



Investigation Report

Global Fund Grants to the Democratic Republic of Timor- Leste

Fundasaun Timor Hari'i

GF-15-017

9 October 2015

Geneva, Switzerland

Non-compliant Expenditure: US\$ 152,626

Proposed recoveries: US\$ 39,782

Categories – Conflict of interest / Fraud / Non-Compliance with Grant Agreements

 **The Global Fund**

Office of the Inspector General

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I. Background and Scope

The Global Fund has made commitments to the Democratic Republic of Timor-Leste under three active grants – for HIV, tuberculosis and malaria – amounting to US\$ 49,652,929. US\$ 44,376,335 of this amount had been disbursed by August 2015. The Ministry of Health is the Principal Recipient for all three grants, which are administered through a specific ministry arm called the Global Fund Division. Timor-Leste's disease burden for HIV is low. The Global Fund grant called TLS-H-MOH is in Phase 2 and runs from 1 January 2012 to 31 December 2016. Under TLS-H-MOH, the Global Fund has committed US\$ 12,029,704 and the total disbursement as of September 2015 is US\$ 8,528,990.

In October 2014, the OIG opened an investigation into an alleged case of fraud in the procurement of non-health products by Fundasaun Timor Hari'i (FTH), one of the sub-recipients of the national HIV program funded under TLS-H-MOH. FTH, a local non-governmental organization, was established in June 2000 to provide HIV prevention services, including basic prevention service packages, HIV testing and counselling to key populations. The founders of FTH are its Executive Director and his wife, who is also FTH's Monitoring and Evaluation Officer. Both sit on the FTH Board.¹ FTH's total sub-grant fund is US\$ 2,737,937, of which US\$ 744,498 was budgeted for Phase 1 (from 1 January 2012 to 31 December 2013) and US\$ 1,993,439 for Phase 2 (from 1 January 2014 to 31 December 2016). As of August 2015, FTH has received US\$ 773,488.49 from the Global Fund for Phase 2.

The OIG investigated procurement irregularities at FTH, including claims that FTH's Finance Manager procured non-health products in Indonesia and then falsified the corresponding invoices. According to the allegation, funds were transferred directly to Indonesia to purchase items, including computers and motorbikes, which were imported into Timor-Leste and then falsely invoiced at an inflated price. The FTH Finance Manager's husband allegedly owns a stationery shop called Williah Lda, which was the source of some of the forged invoices. The FTH management was supposedly aware of the practice. The OIG examined FTH's procurement practices, financial system and relevant human resource practices between 2012 and 2014.

¹ The FTH Board is composed of seven permanent members (including the two founders) and alternative members selected from representatives of most at-risk populations, men who have sex with men, clients of sex workers, people living with HIV/AIDS, NGOs working in the HIV area, and former FTH staff who have dedicated his/her services for more than three years with good working performance.

II. Executive Summary

The OIG investigation found evidence of non-competitive tenders and improper procurement practices by sub-recipient FTH totaling US\$ 152,626, of which US\$ 39,782 is attributed to fraud, overpricing and non-delivery of items.

The OIG investigation confirmed that FTH conducted non-competitive tenders and predetermined that contracts would be awarded to Williah. The non-competitive tenders were conducted by FTH's Executive Director (together with an FTH Regional Manager) who bought items in Indonesia for significantly less than the price charged to the Global Fund. The goods were shipped to Timor Leste and documents were fabricated to make it appear as if there had been a competitive tender process won by Williah. Prices were inflated from 22% to 400% more than the original purchase price in Indonesia.

The non-competitive tender scheme conducted by FTH was facilitated by a conflict of interest between FTH and Williah as the company is owned by three FTH senior managers (each with a 20% stake) and FTH (with 40%). The relationship between FTH and Williah contravenes the conflict of interest policies of the Global Fund, the Ministry of Health and FTH. Williah supplied US\$ 74,359 of goods to FTH. There was no evidence that FTH or the Williah owners (who are FTH employees) disclosed this conflict of interest to FTH, the Ministry of Health or the Global Fund, as required.

The OIG also found evidence of other irregularities in procurements conducted by FTH in 2012 and 2014, which included non-compliance with internal procurement procedures and falsified documents.

Root causes

The investigation identified several factors that contributed to the non-compliant expenditures resulting from the procurement activities conducted by FTH. Financial controls at FTH were inadequate. Weak financial controls allowed the use of a cash-based practice that obscured the amounts paid and actual recipients of the payments. This gave the opportunity for FTH to fabricate supporting documents and inflate prices. Procurement controls were not enforced and FTH did not comply with its own finance manual, which requires competition and transparency in the conduct of procurements.

There was inadequate oversight of the sub-recipient operations by the Ministry of Health as the Principal Recipient of the grant, including a lack of sufficient reviews of FTH procurements, untrained Ministry of Health staff conducting expenditure reviews, and non-compliance with the relevant manuals that contain provisions on conflict of interest and procurement procedures. The Ministry of Health also did not provide guidance on or require the conducting of due diligence or background checks on vendors and suppliers. The Global Fund Secretariat had limited oversight over the sub-recipients because the portfolio was classified as 'medium risk' and as a result, there were no Local Fund Agent reviews conducted at the sub-recipient level.

Actions taken

At the Global Fund Secretariat's request, the Ministry of Health reduced 2015 disbursements to FTH to priority activities only and included the cost of an upgraded financial system in the concept note submitted to the Global Fund. The Global Fund Secretariat requested the Ministry of Health to institute a zero cash policy to FTH, not make cash disbursements, and use electronic fund payments whenever possible. The Ministry of Health was also directed to purchase goods and services for FTH

and all sub-recipients, improve its controls over the procurement process and increase its oversight of all sub-recipient expenditures.

The Global Fund Secretariat also increased the level of Local Fund Agent review of sub-recipient expenditures and initiated a spot check of sub-recipient expenditure of salary payments to key non-government organizations and a spot check of sub-recipient training.

Agreed Management Actions

1. The Global Fund 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.
2. The Global Fund Secretariat will require the Ministry of Health to formulate a risk mitigation plan that systematically addresses risks and initiates the requisite controls to improve financial management and procurement of non-health related products, in addition to fiscal and management oversight at the sub-recipient level. The Fiscal Agent's terms of reference will require the Fiscal Agent to monitor and report on the implementation of this plan.
3. Based on the findings of this report, the Global Fund Secretariat will take appropriate action towards the individuals identified in this report, for example restricting those individuals from occupying any positions related to the implementation of Global Fund grants.
4. The Global Fund Secretariat will appoint an external Fiscal Agent to provide financial, procurement and program management capacity building and knowledge transfer while ensuring appropriate fiscal oversight and control to the grant-funded portfolio (including the Ministry of Health and sub-recipients) starting no later than 1 January 2016.

III. Findings and Agreed Management Actions

01 Conflict of Interest

Williah's registration

Williah registered (under Tax Identification Number 1200771) with the government agency Service for Registration and Verification of Entrepreneurs on 28 May 2014. According to the registration documents, Williah specializes in the wholesale of computers, computer peripheral equipment and software, construction materials, hardware, plumbing and heating equipment and supplies, and other personal service activities. When it registered, Williah had US\$ 10,000 of capital and the following shareholders:

- (i) **FTH** (FTH's Executive Director, also FTH Founder and Board Member, signed Williah's registration documents as FTH's representative) – 40%;
- (ii) **Monitoring and Evaluation Officer** (FTH Founder and Board Member; Wife of the FTH Executive Director) – 20%;
- (iii) **Acting Director and Program Manager** – 20%; and
- (iv) **Finance Manager** – 20%.

During the investigation, the Williah owners and the FTH Executive Director actively misled the OIG as to their financial interest in a company outside of FTH. The Williah shareholders acknowledged their financial interest with Williah only after the OIG presented Williah's registration information that clearly showed their ownership. The FTH Finance Manager also denied knowing or having any relationship with the signatory of Williah's quotations and invoices despite the fact that the person who signed Williah's quotations and invoices is her husband. The FTH Executive Director confirmed to the OIG that Williah's relationship with FTH had not been disclosed to the Ministry of Health or to the Global Fund. He stated he was aware that FTH awarded contracts to Williah and he knew that this was 'wrong'.

In its response to the OIG findings, FTH claimed that Williah was established as part of a fund-raising strategy for FTH. During his interview with the OIG, the FTH Executive Director stated that FTH "invests to survive" as an organization as there was no permanent funding to ensure FTH's existence. The OIG notes, however, that Williah is registered as a commercial enterprise and not as another non-governmental organization, foundation, or not-for-profit entity like FTH.

