



## Investigation Report

# Global Fund Grants to Nigeria National Agency for the Control of AIDS

GF-OIG-15-003  
20 February 2015  
Geneva, Switzerland

Non-compliant expenditures USD 1,476,386  
Proposed recoveries USD 785,906

Categories

- Bidding/ Tender irregularities
- Mismanagement issues/ inadequately supported Expenditures
- Misrepresentation of information
- Non-compliance with laws/Grant Agreements

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# I. Background and Scope

The Global Fund has been supporting health programs in Nigeria since 2003. As of September 2014, Nigeria had received 22 grants in total, of which seven are active. Grant funds disbursed to Nigeria total USD 1.2 billion.

In October 2009, the Global Fund and the Nigeria National Agency for the Control of AIDS (NACA), as Principal Recipient, entered into a grant agreement for grant number NGA-809-G12-S (Round 8 HSS). One of the grant objectives was to improve the infrastructural capacity of primary healthcare centers at the local government level. Towards the end of 2009, NACA and stakeholders identified the need for improvement of state medical stores across the country.

Under the Round 8 Health Systems Strengthening (HSS) grant, a budget of USD 1.7 million was made available to NACA for the renovation of the state medical stores across the country. In September 2011, Round 8 HSS and HIV Single Stream of Funding grants were consolidated into a new grant number NGA-H-NACA. The unspent renovation budget, along with other unliquidated commitments, from the Round 8 HSS grant, was carried forward to the new grant. The total signed amount for the new grant is USD 427 million of which USD 272 million had been disbursed as of October 2014. The grant is the largest in Nigeria and the fifth largest across the Global Fund grant portfolio as of September 2014. The implementation of the grant program started in July 2010 and is projected to end in June 2015.

In September 2011, NACA started the renovation of the state medical stores and the work was completed in January 2013.<sup>1</sup> NACA's intention to renovate 30 stores was revised down to eight due to budgetary constraints. For the renovation, NACA contracted consultants and contractors at three different levels. NACA contracted six consulting engineering firms which were tasked with condition surveys, preliminary cost estimates, preparation of bills of quantities and the project management of the renovation. An independent assessor was contracted to assist NACA with the selection and the contracting of the consulting engineering firms. The contract of the independent assessor was subsequently extended to include new responsibilities of overall coordination and supervision of the consulting engineering firms. NACA contracted eight construction contractors to carry out the physical renovation of the state medical stores. See **Exhibit 1** for the contractors engaged for the renovation of the stores.

In May 2013, as part of its regular oversight activities, the Global Fund Secretariat ("the Secretariat") tasked the Local Fund Agent of Nigerian grants to conduct a review of the renovation activities. Between July and December 2013, the Local Fund Agent issued two separate reports drawing the Secretariat's attention to possible cases of work not done according to specifications, poor quality of renovation work, high prices quoted in the bills of quantities, over-payments to the contractors, and tendering irregularities. Subsequent to the Local Fund Agent review, the Secretariat asked NACA to rectify the renovation defects and referred the matter to the Global Fund's Office of Inspector General (OIG).

Following the referral from the Secretariat, the OIG started the investigation to determine if the renovation was carried out in compliance with the relevant provisions of the grant agreement, i.e., if the renovation work was of acceptable quality, if the contractors were paid based on sound industry rates, if the contractors were competitively selected and to quantify ineligible expenses, if any, for the recovery purposes.

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<sup>1</sup> Date refers to first site handover by Construction Contractors to State Medical Stores

## II. Executive Summary

This OIG investigation confirmed that whilst the physical renovation work was undertaken, the Nigeria National Agency for the Control of AIDS' (NACA) management of the project was inadequate and the quality of the work was sub-standard.

The OIG identified USD 1,476,386 of expenditure that was non-compliant<sup>2</sup> with grant agreements and proposes recoveries of USD 785,906. Annex A of this report outlines methodology used in determining what portion of the non-compliant expenditures is proposed for recovery. The proposed recovery sum corresponds to undelivered services, excessive and unjustified payments to contractors during the renovation process, unreimbursed advances and non-compliance with the Bill of Quantity. NACA failed to provide justification for certain fees paid to the contractors during the renovation projects. In addition, NACA spent approximately USD 700,000 over the permitted budget without approval from the Global Fund.

Despite NACA creating multiple layers of supervision by contracting consulting firms at various levels and undertaking various supervisory monitoring missions to the renovation sites, there were still deficiencies in the quality of renovation work. The completion of the renovation was also delayed by over six months.

The investigation found that NACA did not comply with the relevant procurement regulations in its selection of the contractors. Some documents submitted by the bidders during the process were not genuine. The investigation found anomalies in the documents, particularly regarding the dates that represented the sequence in which the events had occurred. In addition, NACA's Procurement Head at the time misrepresented the facts by providing the OIG with an inaccurate account of the renovation events, particularly regarding the tendering and selection of the consulting firms. The Procurement Head is no longer employed with NACA; he was transferred following the OIG's field work in Abuja in April 2014.

The primary factors contributing to the problems identified include NACA's ineffective management of the renovation project. NACA's internal controls lacked proper monitoring/oversight and a transparent paper trail. Vaguely worded contract documents allowed for the manipulation and the misinterpretation of the efforts required, deliverables and contractor fees. The inadequate scoping of the renovation stages regarding the approved budget, led to budget overrun and overpayments. In addition, NACA did not retain final payment to the contractors which is common practice in Nigeria.

NACA has acknowledged some of the investigation findings and has committed to take appropriate measures to rectify and avoid recurrence of the irregularities noted in this report. NACA has also committed to seek refunds from the construction contractors as proposed by this investigation report.

The renovation of the state medical stores involved different contractors, simultaneous work in different sites, complex methodology of professional fee calculation for the contractors and the associated technicalities. The architecture of Global Fund grants and the associated oversight were not well suited to these types of activities. Inadequate budgetary controls in NACA's financial system and the lack of a dedicated budget line under the new grant in the approved work plan for the renovation activity, led to budget overrun. Therefore, the Local Fund Agent's review of the Progress Update and Disbursement Request was not able to expose the budget overrun sooner. The timely identification of the budget overrun could have prompted the Secretariat to put the renovation activities on hold until they had been reviewed by the Local Fund Agent.

### Actions taken by the Secretariat

Since 2012, the Global Fund's Grant Management Division has been significantly strengthened, leading to improved guidance on budgeting and better use of the Local Fund Agent services by targeting high-risk areas in the grants.

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<sup>2</sup> The non-compliant expenditure is made up of budget overrun of USD 690,489 and ineligible expenditure of USD 785,906.

To avoid future budget overruns and ambiguity about the required efforts in renovation/construction projects, the Secretariat, in September 2014, issued new guidelines for grant budgeting and annual financial reporting. The guidelines include instructions for budgeting rehabilitation, renovation, and health infrastructure enhancements. More importantly, the guidelines require the establishment of a detailed cost estimate certified by a qualified professional before the commencement of renovation or construction activities. The guidelines also require Principal Recipients to demonstrate prudent contract management and provide guidance on the types of renovation or construction activities which are permitted under the Global Fund grant programs.

### Agreed Management Actions

Section V of this report sets out the agreed Global Fund management actions in detail. The agreed management actions include both short and long-term actions to address the problems identified by the investigation. These include:

- Based on the findings of this report, the Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.
- In accordance with the Global Fund's policy on supplier misconduct and the Sanctions Panel procedure, the Secretariat will address the misconduct by the contracted firms.
- The Secretariat will apply additional scrutiny and safeguards, through the engagement of a Fiduciary Agent, to minimize collusive practices and the diversion of funds in the renovation projects financed by the Global Fund grants.
- The Secretariat will require the Principal Recipient to budget future renovation work in compliance with the Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting issued in September 2014. The Principal Recipient will be required to provide detail budgeting including budget breakdowns for related stages prior to commencement of the renovation work.
- The Secretariat will also require the Principal Recipient to demonstrate its commitment at the highest level to prevent collusive practices by performing due diligence of the organization's tendering for renovation/construction projects; and by putting procedures in place to monitor and review the implementation of contract awards and the performance of the work with regards to cost, quality and time controls.

### III. Findings and Agreed Management Actions

#### 01 Unsupported Payments to Consulting Engineering Firms

The investigation found that NACA created unjustified and unnecessary stages in the renovation to facilitate payments to the consulting engineering firms without the corresponding deliverables. NACA failed to provide complete supporting documentation for the payments made to the consulting engineering firms under the pretext of Stages 1 and 2 of the renovation work. NACA also could not provide the supporting documents to justify that the fees paid to the consulting engineering firms were reasonable and based on the generally accepted industry practice.

In November-December 2012, NACA made a total payment of USD 518,418 (N80,225,124 million) to six consulting engineering firms and Archiworth Associates (“Archiworth”). As per NACA, the payment were for the services delivered by the consulting engineering firms and Archiworth for Stage 1 & 2 of the renovation work which included detailed working drawings and production of Bill of Quantities. NACA asserted that the payments were based on the fees computed by Archiworth by applying Government of Nigeria’s Approved Sliding Scale of Fees.

NACA did not provide key documents in support of the payments. NACA did not provide evidence of deliveries/report generated by consulting engineering firms. The documents provided by NACA did not explain timelines (start and end date) for the Stages 1 & 2. NACA did not provide the relevant fee claims made by the consultants (the consulting engineering firms and Archiworth). NACA did not provide a copy of the Federal Government gazette which as per NACA stipulated the government approved Sliding Scale of Fees. In addition, Archiworth was also not able to provide the gazette which contained the sliding scale rate. In the absence of such documents, the investigation can neither confirm if the services were rendered by consulting engineering firms nor verify that a reasonable amount was paid to consulting engineering firms.

In support of the computation of the stage 1 & 2 fees NACA provided excel worksheets purportedly prepared by Archiworth. The worksheets were not dated and were not accompanied with any other documents that may have supported its credibility. NACA did not provide any evidence of discussion/communication between NACA and Archiworth in relation to the fees payable to the consulting engineering firms. Further, the consulting engineering firms were not consulted or informed about the fees purportedly prepared by Archiworth. One of the consulting engineering firms’ representatives further stated that though their contract document stipulated that the fees would be based on an approved sliding scale, the payments received were not compatible with those using the Approved Sliding Scale.

As per the standard practice in construction/renovation business, the sliding scale rate is applied on the amount mentioned in the contracts issued to the construction contractors. Since NACA had issued contracts for only eight sites, there was no possibility for NACA to have applied the sliding scale rate on the construction contractors’ contract amount for all 30 state medical stores. The eight state medical stores for which the construction contractors’ contracts existed, the amount on which the sliding scale rate was applied was higher than the construction contractors’ contract amount. Therefore, it is more likely than not that the fee computation worksheet provided by NACA was false, involved random figures on which the sliding scale rate was applied and was created solely to satisfy the request for documents by the OIG investigation.

