



Investigation Report

# Global Fund grant in Papua New Guinea

Non-compliant expenditures in malaria grant

GF-OIG-18-011  
10 July 2018  
Geneva, Switzerland

# What is the Office of the Inspector General?

*The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.*

*Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.*

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The Global Fund believes that every dollar counts and has zero tolerance for fraud, corruption and waste that prevent resources from reaching the people who need them. If you suspect irregularities or wrongdoing in the programs financed by the Global Fund, you should report to the OIG using the contact details below. The following are some examples of wrongdoing that you should report: stealing money or medicine, using Global Fund money or other assets for personal use, fake invoicing, staging of fake training events, counterfeiting drugs, irregularities in tender processes, bribery and kickbacks, conflicts of interest, human rights violations...

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### Letter:

Office of the Inspector General  
Global Fund  
Chemin du Pommier 40, CH-1218  
Grand-Saconnex, Geneva, Switzerland

### Email

[ispeakoutnow@theglobalfund.org](mailto:ispeakoutnow@theglobalfund.org)

### Free Telephone Reporting Service:

+1 704 541 6918

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### Telephone Message - 24-hour secure voicemail:

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### Fax - Dedicated secure fax line:

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### Audit Report

OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise the organization's mission to end the three epidemics. The OIG generally audits three main areas: risk management, governance and oversight. Overall, the objective of the audit is to improve the effectiveness of the Global Fund to ensure that it has the greatest impact using the funds with which it is entrusted.

### Advisory Report

OIG advisory reports aim to further the Global Fund's mission and objectives through value-added engagements, using the professional skills of the OIG's auditors and investigators. The Global Fund Board, committees or Secretariat may request a specific OIG advisory engagement at any time. The report can be published at the discretion of the Inspector General in consultation with the stakeholder who made the request.

### Investigations Report

OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund's mission to end the three epidemics. The 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.

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# 1. Executive Summary

## 1.1. Summary paragraph

A Principal Recipient in Papua New Guinea ("Principal Recipient 1") identified fraudulent and non-compliant expenditures in a malaria grant totalling US\$551,608. The fraud was facilitated by weak local financial controls, which Principal Recipient 1 later strengthened. A subsequent OIG investigation found that weaknesses in Principal Recipient 1's accounting processes had reduced Principal Recipient 1's ability to detect the fraud and that the same weaknesses continue to constrain financial assurance of its grants. The investigation also found additional non-compliant expenditures in the same grant of US\$175,818 from previously unreviewed expenditures of US \$4.2 million. Principal Recipient 1 has since refunded the full amount identified by the OIG. The Secretariat is now working with Principal Recipient 1 to enhance its financial oversight of all its Global Fund grants.

## 1.2. Main OIG Findings

In July 2015, Principal Recipient 1 identified that its National Finance Manager in PNG had committed a fraud affecting its Round 8 malaria grant. Principal Recipient 1's initial investigation in 2015 identified fraudulent expenditures totalling US\$195,447. In 2016, Principal Recipient 1 conducted an additional review of the same grant that identified a further US\$356,161 of unsupported and non-compliant expenditures. Based on its findings, Principal Recipient 1 did not charge these amounts to the Global Fund, which did not incur any direct losses because of the fraud.

Principal Recipient 1 identified that weak financial controls at its PNG office had facilitated the fraud, including a lack of segregation of duties and poor management. Following the issuing of a disclaimer of opinion by Principal Recipient 1's external auditor in January 2017, the OIG reviewed a further US\$ 4.2 million of expenditures charged by Principal Recipient 1 to the Round 8 Malaria grant. Principal Recipient 1 and the external auditor had not previously reviewed most of this amount.

The investigation found that weaknesses in Principal Recipient 1's accounting processes had prevented earlier identification of the fraud, and that they continue to constrain financial assurance across all Principal Recipient 1's Global Fund grants. It also found further non-compliant expenditures totaling US\$175,818 in the Round 8 grant that Principal Recipient 1 has since refunded to the Global Fund.

## 1.3. Actions Already Taken

In addition to reimbursing the full non-compliant amount identified by the investigation and dismissing the Finance Officer, Principal Recipient 1 implemented measures to improve internal controls in its PNG office. These included clearly defining roles and segregated responsibilities and enhancing oversight, monitoring and verification of grant expenditure.

