the ones described in this report, or closed. Allegations have been received from 14 countries, with 11 separate allegations from Nigeria alone, and 5 from Indonesia, prompting recent investigation missions to both countries (detailed in Findings 2.2 and 2.3).

*Fig 1: Geographic origin of allegations of salary fraud and abuse reported to OIG, 2016-19*



#### **The allegations cover a wide range of reported abuse:**

- Staff forced to pay salary kickbacks
- Staff required to contribute to organization funds without approval from the Global Fund or the Principal Recipient
- Staff receiving less money than they are entitled to
- Staff forced to sign for receipt of a higher salary than they actually received
- Volunteers forced to sign for receipt of allowances that they never received
- Outreach workers' performance-based incentives and transportation allowances being retained by management
- Employees forced to fake program results in order to receive their full salary
- Sub-recipient staff instructed to lie to Principal Recipient about their employment dates
- Community health worker payments seized by sub-recipient staff
- Staff paying bribes to have their contracts extended
- Employment contracts with blank spaces where salary amounts should be noted
- Non-staff (e.g. friends and family) receiving salary payments from grant funds

While the allegations commonly implicate Global Fund sub-recipients, increasingly they also pertain to sub-sub-recipients (SSRs). OIG received only one allegation pertaining to SSRs between 2016 and 2018, whereas there were seven in 2019.

OIG's investigations into the allegations have uncovered wrongdoing ranging from plain theft perpetuated through kickback schemes to failing to comply with Global Fund requirements relating to use of budgeted salaries.

Kickback schemes clearly constitute fraudulent and abusive practices, which are prohibited under the Global Fund Policy to Combat Fraud and Corruption and the Code of Conduct for Recipients of Global Fund Resources as detailed in Finding 2.2 - Nigeria. On the other hand, *implementation* of sustainability schemes without the Global Fund's prior approval constitutes improper use and misdirection of funds as detailed in Finding 2.3 - Indonesia. As such, they are abusive practices pursuant to the aforementioned Global Fund regulations.

The OIG is cognizant that confusion has existed around the level of discretion implementers have over the use of Global Fund salary budgets. This lack of clarity has led to some of them, unwittingly, committing abusive practices and violating Global Fund regulations.

In clarifying its Budgeting Guidelines, the Global Fund is seeking to provide clear instructions to implementers, including staff, on what is allowed with regard to the use of Global Fund budgeted salaries. The Global Fund has decided that implementers are prohibited from requiring their Global Fund program staff to contribute to organizational funds or subsidy schemes due to the potential risk that they create. The practice is particularly prone to abuse, as most schemes are non-transparent and inauditable, creating an opportunity for unscrupulous individuals to engage in prohibited practices.

## 2.2. Nigeria: salary kickback scheme resulted in misappropriation of US\$166,930 of grant funds

In December 2018, OIG opened an investigation into a potential salary kickback scheme being operated by the management of Sub-Recipient 1 (SR1) in Nigeria. SR1 is a sub-recipient of two Global Fund HIV grants, one implemented by Principal Recipient 1 (PR1) and the other by Principal Recipient 2 (PR2).

The OIG, with support from PR1's Office of Compliance and Internal Audit (OCIA), conducted a mission to Nigeria in March 2019. The investigation revealed that a salary kickback scheme had been in operation from the start of the grant in April 2017 and was operated by SR1's Executive Director and former Program Manager. This resulted in the misappropriation of US \$166,930 of Global Fund grant funds between April 2017 and February 2019.

### **How did the scheme operate?**

SR1 employees engaged under its PR1 grant were recruited on the basis of mutually agreed, 'take home' salaries that were lower than the salaries actually paid to the employees as prescribed in the SR1 PR1 grant budget. SR1's Executive Director and former Program Manager instructed the employees to pay back the difference between the lower salary they had accepted and the higher salary they actually received.

15 employees told OIG that after commencing work at SR1, and before receiving their first salary payment, they were informed that the amount they would receive into their bank account would be according to the Global Fund budget at a figure higher than what was agreed to during their recruitment. The employees were instructed to pay back in cash, each month, the difference between these two amounts after receiving their salaries. The employees said they had reluctantly agreed, fearing dismissal, suspension, or not having their employment contracts renewed, if they refused.