The investigation also found inconsistencies between the consulting engineering firms’ fees for Stages 1 and 2 supposedly recommended by Archiworth and the actual payments made by NACA. The amount recommended by Archiworth and the actual payment varied significantly. The actual payment was USD 49,353 (N7,637,408) more than what was recommended by Archiworth. The NACA Accounts unit did not note such inconsistencies, before the payments were released.

As per NACA, preliminary cost estimates were prepared by the consulting engineering firms before the commencement of Stage 1 and 2. NACA was aware of the estimated total cost of renovating 30 state medical stores as early as 4 June 2012. However, the fee calculation provided by NACA for Stages 1 and 2 included

payments to the consulting engineering firms for all 30 sites. Therefore, the investigation concludes that NACA's decision to engage and pay the consulting engineering firms for 30 sites was inappropriate.

In the absence of the supporting documents, the OIG attempted to determine if any service was delivered by the consulting engineering firms, which would justify the payments. Review of the documents revealed that Condition Survey reports were prepared by the consulting engineering firms in May-June 2012<sup>3</sup> <sup>4</sup> for which the consulting engineering firms were paid USD 175,250 (N27.12 million)<sup>5</sup> in September 2012. The Survey Reports included schedule of dilapidation, site visit pictures, architectural drawings, M&E drawings and Bill of Quantities. A report titled "Appraisal of condition Survey and Detail Proposals" produced by Archiworth in June 2012 referred to having reviewed a Bill of Quantities that was received from the consulting engineering firms.

As per the consulting engineering firms, during the interview with the OIG, NACA wanted to fast track the renovation work and the consulting engineering firms were instructed to carry out stage 2 activities right after the stage 1 activities. Some of the activities from stage 1 and 2 were accomplished concurrently. A representative of one of the consulting engineering firms stated that NACA simply released the payment without any information; the firm was not in position to relate the payment received to any particular service provided or to any of the renovation stages.

The OIG investigation concludes that the services which NACA claimed to have been delivered by the consulting engineering firms and Archiworth under Stages 1 and 2 of the renovation work was in fact already delivered by the consulting engineering firms in May 2012 along with the Condition Survey reports. The investigation, based on the interview with the selected consulting engineering firms, established that the Condition Survey was in fact done at Stage 1; and the work for Stages 1 and 2 were done concurrently. However, NACA created an additional stage by suggesting that Condition Survey was a supplementary service in addition to Stages 1, 2 and 3. Therefore the investigation concludes that the payments made on a pretext of Stage 1 and 2 were ineligible and considers USD 518,418 as recoverable from NACA.

In addition, NACA, Archiworth and the consulting engineering firms asserted that the payment for Stage 3 of the renovation work was outstanding as of April 2014. However, with the payment made to the Consulting Engineering firms in November-December 2012, NACA had exhausted the total contract amount. The consulting engineering firms' contracts clearly stipulated that the amount mentioned in the contracts were for Stages 1, 2 and 3 of the renovation work. It is therefore unclear on which the basis NACA intended to release the further payments.

***Agreed Management Action 1:*** *Based on the findings of this report, the Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability. The Secretariat will also consider additional payments, if any, made by NACA to the consulting engineering firms after December 2012.*

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<sup>3</sup> Survey report by the CEFs. Hard copies are in OIG possession.

<sup>4</sup> Submission of BOQ by Ivory-Link International, dated 4 June 2012.

<sup>5</sup> Payments documents collected from NACA Accounts Unit in April 2014.



## 02 Unsupported Payment made to Archiworth Associates for the First Contract

NACA awarded two separate contracts to Archiworth Associates, (“Archiworth”). The investigation found that Archiworth was paid USD 15,832 (N2.45 million) for services not delivered under the first contract.

Under the first contract dated 19 April 2012,<sup>6</sup> Archiworth was to:

- (i) develop the Request for Proposal for the consulting engineering firms and;
- (ii) evaluate the proposals received from the consulting engineering firms in response to the Request for Proposal.<sup>7</sup>

The investigation found that the NACA had already sent the Request for Proposal to the shortlisted consulting engineering firms before the selection of Archiworth, which consequently negated the need for the development of a Request for Proposal.

In response to the OIG findings, NACA asserted that Archiworth revised the request for proposal by introducing the approved sliding scale of fees of the federal government. This statement is not supported by the evidence. The terms of reference, dated April 2012, obtained by the OIG from NACA, which was purportedly issued to the consulting engineering firms did not mention the “sliding scale of fee”. Neither NACA nor Archiworth were able to provide the source/reference for “approved sliding scale of fees” even after repeated request from the OIG. The document was also not available in the files provided by NACA to the OIG.

From its interviews with the selected consulting engineering firms, the OIG determined that the shortlisted consulting engineering firms had submitted financial bids along with technical bids before the submission deadline of 27 March 2012. The consulting engineering firms’ financial bids were based on the Man Month Rate. The consulting engineering firms had not received any communication from NACA regarding the revision in the fees nor had they received any instruction from NACA to resubmit the financial bid. Therefore, NACA’s assertion that Archiworth revised the Request for Proposal documents is meaningless because even if the Request for Proposal was revised, it was never communicated to the consulting engineering firms.

The statements made by the representatives of the consulting engineering firms contradict statements made by the NACA Procurement Head who, stated that at a pre-bid meeting on 13 March 2012, NACA had asked the consulting engineering firms to ‘hold on to’ the submission of the financial bids. According to the NACA Procurement Head, the consulting engineering firms submitted only technical bids on the bid submission deadline on 27 March 2012.

The award notification letters issued to the consulting engineering firms in May 2012 stated that the consulting engineering firms would be paid as per the Approved Sliding Scale of Fee. The award notification letters were issued after Archiworth was contracted in April 2012. However, as per the supporting documents provided by NACA, the first payment released to the consulting engineering firms after the Condition Survey and other related activities, was computed on the basis of the Man Month Rate. NACA asserted that the subsequent payments released to the consulting engineering firms for other stages of the renovation were based on the Sliding Scale. Therefore, if Archiworth had played any role in the determination of the financial remuneration for the consulting engineering firms the award notification letter and the contract document should have explicitly and clearly mentioned that the financial remuneration for the consulting engineering firms would be based on a combination of the Man Month Rate and Approved Sliding Scale. However, this was not the case.

NACA Procurement Head and representatives of Archiworth provided inconsistent statements regarding the evaluation of proposals. The NACA Procurement Head asserted that a total of 22 Expressions of Intent were

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<sup>6</sup> Notification of award of contract dated 19 April 2012.

<sup>7</sup> NACA’s award notification letter to Archiworth Associates dated 19 April 2012.



received of which nine shortlisted firms were issued with the Request for Proposal. A total of eight bids were received by NACA on the submission closing date. Archiworth was assigned with the evaluation of eight bids for which it proposed six consulting engineering firms to carry out the renovation work across the 30 state medical stores.

However, Archiworth in an interview with the OIG stated that it had carried out review of 22 submissions made by the prospective consulting engineering firms from which it had shortlisted nine and recommended to NACA, along with a report, for further action.

A report dated 26 April 2012, titled "Submission of Consortia Selection" and supposedly authored by Archiworth contained details regarding selection of the consulting engineering firms which matched with the statement provided by the NACA Procurement Head.

The conflicting statements made by Archiworth and NACA procurement Head; and Archiworth's conflicting statement vis-à-vis its own report, call into question the deliverables of Archiworth, integrity of the supporting documents provided by NACA and the overall selection process for the consulting engineering firms. The OIG concludes that Archiworth, under the first contract, failed to deliver its contractual obligations. Therefore, the amount of USD 15,832 paid to Archiworth is an ineligible expenditure and is proposed for recovery from NACA.

### 03 Irregularities in Archiworth Associates' Second Contract Document

The OIG investigation found significant irregularities in the second contract of Archiworth. The contract document consisted of five pages; the first page indicated Archiworth a contractor; however the third page erroneously referred to a company called Archon Nig. Ltd as the contractor, and the last page also contained the same error. Moreover, the name and signature on the contract was identical to the name and signature of the representative of Ivory-Link International Limited, a different company, which appeared on the attendance sheet for the consulting engineering firms' bid opening meeting, dated 27 March 2012.

The second contract stipulated that the scope of the work was contained in Annexure A of the contract. However, this Annexure was not available in NACA's records. NACA also did not provide the Annexure in its response to the OIG's Statement of Findings.

In August 2012, Archiworth issued a report appraising the condition surveys done by the consulting engineering firms. The report contained an estimated cost of renovation project for 30 sites. The Head of Procurement NACA, in his interview told the OIG investigators that following the appraisal of condition survey by Archiworth in August 2012, NACA decided to renovate only nine sites due to budgetary constraints. However, Archiworth's contract, dated 26 September 2012, stipulated that Archiworth was engaged to provide independent project management services for the renovation of 30 state medical stores. It is unreasonable that despite having made a prior decision to renovate only nine sites, NACA nevertheless awarded the contract to Archiworth for 30 sites.

The anomalies in the contract strongly suggest the second contract may have been created retroactively after the payments were made to Archiworth in order to give the payments made to Archiworth the appearance of legitimacy.

***Agreed Management Action 2:*** *The Secretariat will apply additional scrutiny and safeguards, through the engagement of the Fiduciary Agent or any other additional safeguard measures, to minimizing collusive practices and the diversion of funds in the renovation projects financed by the Global Fund grants.*

## 04 Unsupported Payments made to Archiworth Associates for the Second Contract

The investigation found that Archiworth was paid without a contract, was overpaid and paid without corresponding deliverables. The investigation also identified inconsistencies in the documents provided by NACA in support of payments made to Archiworth.

The second contract with Archiworth for a value of USD 127,147 (N19.68 million) was signed on 26 September 2012. The contract stipulated that "...payment shall be made for each stage of the contract only upon the completion of such stage and the receipt of a certificate of completion from the procurement unit of NACA." NACA made two separate payments to Archiworth under the second contract.

The investigation found that the first payment request of USD 48,142 (N7.45 million), under the second contract, was made on 24 August 2012, (e.g., almost a month before the contract date). The payment request was made by the Head of Procurement, and to the Director General of NACA through an internal memo. The payment request was processed by NACA on 2 October 2012. The payment was for appraisal of condition surveys submitted by the consulting engineering firms. The contract did not contain a provision for advance payment.

The contract required Archiworth to conduct random site visits to double check the work condition survey performed by the consulting engineering firms. Head of Procurement NACA, in his interview with OIG investigators stated that Archiworth carried out condition survey at approximately three site visits. However, the payment received by Archiworth for the condition survey was almost 65% more than the average payment received by each CEF. Given that each CEF conducted surveys of between four to seven sites, which was more than what was covered by Archiworth, the amount paid to Archiworth was unreasonably high.