## 1.4. Summary of Agreed Management Actions

Based on the investigation's findings, the Secretariat is working with Principal Recipient 1 to improve its financial assurance processes globally, on all Global Fund-financed portfolios. This includes implementing revised internal control procedures at Principal Recipient 1's headquarters and country level, optimizing the flow of accounting data between its headquarter's and country level systems, and agreeing how the revised control procedures will be harmonized across all Global Fund grants managed by Principal Recipient 1.

## 2. Context

### 2.1. Country Context

Papua New Guinea (PNG) is the largest Pacific Island nation. Its economy is highly reliant on commodity exports, which has driven rapid economic growth. Papua New Guinea's wealth is unevenly distributed with the majority of the population practising subsistence-based agriculture. Faith based organisations play a critical role in PNG's health system, delivering more than half of all services. Civil society and private sector groups are also critical to reaching more than 850 language groups, separated by rugged terrain and plagued by inter-tribal and gender based violence.

PNG has reduced the number of malaria cases and deaths through wide scale bed net distribution campaigns. Its HIV burden is concentrated and while anti-retroviral coverage is high, prevention of mother to child transmission is low. HIV testing is also low among men who have sex with men and female sex workers. PNG ranks 2nd in the Western Pacific Region for estimated tuberculosis prevalence, incidence and mortality. Its TB burden has not improved since the early 1990s.

### 2.2. Differentiation Category for Country Investigations

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused, core and high impact. These categories are primarily defined by size of allocation amount, disease burden and impact on the Global Fund's mission to end the three epidemics. Countries can also be classed into two cross-cutting categories: Challenging Operating Environments and those under the Additional Safeguard Policy. Challenging Operating Environments are countries or regions characterized by weak governance, poor access to health services, and manmade or natural crises. The Additional Safeguard Policy is a set of extra measures that the Global Fund can put in place to strengthen fiscal and oversight controls in a particularly risky environment.

Papua New Guinea is:

Focused: (Smaller portfolios, lower disease burden, lower mission risk)

**Core: (Larger portfolios, higher disease burden, higher risk)**

High Impact: (Very large portfolio, mission critical disease burden)

*Challenging Operating Environment*

*Additional Safeguard Policy*

### 2.3. Global Fund Grants in the Country

The Global Fund has two active grants in PNG with a total commitment of US\$36.3 million, of which US\$20.6 million has been disbursed. In total, the Global Fund has committed US\$245.3 million to PNG, of which US\$227.9 million has been disbursed. The malaria program grant concerned by this investigation (PNG-809-G05) ended on 31 March 2015 and is in financial closure. The Global Fund, however, continues to invest in and implement malaria programs in PNG through another implementer.

The Global Fund is among the largest donors for prevention among key populations in HIV and the only donor for malaria case management and vector control. The Global Fund has helped to attract funding from Against Malaria Foundation, which will procure LLINs for PNG in 2018-2020. In addition, the Global Fund is closely coordinating its investments with other partners in PNG, including the World Bank, Gavi, DFAT and the Asia Development Bank.

## 2.4. The Three Diseases<sup>1</sup>



**HIV/AIDS:** PNG is experiencing a 'mixed' HIV epidemic. Whilst prevalence is significantly higher amongst key populations, there are many people at risk who are not members of these populations. HIV prevalence is also higher than the national average in a number of provinces, indicating a focal generalized epidemic. Sexual transmission is by far the leading transmission route. HIV mortality has reduced significantly in recent years, but remains high. Levels of resistance to a major class of anti-retroviral therapies (ARTs) are the highest globally.

**0.89% national average HIV prevalence**

**8.5-14.9% HIV prevalence amongst key populations**

**24,000 people currently on antiretroviral therapy**



**Malaria:** PNG has one the highest burdens of malaria outside of Africa. An estimated 94% of the country's population live in areas that are endemic for malaria, with women and children under five years of age at particular risk. The number of reported malaria cases and deaths has fallen significantly in all regions in PNG since 2007, in some areas by more than 70%. The reduction is attributed to high coverage with Long Lasting Insecticide Nets (LLINs), improved access to early diagnosis using rapid diagnostic tests (RDTs) and highly effective treatment with artemisinin-based combination therapies (ACTs).

