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of the Global Fund

OIG Says Failure to Spot Warning Signs in Mali Was Widespread

PR, auditors, LFAs, CCM and Global Fund Secretariat all experienced system failures

Accountant hired to oversee grants had a history of financial crime

For six years, no one spotted the corruption that was occurring in some Global Fund grants to Mali, despite the fact that there were five “checkpoints” in place to detect such problems. This is one of the conclusions of the Global Fund’s Office of the Inspector General (OIG) in its final report on the investigation into TB and malaria grants in Mali. The investigation was conducted between February 2010 and April 2011.

As previously [reported](#) in GFO, the OIG found that a significant proportion of the funds distributed to the Ministry of Health (MOH), principal recipient (PR) for all TB and malaria grants in Mali, were misappropriated. Most of the fraud was perpetrated by individuals associated with two sub-recipients (SRs), the main implementing entities, which submitted thousands of fraudulent invoices, created false bid documents, forged signatures and over-charged for goods and services – primarily in connection with purported “training events.”

Five grants were included in the investigation, which covered the period from early 2004 until May 2010. The OIG said that the misappropriation started in May 2004, shortly after the first grant started.

The OIG identified the five checkpoints – referred to as “components of the fiduciary framework” – as (1) the Department of Administration and Finance (DAF), the entity most directly responsible for the fiduciary aspects of the grants within the MOH; (2) external auditors; (3) the local fund agents (LFAs); (4) the country coordinating mechanism (CCM); and (5) staff at the Global Fund Secretariat.

The DAF was itself implicated in the OIG’s findings of fraud. The OIG said that the DAF had failed to implement proper segregation of duties and basic accounting tasks, which contributed to an increased risk of fraud; and that the accountant hired by the DAF to oversee grants had a past history of financial crime. The OIG said that although the LFAs and the Secretariat were aware of the weaknesses of the DAF ever since the PR assessment was conducted for the first grant, the DAF was repeatedly utilised to manage new grants, and “no one identified these weaknesses as indicators of possible fraud and abuse.”

(There were two different LFAs during the period covered by the audit. A second LFA replaced the first LFA as a result of the contract being re-tendered in 2008. The decision to re-tender was not related to the OIG investigation. Both LFAs used the same finance professional to do the in-country LFA work.)

According to the OIG, the LFAs failed to exercise proper financial oversight, and were negligent in failing to identify the pervasive fraudulent invoicing scheme, and failing to notice the “plethora of false documents” submitted to trigger payments. Furthermore, the OIG said, the LFAs failed to notice obvious deletions and inconsistent calculations on bank statements, all of which concerned funds that the OIG ultimately found had been misappropriated.

The OIG said that the LFAs, the CCM and the Secretariat failed to identify that many of the purported training events financed through grant funds may not have actually occurred.

(Despite the criticism of the LFAs by the OIG, the OIG commended the current LFA for its recent excellent cooperation during the investigation, and for its continuing efforts to detect possible misuse of grant money.)

The OIG stated that Secretariat staff lacked the means and the capacity to detect the risk of fraud and other misuse of funds, and were not “properly incentivized or prepared” to respond appropriately when signs of risk did appear.

With respect to the CCM, the OIG said that there was no evidence that the CCM ever mentioned that, in its view, there was a risk that grant funds were not being used for their intended purposes – and, further, that “the CCM had neither the capacity, nor the self-perceived responsibility, to identify such risks.”

The OIG said that many of the required internal and external audits were not performed or were severely delayed. None of the audits that were carried out identified any risk of fraud.

In its report, the OIG provided updated numbers on the results of its investigation in Mali, as shown in the table below.

Table: Losses identified in Mali TB and malaria grants

Amount of grant funds examined: \$9.7 million	
Of which, losses identified: \$5.2 million	
Of which, due to criminal acts of fraud and misappropriation: \$4.1 million	Of which, due to insufficient documentation or improper use of funds: \$1.1 million

Concerning the \$4.1 million lost through fraud and misappropriation, the methods used included (a) misappropriation of grant funds from programme bank accounts through false statements, false documents, and unauthorised and improper transfers; (b) fabrication of false supporting expenditure

documentation; (c) overcharging and widespread misappropriation of programme assets; and (d) fraudulent procurement practices.