The investigation also found anomalies in the document dates that represented the order in which the contractual events occurred. Archiworth was instructed by NACA, on 7 June 2012, to conduct random site visits to verify the condition survey reports submitted by the consulting engineering firms. NACA had paid Archiworth, under the first contract in full by May 2012 and the second contract was signed only in September 2012. Therefore, a valid contract did not exist between Archiworth and NACA in June 2012, when the NACA instructed Archiworth to conduct random site visits. The investigation also found a document, dated July 2012, prepared by Archiworth which contained computation of professional fees for the condition surveys. This suggests that NACA was unaware of the cost for engaging Archiworth for the condition survey. The OIG investigation finds it was improper for NACA to engage Archiworth to perform work without a valid contract and without prior knowledge of how much such contract would eventually bill NACA for its services. Therefore it is more likely, than not, that these documents (e.g. computation of professional fees for consulting engineering firms ) were created solely for the purpose of record keeping, enabling payments and to give the appearance of that services had been delivered.

Request for the final payment of N12.24 million (USD 79,095) under the second contract was made, on 30 November 2012. The payment request was made by Chief Procurement Officer, to the Director General of NACA via an internal memo. The payment request was processed by NACA Accounts Unit on 13 December 2012. In the interview with the OIG, Procurement Head of NACA mentioned that the contract with Archiworth was extended because of the envisaged need for the Independent Assessor to review the invoice submissions from the consulting engineering firms and advise NACA accordingly. The investigation found that the contracts with the construction contractors were signed between 15-30 November 2012. By the time Archiworth had been paid in full, the construction work had barely begun. This suggests Archiworth did not actually conduct a review of the completion certificates submitted by the consulting engineering firms, as required by the contract. Following the review of the relevant documents, the OIG's investigation found no indication that Archiworth played any role in the review of the completion certificates that were subsequently submitted by the consulting engineering firms.

Representatives of Archiworth informed the OIG investigators that Archiworth had been providing services to NACA throughout 2013 in relation to the renovation and is yet to submit a final invoice for the unpaid

services. It is unclear on what basis the future payments would be paid as the full contract amount had already been paid with the last payment made on 30 November 2012.

In response to the OIG's finding, NACA asserted that Archiworth added value to the renovation project on multiple occasions, namely by recommending "a downward review of the consulting engineering firms' fee claims for the condition survey from N62.12 million to N34.57 million".

The investigation finds that NACA did not explain to the consulting engineering firms about its "downward" review of the fees and its decision to renovate only nine sites as opposed to 30 sites. This caused the consulting engineering firms to believe that they were still owed the balance. To date, this amount is considered to be outstanding by the consulting engineering firms.<sup>8</sup> For the reasons set forth above, the OIG finds that Archiworth's contribution was of no value to the project.

In light of the irregularities identified in every stage from selection to contracting, delivery and payments, the investigation considers that the second contract with Archiworth and all connected payments as ineligible. Therefore, the investigation proposes a recovery of USD 127,147 from NACA, the amount paid to Archiworth under the second contract.

***Agreed Management Action 3:*** *The Secretariat will address the misconduct by Archiworth Associates, in accordance with the Global Fund's policy on supplier misconduct and the Sanctions Panel Procedure.*

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<sup>8</sup> Based on interview with some representatives of Consulting Engineering Firms, October 2014.

## 05 Overpayment to consulting engineering firms Resulting from Unsettled Advance Payments

The investigation found that the consulting engineering firms were overpaid because NACA did not adjust the advance payments from the subsequent payments made to the consulting engineering firms.

In June 2012, NACA made advance payments to the consulting engineering firms based on a recommendation made by Archiworth. The total money advanced was N7.5 million, i.e., for 30 SMS at the rate of USD 1,616 (N250,000) per site. The advance payment was to be deducted from professional fees for condition surveys. The investigation found that for five consulting engineering firms, the advance payments were not deducted from the subsequent payment. The total amount overpaid was USD 40,388 (N6,211,637). See **Exhibit 3** for analysis of overpayments to the consulting engineering firms.

In response to the investigation findings, NACA acknowledged that it had advanced the sum to the consulting engineering firms and would be settled at the time of the final payments which were still outstanding.

The OIG investigation finds NACA's explanation not credible because NACA has already paid the full contracted amount to the consulting engineering firms. The contract clearly stipulated that the amount mentioned in the contracts was for stage 1, 2 and 3 of the renovation work. Therefore, the investigation concludes that the unsettled advance payment of USD 40,388 made to the consulting engineering firms was an ineligible expenditure and is proposed to be recovered from NACA.

## 06 Poor Quality of Construction Work, Work not done and Excess Payments

The investigation found instances of poor quality of work, work not done in compliance with Bill of Quantity and excess payments made to the construction contractors. The renovation work at some of the sites was of unacceptable quality and in need of immediate correction.

To verify the reasonableness of the prices paid to the construction contractors for selective renovation items such as air conditioner, doors, electric generator etc., the OIG compared the local market price against those charged by the construction contractors. The investigation found that the price charged by the construction contractors for some items were considerably higher than the market price<sup>9</sup> and some of the items supplied did not match with the Bill of Quantity specifications.

The OIG concludes that from the total payments made to the construction contractors, US\$84,121 (N13,017,737) was ineligible. NACA did not comply with the Grant Agreement because it did not ensure that reasonable prices were paid to the construction contractors. The OIG, therefore, considers USD 84,121 to be recoverable from NACA.

NACA, in its response to the OIG findings regarding the actual renovation work, expressed its regrets for the situation and acknowledged that the mechanism for monitoring, certification of work performed by the construction contractors and NACA's own supervisory monitoring missions failed in their responsibilities to ensure quality of the renovation work. NACA asserted that it was misguided by the consulting engineering firms to make payments to construction contractors which resulted in overpayments. NACA has committed to seek refunds from the relevant construction contractors. NACA has acknowledged the need for redoing some of the renovation work and has committed to doing so at no additional cost to the Global Fund grant program. NACA has also committed to report the matter to the Nigeria Bureau of Public Procurement in order to have the construction contractors, consulting engineering firms and the Independent Assessor sanctioned by the Bureau of the Public Procurement.

During the site visits by the investigation team, the Director of the Delta store informed the OIG that prior to commencement of work by Diadem Crown Global ("Diadem"), the Delta State Government had carried out some renovation work at the medical store. The work carried out by the State included replacement of the roof, wall plastering and painting. The investigation found a portion of the work, which had been performed by the State, was claimed and invoiced by Diadem. The total amount paid to Diadem for work carried out by the State was USD 3,383 (N523,500).

The investigation found that Diadem did not execute some of the works specified in the Bill of Quantity. The total financial implication of works not executed by Diadem as per Bill of Quantity, but nonetheless paid by NACA, was USD 8,471 (N1,310,900).

The investigation also found that the air conditioners supplied by Diadem did not meet Bill of Quantity specifications. Capacity of the supplied air conditioners was of 1.5HP contrary to 2HP specified in the Bill of Quantity. However, Diadem was paid for the cost of 2HP as per Bill of Quantity which resulted in overpayment to Diadem. As per a market price research conducted by the OIG investigation team, current market price, as quoted by local LG dealer, for 1.5 HP was N56,000. This was adjusted to include N4,000 as cost of installation kits and N7,000 as cost of installation. Further, a profit margin of 30% over the market price was applied. The adjusted price was N87,000, which was rounded up to N90,000 for the ease of computation. Hence, Diadem was overpaid by USD 5,234 (N 810,000).

The investigation found the number of doors specified in Bill of Quantity was six, whereas Diadem supplied only four. Diadem was, nonetheless, paid for the cost of six doors. Hence, Diadem was overpaid by USD 840 (N130,000).

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<sup>9</sup> The current (2014) market prices were adjusted to reasonably reflect the price as it was in 2012 where the items were supplied by the Construction Contractors. In general, the cost would have probably been lower in 2012 when the item was purchased.

The investigation team also carried out a market price research for the doors supplied by Diadem which showed that the price billed by Diadem was almost 90% higher than the prevailing market price. According to the market research, the current price of a similar door was N15,000. The market research also revealed that in 2012 the price of the door was N24,000. The door price of 2012 was adjusted by adding N2,000 as installation cost and margin of 30% over the 2012 market price. The resulting figure of N33,800 was rounded up to N35,000 for the ease of computation. Diadem billed N65,000 per door and the number of doors supplied was four<sup>10</sup>. Hence, Diadem overpriced the doors by USD 775 (N120,000).

The total ineligible amount paid to Diadem was USD 18,703 (N2,894,400). See **Exhibit 4** for details.

The investigation team carried out a market price survey of electric generators that were supplied by Kolmart Nigeria Limited (“Kolmart”). The research indicated that the price for generators billed was almost 77% higher than the prevailing market price. The survey found that the current price of an electric generator was N2.89 million, this was adjusted by adding N250,000 for installation and N100,000 for transportation. Further, a profit margin of 30% over the market price was added which resulted in an approximate figure of N4.11 million per unit. Therefore, the generator set was overpriced by USD 19,172 (N2,966,900).

The investigation found that Kolmart did not execute work as specified in Bill of Quantity. Extractor fans were not installed; two roller shutter steel doors were installed instead of three; three metal windows were installed instead of four; thirty seven units of energy saving bulbs were installed instead of forty; and 15 bulb head lights were fitted instead of 20. Kolmart was not paid for the items not supplied; therefore in this instance no financial implication is cited in this report.

The total ineligible amount paid to Kolmart was USD 19,172 (N2,966,900). See **Exhibit 5** for details.

Following the site visits, the investigation found that Rualsom Nigeria Limited (“Rualsom”) did not execute some tasks specified in the Bill of Quantity, but was nonetheless paid. The total value of the work not executed but claimed by Rualsom was USD 12,924 (N2 million).

Market price research conducted by the investigation team indicated that the price billed by Rualsom for an electric generator was almost 53% higher than the prevailing market price. The survey found that the current price of electric generator was N1.76 million, this was adjusted by adding N250,000 for installation and N60,000 for transportation. Further a profit margin of 30% over the market price was added which resulted in an approximate figure of N2.6 million per unit. Therefore, the generator set was overpriced by USD 8,982 (N1.39 million).

The total ineligible amount paid to Rualsom was USD 21,874 (N3,385,000). See **Exhibit 6** for details.

Following the sites visit, the investigation team found that Resources Investment Limited (“Emmassons”) did not execute a portion of the renovation according to the Bill of Quantity. Emmasons used wooden frames and trusses for roofing instead of steel as specified in the Bill of Quantity. This resulted in a collapse of the roof because the materials used could not support the weight. This defect was corrected by Emmasons by redoing the work using materials as specified in the Bill of Quantity. At the time of conclusion of the field visit by the OIG investigation team, there was no indication of Emmasons being paid an additional amount for redoing the roof. Therefore, no financial implication is cited in this report.

Emmassons did not execute some of the tasks mentioned in the Bill of Quantity but was nonetheless paid for. The Table below exhibits the task that was specified in the Bill of Quantity but was not executed at all by Emmasons. The total amount paid to Emmasons for work not performed was USD 3,606 (N558,085).