**816,414 Insecticide-treated nets (LLINs) distributed in 2016**

**499,929 suspected malaria cases tested in 2016**

**349,139 confirmed cases treated in 2016**



**Tuberculosis:** TB remains a major public health threat in PNG with a very high incidence rate and a rapid rise of multi-drug and rifampicin resistant (MDR/RR-TB) TB. There is ongoing transmission of TB within communities as shown by the high occurrence of TB amongst children (19-23% of total TB cases annually). DOTS expansion, especially through Global Fund funding, has significantly increased case notification rates. However, the high rate of cases, which are not bacteriologically confirmed (69%), indicates that many TB patients have not been treated in line with national standards. Treatment success rates also remain low.

**432 per 100,000 TB incidence rate**

**MDR prevalence 23%**

**13,900 new smear-positive TB cases detected and treated**

<sup>1</sup> Information drawn from: Global Fund PNG grants external webpage; the Global Fund PNG Country Team; a CCM PNG HIV/TB Funding Request dated 15 December 2016; and a Secretariat Briefing Note for malaria grant program continuation into 2018-2020 (undated).

## 3. The Investigation at a Glance

### 3.1. Genesis and Scope of the Investigation

**January 2014:** Start of wrongdoing

**July 2015:** OIG initially alerted to wrongdoing

#### Source of the alert:

- Secretariat
- Principal Recipient
- Sub-Recipient
- Local Fund Agent
- Anonymous whistle-blower
- Audit referral
- Other

In July 2015, the Global Fund Secretariat reported to the OIG a fraud in a Papua New Guinea (PNG) Round 8 malaria grant implemented by Principal Recipient 1. Principal Recipient 1's PNG office had found that its National Finance Manager had misappropriated grant funds including duplicate supplier payments and unused travel advances.

Principal Recipient 1's Global Internal Audit (GIA) investigated the fraud in July-August 2015 and it initially identified fraudulent expenditures totalling US\$195,447 in the Round 8 grant. GIA conducted an additional review in early 2016. GIA did not report the results of this review to the OIG at the time. It informed the OIG in April 2017 that the review had identified further unsupported/non-compliant expenditures totaling US\$356,161 in the Round 8 grant.

In January 2017, the Secretariat provided to the OIG an external audit report of the PNG Round 8 Malaria grant. It contained a Disclaimer of Opinion, as the auditor was unable to obtain sufficient evidence to provide a basis for an audit opinion for direct expenses of approximately US\$4.3 million.

Based on the external audit findings, in January 2017, the OIG opened its own investigation. Its scope comprised 4,098 transactions totalling US\$4,187,987 charged to the Round 8 malaria grant between 1 January 2014 and 31 March 2015. Principal Recipient 1 and the external auditor had not reviewed the majority of these transactions. The purpose of the investigation was to establish if any of these transactions were also non-compliant, and if so, establish the root causes. The OIG conducted a mission to PNG in August 2017.

### 3.2. Type of Wrongdoing Identified

- Coercion
- Collusion
- Corruption
- Fraud
- Non-Compliance with Grant Agreement
- Product Issues

### 3.3. Non-Compliant Expenditure

**OIG identified: US\$175,818:** The investigation found 457 unsupported, inadequately supported and other non-compliant expenditures totalling US\$175,818 (refer to Finding 4.3).

### 3.4. Proposed Recoverable Amount

Principal Recipient 1 has reimbursed the full amount identified by the investigation.

### 3.5. Progress on Previously Identified Issues

In 2013 and 2014 the OIG published reports of investigations in PNG.

The investigation of a Principal Recipient ("Principal Recipient 2") in 2013 found that Principal Recipient 2 steered a contract to a HR company linked to its senior executive. Principal Recipient 2's decision to appoint a particular HR service provider resulted in additional costs of US \$359,543 to the grant. The OIG recommended that the Secretariat seek recoveries, that the PR re-tender its HR service provider contract, and conduct an annual LFA review of HR fees.

The investigation of a Principal Recipient ("Principal Recipient 3") found irregular procurement practices and improper management of cash advances by its employees. Principal Recipient 3's failure to follow procurement and cash advance requirements resulted in additional costs of US\$1,352,696 to the grant.

The OIG recommended that: the Secretariat seek recoveries; the PR procure all core health products through the Pooled Procurement Mechanism (PPM); and cash advances be subject to strict approval limits. The Secretariat implemented all the recommendations arising from the two investigations.