Conflict of interest

FTH violated its own conflict of interest policies and the Global Fund's Code of Conduct for Recipients when FTH management awarded contracts to Williah, and failed to disclose their ownership of the company.

Williah's registered address is Rua De Palapaco, Motael, Vera-Cruz, Dili, Timor-Leste. In addition to this address, Williah also uses Rua Martires da Patria, Mandarin, Dili, Timor-Leste on its paperwork for the supply of items such as motorbikes and laptops. Neither of the addresses indicates where on the street the business is located.

The OIG visited the registered address, which is on the same street as FTH, but did not find any Williah store in the area. The OIG also inquired with a few people in the area, who were not aware of, or had not seen a Williah store. The OIG visited the second address and found a small storefront that displayed a banner stating "Williah". However, on three separate occasions the store was visited during normal business hours, it was found to be closed. Further OIG inquiries confirmed that although there was indeed a business with the name Williah that operated out of this location, the

premises were only rented for approximately seven months between April 2014 and December 2014. Williah's phone number listed on its invoices was inactive when verified and its limited online presence (Facebook page) did not contain any address, contact details, or information on how to place orders.

FTH's Monitoring and Evaluation Officer kept the financial books and records for Williah and completed the Williah invoices at the FTH office. The OIG found Williah's quotations, invoices, receipts, and petty cash book filed in the laptop of the FTH Monitoring and Evaluation Officer.

Furthermore, there was evidence that two of the three members on the panel, which selected Williah, were the FTH Acting Director and Finance Manager. There was no indication that the FTH Acting Director and Finance Manager declared any conflict of interest, or recused themselves from the panel. The other panel member supposedly present during the selection acknowledged to the OIG that he had signed the selection minutes, without attending the meetings.

02 Improper Procurement Practices

Non-competitive tenders

The FTH Executive Director and FTH senior managers operated Williah as an extension of FTH. They steered / directed contracts to Williah despite the higher prices, thereby depriving the Global Fund of achieving the best value for money for the grant.

A review of FTH's procurement files showed that Williah has been an FTH vendor since April 2014 although it officially registered with the Service for Registration and Verification of Entrepreneurs in May 2014. Williah participated in 14 FTH tenders from May 2014 until June 2014, all valued above US\$ 500. Out of these tenders, Williah was directly awarded 11, with a total value of US\$ 46,825. In addition, Williah supplied printing, photocopying, and office supplies to FTH that amounted to US\$ 7,224 between April 2014 and December 2014. As discussed below, there are indications that the motorbikes amounting to US\$ 20,310 were also supplied through Williah despite FTH procurement files indicating that the tender was awarded to another vendor. In total, Williah supplied goods amounting to US\$ 74,359, which is 46% of the US\$ 162,259 FTH budget for non-health procurement for the period January-December 2014.

The OIG investigation confirmed that FTH's Executive Director purchased from Indonesia the items that FTH claimed to have bought in Timor-Leste through Williah. The FTH Executive Director paid for these items in cash and arranged for their shipment to Timor-Leste in May 2014 through an Indonesian-based shipping company. The shipping documents listed the FTH Executive Director and an FTH Regional Manager as FTH's focal points for the shipment. The arrangement was that the vendors would deliver their goods to the shipping company. The FTH Executive Director and the FTH Regional Manager delivered some items themselves.

A representative of the shipping company confirmed that the FTH Executive Director and the FTH Regional Manager showed an authorization letter (Surat Jalan) from FTH ordering the shipment with detailed descriptions of the shipped items. The OIG found this authorization letter as well as two sets of shipping lists in the FTH Monitoring and Evaluation Officer's FTH laptop. The FTH Regional Manager then received the items when they arrived in Timor-Leste.

As part of the scheme to purchase items in Indonesia at cheaper prices and then falsely invoice them for higher prices, FTH created procurement files to give the appearance that it awarded these contracts after competitive tenders. The Requests for Quotations, Panel Selection Memo and Purchase Orders for these procurements were undated. This is contrary to FTH's 2012 Finance Manual, which requires the procurement of goods and services to be competitive and transparent.

In particular, three competitive quotations are required for expenditures of US\$ 500 and above and FTH must follow specific procurement procedures as follows:

- (i) The relevant FTH staff identifies the needed procurement and fills out a Purchase Requisition Form;
- (ii) The FTH Finance Manager and/or FTH Accountant obtains a list of known suppliers for the required goods or services and contacts an adequate number of suppliers or sends a Request for Quotation letter;
- (iii) A selection panel (composed of at least one representative from Finance & Accounting and one representative from program personnel such as the Program Manager or Drop-In Center Officer) compares the quotations received and recommends a supplier for selection;
- (iv) The FTH Director reviews and provides final approval on the Purchase Panel Selection Memo as supported with a Comparison of Quotation; and
- (v) The FTH Finance Manager and/or FTH Accountant prepares a Purchase Order that is sent to the selected supplier, and the designated FTH staff verifies that the goods and services are received in good order, condition, and quality and documented in a Receiving and Inspection Report.

The OIG determined that the Global Fund overpaid a total of US\$ 38,173² for the items procured and shipped from Indonesia in May 2014. In order to determine the amount of inflation on the Williah invoices, the OIG relied on the authentic invoices from the Indonesian retailers who supplied the goods to the FTH Executive Director. In the absence of invoices from the retailers, the OIG relied on the prices reflected on the shipping invoice as reflective of the true price paid by FTH for the items bought in Indonesia. The OIG observed that FTH's procurement files do not include external documents evidencing delivery of items procured. As such, the OIG was not able to verify the number of items actually delivered to FTH, except for those items included in the FTH Asset List provided by FTH to the OIG on 10 February 2015. Thus, the OIG relied on the quantities reflected in the shipping invoice as reflective of the true quantity of items delivered to FTH.

A summary of the items procured in Indonesia, the amount of overpayment and other procurement irregularities noted by the OIG are in Annex B, Figure 1. See also Annex B, Figure 2 for the graphical comparison of items bought in Indonesia that were included in the May 2014 shipment. The OIG noted that there was a discrepancy in the quantity of hats, bags and t-shirts indicated in the shipping invoice compared to what was invoiced to FTH, which the OIG considered as non-delivered items with a total value of US\$ 845. Analysis of other Williah transactions showed that Williah overcharged for office supplies and printing compared to what other companies in Dili usually charge.

FTH acknowledged that it conducted direct procurement but claimed that the prices were higher than those identified by the OIG and included transport fees to Dili. FTH said that the Indonesian stores reported lower prices on the shipping invoices than the price actually paid to minimize importation taxes in Timor-Leste. However, FTH did not present the original receipts or invoices to support their claim that the Indonesian prices were higher than those reflected on the shipping invoice.

FTH also claimed that it had to move quickly with these procurements because of delayed disbursements from the Global Fund and that FTH struggled to find vendors for the items it needed. FTH stated that if they procured these items in Dili, they would be very expensive, be of poor quality and take longer to deliver. The OIG notes, however, that this does not explain why FTH created procurement files that gave the appearance that the tenders were competitive and charged the Global Fund with prices considerably higher than what was paid in Indonesia.

² For these procurements, as well as for other items bought in Indonesia, the prices and payments were in Indonesian Rupiah (IDR). For the purposes of currency conversion, the OIG applied the official exchange rates prevailing on the actual contract establishment or transaction dates, as established by Bank Indonesia (<http://www.bi.go.id/en/moneter/informasi-kurs/transaksi-bi/Default.aspx>).

Forged documents and overpricing

The OIG investigation found that FTH directly procured motorbikes, behavioral change communications materials and a laptop from Indonesia, through the FTH Executive Director, and fabricated the corresponding receipts. The OIG found unsigned quotations from vendors who allegedly submitted bids for, and won, these procurements in the FTH Monitoring and Evaluation Officer's FTH laptop (see Annex B, Figure 3: Examples of unsigned quotations for 2014 procurements found in the FTH Monitoring and Evaluation Officer's FTH laptop).

Motorbikes

According to FTH's procurement files, FTH issued two checks on 3 April 2014 for the procurement of 14 motorbikes for a total of US\$ 20,310.

Analysis of the supporting documentation raised questions as to the authenticity and competitiveness of the tender. While Williah was not awarded this procurement, the Receiving and Inspection Report for these goods contained in the procurement files show Williah's name as the supplier and not the vendor named in the Panel Selection Memo. The same Receiving and Inspection Report states that FTH received the motorbikes on 16 June 2014. However, the motor vehicle registration documents state that the units were registered under FTH's name as early as 30 May 2014. The OIG also obtained information confirming that a Williah representative delivered the motorbikes to FTH.

