



THE OFFICE OF THE INSPECTOR GENERAL



The Global Fund to Fight AIDS, Tuberculosis and Malaria

Investigation of Global Fund grants to the Republic of Djibouti

Report No: GF-OIG-10-015-I
29 October 2012

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I. EXECUTIVE SUMMARY

1. This Report presents the results of the efforts of the Investigation Unit of the Office of the Inspector General (OIG) of the Global Fund to investigate the Global Fund grants to Djibouti. Between April and June 2010, the OIG Audit Unit undertook an audit of all grants to Djibouti to date. Upon a referral from the Audit Unit, the OIG Investigations Unit undertook a further investigation, initiated in March 2011.

2. A draft investigation report was shared with in-country stakeholders on 28 June 2012 and, after multiple reminders, comments were received from the CCM on 20 October 2012. The CCM response was duly reviewed and assessed by OIG but did not contain any precise and substantive information or working papers which could allow the OIG to reconsider its findings or verify the CCM's calculations and assertions. The OIG stands by its findings related to unsupported expenditures, which are based on the documents the Principal Recipient was able to produce during the time of the investigation and audit. Indeed the audit mission was even extended, at the request of the Principal Recipient, to allow for a thorough search of their archives for relevant documents.

3. Ultimately, the investigation found that of the USD 23.1 million of funds disbursed under these grants as of June 2012, USD 8.2 million or approximately 35% was not used for purposes consistent with the grant agreement or in violation of it. Of this amount, USD 755,553 was linked to transactions constituting fraud, theft and abuse; USD 2.45 million related to ineligible expenditures and USD 115,000 related to an improper transfers of grant funds to an unauthorized bank account; and an additional USD 5.4 million of expenditures did not have sufficient or any documentation to support the expenditures. The Government of Djibouti has repaid USD 475,904 to date.

4. The OIG initiated the audit in April 2010 following reports by the Local Fund Agent ("LFA") that significant management deficiencies and financial shortcomings were found as part of its normal periodic reviews and also as a result of its "special verification reviews." The OIG's subsequent investigation focused on specific issues referred by the Audit Unit to the Investigations Unit including further investigation into suspicious vendors, suspicious documentation, the PR's submission of an external audit report which appeared to misrepresent the financial position and the possible misappropriation of a vehicle purchased with grant funds.

Summary of Findings Concerning the Principal Recipient (PR), the Executive Secretariat for the Fight against AIDS, Malaria and Tuberculosis

5. As detailed in this report, representatives of the Executive Secretariat for the Fight Against AIDS, Malaria and Tuberculosis ("the PR") engaged in various fraudulent acts resulting in the misappropriation of GF funds, and the misrepresentation of the financial position of the grants in an external audit report submitted to the Global Fund. The fraudulent schemes identified through the investigation included:

- (a) the fraudulent procurement related to the Round 4 external audit close-out through which the PR steered the contract for audit services to a newly formed external auditing firm that did not hold the required licensing to perform audit work and was selected through a tender where fabricated bids were considered alongside the selected firm. The ultimate audit report submitted by this firm bore striking similarities in form and substance to previous audit reports prepared by a different

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- firm and contained false and inaccurate information including the understatement of at least USD \$300,702 in outstanding advances to sub-recipients;
- (b) the PR's transfer of USD 115,000 in grant funds to two bank accounts under the PR's control but unrelated to any of the GF grant programs,
 - (c) the creation of falsified supporting expenditure documentation to trigger payments of grant funds;
 - (d) the misappropriation of program assets for non-authorized use;
 - (e) the tampering of CCM meeting attendance sheet to reflect that CCM members had expressly approved over-budget expenditures when this had not been the case; and
 - (f) the steering of contracts totaling USD 361,669 for the purchase of program goods and services to specific individuals, including a USD 182,639 construction contract to a company owned by the Ministry of Health's ("MoH") focal point to the Country Coordinating Mechanism ("CCM").

The direct financial loss identified by OIG as a result of these fraudulent schemes totaled over USD 755,553¹.

6. In addition, the investigation confirmed the OIG audit findings that the PR suffered from significant weaknesses in financial management, including the absence of documented policies and procedures; deficiencies in the financial accounting system; lack of budgetary control; lax cash and bank management; failure to record income in the books of account; inadequate archiving controls; incomplete asset records; failure to reconcile payroll records; and the absence of procedures for selecting and evaluating sub-recipients.