#### Previous relevant OIG work

[GF-OIG-14-002 - Investigation of Global Fund Grants to Papua New Guinea - Principal Recipient 3](#)

[GF-OIG-13-022 - Investigation of Global Fund Grants to Papua New Guinea - Principal Recipient 2](#)

## 4. Findings

### 4.1. Historical controls weaknesses in Principal Recipient 1's PNG office facilitated the fraud

When Principal Recipient 1 identified the fraud in 2015, its PNG office had weak financial controls. To rectify this, Principal Recipient 1 implemented a number of measures to improve them. However, at the time of the OIG's mission in August 2017, Principal Recipient 1's PNG office was still unable to monitor and track actual expenditures to budgeted expenditures. The controls weaknesses at Principal Recipient 1's PNG office that facilitated the fraud included:

- Weak financial and accounting management, limited internal controls and poor oversight of staff in positions of trust. This resulted in trust-based rather than controls-based procedures.
- The former Finance Manager used his personal bank account to facilitate control of program funds at Principal Recipient 1's remote Vanimo office.
- The former Finance Manager had access to the 'administrator' password for Principal Recipient 1 PNG's 'QuickBooks' accounting system and payment processing system. This allowed him to create and initiate duplicate supplier payments to his personal bank account.
- The former Finance Manager was able to manipulate QuickBooks records due to the lack of segregation of duties and controls over access to Principal Recipient 1's PNG office financial accounting records.

Principal Recipient 1 identified 13 areas for improvements to Principal Recipient 1's PNG office control environment. These included:

- Introducing clear segregation of duties and creating and updating office guidelines, policies and procedures.
- Establishing a dedicated bank account for the Vanimo office and eliminating the use of personal bank accounts for business-related transactions.
- Replacing the former trust-based management with improved internal oversight and clear financial approvals process, to achieve greater accountability.
- Issuing all finance staff with their own secure access login for the financial and accounting systems and providing greater oversight of expenditures from Principal Recipient 1's headquarters.

The Global Fund country team regularly followed up with Principal Recipient 1 on the implementation of remedial actions. This included sending a Performance Letter to Principal Recipient 1's PNG office making recommendations for additional controls improvements. By August 2017, Principal Recipient 1's PNG office had implemented 12 of the 13 identified action points. The remaining outstanding issue related to Principal Recipient 1's inability to monitor and track actual expenditure to Global Fund budgeted expenditure, is described under Finding 4.2, below.

### 4.2. Process weaknesses reduced Principal Recipient 1's ability to detect the fraud and continue to constrain its financial assurance of Global Fund grants

Principal Recipient 1's current financial assurance processes reduced its ability to detect the fraud. This includes its practice of performing quarterly instead of monthly reconciliations, and cost category level rather than activity level monitoring of grant expenditure. Principal Recipient 1's use of different accounting systems at headquarters and local country level also allowed the fraud in PNG to initially go undetected and continues to constrain Principal Recipient 1's financial assurance of its Global Fund grants.

Prior to identifying the fraud, Principal Recipient 1's PNG office reported a shortfall in its Round 8 malaria grant budget. The Secretariat asked Principal Recipient 1's PNG office to provide a full reconciliation, as the shortfall was inconsistent with its own analysis. When Principal Recipient's 1 PNG office provided the reconciliation, the Secretariat queried further inconsistencies. The Secretariat attributed Principal Recipient 1's difficulties in reconciling its Round 8 malaria grant

budget to its practice of reconciling and reporting balances to the Global Fund on a quarterly basis, rather than performing monthly reconciliations.

At the time of the fraud, Principal Recipient 1's PNG office did not conduct monitoring of actual expenditure against plan or budget, which reduced its ability to monitor the performance of its operations and to detect fraud. In November 2016, some 17 months after the fraud, the LFA found that Principal Recipient 1's PNG office had made no progress with implementing activity-level expenditure monitoring.

During its mission in October 2017, the OIG found that Principal Recipient 1's PNG office was still not tracking expenditures at the activity level. The OIG also could not match supporting documents to budgeted expenditure, as Principal Recipient 1's PNG office does not record activity reference numbers on supporting documents. The PNG LFA said this also prevents it from effectively verifying whether grant expenditures incurred by Principal Recipient 1's PNG office are within budget.