The OIG investigation confirmed that FTH's Executive Director purchased the motorbikes himself from a motorbike retailer in Surabaya, Indonesia, despite his previous statement to the OIG that the motorbikes were from Timor-Leste and that he does not remember the name of the vendor. The motorbike retailer's representative confirmed that the motorbikes were delivered to the Indonesian shipping company as part of FTH's May 2014 shipment. The FTH Executive Director bought the motorbikes for a total US\$ 13,731.17 without any vehicle registrations, so they were priced lower than those sold with registration. Thus, the amount overpaid by the Global Fund for this procurement is US\$ 6,578.83.

The OIG notes that the purported winning vendor of the motorbike tender is a company owned by the neighbor of FTH's Executive Director and Monitoring and Evaluation Officer. FTH falsely represented that this vendor competed and won the motorbike procurement, when in fact the FTH Executive Director procured the motorbikes from Indonesia. The OIG could not verify the purported winning vendor's existence at its indicated address in Fomento-Comoro, Dili, Timor-Leste. The OIG did not find the vendor's store at the location or in the surrounding area. The OIG likewise inquired with a few people in the area but no one was aware of the vendor. Further research showed that the vendor's Service for Registration and Verification of Entrepreneurs registration covers "Retail trade, except of motor vehicles and motorcycles/Retail sale in non-specialized stores (ISIC Code is 471)." Moreover, its name is spelled differently from its Service for Registration and Verification of Entrepreneurs registration and an enterprise list found in a government website.

Behavioral change communications materials

In August 2014, a small shop in a suburban area in Bali printed the first run of the behavioral change communications materials (7,400 pieces of two kinds of brochures). However, the signature on the invoice included in FTH's procurement files is not authentic. Moreover, the price charged by the shop was only US\$ 0.068 (IDR 800) per piece or a total of US\$ 507.33 (IDR 5,920,000) and not US\$ 0.15 per piece (IDR 1,750.35) or a total of US\$ 1,100 as shown in FTH's procurement files. The amount overpaid by the Global Fund for this procurement is US\$ 592.67.

A different vendor in Semarang, Indonesia printed the second run of the same behavioral change communications materials (16,958 pieces of 2 kinds of brochures) in December 2014. The vendor's representative confirmed that the FTH Executive Director himself placed the print orders and asked for a marked-up price using a different invoice, as the shop's invoice was not official and representative enough for FTH. The vendor's representative prepared the marked-up invoice upon the instruction of the FTH Executive Director. The actual price was only US\$.028 (IDR 350) per piece, or a total of US\$ 484.27 (IDR 5,935,300), which is lower than the price reflected in the two invoices – one in IDR and one in US\$ – found among the checkbooks kept in the FTH Finance Manager's desk drawer. In both invoices, the price was 400% more than the original prices – IDR 31,253,594 and US\$ 2,543.70, respectively. The price difference between the amount indicated in the invoices kept in the FTH Finance Manager's desk drawer and the amount confirmed by the Indonesian vendor is US\$ 2,059.43. The OIG notes that as of 31 March 2015, FTH has not charged the expense for the second run to the Global Fund.

Over-priced laptop

FTH issued a check dated 8 August 2014 for the procurement of a Sony Vaio laptop for US\$ 1,200. The files included quotations from a vendor in Dili and two vendors in Bali, Indonesia. One of the Bali vendors won the bid. The OIG found the winning vendor's unsigned invoices in the FTH Monitoring and Evaluation Officer's FTH laptop. The OIG confirmed from the winning vendor's representative that the FTH Executive Director actually bought the laptop for IDR 12,000,000 (US\$ 1,028.37). Further, the winning vendor's representative did not prepare the quotation and invoice found in FTH's procurement files. The amount overpaid by the Global Fund for this procurement is US\$ 171.63.

While the Ministry of Health noted that the laptop price was over the budgeted amount of US\$ 1,000 and asked for a refund of US\$ 200, the OIG did not find evidence that FTH refunded US\$ 200 to FTH's bank account.

Improper procurement of 2014 behavioral change videos

FTH's procurement of two behavioral change videos was improper and did not undergo a competitive tender process. In 2014, FTH procured two 'behavioral change' videos for men who have sex with men and female sex workers at US\$ 4,000 each. There was no request for Ministry of Health approval to conduct the procurement and no request to the Ministry of Health to conduct a sole source procurement due to exceptional circumstances. FTH did not follow a competitive process and did not form a selection panel to select the vendor. FTH selected a company in Dili to produce the videos at US\$ 4,000 each, which was the exact cost allocated in the budget. There was no contract signed between FTH and the vendor. The OIG found an unsigned copy of the vendor's proposal dated 27 August 2014. There was also a quotation dated 14 January 2015, for US\$ 10,450 from another vendor, which postdated the filming.

As a result, the Global Fund cannot, at this time, determine whether value for money was achieved. Once determined, any difference between the market rate and the price paid for the first video should be reimbursed to the Global Fund. The market price should be considered for any future payment requests for the second video.

Records show that the Ministry of Health raised concerns regarding the appropriateness of this procurement to the Global Fund on 6 February 2015 before the filming of the second video. The Global Fund responded that the procurement was not in line with the processes in the draft Procurement Manual and that the Sub-recipient Management Manual (approved on 4 December 2012) provides that sub-recipients should seek approval from the Ministry of Health for any and all procurements.

The OIG notes that the Sub-recipient Management Manual requires sub-recipients to follow the Procurement and Supply Manual for any and all procurements and acquisitions approved by the Ministry of Health upon the request from the sub-recipient. However, the Procurement and Supply Manual remained a draft document and the Sub-recipient Management Manual does not contain guidance on conducting sole selection for procurements.

Despite this, the OIG found that the Ministry of Health provided unclear and insufficient guidance to FTH regarding the video procurements. Although FTH provided, at the Ministry of Health's request, a letter dated 30 January 2015 (after the men who have sex with men video was completed and paid for) explaining why it was not necessary to get three quotations, there was no evidence that the Ministry of Health provided a response to FTH's 30 January 2015 letter. The Ministry of Health did not provide written permission to FTH for sole selection. It was not until 21 April 2015 that the Ministry of Health wrote to FTH stating that the National Finance Consultant suggested to FTH management not to continue with production of the second video.

The OIG notes that the Global Fund Secretariat has undertaken steps to determine whether the price paid for the first video was the market rate. The Global Fund Secretariat requested the Ministry of Health to confirm the purchase price with the vendor and the Local Fund Agent to obtain quotes and check the reasonableness of that price against the market rate. Any difference in the rate paid for the first video and the price quoted for the second video with the identified market rate will be eligible for reimbursement to the Global Fund.

Lack of compliance with internal procedures

The OIG reviewed 16 non-health procurements conducted by FTH in 2012 that amounted to US\$ 72,789 and found irregularities in 13 procurements valued at US\$ 24,920. The details on the irregularities identified by the OIG and relevant procurements involved are set out in Figure 1 below:

Figure 1: Non-compliant FTH 2012 procurements totaling US\$24,920

Irregularity identified	Relevant Procurement
Request for Quotations and quotations pre-dating the Purchase Requisition Form	<ul style="list-style-type: none"> For a sound system (US\$ 1,500), the Request for Quotation was dated 23 March 2012 while the Purchase Requisition Form was dated 29 March 2012. For bookshelves (US\$ 1,000), the Request for Quotation was dated 4 April 2012 while the Purchase Requisition Form was dated 9 April 2012. For furniture and fittings (US\$ 1,800), the Request for Quotation was dated 4 April 2012 while the Purchase Requisition Form was dated 9 April 2012. For a printer (US\$ 470), both quotations dated 12 June 2012 as well as the Panel Selection Memo dated 13 June 2012 were before the Purchase Requisition Form dated 14 June 2012. For water dispensers (US\$ 750), the quotations from the winning vendor (28 June 2012) and another vendor (27 June 2012) were dated before the Purchase Requisition Form dated 2 July 2012. For plastic chairs (US\$ 400), the winning vendor's quotation dated 30 June 2012 and the Panel Selection Memo dated 30 June 2012 were before the Purchase Requisition Form dated 2 July 2012.
Quotations dated after the Panel Selection Memo	<ul style="list-style-type: none"> For computer notebooks (US\$ 11,000), the request for quotation is dated 6 March 2012, quotations from three vendors were dated 5 May 2012 and dated 7 March 2012, whereas the Panel Selection Memo was dated 4 May 2012. For bags, t-shirts, and hats (US\$ 2,400), the quotations were dated 4 May 2012 and 5 May 2012, while the Panel Selection Memo was dated 2 May 2012. For a projector (US\$ 1,100), the winning vendor's quotation was dated 7 May 2012, which was after the Panel Selection Memo dated 2 May 2012.
Undated Purchase Order	For a sofa (US\$ 800), the Purchase Order was not dated. Vendor quotations were also undated.
Receiving and Inspection report pre-dating the Purchase Requisition Form	For conference tables (US\$ 1,200), the Inspection and Receiving Report dated 6 July 2012 was dated before the Purchase Requisition Form dated 9 July 2012. Further, the quotations from three vendors were all dated 4 July 2012 and the Panel Selection Memo dated 4 July 2012.
Panel Selection Memo pre-dating the Request for Quotation	For furniture and fittings (US\$ 1,800), the Panel Selection Memo was dated 29 March 2012, before the Request for Quotation dated 4 April 2012. Further, FTH's procurement files contained quotations from two vendors (instead of the required three).
Lack of competitive tenders	<ul style="list-style-type: none"> The procurement of a Lenovo desktop computer (US\$ 1,100) was not competitively tendered. FTH directly procured the computer from a shop in Jakarta and paid for

	<p>a US\$ 100 shipping fee. There is no explanation contained in the procurement files why this was so.</p> <ul style="list-style-type: none"> • The procurement of television sets (US\$ 1,400; 2 sets @ US\$ 750) was not competitively tendered. FTH directly procured the television sets from a vendor in Dili without explaining why this was so.
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The OIG also found unsigned quotations on the FTH Finance Manager’s FTH desktop computer relating to these procurements. Moreover, quotations from three vendors appear to be very similar to the blank quotation template found in the FTH Finance Manager’s computer (see Annex B, Figure 4: Sample comparison of quotations for a 2012 procurement).

FTH has not been complying with its own internal procurement procedures. The Ministry of Health did not identify these problems, provide adequate procurement guidance, and/or address the irregularities on how FTH conducted its procurements. FTH claimed that it was unaware of these mistakes, as the Ministry of Health did not identify them during their verification reviews.

Agreed Management Action No. 1: The Global Fund 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.

Agreed Management Action No. 2: The Global Fund Secretariat will require the Ministry of Health to formulate a risk mitigation plan that systematically addresses risks and initiates the requisite controls to improve financial management and procurement of non-health related products, in addition to fiscal and management oversight at the sub-recipient level. The Fiscal Agent’s terms of reference will require the Fiscal Agent to monitor and report on the implementation of this plan.

Agreed Management Action No. 3: Based on the findings of this report, the Global Fund Secretariat will take appropriate action towards the individuals identified in this report, for example restricting those individuals from occupying any positions related to the implementation of Global Fund grants.

03 Inadequate Financial Controls

Cash-based payment system

The use of cash payments allowed FTH to hide the true amounts paid and the beneficiaries of these payments.

In 2014, FTH procured motorbikes with an invoice value of US\$ 20,310. The OIG investigation confirmed that two checks for US\$ 10,000 each, totaling US\$ 20,000, were cashed on 3 April 2014 from FTH’s Global Fund Bank Account. The FTH Accountant told the OIG that this cash was put directly into the FTH safe, where it remained until the cash was taken to the vendor, over two months later. However, the investigation confirmed that in reality, FTH transferred this money to a bank account in Indonesia on 4 April 2014, via a money transfer provider at the instruction of the FTH Executive Director. More specifically, this transfer was made in eight installments of varying amounts, for a total of US\$ 15,000. Subsequently, the FTH Monitoring and Evaluation Officer (then-FTH Human Resources Officer and the FTH Executive Director’s wife) received the remaining US\$ 5,000 in cash to reimburse personal money allegedly used by the FTH Executive Director. Further OIG inquiries established that the Indonesian bank account where the US\$ 15,000 was transferred to is in the name of the owner of an Indonesian vendor who sold laptops and a desktop computer to FTH.

A review of FTH’s procurement files showed that FTH issued multiple check vouchers paid to cash for the 2014 procurement of motorbikes instead of withdrawing the exact amount needed with a single check voucher. As mentioned above, two US\$10,000 checks made to cash were issued to cover

the total cost of US\$ 20,310. These two checks were US\$ 310 short of completing the total purchase price. The checks were cashed on 3 April 2014, while the invoice requesting payment to the purported winning vendor was dated 16 June 2014. The OIG investigation discovered that approximately two months later, FTH covered its procurement of 23 laptops and one desktop computer, amounting to US\$ 23,325, with two checks for US\$ 12,000 and US\$ 11,635 each. The excess of US\$ 310 was said to cover the balance for the motorbikes. FTH staff provided inconsistent explanations as to why this was done. The FTH Accountant explained that the bank would not cash checks above US\$ 10,000; however, FTH had cashed checks above US\$ 10,000 for the laptop procurement.

FTH claimed that the Ministry of Health did not flag the use of cash as an issue during their verification reviews. Following the OIG's investigation, the Ministry of Health required FTH to use checks for expenditures higher than US\$ 500, including for staff salary. Use of cash payments is not regulated by the sub-grant agreement and is based on the sub-recipients' internal manuals. Contrary to FTH's claim, their Finance Manual does state that payments must be made by check or bank transfer and cash payment is only permitted for minor expenses.

Insufficient/missing supporting documentation

FTH cashed checks for payment before receiving the complete supporting documentation, in violation of FTH's Finance Manual. FTH also violated the Sub-recipient Management Manual, which requires sub-recipients to keep up-to-date records and documents related to each expenditure incurred with the funds disbursed from the Ministry of Health.

The OIG investigation determined that FTH did not observe its own internal finance procedures with respect to keeping supporting documents for expenditures. The OIG investigation found that FTH issued 36 checks for expenditures incurred between January and early February 2015 amounting to US\$ 38,552 without sufficient supporting documents. In particular, the check vouchers for all 36 transactions were blank, and other than the Payment Requisition Forms and bills for telephone and electricity, there were no other documents appended to the check vouchers such as invoices, receipts showing proof of payment, pay slips signed by FTH staff or name sheets signed by peer educators. All these checks were cashed and the expenses charged to the Global Fund.

In addition, the OIG found one check voucher dated 30 March 2014 for a rental payment amounting to US\$ 3,825 without any supporting documents apart from the Purchase Requisition Form. This is unlike the other three check vouchers for rental payments examined by the OIG, which contained signed invoices and identifications of the lessors.

Additionally, a check voucher dated 4 March 2014 for US\$ 3,825 for training expenses of peer educators for sex workers had incomplete supporting documents. Apart from a peer education training request, which is a one-page summary of expenses attached to the Purchase Requisition Form, this check voucher does not contain other supporting documents such as invoices, list of transport, per diems and accommodation for participants or training materials which were included in the other peer educator training check vouchers reviewed by the OIG.

The OIG also noted that there was no Panel Selection Memo for two procurements for behavioral change communications material and pamphlet printing, which were not awarded to Williah.

The OIG found that FTH used the same vendor quotations for multiple procurements of bags, t-shirts, caps and paper bags. The OIG observed that there was only one set of original quotations that was used to support the three check vouchers for these three different procurements. The vendor quotations that were used multiple times did not indicate the quantity of the items to be purchased.

In response to OIG findings, FTH claimed that the districts had not yet submitted supporting documents to FTH's office in Dili. Contrary to FTH's claim, the unsupported expenditures included non-district related expenses, such as FTH's annual review, rent for their Dili office, landline phone

bills, office supplies, and motorbike maintenance. Moreover, the rental expense at issue was for March 2014, which was almost a year earlier than the OIG's visit to FTH. With regard to the use of the same quotation for multiple tenders, FTH claimed that it was difficult to find other quotations in Dili. The OIG notes that using the same quotations that are incomplete makes it impossible for external reviewers to determine whether FTH legitimately obtained the quotations to support the particular procurement.

Inadequate cash advance monitoring

In order to monitor cash advances, FTH keeps booklets of carbon copy / receipts without serial numbers that are supposedly "cancelled" when the activities are held or when purchases are completed. As such, it is difficult for external reviewers to verify against which budget activity the advance was made, the amount of time a cash advance has been outstanding, and if the cash advance has already been liquidated.