7. Work performed by the OIG, the LFA and the external auditors found that USD 1.0 million in expenditures exceeded allowable budget thresholds² and an additional USD 1.4 million in expenditures were deemed ineligible as they did not comply with grant requirements. Ineligible expenditures included inter alia, payment of salaries of government employees already receiving salaries from other sources, unapproved travel, and overhead costs. In addition to these amounts, the OIG investigation found that the PR had incurred over USD 679,000 in expenditures related to the GF grants but for which it had not paid its vendors.

Summary of Ineligible and Over-budget expenditures

| CATEGORY | Amounts (in US\$) | | | | | Total |
|--|-------------------|----------------|-----------------|----------------|---------------|------------------|
| | HIV Round 4 | HIV Round 6 | Malaria Round 6 | TB Round 6 | CCM Funding | |
| Ineligible Expenditures Identified by OIG | 263,821 | 67,006 | 43,409 | 38,772 | - | 413,008 |
| Ineligible SR Expenditures (External Audit) | 164,629 | - | - | - | - | 164,629 |
| Ineligible Expenditures (LFA Special Verification Reviews and PUDRs) | 360,094 | 307,784 | 104,621 | 99,312 | 13,513 | 885,324 |
| Budget overspend (LFA Special Verification Review) | 510,208 | 281,156 | 120,917 | 82,332 | 1,232 | 995,845 |
| Overdraft charges | - | 7,519 | 645 | 8,054 | 161 | 16,379 |
| TOTAL | 1,298,752 | 663,465 | 269,592 | 228,470 | 14,906 | 2,475,185 |

8. While the early years of the Round 4 HIV grant were tracked in an electronic accounting software package ("Success"), this software failed during 2008 and the PR resorted to Excel spreadsheets to track program accounting.³ The External Fiduciary Agent reported that the Success accounting package was brought

¹ Of which USD 115,000 has already been repaid to the Global Fund.

² See LFA Memo on Special Financial Verification for all four grants under review.

³ See LFA Memo on Special Financial Verification for Round 6; p.2 par 7; 15 August 2010 and External Auditor CECA internal control report "Rapport de Contrôle Interne - Exercice Clos le 31 Octobre 2008", 2 April 2011

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back on line in December 2011 and has since been in use to track the accounting for the three remaining Round 6 grants.⁴

9. Document management and retention standards remained weak throughout the life of these grants. Indeed, as a result of the OIG's efforts, the investigation found that over USD 5.4 million in grant expenditures were not properly justified by adequate supporting documentation. The following image, taken by OIG investigators, shows the state of one of the PRs filing rooms in March 2011, 6 years after the receipt of the first grant disbursement and over 18 months after significant irregularities were first detected and brought to the attention of the Secretariat, and communicated to the PR.

Image 1 - File room at PR office in Djibouti, March 2011



10. Other issues identified include the PR's failure to comply with specific requirements as stipulated in the grant agreements including:

- (a) failure to remit accurate and timely PU/DRs within the required 45 days;
- (b) failure to consistently appoint an external auditor within the required time frames;
- (c) failure to submit an SR audit plan and to ensure that SR audits were performed;
- (d) failure to inform the GF about the PR's tax exemption status within 90 days from start of Round 6 grants;
- (e) failure to provide the name, title and authenticated signature of authorized disbursement request signatories⁵; and
- (f) failure to obtain approval from the GF on the monitoring and evaluation plan for the Round 6 malaria grant.

⁴ December 2011 monthly report from the AGF

⁵ While this information was not readily provided upon request at the time of the OIG's fieldwork, we note that it was subsequently made available.

Summary of Findings Concerning Sub-Recipients and the Three National Programs

11. The OIG's review of the financial management processes for sub-recipients, including the three National programs to combat HIV/AIDS, tuberculosis and malaria, identified numerous deficiencies, including:

- an absence of documented policies and procedures for employee travel and advances;
- variances between program records maintained by the sub-recipient and financial returns submitted to the Global Fund;
- inadequate segregation of duties;
- weaknesses in cash and bank management;
- inadequate bank reconciliation procedures;
- poor budgetary control; and
- weaknesses in HR and payroll processes, such as a failure to reconcile payroll records and effect payment of salaries on time.

