



Independent observer
of the Global Fund

OIG Investigation of the Embezzlement of Funds in the Netherlands

Background

In July 2020, the Office of the Inspector General (OIG) received multiple allegations of financial irregularities in accounts connected to the International Civil Society Support (ICSS), a Netherlands-based civil society organization CSO). ICSS self-reported that their former Executive Director (hereafter: 'the former ED') allegedly made multiple unsupported payments, which only came to light after he was terminated from his position. He had worked with ICSS since 2010 and was ED from January 2019 until his employment was terminated in May 2020. During his time with ICSS he had attended Global Fund board meetings as a Delegate of the Communities Delegation between 2015 and 2019.

You can read the full report [here](#).

The OIG subsequently launched an investigation covering financial transactions made between 2018 and 2020. The OIG collected and analysed financial records from the bank accounts of the parties in scope, which contained funds from the Global Fund as well as other donors. The OIG also obtained and reviewed electronic records (e.g., email exchanges), and interviewed several witnesses. The OIG invited the former ED to multiple interviews, but he did not respond to OIG requests.

The investigation concerned three civil society bodies that receive Global Fund funding: two suppliers and one Board constituency:

1. **ICSS:** a supplier of advocacy services, including supporting the sustainability of the Global Fund Advocates Network (GFAN) operations and hosting the GFAN Secretariat. ICSS received €337,560 from the Global Fund in 2019-2020 under various purchase orders, representing 20% of ICSS's donor revenue during this period. ICSS was a long-standing and well-regarded Global Fund partner.

2. Global Coalition of TB Activists (GCTA): provides international TB advocacy services. The Global Fund awarded GCTA a \$140,250 grant for long term capacity development, funded under a Strategic Initiative to develop CSOs and promote community mobilization. The funds were paid in two tranches in 2018 and 2019 and represented 76% of GCTA's donor funding in the period.
3. The Communities Delegation: represents individuals living with HIV and affected by TB and malaria at the Global Fund Board, as a full voting member. The Global Fund is the Delegation's primary donor, and combined with funding for the Implementers Group, which was also overseen by the Delegation, it received €188,219 in funding in 2019-2020 under the Global Fund Constituency Funding Policy.

In addition to being a Global Fund supplier, ICSS served as the 'Recipient Organization' (also known as a 'Fiscal Host') for the Communities Delegation and managed its finances, including the funding received from the Global Fund. Appointing a Fiscal Host is not unusual, given that Board delegations are often not registered entities, may have difficulties in opening bank accounts, and members change frequently.

ICSS maintained a segregated bank account for the Communities Delegation, separate to its own operating account. ICSS' former ED was an account signatory of both accounts. The individual also served as Chairman of GCTA, essentially as an unofficial Fiscal Host, and was sole signatory of GCTA's bank accounts.

Findings

The first finding is that the former Executive Director of ICSS embezzled an estimated €113,000 in Global Fund funding from ICSS, GCTA and the Communities Delegation.

The OIG found extensive suspicious transactions linked to the former ED, including falsified payment requests, suspicious bank transfers to his own accounts, extensive use of money transfer agents, and frequent unsupported cash withdrawals and credit card payments. He also transferred funds embezzled from ICSS through GCTA bank accounts, misrepresenting them as Global Fund grant funds to disguise their illicit nature. This finding provides the details of over €550,000 in suspicious transactions which the OIG identified in the parties' co-mingled bank accounts.

The report then provides extensive details of the fraudulent and irregular transactions under eight headings:

1. ICSS paid €101,971 to accounts controlled by the former ED, based on falsified payment requests;
2. €74,000 was unaccounted for from GCTA bank accounts;
3. €65,000 in GCTA expenses had been paid by ICSS without justification;
4. There was a failure to segregate funds and conflicts of interest in transactions executed by the former ED;
5. €55,572 had been transferred to the former ED's personal bank accounts;
6. €12,888 of ICSS-funded cash, goods and travel costs had been given to a personal associate;
7. there were €200,000 of unsupported cash and card transactions; and
8. Global Fund monies connected to the suspicious transactions were embezzled.

The details of the OIG investigative work and the nature and amounts of transactions would take up too much space in this article but readers who are interested in more detail can go to the OIG report for that information.

The second finding is that GCTA breached Global Fund contractual terms by being unable to provide access to the accounts with irregularities.

GCTA was unable to provide the OIG with access to records or bank statements of their Initial Account.

The former ED, who was the registered Chairperson of the GCTA corporate entity and maintained the GCTA accounts with a Netherlands-based financial institution, did not provide the complete records to GCTA during 2019, despite multiple requests. By not possessing the records, GCTA breached the Global Fund's Standard Terms and Conditions of Purchase of Services (Standard Terms and Conditions) and the Global Fund Code of Conduct for Suppliers, which requires suppliers "to maintain ... all financial and accounting related records" and to "make such records available to the Global Fund or its authorized representative."

Through not having access to the records, the OIG was unable to fully investigate the suspected diversion of funds from both GCTA and ICSS in GCTA's Initial Account, the beneficiary account credited by the Global Fund and from the €70,000 transfer from ICSS.