This fear also affected the willingness of witnesses to come forward with information about this scheme, making it a particularly challenging area to investigate. As transactions are usually cash based and 'off the books', a review of payroll documents alone will not reveal this scheme; therefore, witness testimony is critical to corroborating allegations.

The OIG investigation found documentary evidence showing that nearly all SR1 employees assigned to its PR1 grant were required to pay kickbacks. During the period in review, employees made cash payments totaling US\$166,930 to designated collectors in SR1's Abuja, Anambra and Ebonyi offices. On average, the value of the payments paid by the employees represented 27% of their net salary.

Staff had to hand back, on average, 27% of their salaries in cash
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SR1's Executive Director told the OIG that (s)he had never instructed any employee to return a proportion of their salary back to the organization. However, forensic review of SR1's IT equipment and email confirmed the involvement of the Executive Director and a former SR1 Program Manager in coordinating the kickback scheme, and corroborated the employees' accounts.

The former Program Manager had previously been "blacklisted" by Nigeria's Country Coordinating Mechanism from involvement in any Global Fund project. However, the OIG found that despite this, (s)he continued to be involved in the management and implementation of SR1 Global Fund grants during the time period covered by the investigation.

The collection of kickbacks from employees is a fraudulent and abusive practice, contrary to the Global Fund's Policy to Combat Fraud and Corruption and a violation of the Global Fund's Code of Conduct for Recipients. Therefore, the OIG considers that the US\$166,930 collected from SR1's PR1 grant employees from April 2017 to February 2019 is non-compliant and potentially recoverable.

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#### **Agreed Management Action 1**

- Based on the findings of this report, the Global Fund Secretariat will finalize and pursue 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.

Owner: Chair, Recoveries Committee

Due date: 31 December 2020

Category: Financial & Fiduciary Risks

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#### **Agreed Management Action 2**

- The Secretariat will request the Nigeria Country Coordinating Mechanism (CCM) to ensure that the individuals responsible for the prohibited practices described in this report will no longer be involved in the implementation of Global Fund grants in Nigeria. The CCM will provide the Secretariat with a response in writing detailing the actions it will take to implement and monitor this and demonstrate how it has been disseminated to implementers.

Owner: Head of Grant Management Division

Due date: 30 April 2020

Category: Governance, Oversight & Management Risks

## 2.3. Indonesia: salary subsidy scheme resulted in misdirection of US\$35,310 of grant funds

In February 2019, OIG opened an investigation into a potential salary kickback scheme involving Sub-Recipient 2 (SR2). Since 2017, SR2 has been a sub-recipient of two Global Fund HIV grants, one of which is implemented by Principal Recipient 3 (PR3) and the other by Principal Recipient 4 (PR4). OIG conducted an investigative mission in Indonesia in May 2019, focusing on the period 1 April 2017 to 30 April 2019. The investigation found that funds budgeted for salaries were being redirected.

### How did the scheme operate?

SR2 did not engage in a kickback scheme. Rather, SR2 did not pay staff assigned to Global Fund projects the Global Fund salary budget for the position, but instead an alternative amount, agreed separately between SR2 and the staff.

Individuals hired as SR2 employees are given a salary that is aligned with SR2's internal salary scale. SR2 employees subsequently assigned to the two HIV grants were issued a Global Fund work agreement, specifying the Global Fund-budgeted salary for the position. They were informed, however, that in practice, they would receive the salary indicated in their SR2 employment agreement, which could be higher or lower than the amount indicated in the Global Fund Work Agreement. The surplus, if any, would be used to subsidize or augment other SR2 staff salaries. SR2 told the OIG that they implemented the scheme to ensure SR2's sustainability and continuity, especially during periods when it had no existing programs or projects to implement.

In general, Global Fund budgeted salaries are higher than the agreed SR2 staff salaries: 19 of the 28 employees assigned to the Global Fund project received an amount less than the Global Fund expected the employee to be paid.

SR2 staff working on Global Fund projects received their monthly Global Fund-budgeted salary into their personal bank accounts. Simultaneously, they received their SR2 salary into the same account. They were required to then immediately transfer the Global Fund salary back to SR2. From April 2017 to April 2019, 19 SR2 staff assigned to Global Fund programs paid back total net contributions of US\$35,310 from their Global Fund salaries<sup>3</sup>.