Action Taken by the GF Secretariat

12. The Global Fund Secretariat advised the OIG of financial improprieties in the Djibouti grants in October 2009. At that time, the Secretariat had put in place a number of remedial measures to mitigate the further risk of loss, and the head of the PR, holding the title of Executive Secretary, had been replaced. Additionally, the Secretariat engaged the LFA to perform more in-depth reviews of grant expenditures.⁶ Subsequent to the notification to the OIG, the Secretariat put in place additional mitigating steps including: providing training to the CCM via USAID's Grant Management Solutions ("GMS"); delaying phase 2 funding, requiring the PR to use Voluntary Pooled Procurement ("VPP"); limiting disbursements to essential services; requiring the use an external fiduciary agent; and working with the new CCM to identify alternatives to the current PR. As of the date of this report, the GF Secretariat has extended Round 6 grant disbursements under the continuation of essential services mechanism through May 2012 and the search for a new PR to administer the Round 9 and 10 Tuberculosis ("TB") and Malaria grants is on-going. However, the Secretariat was initially reluctant to replace the PR after serious breaches of the grant agreement were brought to their attention, and after significant losses had been sustained, due to the perceived lack of alternative entities to take over implementation of the program.

13. Given that the current PR and the existing SRs (whether in current form or some alternative form) may continue to play a role in any future grant funding, the GF Secretariat should ensure that fiduciary control lapses that plagued the Round 4 and 6 grants do not repeat themselves.

14. The OIG shared the draft report with the Principal Recipient, subjects, and the Country Coordinating Mechanism in Djibouti, and then translated the report into French at their request and re-presented it. The OIG also provided work papers, analyses, and various charts, graphs and reports on its methodology, and on the issue of "undocumented expenditure," which the PR specifically requested. Thereafter, on 18 July 2012, the PR requested an additional month to respond, and then made additional requests for extensions. The OIG also provided the draft report to the

⁶ Email from the MENA Regional Team Leader to the Inspector General attaching "Djibouti Briefing Note_29Oct09_Final Document.doc"; 1 November 2009. Different individuals assumed the role of Executive Secretary during the program term and references to the position in this report are to be understood to refer to the individual in place at the time of the events described.

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LFA, and the Secretariat, through the Grant management division and the Legal & Compliance Department, for comment, and all have responded. The comments have been incorporated as appropriate. A response was finally received from the CCM on 20 October 2012, and is included in section III. of this report. This response was duly reviewed and assessed by OIG but did not contain any precise and substantive information or working papers which could allow the OIG to reconsider its findings or verify the CCM's calculation and assertions. OIG stands by its findings related to unsupported expenditures, which are based on the documents the Principal Recipient was able to produce during the time of the investigation and audit, the duration of which was extended, at the request of the Principal Recipient, to allow them to thoroughly search their archives for relevant document.

II. MESSAGE FROM THE GENERAL MANAGER



10 YEARS
OF IMPACT

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Our ref: OGM/GJ/JK/2012.10.25-REPUBLIC OF DJIBOUTI

25 October 2012

MESSAGE FROM THE GENERAL MANAGER

I would like to thank the Office of the Inspector General for its thorough and insightful work on the investigation of Global Fund grants to the Republic of Djibouti.

Following a referral from the Office of the Inspector General's Audit Unit, the Investigations Unit undertook an investigation, which it initiated in March 2011. Also, the Global Fund Secretariat advised the Office of the Inspector General of financial improprieties in the management of grants in Djibouti in October 2009.

The investigation confirmed the findings of the audit, conducted in 2010 that the Principal Recipient suffered from significant and wide-ranging weaknesses in financial management.

The investigation found that US \$8.2 million of funds disbursed under Global Fund grants to Djibouti were not used for purposes consistent with the grant agreement.

Of this amount, USD \$641 thousand was lost due to misappropriation, waste and abuse; USD \$2.5 million related to ineligible expenditures and USD \$115,000 to an improper transfer of grant funds to an unauthorized bank account. An additional USD \$5.4 million of expenditures did not have sufficient supporting documentation. The Government of Djibouti has repaid USD \$476 thousand to date. The Global Fund will be requesting repayment of all sums that were misused.

