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# OFFICE OF THE INSPECTOR GENERAL'S REPORT ON ITS INVESTIGATION INTO FRAUDULENT ACTIVITY IN A GLOBAL FUND GRANT IN MALAWI

On 16 June 2021, the Office of the Inspector General (OIG) published its report on its investigation into the misappropriation of funds in a Global Fund-supported HIV grant in Malawi.

## Background

From April 2017 until August 2019, the Chinansi Foundation implemented a program targeting vulnerable adolescent girls and young women (AGYW) for Plan International Malawi (PIM), a sub-recipient under Principal Recipient (PR) Action Aid Malawi (AAM) for Global Fund grant MWI-C-AA. The Chinansi Foundation continued in this capacity until PIM suspended it in 2019 after allegations of misappropriation were reported.

The OIG received an allegation that the Executive Director of Chinansi Foundation, a sub-sub-recipient of Global Fund grants, had misappropriated program funds, resulting in delayed program activities and salary arrears. As a result, the Global Fund asked the Local Fund Agent (LFA) to perform a review. However, the Executive Director denied the LFA access to critical books and records. Desk research identified that the Chinansi Foundation was under-performing programmatically and significantly overspending on salaries. While the alleged funds at risk were relatively low (under \$100,000), the Chinansi Foundation stood to receive up to \$700,000 by the end of 2020. As the Foundation was implementing activities to support AGYW, a Global Fund Strategic Priority, the involvement of the OIG was therefore reconsidered, and an investigation opened.

The OIG analyzed program records, interviewed staff from the Chinansi Foundation and other

organizations, contacted program beneficiaries, and reviewed bank statements. The OIG liaised with the Malawi Police Service's fiscal unit throughout its investigation, and the police provided copies of Chinansi Foundation bank statements obtained under judicial warrants.

## Investigation Findings

### Improper withdrawals totaling \$70,572 were concealed

The Chinansi Foundation's former Executive Director colluded with staff members to conceal irregular transactions from PIM. OIG analysis of the Chinansi Foundation's bank records revealed numerous discrepancies between the bank statements provided to PIM as part of monthly financial reporting and the genuine statements obtained from the bank by Malawi Police Service's Fiscal unit. Bank statements were altered by removing transactions, adding fictitious transactions, or altering transaction values. OIG analysis found that 55 withdrawals with a net value of \$70,572 had been altered in the fabricated versions.

AGYW program funding of \$46,958 was transferred to an account registered to the former Executive Director, while three cheques totaling \$6,783 were paid to the Chinansi Foundation's former Monitoring & Evaluation Manager, Acting Executive Director and Human Resources Manager. The OIG could not identify the beneficiaries of a further \$16,459 that had been either commingled in the Chinansi Foundation's general bank account or withdrawn in cash by unnamed individuals.

The OIG report includes an annex that illustrates the flow of funds and the roles of the individuals involved and an annex with an example of a comparison between the genuine and fabricated statements for October 2018.

### \$9,924 was found to be non-compliant

In addition to the money misappropriated from the AGYW program account, the OIG found non-compliant expenditure amounting to \$9,924. Seven transactions in the Chinansi Foundation's cash book, valued at \$5,640, were not supported by primary accounting records such as contracts and invoices for services, attendance records, payment registers, receipts or invoices for program activities.

The Chinansi Foundation awarded itself multiple contracts worth \$4,284 for vehicle hire, through procurement tenders that it initiated and managed. On three occasions, the Chinansi Foundation hired out its own vehicle to the AGYW program by submitting quotations in 'competition' with third-party providers, then awarded itself the bid as it had the lowest quote. These procurements were not transparent and contravened the organization's internal policies, as well as the Global Fund's Code of Conduct for Recipients.

### Weak governance structures were ineffective at detecting fraudulent activities

The Foundation's Board was not active or operational; at the time of the investigation, it reportedly had not met in three years. The Board was negligent in dealing with concerns raised at the Chinansi Foundation and did not act on a claim by staff in May 2019 that salary payment delays were the result of financial abuse by the former Executive Director.

The Chinansi Foundation's weak governance structure facilitated the misappropriation of funds and delayed its detection. The organization's Board did not provide sufficient oversight: its operations were dominated by the former Executive Director even after his departure, it did not have an internal audit function, and it did not comply with statutory requirements such as annual renewal of its registration and filing of annual financial statements with the Non-Government Organization (NGO) Board of Malawi.

## Agreed Management Actions

The Global Fund Secretariat will:

1. Finalize and pursue from Action Aid Malawi an appropriate recoverable amount from the non-compliant expenditures identified in this report. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.
2. Reinforce controls over implementers through mandatory direct bank confirmations and review of the PRs' related processes on sub-implementers by external auditors conducting audits. Further, PRs will be required to strengthen their processes on sub-implementers' (SRs and SSRs) fund management using direct bank confirmations as a key control for verification of periodic cash positions and in the preparation of annual audits. Where feasible, electronic facilities such as read-only online banking services will be leveraged for monitoring control by PRs and /or SRs.

## Observations

Although the amounts involved are small in the Global Fund scheme of things, the OIG is to be congratulated for its thorough investigation into the use of funds for a type of program of which more are needed.

As ever, people will be tempted when money is available. That is why the second agreed management action is very important: mandatory direct bank confirmations through online connections – whenever technically and legally feasible – will certainly improve financial control over PRs, SRs, and SSRs and act as a strong deterrent to the type of fraudulent activities that took place in this program in Malawi.

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