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OIG INVESTIGATIONS INTO GLOBAL FUND GRANTS IN NIGERIA AND INDONESIA CONFIRM NON-COMPLIANT EXPENDITURES TOTALLING MORE THAN \$200,000

The Office of the Inspector General (OIG) has published a joint report on the findings from two salary-related investigations, conducted in Nigeria in March 2019 and in Indonesia in May 2019, in which the OIG found non-compliant expenditures of \$202,240. In Nigeria, the OIG investigated a salary kickback scheme that resulted in the misappropriation of \$166,930, and in Indonesia, the OIG investigated a salary subsidy scheme that resulted in the misdirection of \$35,310. The OIG is seeking recoveries of both full amounts.

The OIG's joint report was published on February 28.

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These two cases are part of a large and growing number of allegations of salary-related fraud within Global Fund grants – 33 since 2016, with most of these allegations made in the past 2 years.

The OIG report states that 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”. The report supplements the findings from the specific Nigeria and Indonesia cases with additional information from other assessments and oversight investigations performed by the OIG.

The impact of this report is broad and long-term for all Global Fund grants: The Global Fund is enhancing its Guidelines for Grant Budgeting to ensure stronger preventative measures for these types of ‘prohibited practices’. The OIG report says, “the OIG is cognizant that confusion has existed around the level of discretion implementers have over the use of Global Fund salary budgets”, and that this “lack of clarity has led to some of them, unwittingly, committing abusive practices and violating Global Fund regulations”.

The Budgeting Guidelines are now intended to provide clearer instructions on what is and is not allowed in relation to Global Fund-budgeted salaries. The Guidelines now prohibit implementers and Country Coordinating Mechanisms (CCMs) from soliciting payments or kickbacks from staff, or ‘contributions’ to organizations’ funds or subsidy schemes, a practice the OIG says is “particularly prone to abuse” given the non-transparent and non-auditable nature of these types of schemes.

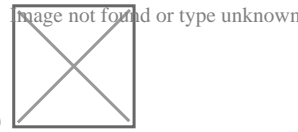


Fig 1: Geographic origin of allegations of salary fraud and abuse reported to the OIG (2016-2019)

Source: OIG investigation report on salary fraud in Nigeria and Indonesia

Context, program impact of salary fraud

In the 2017-2019 funding cycle, 15.8% of Global Fund budgets – \$1.7 billion – was allocated to salaries. This was composed of \$945 million for salaries for Program Management, and \$790 million for outreach and health workers’ salaries. Health workers, in addition to program staff working for grant PRs, SRs and other implementers are all vulnerable to exploitation, the OIG says.

The impact on Global Fund programs is profound, apart from financial losses: people who are victims of this type of fraud may become demotivated and underperform, or even abandon their work (causing additional costs/time spent on recruiting new staff), may take on other work to compensate for loss of salary, thereby compromising their performance in their Global Fund-related role, or themselves commit ‘improper actions’ to make up for the financial losses incurred by the fraud.

The number of allegations relating to salary fraud and abuse has increased dramatically in the past two years, with 26 allegations made in the past two years, out of 33 in total since 2016, received from 14 countries. Of these, 11 separate allegations have come from Nigeria, and 5 from Indonesia, considered two ‘hotspots’ for this type of fraud.

The allegations cover a range of wrongdoing apart from kickbacks and subsidy schemes, including Community Health Worker payments being seized by sub-recipient staff, staff receiving less money than they are entitled to for their work, non-staff (friends and family) receiving ‘salary’ payments from grant funds, staff being forced to sign for receipt of a higher salary than they actually received, volunteers forced to sign for receipt of allowances never received, and more.

The report says that allegations commonly implicate sub-recipients but that increasingly they also pertain to sub-sub-recipients (SSRs), with those increasing from just one between 2016 and 2018 to seven in 2019.

Summary of Nigeria main findings and Agreed Management Actions

What happened?