Emmassons supplied eight air conditioning units contrary to 14 units specified in Bill of Quantity. The investigation team determined that given the store size, eight units were adequate. Emmasons was paid for eight units. Hence, no financial implication is cited in this report.

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<sup>10</sup> The number of doors to be supplied as per BOQ was six but to avoid double counting of financial implications, two doors reported in the earlier paragraph were excluded.



Market price research by the investigation team indicated that the price charged by Emmasons for the supplied air conditioner unit was almost 56% more than the prevailing market price. As per the research, the current market price for 2HP AC was N75,000. The figure was adjusted by adding N4,000 for cost of installation kits and N7,000 for cost of installation. Further a profit margin of 30% over the market price was added, which resulted in a figure of N108,500 per unit which was rounded up to N110,000 for ease of computation. The total quantity supplied & billed by Emmasons was eight. Therefore, the excess amount paid to Emmasons was USD 2,378 (N368,000).

The total ineligible amount paid to Emmasons was USD 5,984 (N926,085). See **Exhibit 7** for details.

Following the site visits, the investigation team found that the quantities of some items supplied by Adoset Nigeria Ltd. (“Adoset”) did not correspond with the quantities specified in the Bill of Quantity. The undersupplied quantities included windows, air conditioning units and ceiling fans. The investigation team determined that given the size of the store, the actual supplied quantities were adequate. Adoset was paid for the actual quantity supplied; hence no financial implications are cited in this report.

The investigation found that the size of metal doors supplied by Adoset did not correspond to the Bill of Quantity specifications. The doors supplied were of smaller size but Adoset was paid as per price mentioned in Bill of Quantity. The investigation team determined that although the supplied door did not meet the size specifications in Bill of Quantity it was nonetheless acceptable for the proper functioning of the store. However, the market price research<sup>11</sup> revealed that the price charged by Adoset for the supplied doors was excessive by USD 4,063 (N628,800).

The total ineligible amount paid to Adoset was USD 4,063 (N628,800). See **Exhibit 8** for details.

Following the site visits, the investigation team found that the quality of some of the work executed by Omolara Aries Nig. Ltd. (“Omolara”) was unsatisfactory. Part of the roof had leakages and trucking of electrical cables were not properly done. The OIG recommends that these issues be urgently corrected by NACA at no additional cost to the Global Fund program.

The investigation found that Omolara supplied plastic baskets contrary to plastic dustbins as specified in Bill of Quantity. The market price research conducted by the investigation team indicated that the price charged by Omolara for the plastic baskets were excessive. Due to immaterial cost, no cost implication is reported in this report. However, the OIG recommends that NACA, through Omolara, replaces the plastic basket with plastic dustbins at no additional cost to the Global Fund programs.

Market research conducted by the investigation team indicated that the price for air conditioner units were excessive. The Air conditioner that was used by the contractor was 1.5 HP Samsung window units which was no longer available in the Nigerian market. However the local dealers confirmed that the price for such unit in 2012/2013 ranged between N45,000 to N50,000. The OIG investigators took the upper range of N50,000 per unit which was adjusted by adding N5,000 as installation cost and 30% profit margin over the market price which resulted in a price of N70,000 per unit. Hence, the air-condition unit was overpriced by USD 2,687 (N415,800)

Market price research conducted by the investigation team indicated that the price billed by Omolara for the storage tank was almost 50% higher than the current market price. The storage tank, as per the current market price researched by the investigation team, was priced at N300,000. A further profit margin of 30% was applied which resulted in a figure of N390,000. This was rounded up to N400,000 for the ease of computation. Hence, the storage tank was overpriced by USD 1,292 (N200,000).

The total ineligible amount paid to Omolara was USD 3,979 (N615,800). See **Exhibit 9** for details.

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<sup>11</sup> The OIG investigation team noted that the metal doors were not sold as ready-made doors but were manufactured locally based on specifications supplied by the buyers. The manufacturers bought metal pans in an open market from the dealers, and used it to make the doors. The OIG team surveyed five different metal door manufacturers in arriving at the cost of the doors used in the report.

Following the sites visit, the investigation team found that Salpa Limited (“Salpa”) did not execute some of the tasks mentioned in the Bill of Quantity but was nonetheless paid for. The total amount paid to Salpa for work not performed was USD 2,590 (N400,752).

The total ineligible amount paid to Salpa was USD 2,590 (N400,752). See **Exhibit 10** for details.

Market price research conducted by the investigation team indicated that the price of the electric generator supplied by Toyatem Services Limited (“Toyatem”) was excessive by 30% when compared to the current market price. The survey found that the current price of the electric generator was N2.89 million, this was adjusted by adding N250,000 for installation and N100,000 for transportation. Further a profit margin of 30% over the market price was added which resulted in an approximate figure of N4 million per unit. Therefore the generator set was overpriced by USD 7,754 (N1,200,000).

The total ineligible amount paid to Toyatem was USD 7,754 (N1,200,000). See **Exhibit 11** for details.

**Agreed Management Action 4:** *The Secretariat will require NACA to urgently rectify the defects in relation to the renovation work carried out by Omolara Aries Nig. Ltd. at no additional cost to the Global Fund grant program.*

**Agreed Management Action 5:** *The secretariat will inform NACA not to release any further payments to the construction contractors; and to adjust the proposed recoverable amount from the payment of the balance, if any.*

**Agreed Management Action 6:** *The Secretariat will require NACA to put procedures in place to monitor and review the implementation of contract awards and the performance of the work with regards to cost, quality and time controls for future renovation works.*

## 07 Outstanding Deliverables by Axios Foundation Incorporated

The investigation found that Axios Foundation Incorporated (“Axios”), which was contracted to supply and install fittings and fixtures across eight stores, had not delivered as of May 2014.

In December 2013, NACA made an advance payment of 80% of the contract value against an advance payment bond submitted by Axios Foundation. The contract had a provision for an advance payment of 80%. The advance payment bond was valid from 4 November 2013 to 3 May 2014.

The contract with Axios did not stipulate a completion date and the delivery of the materials was outstanding as of 30 May 2014.

NACA, in response to the OIG findings, asserted that the delay in supply of the materials was mainly because NACA had delayed the issuance of waiver that was required to facilitate importation of materials by Axios Foundation. As per NACA, the materials were received and installed in state medical stores between June and August 2014.<sup>12</sup>

***Agreed Management Action 7:*** *The Secretariat will instruct the LFA to visit the state medical stores to ensure delivery and installation of the fixtures. The payment of the balance to Axios will only be paid after the Secretariat is satisfied with the delivery.*

## 08 Budget Overrun

The Global Fund Secretariat had provided a total budget of USD 1.7 million to NACA for the renovation activities. The OIG reviewed all payments and related supporting documents made available by the NACA accounts unit. As of April 2014, the total expenditure incurred by NACA towards the renovation project was USD 2.39 million, representing a budget overrun of USD 690,480. See **Exhibit 2** for overall payment made to the contractors, including consulting engineering firms, Independent Assessor and construction contractors.

The investigation found that NACA could have averted the budget overrun. Based on preliminary cost estimates submitted by the consulting engineering firms in May 2012 vis-à-vis the available budget for renovation, NACA downsized the number of sites to be renovated from 30 to nine. The cost estimates were for actual renovation work, which excluded the fees for consulting engineering firms and Independent Assessor (IA). Though the cost estimate for nine sites was close to the approved renovation budget, NACA did not consider the fees that it would have had to pay to the consulting engineering firms and IA.

The investigation also found that NACA engaged the consulting engineering firms for all 30 sites for subsequent stages of the renovation work (Phase 1 and 2) despite knowing that it did not have sufficient budget to renovate all 30 sites. NACA did not inform the Global Fund Secretariat about its decision to reduce the number of sites for renovation from nine to eight. Therefore, the investigation determines the budget overrun of USD 700,000 as ineligible.

In response to the investigation findings, NACA acknowledged the budget overrun and mentioned that it was mainly due to its ineffective financial tracking model. NACA asserted that the corrections were already made to its financial tracking model and no future occurrences were envisaged.

If unresolved, the inability of NACA’s financial system to effectively control the budget may impact on the Global Fund grants beyond just the renovation expenses. There is a high likelihood that there will be further instances of budget overrun in the future.

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<sup>12</sup> The date mentioned by NACA was after the site visits by the OIG team in May 2014.

**Agreed Management Action 8:** *The Secretariat will inform the Principal Recipient that the future renovation works must be in line with the newly issued Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting.*

**Agreed Management Action 9:** *The Secretariat will review the effectiveness of the corrections made by NACA to its financial management system. The Secretariat will ensure NACA takes measures to address the gaps, if any, identified by the review.*

## 09 Non-compliance with the local procurement act

The investigation found that NACA awarded the first contract to Archiworth immediately after short-listing Expressions of Intent without conducting further steps required by the Public Procurement Act.

The procurement of consultancy and construction works for state medical stores renovation was subject to Public Procurement Act 2007 and the guidelines issued by the Bureau of the Public Procurement, the regulatory authority for public procurements.

In response to the OIG findings, NACA asserted compliance with the requirements of the Public Procurement Act. According to NACA, three Expressions of Intent were received, of which only one firm, Archiworth, was shortlisted. Upon being issued the Bureau of the Public Procurement's "Standard Request for Proposals for the Selection of Consulting Firms" by NACA, Archiworth submitted a financial proposal which was evaluated by NACA's evaluation committee. Finally, on 19 April 2012 NACA issued the award notification letter to Archiworth.

However, NACA's explanation of events is not supported by the evidence. The closing date of the Expressions of Intent was 17 April 2012. Archiworth's financial bid was opened on 18 April 2012, according to the minutes of the financial bid opening and negotiation meeting, and was awarded the contract on 19 April 2012.

The OIG finds it unlikely that in one day (18 April 2014), NACA was able to issue a Request for Proposal to Archiworth, receive financial proposal from Archiworth and convene a meeting to negotiate and award the contract to Archiworth. Based on the evidence, the OIG concludes that NACA did not issue a Request for Proposal to Archiworth, as required by the Nigeria Public Procurement Act. Further, NACA did not provide the OIG with any documentary evidence to support its claim, such as a cover letter for NACA's invitation to Archiworth to submit a proposal.

The investigation found that the Expression of Intent documents required in the case of Independent Assessor was less comprehensive than that which was required for the consulting engineering firms. Standard documents were not provided by Archiworth (e.g., Evidence of Compliance with The Pension Commission Act of 2004, Evidence of Compliance with Industrial Training Fund Act and Evidence of Financial Capability from a reputable bank in Nigeria).

The investigation found that the tax certificate was issued by the Federal Inland Revenue Service, whereas in Nigeria issuance of tax clearance certificate falls under the jurisdiction of the State Board of Internal Revenue, which would have been the Lagos State Board of Internal Revenue for Archiworth. Moreover, the tax amount paid on the certificate had no correlation with the taxable profit. In addition, Archiworth did not provide, in its Expression of Intent submission, a set of its audited financial statements, but rather provided the financial statements of Geoconsult Associates, one of its consortium members.<sup>13</sup> Moreover, the financial statements provided appeared unauthentic, as they contained computation errors and the reported figures lacked correlation. These financials were allegedly audited by a Nigerian Chartered Accountant Company.