Without adequate control, FTH's cash advance monitoring is highly vulnerable to manipulation. The OIG noted that there is no way for FTH's accounting system to alert the Ministry of Health if there is a change in any of the entries. As a result, FTH's accounting system is not able to provide control over unauthorized entries, which makes it vulnerable to manipulation.

In its response to the OIG findings, FTH stated that it does not use cash advances. However, FTH's response is inconsistent with previous statements made by the FTH Finance Manager and FTH Accountant to the OIG. The FTH Finance Manager and FTH Accountant told the OIG that cash advances are allowed for activities like training, inter-district meetings, travel and procurements. The OIG further notes that FTH's Finance Manual contains a provision on travel advances and the need to properly and completely account for them before they are expensed.

The OIG also learned that entries of transactions into FTH's accounting system could be changed after the reporting period. As explained by the Ministry of Health, the accounting system is only used by FTH for recording transactions, reconciling bank transactions, and generating reports. FTH claimed that any changes were due to verification results provided by the Ministry of Health. FTH also claimed that the Ministry of Health did not question the system. The OIG notes that the Ministry of Health did not comment on this particular finding.

Commingled accounts

Weak financial controls and poor record-keeping made it difficult for the Global Fund to have reasonable assurance that grant funds and resources are used solely for program purposes.

In February 2015, the FTH Accountant and Acting Director told the OIG that the organization maintains only one bank account in ANZ Bank (Global Fund Bank Account). The FTH Executive Director and the Acting Director also said that the Global Fund is the only donor that supports FTH.

The OIG investigation discovered other FTH bank accounts, including for the 'NSE' Project, for the welfare fund where the 13th salary deduction (family allowance) from FTH staff is kept, and a fourth undisclosed bank account (Account No. xxx512) which is the FTH Board Account. The FTH Executive Director refused, and FTH continues to refuse, to provide details on the source of funds in the Board Account or the amount of contributions from FTH Board members to this account.

Analysis of the FTH Board Account showed indications that FTH received funds from other sources in addition to the Global Fund grant. These assets were commingled in the FTH Board Account. In its response to the OIG findings, FTH acknowledged receiving funding from a foreign university for its household survey in Timor-Leste. The OIG found that this funding included financial compensation for staff time. FTH claimed that five FTH staff worked on the household survey as

supervisor or enumerators from November-December 2014 but were not receiving their FTH salary for the same period. However, the OIG's investigation revealed that the salaries of these five staff are 100% charged against the Global Fund and, contrary to FTH's claim, were fully paid during the period that they were working for the other donor's household survey. The OIG also notes that FTH is working with a foreign-funded non-governmental organization in the latter's sexual reproductive training program for the youth. Three FTH staff, including senior management, conducted or were involved in the trainings. Similarly, at least two of these staff members received full Global Fund salaries for the month (March 2013) that they did this work.

The OIG also found that FTH commingled funds for different purposes and from various sources that are not properly reconciled, including for personal loans to FTH Board members. For instance, the FTH Monitoring and Evaluation Officer confirmed a 16 December 2013 US\$ 10,000 withdrawal from the FTH Board Account by the FTH Executive Director. This money was allegedly used to cover Global Fund-related expenses because the Global Fund's disbursement was not yet available. The FTH Monitoring and Evaluation Officer claimed that this money was later reimbursed. The OIG did not find evidence of a deposit in the FTH Board Account that matches this reimbursement, nor did the OIG find a withdrawal from the Global Fund Bank Account for the period 6 December 2013 to 4 February 2015 that matches this reimbursement. The OIG also found documents in the FTH Finance Manager's FTH desktop computer indicating that FTH was involved in money lending/borrowing activities between March 2012 to February 2014, including loans to a then-Country Coordinating Mechanism official, the landowner of one of FTH's office buildings and the FTH Executive Director. The other documents dating back to 2009 included loans to non-FTH staff, loans from the FTH Board in early 2012 as well as a blank template receipt (in Bahasa Indonesian) for loans.

In its response to the OIG findings, FTH acknowledged that it had received support from other sources, previous partners prior to its relationship with the Global Fund, and some individuals but claimed that this support was only to assist programs implemented by other partners. FTH also stated that they used some money from the FTH Board Account to provide loans, but that this money was not from the Global Fund nor were the loans interest earning. Furthermore, these loans were in small amounts that were not documented.

04 Irregular Human Resources Practices

Underqualified staff in the position of Finance Manager

FTH placed underqualified individuals into the Finance Manager role including an owner of Willah, who was paid significantly higher than her predecessors.

In late 2013, the FTH Finance Manager resigned. Initially, FTH appointed the Executive Director's wife as the replacement, but the Ministry of Health advised that this was not acceptable. Then, FTH placed an individual who was relatively new to FTH and who FTH believed did not have sufficient experience to be formally appointed to the position. FTH stated that this individual was put on a trial period for six months and was paid a monthly salary of US \$450. After eight months, in August 2014, FTH replaced this individual with another FTH staff member (the current Finance Manager and a Willah owner) who had been working at FTH since 2006. This individual was similarly underqualified for the position, having only a project background. The current Finance Manager receives a higher salary of US\$ 718 per month.

Regarding the salary disparity, FTH explained that the difference in salary between the present and preceding Finance Manager was due to their probationary status and junior level. However, the investigation confirmed that the preceding Finance Manager had served as FTH's Accountant for eight months prior to becoming Finance Manager. In contrast, the current Finance Manager had no finance/accounting background or training prior to being appointed to the position, yet was paid the higher monthly salary. The OIG further observed that when asked about her day-to-day roles and

responsibilities, the current Finance Manager did not appear to be fully knowledgeable of her function and did not accurately explain the vendor verification process that she claimed to conduct.

In response to the OIG findings, the Ministry of Health recognized that none of the staff assigned to the Finance Manager position at FTH was capable, or had the necessary qualifications and experience in finance management. This resulted in the poor accounting records and compliance.

FTH's Welfare Trust Fund discrepancy

The investigation identified that FTH is not accurate in its internal accounting of the welfare fund, which has resulted in a discrepancy of over US\$ 700. FTH stated that due to a delay in Global Fund disbursement, it borrowed from the Welfare Fund to finance FTH activities.

FTH staff's salary (total take home pay) is made up of two components – a basic salary and a family allowance. In addition, FTH staff receive a 13th salary that is paid for by the Global Fund. In 2013, FTH established an Employee Welfare Trust Fund to meet its obligations as an employer under the Labour Code of Timor-Leste³ to cover additional employee-related costs such as termination and other benefits, which are not covered by regular employee salary and allowances. One of the sources for the Employee Welfare Trust Fund is a withdrawal from salary budget, which according to FTH policy shall be “an amount equal to or less than one month's Family Allowance per employee per year, for any employee employed more than 12 months.” All income of the trust fund is to be kept in a separate bank account set up for this purpose.

The PT Bank Mandiri statement dated 13 February 2015, showed only one deposit of US\$ 4,272.90, (for the 2013 welfare fund contribution), which was made on 19 May 2014. There was no 2014 payment made. Since this OIG finding, FTH has deposited the 2014 contribution and the balance of the FTH Welfare Fund account stands at US\$ 8,706.66. However, FTH said in its response to the OIG finding that the total Welfare Fund payments for 2013 and 2014 are US\$ 9,423.40, a discrepancy of over US\$700. The OIG notes that according to FTH staff lists, the amount should be US\$ 9,654.48, leaving the fund in deficit of US\$948.

Agreed Management Action No. 2: The Global Fund Secretariat will require the Ministry of Health to formulate a risk mitigation plan that systematically addresses risks and initiates the requisite controls to improve financial management and procurement of non-health related products, in addition to fiscal and management oversight at the sub-recipient level. The Fiscal Agent's terms of reference will require the Fiscal Agent to monitor and report on the implementation of this plan.

05 Insufficient and Inadequate Ministry of Health Oversight of FTH

The Ministry of Health's oversight over FTH's procurements was insufficient and inadequate. In contrast to the requirement in the Sub-recipient Management Manual the Ministry of Health allowed FTH to conduct its own procurements without prior approval and did not provide adequate guidance and support to FTH.

During the investigation, the OIG learned that:

- (i) sub-recipients follow their own procurement procedures that they themselves approve;
- (ii) the Ministry of Health does not need to approve the sub-recipients' procedures;
- (iii) sub-recipients did not need to seek prior Ministry of Health approval before conducting procurements and there is no value limit to sub-recipient procurements as long as they are within the budget;

³ Law 4/2012, approved on 20 December 2011.