The OIG opened an investigation in December 2018 into a potential salary kickback scheme after a whistleblower alerted the OIG to a potential issue. The OIG established that the scheme was being operated by management of the Centre for Health Education, Economic Rehabilitation and Social Security (CHEERS), a Global Fund sub-recipient of two grants in Nigeria. CHEERS is a sub-recipient of two Global Fund grants in Nigeria, one implemented by Family Health International (FHI360) and the other by the Society for Family Health (SFH).

During a mission to Nigeria in March 2019, the OIG found that the scheme, run by CHEERS’ Executive Director and former Program Manager, had been running since the start of FHI360’s grant in April 2017, resulting in the misappropriation of \$166,930.

Fifteen employees told the OIG that after starting their jobs at CHEERS, and before receiving their first salary payments, they were told that they would receive an amount in their bank accounts that was higher than that agreed when they were hired (and corresponded to the amount budgeted for salaries in the program budget). They were instructed to pay the difference back, in cash, every month; they complied for fear of dismissal, suspension or non-renewal of their contracts.

The Executive Director denied, to the OIG, having ever given such an instruction, but the OIG's investigation found forensic evidence ((from IT equipment and emails) confirming the ED and a former program manager's involvement in and coordination of the scheme. Nearly all CHEERS' employees assigned to the FHI360 grant were required to pay kickbacks, with employees paying an average of 27% of their net salaries back to organization in cash, every month.

Agreed Management Actions

AMA 1: The Secretariat will finalize and pursue "an appropriate recoverable amount". The Secretariat will determine what this is in relation to "applicable legal rights and obligations and determination of recoverability". (Due 31 December 2020, owned by the Chair of the Recoveries Committee.)

AMA 2: The Secretariat will request the Nigeria CCM to ensure that the individuals responsible for the prohibited practices described in the OIG report will no longer be involved in the implementation of Global Fund grants in Nigeria. (Due 30 April 2020, owned by the Head of Grant Management.)

Summary of Indonesia main findings and Agreed Management Actions

What happened?

In February 2019, the OIG opened an investigation into a potential salary kickback scheme involving the Indonesia AIDS Coalition (IAC). IAC has been a sub-recipient of two Global Fund HIV grants since 2017, one implemented by the Ministry of Health, and the other by the Australian Federation of AIDS organizations. The investigation, which covered the period 1 April 2017 to 30 April 2019, found that the IAC had "misdirected" Global Fund funds budgeted for salaries within both grants.

The way this scheme worked was that IAC employees received salary amounts aligned with IAC's internal salary scale, specified in their employment agreements. This amount was mostly (for 19 out of 28 employees) less than the Global Fund amount budgeted for those salaries. The IAC staff working on Global Fund projects would receive the Global Fund-budgeted salary amount into their individual bank accounts. They then had to immediately transfer the 'surplus' from the Global Fund salary back to IAC, and in this way \$35,310 of Global Fund salaries were paid back.

Two thirds (66%) of these funds 'raised' were used to increase the salaries of 13 IAC employees who were not assigned to Global Fund programs. The remaining 34% of funds was used to increase the salaries of seven senior staff members: the Executive Director, Planning, Monitoring and Evaluation Manager, Human Resource Officer, Finance Manager, Cashier, Accounting Officer, and Community-based ARV Officer.

IAC's management told the OIG that they hadn't informed the Principal Recipient or the Global Fund of the scheme because they did not know it needed to be approved, and said they also did not know that this kind of practice was not permitted.

Agreed Management Actions

AMA 3: The Secretariat will finalize and pursue an appropriate recoverable amount, to be determined "in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability". (Due by 31 December 2020, owner is the Chair of the Recoveries Committee.)

This audit report is called '[Salary fraud and abuse affecting Global Fund grants: Kickbacks and other unauthorized uses of funds](#)'; 28 February 2020 (GF-OIG-20-004).

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