In response to these findings, Principal Recipient 1 said that its grant agreement with the Global Fund only requires it to report expenditures at the cost category level, not the activity level. It said these limitations are therefore driven by Principal Recipient 1's focus on the agreed reporting requirements. Principal Recipient 1 said its headquarters is reviewing the use of tools to facilitate easier tracking of expenditures at the activity level.

In response to the finding that Principal Recipient 1's PNG office did not monitor actual expenditures against plan or budget, Principal Recipient 1 said it performed 'activity status' reviews of Principal Recipient 1's PNG office expenditures at headquarters level. However, Principal Recipient 1 uses two accounting systems; 'QuickBooks' in its country offices and 'Lawson' at its headquarters level. Principal Recipient 1's headquarters reviews grant expenditures after their transferral into Lawson. As a result, it was unable to identify the manipulation of records in Principal Recipient 1's PNG office QuickBooks system. Principal Recipient 1 said this initially allowed the fraud to go undetected.

Additionally, when Principal Recipient 1 transfers records from QuickBooks to Lawson, it does not capture all the data from QuickBooks. This includes transaction number, journal voucher number and full transaction description. When the LFA undertakes assurance work on Principal Recipient 1 grants, Principal Recipient 1 provides data from Lawson. The PNG LFA told the OIG that it has experienced delays when verifying locally-incurred expenditures with data from Lawson. It said that this is due to the time consuming manual process of locating supporting documents without the local transaction references from QuickBooks.

Based on the investigation's findings, the Secretariat is working with Principal Recipient 1 to enhance its internal financial control and assurance processes across all its Global Fund grants.

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### **Agreed Management Action 1**

To address the financial assurance weaknesses identified in this report, the Secretariat is working with Principal Recipient 1 to:

- Implement revised internal control procedures at headquarters and country level, in form and substance acceptable to the Global Fund;
- Optimize the flow of accounting data between its headquarter and country level systems to facilitate timely assurance of grant expenditures; and
- Propose how the agreed revised internal control procedures will be harmonized across all Global Fund grants managed by Principal Recipient 1.

The Secretariat will conduct sample testing of the revised internal control procedures by the AMA target date.

Owner: Head of FISA

Due date: 30 June 2020

Category: Governance, Oversight and Management Risks

### 4.3. The OIG found further non-compliant expenditures totaling US\$175,818 in the grant affected by the fraud

In addition to the amounts identified by Principal Recipient 1's own investigations, the OIG found that Principal Recipient 1 had charged further non-compliant expenditures totalling US\$ 175,818 to the Round 8 malaria grant. Principal Recipient 1 has since refunded the full amount. Due to the absence of supporting documents, the OIG was unable to determine if any of the transactions were fraudulent.

#### **Unsupported and non-compliant expenditures**

The investigation found 358 transactions totalling US\$113,809 that Principal Recipient 1 had charged to the Round 8 Global Fund malaria grant, did not have any supporting documents (refer to Annex B). Due to the absence of supporting documents, the OIG was unable to determine if any of the transactions were fraudulent.

Principal Recipient 1's PNG office offered two possible explanations for the missing supporting documents: firstly, due to the various historical reviews, audits and investigations of the Round 8 grant, Principal Recipient 1's PNG office may not have effectively managed documents following each of the reviews; secondly, the former Finance Manager, who committed the fraud, may have removed supporting documents from the office.

The Code of Conduct for Recipients of Global Fund Resources requires implementers to maintain complete, well organized, and comprehensive records for a minimum of seven years after the date of last disbursement made under the Grant Agreement. With no supporting documents available for the 358 transactions, Principal Recipient 1's PNG office breached the terms of the Code of Conduct for Recipients.

Principal Recipient 1's PNG office management also agreed that another 68 transactions totalling US\$43,645 did not have a sufficient level of supporting documents. These included transactions with: missing receipts, unsigned vouchers, no bank checks, bank checks made to 'cash' with no supporting documents, self-completed or self-authorized forms, and pro-forma invoices only.

Principal Recipient 1 had charged a further 31 expenditures totalling US\$18,364 to Round 8 Malaria grant which the OIG found to be non-compliant. 73% of these were amounts charged to the Global Fund that were applicable to other donors, or expenditures not related to malaria control. The remaining related to tax exemption issues.