GCTA's failure to provide evidence material to a Global Fund enquiry was not deliberate. GCTA did not at any time possess the information and records required for this investigation and relied solely on the former ED to execute payments and maintain records. The former ED repeatedly misrepresented the GCTA bank account situation in email and board meetings when requested to provide updates by GCTA and did not respond to GCTA's demands for access to the account or account statements from mid-2019 onwards. GCTA did not intentionally conceal evidence and was otherwise cooperative with this investigation.

The third finding is that poor internal controls and missed red flags allowed opportunistic fraud to escalate over time. The report goes on to explain how the problems arose because controls were concentrated around the former ED that created a power imbalance and additional third-party risks impacted control mechanisms.

A fourth finding (included under the third finding in the report) is that Global Fund oversight over non-traditional suppliers is insufficient. Global Fund assurance mechanisms tend to prioritize grant implementers under a risk-based approach, for example through detailed budgeting guidelines, programmatic monitoring and periodic Local Fund Agent reviews. The Global Fund engages a wide variety of suppliers under Purchase Orders, ranging from major commodity suppliers down to partner-advocacy services such as those covered in this investigation. Suppliers are largely responsible for implementing their own financial controls and fraud prevention activities. The Global Fund does not have a differentiated assurance approach to suppliers of less tangible services, such as advocacy or other community support, or specific budgeting guidance for non-grant expenditure. ICSS and GCTA largely provided advocacy services, which can be difficult to quantify and monitor. They were more akin to specialized partners delivering programmatic activities than to typical suppliers. The Global Fund does not undertake sufficient and proportional performance and controls/governance capacity assessments of these types of non-traditional suppliers and does not have consistent or documented guidance on contract management mechanisms to ensure effective and efficient delivery of professional services such as advocacy.

Actions to be Taken

There are two Global Fund actions to be taken in response to this investigation's findings:

1. Based on the findings of this report, the Secretariat will finalize and pursue from the relevant entity/entities an appropriate recoverable amount (if any, as determined by the Secretariat) from the non-compliant expenditures identified in this report.
2. The Secretariat will develop an standard operation procedures (SOPs) and guidance for all Global Fund focal points dealing with non-traditional suppliers to ensure robust implementation of

underlying funds in line with expected services and consistent oversight including recovery of non-grant funds. In addition, the Secretariat will continue to raise awareness of the Global Fund's anti-fraud policies and principles. The focus should be placed on supporting Civil Society and Community-based partners who may have limited internal compliance resourcing or rely on third party financial management or controls.

Commentary

This report includes a sad but apt observation: "Both ICSS and the former ED were long-standing, trusted partners of the Global Fund, underscoring that fraud can emanate from surprising and familiar places."

The embezzlement activities of the former ED and the consequent demise of ICSS had repercussions for other civil society organisations, notably the Global Fund Advocates Network (GFAN). As a GFAN delegate said at the time "GFAN – and the Civil Society Sustainability Network and Free Space Process partnership – were embedded at ICSS from their founding dates and the core vision and mission of ICSS was like a mirror reflection of what you all hopefully wanted these networks to do: create opportunities and platforms to bring communities and civil society advocates together to work together on key issues."

This is all the more disappointing at a time when the Global Fund is seeking to promote more civil society engagement and raise more funding for the Seventh Replenishment. Donors, especially, will want to be confident that better control mechanisms are in place.

It remains to be seen whether the actions to be taken by the Secretariat will be sufficient and it may be necessary to introduce more stringent assurance mechanisms for non-grant suppliers of services.

On the positive side, the Communities Delegation has already responded quickly to thank the OIG for its work and underline the importance of having the OIG oversight function and state its position and action taken. The Communities Delegation letter to the Global Fund Board and Secretariat states:

"Unfortunately, the Communities Delegation was affected by the fraudulent activities of the former Executive Director of the International Civil Society Support (ICSS), as detailed in the report. ICSS has served as our Fiscal Host from 2015 to 2019. That relationship was terminated due to a lack of communication from the fiscal host and failure to share the bank statements with our delegation. In early 2020, we contracted the Global Network of People Living with HIV (GNP+) as our Fiscal Host.

The Communities Delegation has since taken several steps to improve our financial oversight systems and processes, including updating the Delegation's Handbook, regular Financial Reports being reviewed by the delegation's Advisory Working Group (and shared with the entire delegation), and conducting a forensic audit, which has been shared with governance and the OIG, covering from 2012 to 2021, and implementing the recommendations."

One feature that remains unclear is: did the former ED also embezzle funds from other donors? In the description of the investigation methodology the report states that "the underlying funds came from multiple donors" and that "each of the parties' bank accounts contained 'co-mingled' funds from the Global Fund and other donors". The report makes no mention of who those donors were. Why wasn't a joint investigation undertaken with the other donors? It appears likely that the former ED will have embezzled considerably more than just the €113,000 of Global Fund funding.

To conclude on another positive note: based on the OIG findings, it looks very possible that criminal proceedings could ensue to bring the embezzler to justice.