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<sup>13</sup> Archiworth Associates was a consortium between M/s Geoconsult Associates and M/s Namak Consult Limited



In awarding Archiworth a subsequent contract unrelated to its first contract, NACA was able to bypass the competitive tender process by improperly treating the second contract as an extension of Archiworth's first contract. As informed by Head of Procurement NACA and from the review of the document, the services purportedly provided by Archiworth under the second contract were independent of the services provided under the first contract. NACA did not prepare/revise the terms of reference to reflect new responsibilities under the second contract. The value of the second contract was USD 127,147 (N19.68 million), i.e. at least seven times higher than the first contract.<sup>14</sup> For any procuring entity, Nigeria's Public Procurement Regulation 2007 requires preparation and publication of a request for Expressions of Interest for the consulting assignment. Therefore, by extending Archiworth's contract, NACA circumvented the requirement to carry out a competitive process.

In response to the OIG findings, NACA asserted that NACA procurement unit obtained approval from NACA's tenders' board for the contract extension with a revised TOR.

Despite NACA's assertion, the second contract could not be deemed as an extension of the first contract because the scope and amount of the second contract were completely different from the first contract. Further, the Procurement Procedure Manual issued by Nigeria's Bureau of Public Procurement (derived from Nigeria's Public Procurement Act) prohibits contract extension in situations where variation is above 10 percent of the contracted value. In case the aggregate variation exceeds 10 percent, the procuring entity requires approval from the Bureau of the Public Procurement for the varied amount.<sup>15</sup>

The investigation found that NACA awarded contracts to the consulting engineering firms prior to obtaining approval of the Tenders Board. The Nigerian Public Procurement Act requires all ministries, its departments and agencies to establish a Tenders Board for approval of the procurement of goods and services prior to issuing contracts. The examination of the documents revealed that on 10 May 2012, a memo (ref. NACATB/2012/5) requesting approval from the Tenders Board was issued by NACA procurement unit. However, the contract award notifications to the consulting engineering firms were already issued on 7 May 2012 to which the consulting engineering firms responded on 8 May 2012. The contract award notification and the memo to the Tenders Board were both signed by Procurement Head NACA.

In response to the investigation findings, NACA asserted that Tenders Board approval was sought and obtained at the Tenders Board meeting of 10 May 2012, after the contract was awarded to the consulting engineering firms on 7 May 2012 on provisional basis.

The investigation found that the award notification letter did not indicate in any manner that the award was conditional to the Tender's Board approval, it instead instructed the consulting engineering firms to commence work immediately. Therefore, in light of the multiple instances of inconsistencies in statements, dates and the event sequence represented by NACA, the investigation finds NACA's comment to lack credibility and the documents representing Tender's Board approval unreliable. Therefore, the investigation concludes that the Tender Board's approval was not obtained prior to contracting the consulting engineering firms .

***Agreed Management Action 10:*** *The Secretariat will require the Principal Recipient to prevent collusive practices by performing due diligence of the entities tendering for renovation/construction projects financed by the Global Fund grants.*

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<sup>14</sup> The value of the first contract was USD 15,832 (N2,450,000).

<sup>15</sup> Accessed

[http://www.bpp.gov.ng/index.php?option=com\\_joomdoc&view=documents&path=PROCUREMENT%20PROCEDURE%20MANUAL%20Final%20Version.doc&Itemid=781](http://www.bpp.gov.ng/index.php?option=com_joomdoc&view=documents&path=PROCUREMENT%20PROCEDURE%20MANUAL%20Final%20Version.doc&Itemid=781), Page 67, on 2/10/2014.

## IV. Conclusion

The investigation established that there were significant irregularities in the renovation of state medical stores commenced by NACA in September 2011 and completed in 2013. Unjustified stages and requirements in the renovation project were identified, which were used to facilitate excessive payments to the contractors.

NACA failed to provide justification for the fees paid and overpayments to the contractors. NACA did not comply with the relevant procurement regulations in the selection of the contractors and falsified documents were found which were submitted by the bidders during the tender process. The investigation identified USD 1,476,386 in non-compliant expenditures with proposed recoveries of USD 785,906.

NACA's financial system did not have adequate budgetary controls and the renovation activity, under the new grant, did not have a dedicated budget line in the approved grant work plan. As a result, this led to budget overrun. NACA did not exercise retention of final payment to the contractors, which was a common practice in Nigeria. NACA has acknowledged some of the investigation findings and has committed to take appropriate measures to rectify and avoid recurrence. NACA has also committed to seek refunds from the construction contractors as proposed by this investigation report.

Going forward, the Secretariat has committed to strengthen oversight of the entire Nigeria grant portfolio with a number of controls and actions, which includes the appointment of a Fiduciary Agent.

**Table 1: Summary of ineligible expenditures deemed recoverable from NACA**

| <b>Contractor</b>  | <b>Findings/Exhibits</b> | <b>Amount (N)</b>  | <b>Amount (\$) <sup>16</sup></b> |
|--|--------------------------|--------------------|----------------------------------|
| <b><u>Independent Assessor (Archiworth Associates)</u></b> |                          |                    |                                  |
| First contract   | 02                       | 2,450,000          | 15,832                           |
| Second contract  | 04                       | 19,676,070         | 127,147                          |
| Sub-total  |                          | 22,126,070         | 142,979                          |
| <b><u>Engineering Firms</u></b>                            |                          |                    |                                  |
| Unsupported payments                                       | 01                       | 80,225,124         | 518,418                          |
| Unsettled advance payments                                 | 05                       | 6,250,000          | 40,388                           |
| Sub-total  |                          | 86,475,124         | 558,806                          |
| <b><u>construction contractors</u></b>                     |                          |                    |                                  |
| Diadem Crown Global  | 06/Exhibit 4             | 2,894,400          | 18,703                           |
| Kolmart Nigeria Limited                                    | 06/Exhibit 5             | 2,966,900          | 19,172                           |
| Rualsom Nigeria Limited                                    | 06/Exhibit 6             | 3,385,000          | 21,874                           |
| Emmassons Resources Inv. Ltd                               | 06/Exhibit 7             | 926,085            | 5,984                            |
| Adoset Nigeria Ltd   | 06/Exhibit 8             | 628,800            | 4,063                            |
| Omolara Aries Nig Ltd                                      | 06/Exhibit 9             | 6,158,000          | 3,979                            |
| Salpa Limited  | 06/Exhibit 10            | 400,752            | 2,590                            |
| Toyatem Services Ltd                                       | 06/Exhibit 11            | 1,200,000          | 7,754                            |
| Sub-total  |                          | 13,017,737         | 84,121                           |
| <b>Total Ineligible Expenditure/proposed recovery</b>      |                          | <b>121,618,931</b> | <b>785,906</b>                   |

<sup>16</sup> Payments to the contractors for the renovation projects were made in Nigerian Naira (N). For the reporting purpose, USD 1= N154.75 is used which is based on average of rates issued by Central Bank of Nigeria during the period in which contracts were awarded. All the figures reported herein are rounded to the nearest hundreds. Refer to the relevant annexes for precise figures

## V. Table of Agreed Management Actions

| <b>No.</b> | <b>Category</b>                   | <b>Action</b>  | <b>Due date</b> | <b>Owner</b>                    |
|------------|-----------------------------------|--|-----------------|---------------------------------|
| 1          | Recovery                          | Based on the findings of this report, the Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability. The Secretariat will also consider additional payments, if any, made by NACA to the consulting engineering firms after December 2012. | 30 June 2015    | Recoveries Committee            |
| 2          | Programmatic and Performance Risk | The Secretariat will apply additional scrutiny and safeguards, through the engagement of the Fiduciary Agent or any other additional safeguard measures, to minimizing collusive practices and the diversion of funds in the renovation projects financed by the Global Fund grants.   | 30 June 2015    | Head, Grant Management Division |
| 3          | Programmatic and Performance Risk | The Secretariat will address the misconduct by Archiworth Associates, in accordance with the Global Fund's policy on supplier misconduct and the Sanctions Panel Procedure.  | 30 June 2015    | Head, Grant Management Division |
| 4          | Programmatic and Performance Risk | The Secretariat will require NACA to urgently rectify the defects in relation to the renovation work carried out by Omolara Aries Nig. Ltd. at no additional cost to the Global Fund grant program.  | 30 June 2015    | Head, Grant Management Division |
| 5          | Recovery                          | The secretariat will inform NACA not to release any further payments to the construction contractors; and to adjust the proposed recoverable amount from the payment of the balance, if any.   | 30 June 2015    | Recoveries Committee            |



| <b>No.</b> | <b>Category</b>                   | <b>Action</b>  | <b>Due date</b> | <b>Owner</b>                    |
|------------|-----------------------------------|--|-----------------|---------------------------------|
| 6          | Programmatic and Performance Risk | The Secretariat will require NACA to put procedures in place to monitor and review the implementation of contract awards and the performance of the work with regards to cost, quality and time controls for future renovation works.    | 30 June 2015    | Head, Grant Management Division |
| 7          | Programmatic and Performance Risk | The Secretariat will instruct the LFA to visit the state medical stores to ensure delivery and installation of the fixtures. The payment of the balance to Axios will only be paid after the Secretariat is satisfied with the delivery. | 30 June 2015    | Head, Grant Management Division |
| 8          | Programmatic and Performance Risk | The Secretariat will inform the Principal Recipient that the future renovation works must be in line with the newly issued Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting.                                    | 30 June 2015    | Head, Grant Management Division |
| 9          | Financial Risk                    | The Secretariat will review the effectiveness of the corrections made by NACA to its financial management system. The Secretariat will ensure NACA takes measures to address the gaps, if any, identified by the review.                 | 30 June 2015    | Head, Grant Management Division |
| 10         | Programmatic and Performance Risk | The Secretariat will require the Principal Recipient to prevent collusive practices by performing due diligence of the entities tendering for renovation/construction projects financed by the Global Fund grants.                       | 30 June 2015    | Head, Grant Management Division |

## Annex A: Methodology

The Investigations Unit of the OIG is responsible for conducting investigations of alleged fraud, abuse, misappropriation, corruption and mismanagement (collectively, “fraud and abuse”) within Global Fund financed programs and by Principal Recipients and Sub-recipients, (collectively, “grant implementers”), Country Coordinating Mechanisms and Local Fund Agents, as well as suppliers and service providers.<sup>17</sup>

While the Global Fund does not typically have a direct relationship with the recipients’ suppliers, the scope of the OIG’s work<sup>18</sup> encompasses the activities of those suppliers with regard to the provision of goods and services. The authority required to fulfill this mandate includes access to suppliers’ documents and officials.<sup>19</sup> The OIG relies on the cooperation of these suppliers to properly discharge its mandate.<sup>20</sup>

OIG investigations aim to: (i) identify the specific nature and extent of fraud and abuse affecting Global Fund grants, (ii) identify the entities responsible for such wrongdoings, (iii) determine the amount of grant funds that may have been compromised by fraud and abuse, and (iv), place the organization in the best position to obtain recoveries through the identification of the location or the uses to which the misused funds have been put.