- (iv) only if a procurement is over budget or not budgeted for do the sub-recipients need to seek advance approval from the Ministry of Health; and
- (v) there is no procedure for sub-recipients to conduct single source procurement and exceptional circumstances must be discussed with the Ministry of Health.

The OIG also established that the Ministry of Health only reviewed FTH's procurements as part of a quarterly expenditure review. For FTH in particular, the Ministry of Health Global Fund Division's National Finance Consultant conducted the expenditure verification because it is the largest sub-recipient for HIV. Apart from the quarterly expenditure review, there are no other financial reviews done by the Ministry of Health for the sub-recipients.

The OIG further found that the Ministry of Health's review notes are in an excel format that are not added or appended to the revised Progress Updates/Disbursement Requests (PUDR) submitted by FTH, and the clarifications obtained from the sub-recipients are not filed in a central or systematic manner. There are two international technical advisors (one for program and one for finance) in the Ministry of Health Global Fund Division who are tasked to build organizational and institutional capacity within the Ministry of Health for project management and implementation of the Global Fund supported programs. Despite the presence of these international program and finance advisors, the Ministry of Health did not conduct any trainings regarding procurements for FTH or any sub-recipient. Neither has the National Finance Consultant received any formal training on procurement.

The OIG observed that the National Finance Consultant did not fully understand the requirements of competitive tenders or the procurement procedures. For example, the National Finance Consultant asked the sub-recipients to obtain three quotations even after the procurements were completed. As discussed in Finding 2 of this report, FTH improperly procured the two behavioral change communications videos in 2014 and the Ministry of Health provided unclear and insufficient guidance to FTH despite knowledge of said procurements.

With respect to Williah, the OIG found a copy of Williah's Authorization to Conduct Activity (Autorizasaun atu Hala'o Atividade/Persetujuan untuk Melakukan Kegiatan Usaha) among what the National Finance Consultant referred to as clarification documents submitted by FTH in Q11. When asked the purpose for the said submission, the National Finance Consultant explained that he found many receipts coming from Williah so he wanted to verify whether the company existed. The National Finance Consultant found FTH's submission of Williah's authorization sufficient but he had no other conversation with FTH about this company.

The OIG investigation found that the National Finance Consultant did not flag the date discrepancies and other irregularities noted by the OIG in the 2012 procurements. According to FTH, the Ministry of Health did not inform them of the irregularities and so they did not consider them as errors in their conduct of procurements. Neither did the National Finance Consultant detect the irregularities in the Q10 (April-June 2014) procurements that Williah participated in. The National Finance Consultant also did not document his observation that Williah was closed when he visited the shop during his verification review for Q11 (July-September 2014).

The Ministry of Health acknowledged its lack of oversight of FTH and that FTH lacked capacity, qualification and experience of finance staff. The Ministry of Health likewise recognized that its verification review was limited because the National Finance Consultant had to rectify the mistakes in FTH's accounting records. Despite this, the Ministry of Health did not adopt enhanced measures, such as assigning another finance officer to assist or letting the international finance advisor conduct the verification reviews at FTH in order to ensure that FTH complies with the requisite procedures.

Inadequate oversight over FTH's financial controls

The OIG found that the Ministry of Health has not exercised sufficient and adequate controls on FTH's financial systems. The National Finance Consultant informed the OIG that FTH pays their transactions by check and not in cash. Nevertheless, as discussed above and contrary to the National Finance Consultant's statement, the OIG investigation uncovered that FTH's transactions have been solely cash-based. Although checks were drawn against FTH's Global Fund Bank Account, these checks were marked "Pay to Cash" and were thereafter withdrawn. Vendors/suppliers were paid in cash. This practice continues at FTH despite a functioning banking system in Timor-Leste that allows for bank transfers and for the existence of checking accounts.⁴

The Ministry of Health claimed that the National Finance Consultant failed to state clearly that he was aware that FTH check payments were made to cash instead of paid to vendors. The OIG notes that the National Finance Consultant made this statement to the OIG in the presence of other Ministry of Health staff including the two international technical advisors during the OIG's in-country visit in February 2015. None of the other attendees of that meeting corrected the National Finance Consultant's statement at that time.

Agreed Management Action No. 4: The Global Fund Secretariat will appoint an external Fiscal Agent to provide financial, procurement and program management capacity building and knowledge transfer while ensuring appropriate fiscal oversight and control to the grant-funded portfolio (including the Ministry of Health and sub-recipients) starting no later than 1 January 2016.

⁴ There is currently one bank that offers internet banking services and the major banks in Timor-Leste appear to require account holders to keep a minimum balance.

IV. Conclusion

FTH contracts were steered to a company owned and operated by FTH and its senior managers, in violation of the Global Fund's Code of Conduct for Recipients, the grant agreements, and FTH's own finance manual. FTH practiced a cash-based payment system that obscured the amounts paid and actual recipients of the payments, and allowed FTH to fabricate supporting documents and inflate prices to hide the true prices of the items procured. FTH has weak financial controls and poor record keeping. In addition, the Ministry of Health exercised insufficient oversight over FTH. These factors resulted in FTH's conducting irregular and fraudulent procurements, thereby putting Global Fund assets at risk.

The non-compliant expenditures resulting from FTH's non-competitive tenders and improper procurement practices amounted to **US\$ 152,626**, of which **US\$ 39,782** was the combined total attributed to fraud, overpayment and non-delivery of items and is eligible for reimbursement to the Global Fund.

Figure 2: Calculation of non-compliant expenditures related to FTH's irregular procurement practices

Non-compliant Expenditures	Amount of Non-compliant Expenditures (US\$)	Amount of overpayment of items (US\$)	Amount of non-delivery of items (US\$)
Value of items supplied by FTH/Williah	74,359.08	38,173.51	
BCC Video 1	4,000.00	<i>TBD*</i>	
BCC materials (August 2014)	1,100.00	592.67	
Laptop (August 2014)	1,200.00	171.63	
2012 Irregular Procurements	24,920.00		
Price of undelivered items supplied by FTH/Williah	845.00		845.00
Unsupported expenditures	46,202.10		
TOTAL	152,626.18	38,937.81	845.00
<i>* Amount of overpayment, if any, to be determined</i>			

V. Table of Agreed Management Actions

#	Category	Agreed Management Action	Due date	Owner
1	Financial and Fiduciary Risks	The Global Fund 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.	30 June 2017	Recoveries Committee
2	Governance, Oversight and Management Risks	The Global Fund Secretariat will require the Ministry of Health to formulate a risk mitigation plan that systematically addresses risks and initiates the requisite controls to improve financial management and procurement of non-health related products, in addition to fiscal and management oversight at the sub-recipient level. The Fiscal Agent's terms of reference will require the Fiscal Agent to monitor and report on the implementation of this plan.	Risk mitigation plan to be completed within 90 days of the commencement of the Fiscal Agent's term	Head, Grant Management Division
3	Governance, Oversight and Management Risks	Based on the findings of this report, the Global Fund Secretariat will take appropriate action towards the individuals identified in this report, for example restricting those individuals from occupying any positions related to the implementation of Global Fund grants.	31 March 2016	Head, Grant Management Division
4	Governance, Oversight and Management Risks	The Global Fund Secretariat will appoint an external Fiscal Agent to provide financial, procurement and program management capacity building and knowledge transfer while ensuring appropriate fiscal oversight and control to the grant-funded portfolio (including the Ministry of Health and sub-recipients) starting no later than 1 January 2016.	1 January 2016	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.⁵

While the Global Fund does not typically have a direct relationship with the recipients’ suppliers, the scope of the OIG’s work⁶ 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.⁷ The OIG relies on the cooperation of these suppliers to properly discharge its mandate.⁸

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.⁹

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 Suppliers¹⁰ or the Code of Conduct for Recipients of Global Fund Resources¹¹ (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.¹²

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

⁵ Charter of the Office of the Inspector General (19 March 2013), available at: <http://theglobalfund.org/documents/oig/OIGOfficeOfInspectorGeneralCharteren/>, accessed 01 November 2013.

⁶ Charter of the Office of the Inspector General (19 March 2013) § 2, 9.5 and 9.7.

⁷ *Ibid.*, § 17.1 and 17.2

⁸ Global Fund Code of Conduct for Suppliers (15 December 2009), § 17-18, available at: <http://theglobalfund.org/documents/corporate/CorporateCodeOfConductForSuppliersPolicyen/>, 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.

⁹ 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.

¹⁰ See fn. 16, supra

¹¹ Code of Conduct for Recipients of Global Fund Resources (16 July 2012) available at: <http://theglobalfund.org/documents/corporate/CorporateCodeOfConductForRecipientsPolicyen/>, 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.