The Global Fund Secretariat has taken far-reaching action to mitigate risks. Measures include: replacement of the leadership of the Principal Recipient and of the Country Coordinating Mechanism (CCM); providing training to the CCM via USAID's Grant Management Solutions; delaying Phase 2 funding; requiring the Principal Recipient to use Pooled Procurement; limiting disbursements and programmatic activities to essential services; requiring the use of an external fiduciary agent; and working with the CCM to identify alternatives to the historical Principal Recipient.

These findings underline the importance of investigations for the Global Fund. The Office of the Inspector General plays an indispensable role in helping us all achieve our mission of effectively investing the world's money to save lives.

Yours sincerely

III. MESSAGE FROM THE COUNTRY COORDINATING MECHANISM



République de Djibouti

Unité – Egalité – Paix

Comité de Coordination Multisectorielle et Inter partenaire CCMI)

☒ : 1974 DJIBOUTI ☎ : (253) 21.35.23.13 POSTE 30 ☎ : (253) 21.35.90.60 Fax : (00253) 21.35.20.06

N° 31 /2012/CCMI

Djibouti, le 19/10/2012

Le Président du CCMI

A

Monsieur l'Inspecteur Général du Fonds mondial

Objet : Commentaires définitifs sur le rapport d'investigation

V/Réf : OIG/JP_12/273 en date du 12 octobre 2012

Monsieur,

Nous accusons réception de votre courrier cité en référence.

Nous souhaitons réagir, dans un premier temps, à la chronologie des faits relatifs au délai accordé par l'OIG à notre pays pour la formulation d'une réponse argumentée aux allégations et faits présumés avancés dans le rapport de votre institution.

Effectivement, 27 mois après le début de la mission d'audit diligentée par votre département, une version première rédigée en langue anglaise du rapport d'enquête nous a été adressée le 28 juin 2012 avec une date butoir fixée au 12 juillet 2012 pour la production d'éventuels commentaires.

Malgré de nombreuses sollicitations pour demander une extension raisonnable des délais impartis, votre Bureau nous a signifié une fin de non recevoir.

A cela, nos demandes répétées de documents annexes indispensables à la compréhension des montants avancés n'ont été que tardivement pris en compte. A titre d'indication, les rapports spéciaux du LFA étayant le caractère inéligible de 1 859 158 USD (soit ¼ du montant total des pertes) n'ont été communiqués au CCMI que le 11 octobre 2012 soit près de 6 semaines après la première demande et malgré 4 relances.



Nous nous étonnons par ailleurs de votre affirmation selon laquelle Djibouti n'aurait communiqué aucune réponse au BIG sur ce que vous appelez le «fond du rapport» nonobstant les réponses préliminaires qui vous été transmises.

Pour rappel, nos réponses ont porté en priorité sur les dépenses libellées comme non justifiées ou insuffisamment justifiées pour lesquelles nous disposions de l'ensemble des pièces nécessaires (appendices A, B, C, D et E). Les éléments de réponse préliminaires ont été formulées au terme de la revue analytique de la partie afférente aux dépenses non justifiées ou insuffisamment justifiées contenues dans le rapport d'investigation.

Les commentaires précédemment envoyés par Djibouti **n'ont pas été ni repris ni mentionnés** dans la nouvelle version du rapport d'investigation.

Nous osons espérer, comme souligné par [REDACTED] Senior Legal Advisor auprès de l'OIG, dans sa correspondance adressée le 18 octobre 2012 à l'Ambassadeur de Djibouti à Genève que l'OIG reconsidèrera un certain nombre de montants à la lumière des informations fournies.

Nous vous prions donc de trouver ci-joint la version définitive de nos commentaires et renouvelons par la présente l'entière et complète disponibilité de notre pays à coopérer étroitement avec votre institution.

Veuillez agréer, Monsieur l'Inspecteur Général, l'expression de nos salutations distinguées.