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. Findings are established by a preponderance of credible and substantive evidence. All available evidence is considered by the OIG, including inculpatory and exculpatory information.<sup>21</sup>

The OIG finds, assesses and reports on facts. On that basis, it makes determination on the compliance of expenditures with the grant agreements and details risk-prioritized Agreed Management Actions. Such Agreed Management Actions may notably include the identification of expenses deemed non-compliant for considerations of recovery, recommended administrative action related to grant management and recommendations for action under the Code of Conduct for Suppliers<sup>22</sup> or the Code of Conduct for Recipients of Global Fund Resources<sup>23</sup> (the “Codes”), as appropriate. The OIG does not determine how the Secretariat will address these determinations and recommendations. Nor does it make judicial decisions or issue sanctions.<sup>24</sup>

Agreed Management Actions are agreed with the Secretariat to identify, mitigate and manage risks to the Global Fund and its recipients’ activities. The OIG defers to the Secretariat and, where appropriate, the recipients, their suppliers and/or the concerned national law enforcement agencies, for action upon the findings in its reports.

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<sup>17</sup> Charter of the Office of the Inspector General (19 March 2013), available at [http://theglobalfund.org/documents/oig/OIG\\_OfficeOfInspectorGeneral\\_Charter\\_en/](http://theglobalfund.org/documents/oig/OIG_OfficeOfInspectorGeneral_Charter_en/), accessed 01 November 2013 2013.

<sup>18</sup> Charter of the Office of the Inspector General (19 March 2013) § 2, 9.5 and 9.7.

<sup>19</sup> Ibid., § 17.1 and 17.2.

<sup>20</sup> Global Fund Code of Conduct for Suppliers (15 December 2009), § 17-18, available at [http://theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForSuppliers\\_Policy\\_en/](http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/), accessed 01 November 2013.

Note: Every grant is subject to the Global Fund’s Standard Terms and Conditions (STC) of the Program Grant Agreement signed for that grant. The above Code of Conduct may or may not apply to the grant.

<sup>21</sup> These principles comply with the *Uniform Guidelines for Investigations*, Conference of International Investigators, June 2009; available at: <http://www.un.org/Depts/oios/pages/uniformguidelines.html>, accessed 01 November 2013.

<sup>22</sup> See fn. 20, supra.

<sup>23</sup> Code of Conduct for Recipients of Global Fund Resources (16 July 2012) available at [http://theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForRecipients\\_Policy\\_en/](http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en/), accessed 01 November 2013.

Note: Every grant is subject to the STC of the Program Grant Agreement signed for that grant. The above Code of Conduct may or may not apply to the grant.

<sup>24</sup> Charter of the Office of the Inspector General (19 March 2013) § 8.1

The OIG is an administrative body with no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, its ability to obtain information is limited to the rights to it under the grant agreements agreed to with recipients by the Global Fund, including the terms of its Codes, and on the willingness of witnesses and other interested parties to voluntarily provide information.

The OIG also provides the Global Fund Board with an analysis of lessons learned for the purpose of understanding and mitigating identified risks to the grant portfolio related to fraud and abuse.

Finally, the OIG may make referrals to national authorities for prosecution of any crimes or other violations of national laws, and supports such authorities as necessary throughout the process, as appropriate.

### **Applicable Concepts of Fraud and Abuse**

The OIG bases its investigations on the contractual commitments undertaken by recipients and suppliers. It does so under the mandate set forth in its Charter to undertake investigations of allegations of fraud and abuse in Global Fund supported programs.

As such, it relies on the definitions of wrongdoing set out in the applicable grant agreements with the Global Fund and the contracts entered into by the recipients with other implementing entities in the course of program implementation.

Such agreements with Sub-recipients must notably include pass-through access rights and commitments to comply with the Codes. The Codes clarify the way in which recipients are expected to abide by the values of transparency, accountability and integrity which are critical to the success of funded programs. Specifically, the Code of Conduct for Recipients prohibits recipients from engaging in corruption, which includes the payment of bribes and kickbacks in relation to procurement activities.<sup>25</sup>

The Codes notably provide the following definitions of the relevant concepts of wrongdoings:<sup>26</sup>

- “Anti-competitive practice” means any agreement, decision or practice which has as its object or effect the restriction or distortion of competition in any market.
- “Collusive practice” means an arrangement between two or more persons or entities designed to achieve an improper purpose, including influencing improperly the actions of another person or entity.
- “Conflict of Interest”: A conflict of interest arises when a Recipient or Recipient Representative participates in any particular Global Fund matter that may have a direct and predictable effect on a financial or other interest held by: (a) the Recipient; (b) the Recipient Representative; or (c) any person or institution associated with the Recipient or Recipient Representative by contractual, financial, agency, employment or personal relationship. For instance, conflicts of interest may exist when a Recipient or Recipient Representative has a financial or other interest that could affect the conduct of its duties and responsibilities to manage Global Fund Resources. A conflict of interest may also exist if a Recipient or Recipient Representative’s financial or other interest compromises or undermines the trust that Global Fund Resources are managed and utilized in a manner that is transparent, fair, honest and accountable.
- “Corrupt practice” means the offering, promising, giving, receiving or soliciting, directly or indirectly, of anything of value or any other advantage to influence improperly the actions of another person or entity.
- “Fraudulent practice” means any act or omission, including a misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a person or entity to obtain a financial or other benefit or to avoid an obligation.

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<sup>25</sup> Code of Conduct for Recipients of Global Fund Resources, section 3.4.

<sup>26</sup> Available at [http://theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForRecipients\\_Policy\\_en/](http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en/) and [http://theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForSuppliers\\_Policy\\_en/](http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/)

- “Misappropriation” is the intentional misuse or misdirection of money or property for purposes that are inconsistent with the authorized and intended purpose of the money or assets, including for the benefit of the individual, entity or person they favor, either directly or indirectly.

### **Determination of Compliance**

The OIG presents factual findings which identify compliance issues by the recipients with the terms of the Global Fund’s Standard Terms and Conditions (STC) of the Program Grant Agreement. Such compliance issues may have links to the expenditure of grant funds by recipients, which then raises the issue of the eligibility of these expenses for funding by the Global Fund. Such non-compliance is based on the provisions of the STC.<sup>27</sup> The OIG does not aim to conclude on the appropriateness of seeking refunds from recipients, or other sanctions on the basis of the provisions of the Program Grant Agreement.

Various provisions of the STC provide guidance on whether a program expense is eligible for funding by the Global Fund. It is worth noting that the terms described in this section are to apply to Sub-recipients (SRs) as well as Principal Recipients (PRs).<sup>28</sup>

At a very fundamental level, it is the Principal Recipient’s responsibility “to ensure that all Grant funds are prudently managed and shall take all necessary action to ensure that Grant funds are used solely for Program purposes and consistent with the terms of this Agreement”.<sup>29</sup>

In practice, this entails abiding by the activities and budgetary ceilings proposed in the Requests for Disbursement, which in turn must correspond to the Summary Budget(s) attached to Annex A of the Program Grant Agreement. While this is one reason for expenses to be ineligible, expending grant funds in breach of other provisions of the Program Grant Agreement also results in a determination of non-compliance.

Even when the expenses are made in line with approved budgets and work plans, and properly accounted for in the program’s books and records, such expenses must be the result of processes and business practices which are fair and transparent. The STC specifically require that the Principal Recipient ensures that: (i) contracts are awarded on a transparent and competitive basis, [...] and (iv) that the Principal Recipient and its representatives and agents do not engage in any corrupt practices as described in Article 21(b) of the STC in relation to such procurement.<sup>30</sup>

The STC explicitly forbid engagement in corruption or any other related or illegal acts when managing Grant Funds:

“The Principal Recipient shall not, and shall ensure that no Sub-recipient or person affiliated with the Principal Recipient or any Sub-recipient [...] participate(s) in any other practice that is or could be construed as an illegal or corrupt practice in the Host Country.”<sup>31</sup>

Amongst prohibited practices is the rule that the Principal Recipient shall not and shall ensure that no person affiliated with the Principal Recipient “engage(s) in a scheme or arrangement between two or more bidders, with or without the knowledge of the Principal or Sub-recipient, designed to establish bid prices at artificial, non-competitive levels.”<sup>32</sup>

The Global Fund’s Code of Conduct for Suppliers and Code of Conduct for Recipients further provide for additional principles by which recipients and contractors must abide, as well as remedies in case of breaches

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<sup>27</sup> The STC are revised from time to time, but the provisions quoted below applied to all Principle Recipients at the time of the investigation.

<sup>28</sup> Standard Terms and Conditions (2012.09) at Art. 14(b):

[http://www.theglobalfund.org/documents/core/grants/Core\\_StandardTermsAndConditions\\_Agreement\\_en](http://www.theglobalfund.org/documents/core/grants/Core_StandardTermsAndConditions_Agreement_en)

<sup>29</sup> Id. at Art. 9(a) and Art 18(f)

<sup>30</sup> Id. at Art. 18(a)

<sup>31</sup> Id., at Art. 21 (b).

<sup>32</sup> Id. at Art. 21(b)

of said fundamental principles of equity, integrity and good management. The Codes also provide useful definitions of prohibited conducts.<sup>33</sup>

The Codes are integrated into the STC through Article 21(d) under which the Principal Recipient is obligated to ensure that the Global Fund's Code of Conduct for Suppliers is communicated to all bidders and suppliers.<sup>34</sup> It explicitly states that the Global Fund may refuse to fund any contract with suppliers found not to be in compliance with the Code of Conduct for Suppliers. Similarly, Article 21(e) provides for communication of the Code of Conduct for Recipients to all Sub-recipients, as well as mandatory application through the Sub-recipient agreements.<sup>35</sup>

Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including expenses made by Sub-recipients and contractors.<sup>36</sup>

The factual findings made by the OIG following its investigation and summarized through this report can be linked to the prohibited conducts or other matters incompatible with the terms of the Program Grant Agreements.

### **Reimbursements or Sanctions**

The Secretariat of the Global Fund is subsequently tasked with determining what management actions or contractual remedies will be taken in response to those findings.

Such remedies may notably include the recovery of funds compromised by contractual breaches. Article 27 of the STC stipulates that the Global Fund may require the Principal Recipient "to immediately refund the Global Fund any disbursement of the Grant funds in the currency in which it was disbursed [in cases where] there has been a breach by the Principal Recipient of any provision of this (sic) Agreement [...] or the Principal Recipient has made a material misrepresentation with respect to any matter related to this Agreement."<sup>37</sup>

According to Article 21(d), "in the event of non-compliance with the Code of Conduct, to be determined by the Global Fund in its sole discretion, the Global Fund reserves the right not to fund the contract between the Principal Recipient and the Supplier or seek the refund of the Grant funds in the event the payment has already been made to the Supplier."<sup>38</sup>

Furthermore, the UNIDROIT principles (2010), the principles of law governing the grant agreement, in their article 7.4.1, provide for the right of the Global Fund to seek damages from the Principal Recipient in case non-performance, in addition to any other remedies the Global Fund may be entitled to.