66% of the funds raised through this scheme were used to increase the salaries of 13 SR2 staff not assigned on Global Fund programs. The remaining 34% were used to augment the salaries of seven senior staff: the Executive Director, PME Manager, Human Resource Officer, Finance Manager, Cashier, Accounting Officer and Community-Based ARV Monitoring Officer. The Executive Director received the vast majority of these funds: US\$9,688 in extra payments, representing 27% of the total amount contributed by the 19 staff.

<b>66%</b> of the funds raised went to other SR2 staff not assigned to Global Fund programs.
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SR2's management said that they had not informed either the Principal Recipients or the Global Fund of the scheme, as they did not know it had to be approved. Additionally, they said they did not know the practice was disallowed.

The OIG considers this unauthorized redistribution of Global Fund-budgeted salaries as misdirection and improper use of funds, an abusive practice pursuant to the Global Fund Policy to Combat Fraud and Corruption, the Code of Conduct for Recipients of Global Fund Resources and

<sup>3</sup> US\$ 20,667 from SR2 staff under the PR3 grant and US\$ 14,643 from SR2 staff under PR4 grant.

Appendix 2 of the Global Fund Guidelines for Grant Budgeting<sup>4</sup>. The OIG considers the total amount of re-directed funds of US\$35,310 as non-compliant and potentially recoverable.

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### **Agreed Management Action 3**

- Based on the findings of this report, the Global Fund Secretariat will finalize and pursue 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.

Owner: Chair, Recoveries Committee

Due date: 31 December 2020

Category: Financial & Fiduciary Risks

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<sup>4</sup> The Global Fund Guidelines for Grant Budgeting June 2017.

### 3. Table of Agreed Actions

<b>Agreed Management Action</b>	<b>Target date</b>
<p>1. Based on the findings of this report, the Global Fund Secretariat will finalize and pursue 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.</p> <p><i>Owner: Chair, Recoveries Committee</i></p>	31 December 2020
<p>2. The Secretariat will request the Nigeria Country Coordinating Mechanism (CCM) to ensure that the individuals responsible for the prohibited practices described in this report will no longer be involved in the implementation of Global Fund grants in Nigeria. The CCM will provide the Secretariat with a response in writing detailing the actions it will take to implement and monitor this and demonstrate how it has been disseminated to implementers.</p> <p><i>Owner: Head of Grant Management Division</i></p>	30 April 2020
<p>3. Based on the findings of this report, the Global Fund Secretariat will finalize and pursue 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.</p> <p><i>Owner: Chair, Recoveries Committee</i></p>	31 December 2020

# Annex A: Methodology

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

**What we investigate:** The OIG is mandated to investigate any use of Global Fund funds, whether by the Global Fund Secretariat, grant recipients, or their suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with grant agreements. The Global Fund Policy to Combat Fraud and Corruption<sup>5</sup> 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.<sup>6</sup> 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 Suppliers<sup>7</sup> and Code of Conduct for Recipients provide additional principles, which recipients and suppliers must respect. The Global Fund Guidelines for Grant Budgeting define

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<sup>5</sup> (16.11.2017) Available at [https://www.theglobalfund.org/media/6960/core\\_combatfraudcorruption\\_policy\\_en.pdf](https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf)

<sup>6</sup> 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](http://www.conf-int-investigators.org/?page_id=13), accessed 1.12.2017.

<sup>7</sup> 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](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](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.

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.<sup>8</sup> While the OIG does not typically have a direct relationship with the Secretariat's or recipients' suppliers, its investigations<sup>9</sup> 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.<sup>10</sup>

**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.<sup>11</sup> 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.

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<sup>8</sup> Charter of the Office of the Inspector General (19.03.2013), § 2, 9.5, 9.6, 9.7 and 9.9 available at: [https://www.theglobalfund.org/media/3026/oig\\_officeofinspectorgeneral\\_charter\\_en.pdf](https://www.theglobalfund.org/media/3026/oig_officeofinspectorgeneral_charter_en.pdf)

<sup>9</sup> Charter of the Office of the Inspector General § 2, and 17.

<sup>10</sup> Global Fund Code of Conduct for Suppliers, § 16-19

<sup>11</sup> Charter of the Office of the Inspector General § 8.1