About 10% of the \$1.1 million lost due to insufficient documentation or improper use of funds was for a TB laboratory, the purchase of which, according to the OIG, was contrary to what it termed “procurement rules.” In addition, the OIG said, the laboratory is sitting idle and vacant, and does not conform to safety standards. The OIG also said that equipment purchased for the laboratory has sat in boxes in a storage shed for more than a year “and may well now be unusable.”

The OIG noted that its team spent the equivalent of one person working for a year full-time investigating the TB and malaria grants in Mali. The OIG said that due to substantial deficiencies in accounting and record-keeping, it had to expend significant time and money recreating an electronic record of programme disbursements and expenditures. In the process, the OIG organised, scanned and computerised, and analysed over 50,000 pages of programme documentation. According to the OIG, this documentation was found in loose form, often contained in trunks maintained in the basements of offices. It said that many of the documents were soiled, and had to be manually scanned in order to be reviewed in detail.

As a result of the OIG’s findings, in December 2010 the Global Fund terminated one TB grant and suspended two malaria grants (see [report](#) in GFO). As of that same date, as a result of criminal investigations launched in Mali, authorities had arrested and imprisoned 15 people in connection with the fraud.

The report recently released by the OIG dealt only with the investigation into the TB and malaria grants. However, the OIG is also investigating HIV grants in Mali. Although that investigation is not yet complete, the OIG said that it was finding patterns of fraud similar to those described above for the TB and malaria grants. In March 2011, the Global Fund announced that it had suspended one of the HIV grants (see [report](#) in GFO).

In its report on the TB and malaria grants, the OIG makes several recommendations, including that the Global Fund Secretariat strengthen the grant agreement to require all PRs to record key expenditure information (such as vendor names) within “an acceptable accounting system”; and bar cash expenditures unless there is a critical need for them. Finally, the OIG recommended that the use of the amount and pace of grant fund disbursements as a key performance indicator for Secretariat staff be reconsidered. In the OIG’s opinion, the emphasis should be placed on “quality rather than the quantity of disbursements,” and on “ensuring (through continuous monitoring) that grant funds are in fact used for grant purposes.”

In a statement accompanying the final report on the OIG’s Mali investigation, the new Global Fund Board Chair, Martin Dinham, said that “it is important to stress the separation between the wrong doing of some individuals and the laudable efforts of the majority of the health work force in Mali.”

Dinham said that “this case has contributed to the largest reform of the grant management of the Global Fund since its inception.” He also said that “the fact that this fraud was in part identified by an audit and fully uncovered through the vigilance of the Global Fund’s own Inspector General’s Office, as well as the fact that the perpetrators are now being brought to justice, will serve as a deterrent to others.”

In a blog posted on 6 June 2011 on the web site of the Huffington Post, Global Fund Executive Director Michel Kazatchkine said, “I find it deeply distressing that people can steal from those who are most in need, and it is hard to understand how the perpetrators can live with themselves. But given that 15 suspects are now in jail awaiting trial, they will, if found guilty, have a lot of time to contemplate why they chose greed over the chance to save lives.”

When the Global Fund suspended disbursements to the Mali grants (except for lifesaving drugs),

Kazatchkine said, the Fund “demanded that those managing the grants be replaced. Only when new, solid management is in place can we resume transfers of money to these grants. The establishment of new management is well under way.”

Both Dinham and Kazatchkine praised Mali President Amadou Toumani Touré for his efforts to detect and end fraudulent practices in his country.

The OIG’s report, entitled “Final Report of Investigation of Mali Malaria (1 & 6) and Tuberculosis (4 & 7) Grants,” 1 June 2011, is available [here](#). This report is partially redacted, meaning that the names of some individuals and organisations have been blackened out (so as not to interfere with the ongoing criminal investigations in Mali). The OIG also provided a summary of its findings in its [progress report](#) for November 2010 to March 2011. Michel Kazatchkine’s blog on the Huffington Post web site is available [here](#).

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