Additional sanctions, including with respect to Suppliers, may be determined pursuant to the Sanction Procedure of the Global Fund, for breaches to the Codes.

In determining what non-compliant expenditures are to be proposed as recoverables, the OIG advises the Secretariat that such amounts typically should be: (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 overpricing between the price paid and comparable market price for such goods or services, or (iii) amounts which are ineligible (non-related) to the scope of the grant and its approved work plans and budgets.

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<sup>33</sup> Available at [http://www.theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForSuppliers\\_Policy\\_en](http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en) ; [http://www.theglobalfund.org/documents/corporate/Corporate\\_CodeOfConductForRecipients\\_Policy\\_en](http://www.theglobalfund.org/documents/corporate/Corporate_CodeOfConductForRecipients_Policy_en)

<sup>34</sup> Standard Terms and Conditions (2012.09) at Art. 21(d)

<sup>35</sup> Id. at Art. 21(e)

<sup>36</sup> Id. at Art. 14

<sup>37</sup> Id. at Art. 27(b) and (d)

<sup>38</sup> Id.

## Annex B: Exhibits

### Exhibit 1: Contractors and their geographical distribution

| #   | construction contractor               | Consulting Engineering Firm   | State –Store (Zone)             |
|---|---------------------------------------|-------------------------------|---------------------------------|
| 1   | Rualsom Nigeria Limited               | Ivory- link International Ltd | Ondo – Akure (South West)       |
| 2   | Kolmart Nigeria Limited               | Tunik Engineering             | Edo – Benin City (South South)  |
| 3   | Diadem Crown Global                   | Tunik Engineering             | Delta -Asaba (South South)      |
| 4   | Omolara Aries Nigeria Limited         | Archcon Nigeria Limited       | Sokoto-Sokoto ( North West)     |
| 5   | Salpa Limited                         | DUNE Engineering              | Taraba-Jalingo (North East)     |
| 6   | Emmasons Resources Investment Limited | E+D Multi Consult Limited     | Kwara – Ilorin (North Central)  |
| 7   | Adoset Nigeria Limited                | E+D Multi Consult Limited     | Benue – Makurdi (North Central) |
| 8   | Toyatem Integrated Services Limited   | JIL Engineering               | Imo – Owerri (South East)       |
| *In addition, Archiworth Associates was engaged as an Independent Assessor. |                                       |                               |                                 |

## Exhibit 2: Budget Overrun

*Chart A: Overall renovation related payments made by NACA (in Naira millions) as of 30 March 2014 by contractor types*

| Contractors                  | Proposal evaluation | Advance Jun 2012 | Condition Survey Sep 2012 | Advance Nov 2012 | Pre-construction Nov 2012 | Post-construction Dec 2012-Jun 2013 | Advance Dec 2013 | Total         |
|------------------------------|---------------------|------------------|---------------------------|------------------|---------------------------|-------------------------------------|------------------|---------------|
| Archiworth Associates        | 2.45                | -                | 7.45                      | -                | 12.22                     | -                                   | -                | <b>22.12</b>  |
| consulting engineering firms | -                   | 7.50             | 27.12                     | -                | 68.00                     | -                                   | -                | <b>102.62</b> |
| construction contractors     | -                   | -                | -                         | 100.93           | -                         | 79.44                               | -                | <b>180.37</b> |
| Axios Foundation             | -                   | -                | -                         | -                | -                         | -                                   | 63.97            | <b>63.97</b>  |
| <b>Total</b>                 | <b>2.45</b>         | <b>7.50</b>      | <b>34.57</b>              | <b>100.93</b>    | <b>80.22</b>              | <b>79.44</b>                        | <b>63.97</b>     | <b>369.08</b> |



*Chart B: Overall renovation related payments made by NACA by Contractor as of 30 March 2014*

Budget Overrun

|   |                 |
|---|-----------------|
| Approved budget provided for renovation | \$ 1,700,000.00 |
| Total expenditure incurred              | \$ 2,390,480.24 |
| Budget Overrun in \$                    | -\$ 690,480.24  |
| Budget Overrun in %                     | 41%             |

| Entity                          | Contract Amt<br>(N)    | Net Payment<br>(N)     | Tax withheld<br>(N)  | Total Payment<br>(N)   |
|---------------------------------|------------------------|------------------------|----------------------|------------------------|
| Archiworth Associates Total     | 22,126,070.00          | 19,913,462.66          | 2,212,607.05         | 22,126,070.51          |
| Archon Nigeria Ltd Total        | 15,666,000.00          | 14,064,873.16          | 1,562,763.69         | 15,627,636.85          |
| Dune Total                      | 10,334,204.87          | 10,200,784.38          | 1,133,420.49         | 11,334,204.87          |
| E+D Multi Consult Total         | 17,363,475.16          | 17,202,127.64          | 1,911,347.52         | 19,113,475.16          |
| Ivory Link Total                | 18,884,908.87          | 18,346,417.98          | 2,038,490.89         | 20,384,908.87          |
| Jill Eng Total                  | 15,100,157.00          | 14,490,141.30          | 1,610,015.70         | 16,100,157.00          |
| Tunik Eng Total                 | 19,057,818.05          | 18,052,036.24          | 2,005,781.81         | 20,057,818.05          |
| Adoset Nig Limited Total        | 38,034,520.45          | 34,326,154.70          | 1,806,639.73         | 36,132,794.43          |
| Diadem Total                    | 22,561,297.50          | 19,857,576.64          | 1,045,135.61         | 20,902,712.25          |
| Emmassons Total                 | 12,270,398.60          | 8,661,859.74           | 455,887.36           | 9,117,747.10           |
| Kolmart Total                   | 38,857,948.69          | 35,069,298.69          | 1,845,752.56         | 36,915,051.25          |
| Omalara Total                   | 12,584,059.95          | 11,291,832.20          | 594,306.96           | 11,886,139.16          |
| Rualsom Nig Ltd Total           | 20,476,570.80          | 17,570,396.93          | 924,757.73           | 18,495,154.66          |
| Salpa Ltd Total                 | 19,860,125.20          | 17,923,762.84          | 943,355.94           | 18,867,118.78          |
| Toyatem Total                   | 37,211,081.00          | 26,649,286.66          | 1,402,594.04         | 28,051,880.70          |
| Axis Foundation Total           | 79,958,190.40          | 63,966,552.32          | -                    | 63,966,552.32          |
| <b>Subtotal</b>                 | <b>400,346,826.54</b>  | <b>347,586,564.08</b>  | <b>21,492,857.08</b> | <b>369,079,421.96</b>  |
| Newpaper advert                 | -                      | -                      | -                    | 847,394.90             |
| <b>Grand total</b>              | <b>400,346,826.54</b>  | <b>347,586,564.08</b>  | <b>21,492,857.08</b> | <b>369,926,816.86</b>  |
| <i>Conversion US\$1=N154.75</i> | <i>\$ 2,587,055.42</i> | <i>\$ 2,246,116.73</i> | <i>\$ 138,887.61</i> | <i>\$ 2,390,480.24</i> |

**Exhibit 3: Summary of overpayments made to consulting engineering firms as of 30 March 2014**

| CEFs              | Contract Sum      | 1 <sup>st</sup> payment | 2 <sup>nd</sup> Payment | 3rd Payment       | Payment to Date    | Balance/<br>Overpayment |
|-------------------|-------------------|-------------------------|-------------------------|-------------------|--------------------|-------------------------|
| E+D               | 17,363,475        | 1,750,000               | 3,810,579               | 13,552,896        | 19,113,475         | - 1,750,000             |
| Dune              | 10,334,205        | 1,000,000               | 3,010,396               | 7,323,809         | 11,334,205         | - 1,000,000             |
| Archcon           | 15,666,000        | 1,250,000               | 5,443,807               | 8,933,830         | 15,627,637         | 38,363                  |
| Jil Engineering   | 15,100,157        | 1,000,000               | 4,140,816               | 10,959,341        | 16,100,157         | - 1,000,000             |
| Tunik Engineering | 19,057,818        | 1,000,000               | 4,281,117               | 14,776,701        | 20,057,818         | - 1,000,000             |
| Ivory             | 18,884,909        | 1,500,000               | 6,430,505               | 12,454,404        | 20,384,909         | - 1,500,000             |
| <b>Total</b>      | <b>96,406,564</b> | <b>7,500,000</b>        | <b>27,117,219</b>       | <b>68,000,982</b> | <b>102,618,201</b> | <b>- 6,211,637</b>      |

\*Except for Archcon, all other consulting engineering firms were overpaid because of NACA did not settle the advanced sum from the subsequent payments.

**Exhibit 4: Details of ineligible expenses in relation to work performed by Diadem Crown Global**

*Chart C: Work executed by the State Government but claimed (Diadem)*

| Description   | Qty/Size          | Amount    |
|---|-------------------|-----------|
| Pitched roof structure, sawn hardwood trusses, purlins and fascia board | 118 m             | 59,000    |
| Roof Covering - Cladding 600mm girth                                    | 118 m             | 177,000   |
| Eave angle  | 118 m             | 177,000   |
| Wall finishes, cement and sand render, 15mm average thickness           | 85 m <sup>2</sup> | 25,500    |
| 15 mm thick rendering finished fair and smooth on wall                  | 85 m <sup>2</sup> | 85,000    |
| Subtotal  |                   | N 523,500 |
|   |                   | USD 3,383 |

*Chart D: Work not executed but claimed (Diadem)*

| Description   | Qty/Size           | Amount (N)  |
|---|--------------------|-------------|
| Repair the existing sliding metal door 3000 X 3000 mm high 2 leaf                       | 2 No               | 40,000      |
| Floor finishes, cement and sand trowel paving, 50 mm thick passage                      | 421 m <sup>2</sup> | 210,500     |
| 31 mm thick screened bed  | 317 m <sup>2</sup> | 380,400     |
| PVC soil and waste disposal pipe lines  | 1 item             | 150,000     |
| Manhole, inspection chambers, septic tank and soak away pits in block work and concrete | 1 item             | 300,000     |
| Galvanized mild steel pipeline and malleable iron fittings: in chases, screeds          | 1 item             | 150,000     |
| 250A TP&N isolator, ABB or approved equal   | 1 item             | 80,000      |
| Sub-total   |                    | N 1,310,900 |
|   |                    | USD 8,471   |