¹² Charter of the Office of the Inspector General (19 March 2013) § 8.1

appropriate, the recipients, their suppliers and/or the concerned national law enforcement agencies, for action upon the findings in its reports.

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.

01 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.¹³

The Codes notably provide the following definitions of the relevant concepts of wrongdoings:¹⁴

- “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.

¹³ Code of Conduct for Recipients of Global Fund Resources, section 3.4.

¹⁴ Available at: <http://theglobalfund.org/documents/corporate/CorporateCodeOfConductForRecipientsPolicyen/> and http://theglobalfund.org/documents/corporate/Corporate_CodeOfConductForSuppliers_Policy_en/

- “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.
- “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.

02 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.¹⁵ 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 as well as Principal Recipients.¹⁶

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”.¹⁷

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.¹⁸

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.”¹⁹

¹⁵ The STC are revised from time to time, but the provisions quoted below applied to all Principal Recipients at the time of the investigation.

¹⁶ Standard Terms and Conditions (2012.09) at Art. 14(b):

<http://www.theglobalfund.org/documents/core/grants/CoreStandardTermsAndConditionsAgreementen>

¹⁷ Id. at Art. 9(a) and Art 18(f)

¹⁸ Id. at Art. 18(a)

¹⁹ Id., at Art. 21 (b)

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.”²⁰

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 of said fundamental principles of equity, integrity and good management. The Codes also provide useful definitions of prohibited conducts.²¹

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.²² 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.²³

Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including expenses made by Sub-recipients and contractors.²⁴

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.

03 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.”²⁵

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.”²⁶

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.

²⁰ Id. at Art. 21(b)

²¹ Available at: <http://www.theglobalfund.org/documents/corporate/CorporateCodeOfConductForSuppliersPolicyen> ; <http://www.theglobalfund.org/documents/corporate/CorporateCodeOfConductForRecipientsPolicyen>

²² Standard Terms and Conditions (2012.09) at Art. 21(d)

²³ Id. at Art. 21(e)

²⁴ Id. at Art. 14

²⁵ Id. at Art. 27(b) and (d)

²⁶ Id.

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.

On 16 July 2015, the OIG provided a copy of the OIG's statement of findings and supporting annexes on its investigation of procurement activity conducted by FTH to the Ministry of Health and FTH. They also had the opportunity to provide comments and supporting documents 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 considered in support of this final report. The Ministry of Health and FTH provided their responses on 31 July 2015.

Given these responses, the OIG proceeded to the next stage of the investigation as per its Stakeholder Engagement Model. All points made by the subjects were duly considered by the OIG and appropriate revisions were made to its findings, as applicable and relevant, as part of this final report.

Annex B: Exhibits

Figure 1: Items procured in Indonesia that were included in the May 2014 shipment and charged to the Global Fund at inflated prices (US\$)

Date of FTH Check vouchers	Item(s) procured	Amount paid to Indonesian retailer	Amount invoiced to FTH	Amount overpaid by the Global Fund	Other procurement irregularities noted
3 April 2014	14 motorbikes	13,731.17	20,310	6,578.83	<i>Note: The full discussion of the motorbike procurement can be found on page 9 of this report.</i>
23 April 2014	23 laptops and one desktop	5,477.77	23,325	17,847.23	<ul style="list-style-type: none"> - FTH prepared two check vouchers that were almost two months apart for a single expense item, with one check voucher pre-dating the quotations from the vendors and the Purchase Requisition Form came after the quotations. - One of the check vouchers does not contain any supporting documents. - Williah's and another vendor's unsigned quotations were found in the FTH Monitoring and Evaluation Officer's FTH laptop. - There were two Williah unsigned quotations with different prices and a price gap around US\$ 25-US\$ 100 per item. The Williah quotation that appears as the final one is the more expensive one.
25 June 2014	5 double beds	518.80	1,250	731.20	<ul style="list-style-type: none"> - Williah's quotation was dated before the Purchase Requisition Form. - Williah's unsigned quotation was found in the FTH Monitoring and Evaluation Officer's FTH laptop.
25 June 2014	5 printers	244.12	1,370	1,125.88	<ul style="list-style-type: none"> - FTH's procurement file contained only two, instead of the required three, quotations. - There were two unsigned Williah quotations found in the FTH Monitoring and Evaluation Officer's FTH laptop, containing different prices. The one that appears as the final quotation is the more expensive one.
25 June 2014	1 sound system	1,367.97	2,000	632.03	<ul style="list-style-type: none"> - Williah's and another vendor's unsigned quotations were found in the FTH Monitoring and Evaluation Officer's FTH laptop. - Williah won despite it not being the lowest bid.

25 June 2014	8 director (iron) chairs and 35 staff chairs	497.31	1,830	1,332.69	<ul style="list-style-type: none"> - FTH's procurement file contained only two, instead of the required three, quotations. - Williah's unsigned quotation was found in the FTH Monitoring and Evaluation Officer's FTH laptop.
30 June 2014	38,000 paper bags	2,430	7,600	5,170.00	<ul style="list-style-type: none"> - Williah's unsigned quotation was found on the FTH Monitoring and Evaluation Officer's FTH laptop. - Further, the quotation from one of the vendors is similar to a template quotations found in the FTH Finance Manager's FTH HP desktop computer.
30 June 2014	315 hats 315 bags 315 t-shirts	4,694.35	9,450	4,755.65	<ul style="list-style-type: none"> - Williah's quotation was dated before the Purchase Requisition Form. - Williah's unsigned quotation was found in the FTH Monitoring and Evaluation Officer's FTH laptop. - The quotation from one of the vendors is similar to a template quotation found in the FTH Finance Manager's FTH HP desktop computer.
	TOTAL			38,173	

Figure 2: Price Comparison of items bought in Indonesia that were included in the May 2014 shipment

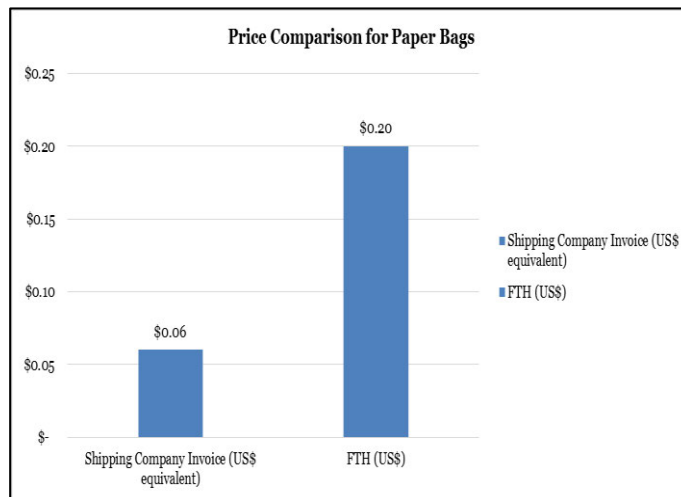
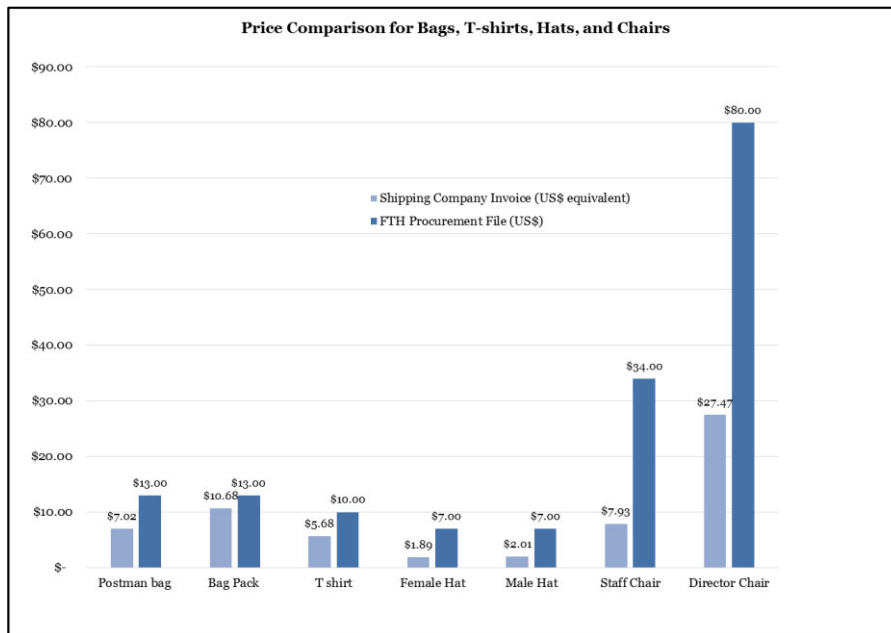
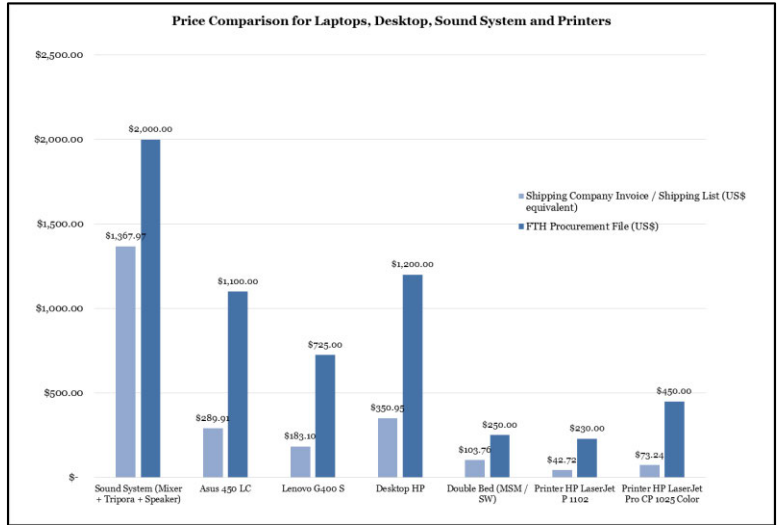
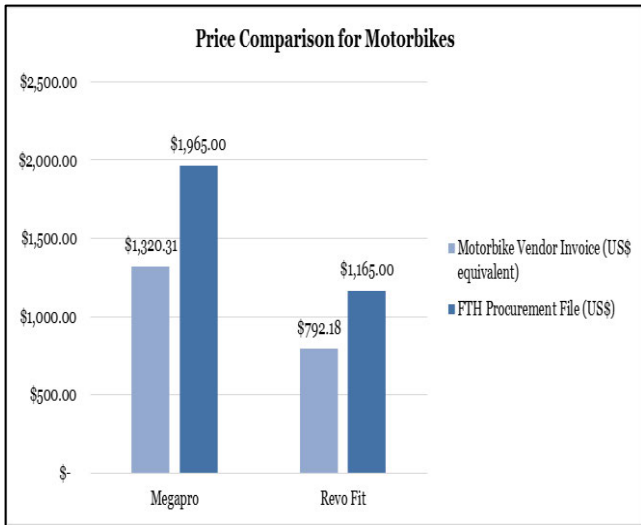