## 5. Table of Agreed Actions

Agreed Management Action 1	Target date	Owner	Category
<p>To address the financial assurance weaknesses identified in this report, the Secretariat is working with Principal Recipient 1 to:</p> <ul style="list-style-type: none"> <li>• Implement revised internal control procedures at headquarters and country level, in form and substance acceptable to the Global Fund;</li> <li>• Optimize the flow of accounting data between its headquarter and country level systems to facilitate timely assurance of grant expenditures; and</li> <li>• Propose how the agreed revised internal control procedures will be harmonized across all Global Fund grants managed by Principal Recipient 1.</li> </ul> <p>The Secretariat will conduct sample testing of the revised internal control procedures by the AMA target date.</p>	30 June 2020	Head of FISA	Governance, Oversight and Management Risks

## 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, limits impact and reduces the trust, which 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 Secretariat of the Global Fund, by recipients of grants funds, or their respective suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with the grant agreements. The Global Fund Policy to Combat Fraud and Corruption<sup>2</sup> generally outlines the prohibited practices, which will result in investigation findings.

OIG investigations aim to:

- (i) identify the specific 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 preventative action, by identifying where and how the misused funds have been used.

OIG conducts administrative, not criminal, investigations. It is the recipients' responsibility to demonstrate their compliance with the grant agreement in their use of grant funds. Its 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>3</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 and its recipients enter into, 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>4</sup> and Code of Conduct for Recipients provide additional principles, which recipients and suppliers must respect. Global Fund Guidelines for Budgeting generally define how expenditures must be approved and evidenced to be recognized as compliant with the terms of the grant agreements.

**Who we investigate:** Principal Recipients and Sub-recipients, Country Coordinating Mechanisms and Local Fund Agents, as well as suppliers and service providers. Secretariat activities linked to the

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<sup>2</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>3</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>4</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.

use of funds are also within the scope of work of the OIG.<sup>5</sup> While the OIG does not typically have a direct relationship with the Secretariat's or with recipient suppliers, its scope<sup>6</sup> encompasses 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>7</sup>

**Sanctions when prohibited practices are identified:** When the 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>8</sup> The Secretariat determines what management actions or contractual remedies to take, 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, 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 over pricing between the price paid and comparable market price for such goods or services; or
- (iii) amounts incurred outside of the scope of the grant, for good and services not included in the approved work plans and budgets or expenditures over approved budgets.

**How the Global Fund prevents recurrence of fraud:** Following an investigation, the OIG and Secretariat agree on management actions that will mitigate the risks of prohibited practices 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 supports such authorities as necessary throughout the process, as appropriate.

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<sup>5</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>6</sup> Charter of the Office of the Inspector General § 2, and 17.

<sup>7</sup> Global Fund Code of Conduct for Suppliers, § 16-19

<sup>8</sup> Charter of the Office of the Inspector General § 8.1

## Annex B: Summary of OIG identified non-compliant expenditures

<b>Unsupported expenditures charged to Round 8 malaria grant</b>		
<b>Type of expenditure</b>	<b>No. of Expenditures</b>	<b>Value (US\$)</b>
Per Diem Local Staff	153	55,659.38
Local Transportation	51	23,428.81
Program Related Training	89	20,077.82
Housing Allowance	2	4,095.31
Shipping & Handling	2	2,666.94
Communication (tele, fax, internet)	2	2,025.72
Rent-Office	2	1,888.84
Bank Charges	10	1,076.34
Supplies, Communications, Other	26	853.29
Vehicle Costs	4	677.67
Utilities	4	326.37
Contract Services	1	322.77
Postage & Delivery	2	251.10
Other/Misc.	4	190.44
Office Supplies	1	129.93
Visa/Travel Fees/Baggage	2	94.74
Computer Accessories	2	41.98
Copying & Printing	1	1.71
<b>Sub-total</b>	<b>358</b>	<b>113,809.16</b>
<b>Inadequately supported and non-compliant expenditures charged to the R8 grant (1 January 2014 to 31 March 2015)</b>		
<b>Type of non-compliance</b>	<b>No. of Expenditures</b>	<b>Value (US\$)</b>
Inadequate supporting documents	68	43,644.60
Incorrectly charged to the Global Fund	9	13,336.46
Excise Duty charged to the Global Fund	1	2,590.09
Goods and Services Tax charged to the Global Fund	19	2,300.14
Cancelled expenditures but not reversed in accounts	2	137.13
<b>Sub-total</b>	<b>99</b>	<b>62,008.42</b>
<b>Total</b>	<b>457</b>	<b>175,817.58</b>