**Chart E: Items not supplied as per Bill of Quantity (Diadem)**

| Item Specification | Supplied item Specification | Unit Price- billed by Diadem | Unit price-market survey of supplied item | Difference | Quantity supplied | Amount (N) |
|--------------------|-----------------------------|------------------------------|---|------------|-------------------|------------|
| 2 HP Split unit AC | 1.5 HP Split unit AC        | 180,000                      | 90,000                                    | 90,000     | 9                 | 810,000    |
| Subtotal           |                             |                              |   |            |                   | N 810,000  |
|                    |                             |                              |   |            |                   | USD 5,234  |

**Chart F: Items supplied did not correspond to the Bill of Quantity specifications (Diadem)**

| Item Specification                               | Quantity billed by Diadem | Quantity supplied by Diadem | Quantity difference | Unit price billed by Diadem | Amount (N) |
|--|---------------------------|-----------------------------|---------------------|-----------------------------|------------|
| Steel door complete with frame – 900X2100mm high | 6                         | 4                           | 2                   | 65,000                      | 130,000    |
| Subtotal   |                           |                             |                     |                             | N 130,000  |
|  |                           |                             |                     |                             | USD 840    |

**Chart G: Excess price billed (Diadem)**

| Item Specification                               | Unit Price billed by Diadem | Unit Price as per Market Survey | Price difference | Billed quantity by Diadem | Amount (N) |
|--|-----------------------------|---------------------------------|------------------|---------------------------|------------|
| Steel door complete with frame – 900X2100mm high | 65,000                      | 35,000                          | 30,000           | 4                         | 120,000    |
| Subtotal   |                             |                                 |                  |                           | N 120,000  |
|  |                             |                                 |                  |                           | USD 775    |

*Chart H: Summary of findings related to Diadem*

| #     | Description   | Amount (N)  | Amount (USD ) |
|-------|---|-------------|---------------|
| 1     | Work Executed by State Government but claimed by and paid to Diadem | 523,500     | 3,383         |
| 2     | Work not executed but claimed by and paid to Diadem                 | 1,310,900   | 8,471         |
| 3     | Work not executed based on Bill of Quantity specifications          | 810,000     | 5,234         |
| 4     | Door quantity misrepresented by Diadem                              | 130,000     | 840           |
| 5     | Price difference (market survey)                                    | 120,000     | 775           |
| Total |   | N 2,894,400 | USD 18,703    |

**Exhibit 5: Details of ineligible expenses in relation to work performed by Kolmart Nigeria Limited**

*Chart I: Excess price billed (Kolmart)*

| Item description                        | Unit price billed by Kolmart | Unit price as per market survey | Unit price difference | Quantity billed by Kolmart | Amount (N)  |
|---|------------------------------|---------------------------------|-----------------------|----------------------------|-------------|
| 100KVA Prime power rating sound proofed | 7,076,900                    | 4,110,000                       | 2,966,900             | 1                          | 2,966,900   |
|   |                              |                                 |                       | Total                      | N 2,966,900 |
|   |                              |                                 |                       |                            | USD 19,172  |

## Exhibit 6: Details of ineligible expenses in relation to work performed by Rualsom Nigeria Limited

*Chart J: Work not executed but claimed (Rualsom)*

| #        | Description   | Quantity           | Amount (N)  |
|----------|---|--------------------|-------------|
| 1        | External Works: Allow for Apron around the building | 1 item             | 1,500,000   |
| 2        | Allow for additional work on external works         | 421 m <sup>2</sup> | 500,000     |
| Subtotal |   |                    | N 2,000,000 |
|          |   |                    | USD 12,924  |

*Chart K: Excess price billed (Rualsom)*

| Item description                                  | Unit price billed by Rualsom | Unit price as per market research | Unit price difference | Quantity billed by Rualsom | Amount (N)  |
|---|------------------------------|-----------------------------------|-----------------------|----------------------------|-------------|
| Generating Set 30KVA Mikano Generator sound proof | 3,985,000                    | 2,600,000                         | 1,385,000             | 1                          | 1,385,000   |
| Subtotal  |                              |                                   |                       |                            | N 1,385,000 |
|   |                              |                                   |                       |                            | USD 8,950   |

*Chart L: Summary of findings on Rualsom*

| #     | Description  | Amount (N)  | Amount (\$) |
|-------|--|-------------|-------------|
| 1     | Work not executed but claimed by and paid to Rualsom | 2,000,000   | 12,924      |
| 2     | Price difference (market survey)                     | 1,385,000   | 8,950       |
| Total |  | N 3,385,000 | USD 21,874  |



## Exhibit 7: Details of ineligible expenses in relation to work performed by Emmasons Resources Investment Limited

*Chart M: Work not executed but claimed (Emmasons)*

| #        | Description                               | Quantity           | Amount (N) |
|----------|---|--------------------|------------|
| 1        | Structural Steel work/Carpentry & Joinery |                    |            |
|          | 75 mm diameter pipe in top & bottom chore | 89 m               | 121,485    |
|          | 50 mm diameter G.1 pipe in trusses        | 59 M               | 72,275     |
|          | Ditto in purlins                          | 161 M              | 197,225    |
|          | Painting in general surface of metal      | 138 M <sup>2</sup> | 110,400    |
| 2        | Metal Doors                               |                    |            |
|          | Casement Door                             | 1                  | 56,700     |
| Subtotal |   |                    | N 558,085  |
|          |   |                    | USD 3,606  |

*Chart N: Excess price billed (Emmasons)*

| Item description                  | Unit price billed by contractor | Unit price as per market survey | Unit price difference | Quantity billed | Amount (N) |
|-----------------------------------|---------------------------------|---------------------------------|-----------------------|-----------------|------------|
| Air conditioner – 2 HP split unit | 156,000                         | 110,000                         | 46,000                | 8               | 368,000    |
| Subtotal                          |                                 |                                 |                       |                 | N 368,000  |
|                                   |                                 |                                 |                       |                 | USD 2,378  |

*Chart O: Summary of findings on Emmasons*

| #     | Description   | Amount (N) | Amount (\$) |
|-------|---|------------|-------------|
| 1     | Work not executed but claimed by and paid to the Contractor | 558,085    | 3,606       |
| 2     | Price difference (market survey)                            | 368,000    | 2,378       |
| Total |   | N 926,085  | USD 5,984   |

**Exhibit 8: Details of ineligible expenses in relation to work performed by Adoset (Nig.) Limited**

*Chart P: Items not supplied as specified in Bill of Quantity (Adoset)*

| #            | Bill of Quantity specification                   | Supplied item specification                      | Unit Price as Billed by Contractor | Unit Price as per market survey | Unit price difference | Quantity supplied | Amount (N) |
|--------------|--|--|------------------------------------|---------------------------------|-----------------------|-------------------|------------|
| 1            | Purpose made metal door size 1800 X 1200 mm high | Purpose made metal door size 1200 X 2100 mm high | 138,600                            | 60,000                          | 78,600                | 6                 | 471,600    |
| 2            | Purpose made metal door size 1800 X 1200 mm high | Purpose made metal door size 900 X 2100 mm high  | 118,600                            | 40,000                          | 78,600                | 2                 | 157,200    |
| <b>Total</b> |  |  |                                    |                                 |                       |                   | N 628,800  |
|              |  |  |                                    |                                 |                       |                   | USD 4,063  |

**Exhibit 9: Details of ineligible expenses in relation to work performed by Omolara Aries Nigeria Limited**

*Chart Q: Excess price billed (Omolara)*

| #     | Item description                     | Unit price billed | Unit Price as per market survey | Unit price difference | Quantity billed | Amount (N) |
|-------|--------------------------------------|-------------------|---------------------------------|-----------------------|-----------------|------------|
| 1     | Samsung Air Conditioner 18,000 btu/h | 104,650           | 70,000                          | 34,650                | 12              | 415,800    |
| 2     | 1,000 liters press storage tank      | 600,000           | 400,000                         | 200,000               | 1               | 200,000    |
| Total |                                      |                   |                                 |                       |                 | N 615,800  |
|       |                                      |                   |                                 |                       |                 | USD 3,979  |

**Exhibit 10: Details of ineligible expenses in relation to work performed by Salpa Limited**

*Chart R: Work not executed but claimed (Salpa)*

| #     | Description  | Quantity         | Amount (N) |
|-------|--|------------------|------------|
| 1     | F10 Brick/Block Walling  | M <sup>2</sup>   |            |
|       | 230mm thick  | 14               | 49,546     |
|       | 150mm thick  | 56               | 151,200    |
| 2     | Wall in superstructure, cavities filled solid with plain concrete                                | 2m <sup>2</sup>  | 11,506     |
| 3     | Electrical installation – Provisional sum  | Sum              | 35,000     |
| 4     | Cable sleeve..... 75mm normal size   | 12m              | 3,000      |
| 5     | Miniature circuit breaker distribution board, 100A, 8ways  | 1nr              | 16,800     |
| 6     | General Lighting – 1nr extractor fan switch point  | 6nr              | 20,700     |
| 7     | Ancillary works associated with electrical system – Making position, holes, mortice              | Item             | 20,000     |
| 8     | Builders work associated with electrical services  | Item             | 30,000     |
| 9     | Supply and fix 5mm thick glass panes of various sizes with all necessary accessories as directed | 32m <sup>2</sup> | 63,000     |
| Total |  |                  | N 400,752  |
|       |  |                  | USD 2,590  |

**Exhibit 11: Details of ineligible expenses in relation to work performed by Toyatem Services Limited**

*Chart S: Excess price billed (Toyatem)*

| Item description   | Unit price billed by Contractor | Unit price as per market research | Unit price difference | Quantity billed | Amount (N)  |
|--|---------------------------------|-----------------------------------|-----------------------|-----------------|-------------|
| Electric Generator set,100KVA Mikano Generator sound proof | 5,200,000                       | 4,000,000                         | 1,200,000             | 1               | 1,200,000   |
| Total  |                                 |                                   |                       |                 | N 1,200,000 |
|  |                                 |                                   |                       |                 | USD 7,754   |

## Annex C: Summary of subject responses

The Director General of NACA was provided with a copy of the OIG's Statement of Findings on its investigation of renovation of the state medical stores and the opportunity to provide comments on the report's content, findings and conclusions. The OIG's Statement of Findings represented the full record of all of the relevant facts and findings to be considered in forming this final report. NACA provided its first response including the additional supporting documents on 15 September 2014. However, the supporting documents provided were incomplete and did not respond to some remaining open questions. Therefore, the OIG provided NACA with another opportunity to furnish complete and accurate supporting documents. NACA's second response was received on 28 October 2014, whereby it provided some documents and requested additional days to collate the remaining documents. Upon expiry of the new deadline on 31 October 2014, the OIG followed up with the Director General of NACA and requested NACA to provide the OIG with the remaining documents by the close of business. Finally, in absence of NACA's response, the OIG decided to proceed to the next stage of the investigation as per its Stakeholder Engagement Model.

All points made by the respondents were duly considered by the OIG and appropriate revisions were made to its findings, as applicable and relevant, as part of this final report. NACA's responses are included in the findings above to which they pertain to.