Figure 3: Examples of unsigned quotations for 2014 procurements found in the FTH Monitoring and Evaluation Officer's FTH laptop

To: Fundasaun Timor Har'i
Dili, Timor Leste

Quotation

Dear Sir/ Madam

Thank you for asking us to quote, here are the types and prices for the requested items as follows,

No	Quantity	Description	Price	Total Price
1	3700 x 2 (7400)	Brochure FTH Size 11,5 x 4,3 and Size 9 x 4,3	\$ 0,20	\$ 1.480,00
Total				\$ 1.480,00

- Validity Quotation in 30 days
- Delivery time Approximately 10 – 15 working days since we received the purchase order.

Thank you very much for your kind attention and looking forward to hear from you soon.

Depositor, 8/8/2014

Yours Faithfully,

Ba : Fundasaun Timor Har'i

Quotasaun

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No	Item Code	Specification	Unit Price (US \$)	Bonus Offered
1	Com # 1 Asus A460LC-WX04H A-Series Notebook	- Intel® Core™ i5-4200U Processor 1.6GHz, 3M Smart Cache Max Turbo Frequency 2.6GHz Genuine Windows 8 R	\$ 1.200,00	- Windows 8 Original Included - Office 2007 Original - Warranty 12 Month - Free services for 6 month.
2	Com # 2 LENOVO G400	- Processor :Intel Pentium Processor 2020M (2M Cache, 2.40 GHz) - Memory :2GB DDR3 - Hard Drive :500GB HDD - Graphics :2GB Nvidia Geforce GT720M - Display :14-inch HD LED Multi-Touch Display	\$ 1000,00	- Windows 7 Original Included - Office 2007 Original - Warranty 12 Month - Free services for 6 month.
3	Com# 3 Desktop HP all in one Pc 20-Q2101	- Intel Core i3-4330T(Has well) 2.9 GHz - 4 GB - 1024 GB 7200 rpm Hard Drive - 23-inch Screen, Intel HD Graphics 4400	\$ 1.250,00	- Windows 7 Original Included - Office 2007 Original - Warranty 12 Month - Free services for 6 month.
4	Com# 4 Asus Zen book UX32A 13,3-inch Ultra book	- Intel Core i5 3317U 1.7GHz Processor - 4GB RAM, 500GB HDD No ODD, - WLAN, BT & Webcam, - Integrated Graphics,	\$ 1.350,00	- Windows 8 Original Included - Office 2007 Original - Warranty 12 Month - Free services for 6 month.

Esaneke Raspin.

Figure 4: Sample comparison of quotations for a 2012 procurement

Example of unsigned 2012 quotation found in the FTH Finance Manager's FTH desktop	Example of 2012 quotation in FTH procurement files	Template quotation found in the FTH Finance Manager's FTH desktop																																																								
<p>To: Fundasaun Timor Har'i Dili, Timor Leste</p> <p style="text-align: center;">QUOTATION</p> <p>Dear Sir/ Madam</p> <p>Thank you for asking us to quote, here are the types and prices for the requested items as follows,</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>DESCRIPTION</th> <th>QTY</th> <th>PRICE/UNIT</th> <th>TOTAL PRICE</th> </tr> </thead> <tbody> <tr> <td>Water Dispenser Miyako RD 380 HC</td> <td>6 UNIT</td> <td></td> <td></td> </tr> <tr> <td colspan="3">Total</td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> Validity Quotation in 30 days Delivery time Approximately 10 – 15 working days since we received the purchase order. <p>Thank you very much for your kind attention and looking forward to hear from you soon.</p> <p>Sincerely,</p>	DESCRIPTION	QTY	PRICE/UNIT	TOTAL PRICE	Water Dispenser Miyako RD 380 HC	6 UNIT			Total				<p>To: Fundasaun Timor Har'i Dili, Timor Leste</p> <p style="text-align: center;">QUOTATION</p> <p>Dear Sir/ Madam</p> <p>Thank you for asking us to quote, here are the types and prices for the requested items as follows,</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>DESCRIPTION</th> <th>QTY</th> <th>PRICE/UNIT</th> <th>TOTAL PRICE</th> </tr> </thead> <tbody> <tr> <td>Water Dispenser Miyako RD 380 HC</td> <td>6 UNIT</td> <td></td> <td></td> </tr> <tr> <td>Water Dispenser Miyako 380</td> <td>6 UNIT</td> <td>\$ 128</td> <td>\$ 768</td> </tr> <tr> <td></td> <td></td> <td>\$ 147</td> <td></td> </tr> <tr> <td colspan="3">Total</td> <td>\$ 768</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Validity Quotation in 30 days Delivery time Approximately 10 – 15 working days since we received the purchase order. <p>Thank you very much for your kind attention and looking forward to hear from you soon.</p> <p>Sincerely,</p>	DESCRIPTION	QTY	PRICE/UNIT	TOTAL PRICE	Water Dispenser Miyako RD 380 HC	6 UNIT			Water Dispenser Miyako 380	6 UNIT	\$ 128	\$ 768			\$ 147		Total			\$ 768	<p>To: Fundasaun Timor Har'i Dili, Timor Leste</p> <p style="text-align: center;">QUOTATION</p> <p>Dear Sir/Madam</p> <p>Thank you for asking us to quote, here are the types and prices for the requested items as follows,</p> <table border="1" style="width: 100%;"> <thead> <tr> <th>DESCRIPTION</th> <th>QTY</th> <th>PRICE/UNIT</th> <th>TOTAL PRICE</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td colspan="3">Total</td> <td> </td> </tr> </tbody> </table> <ul style="list-style-type: none"> Validity Quotation in 30 days Delivery time Approximately 10 – 15 working days since we received the purchase order. <p>Thank you very much for your kind attention and looking forward to hear from you soon.</p> <p>Sincerely,</p>	DESCRIPTION	QTY	PRICE/UNIT	TOTAL PRICE																	Total			
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