AHMED SAAD SULTAN

Copie :

- SEM le Ministre de la Santé
- SEM l'Ambassadeur de Djibouti à Genève
- [REDACTED], Directeur Général du Fonds mondial
- [REDACTED] Directeur Afrique et Moyen Orient
- [REDACTED] Directeur Régional, MENA
- [REDACTED] Gestionnaire portefeuille Djibouti,

**COMMENTAIRES PORTANT SUR LE
RAPPORT D'INVESTIGATION DU
BUREAU DE L'INSPECTEUR
GENERAL DU FONDS MONDIAL**

I. DEPENSES NON JUSTIFIÉES

Sur le montant total de 1.839.237 USD avancé par vos services comme ne disposant d'aucune pièce justificative, nos recherches nous ont permis de documenter un montant total de **1.649.057 USD** disposant au moins d'une pièce justificative (**soit près de 90 % du montant total**) :

| Libellés des dépenses | Subvention R4/VIH/SIDA | Subvention R6/VIH/SIDA | Subvention R6/Paludisme | Subvention R6/Tuberculose | Total \$US |
|--------------------------------|------------------------|------------------------|-------------------------|---------------------------|----------------|
| Pièces justificatives trouvées | 479512 | 999525 | 138022 | 0 | 1617059 |
| Frais bancaires | 11663 | 0 | 0 | 4208 | 15871 |
| Dépenses annulées | 14116 | 2011 | 0 | 0 | 16127 |
| Total \$US | 505291 | 1001536 | 138022 | 4208 | 1649057 |

✚ Pièces justificatives trouvées : 1 617 059 USD

- Pour les 4 rubriques ventilées par subvention et round de financement comme explicités dans le tableau ci-haut, les supports comptables trouvés comportent l'ensemble des pièces justificatives nécessaires (factures, bons de livraison, chèques etc.).
- Il est à noter que pour la plupart d'entre elles, les documents justificatifs ont déjà été présentés à l'équipe du BIG puisque référencés comme telles par cette dernière lors de sa mission à Djibouti (code OIG). Malheureusement ces pièces demeurent répertoriées comme inexistantes dans le rapport du BIG.

✚ Frais bancaires : 15 871 USD

- Il s'agit des frais bancaires cumulatifs sur les 4 subventions et ce depuis le début des subventions, qui ne sont pas matérialisés par des pièces justificatives. Ces frais sont comptabilisés sur la base des relevés bancaires.
- Des tableaux récapitulatifs des frais bancaires sont trimestriellement transmis au LFA pour vérification puis validation dans le cadre des rapports de progrès.

✚ Dépenses annulées: 16 127 USD

- 14 116 USD : Il s'agit de chèques établis mais qui n'ont jamais été remis aux bénéficiaires par défaut de provision des comptes de la subvention série 4 VIH et dûment constatés dans le rapport de clôture du Round 4 VIH (Cabinet CECA).
- 2 011 USD : Il s'agit d'un chèque émis par le PR mais rejeté par le cosignataire (Direction du Financement Extérieur) pour défaut de procédure sur la série 6 VIH (cf. copie du chèque en annexe).

Un montant de 1.649.057 USD soit près de 90% du montant initialement libellé comme ne disposant d'aucune pièce justificative a été identifié.

II. DEPENSES INSUFFISAMMENT JUSTIFIÉES

En préambule, pour ce qui est de l'approche méthodologique retenue par le BIG, il est à noter que les dépenses retenues comme insuffisamment justifiées ne peuvent être répertoriées dans les mêmes catégories. Ces dépenses ne peuvent donc être appréhendées selon la grille d'analyse standard usitée par les équipes d'audit puis d'enquêtes du BIG qui ont exigé **la présentation systématique d'une facture originale indépendamment de la nature de la dépense exécutée** (voir ci-dessous). Ce cadre est uniquement valable pour la réalisation des achats courants exigeant comme support justificatif un bon de commande, un bon de livraison, un bon de réception et à moindre mesure certains contrats d'acquisition de médicaments et de réactifs etc.

Pour le reste, il n'existe pas de divergences majeures en matière d'analyse avec les autres critères retenus par l'équipe du BIG.

| Facture attachée (Oui/ Non) | Facture originale (Oui/ Non) | Date de facture | S'il n'y a pas de facture, y a-t-il d'autres documents de support (Oui/ Non) | Copie du cheque ou copie du transfert bancaire (Oui/ Non) | N° Classeur | Entered by |
|--------------------------------------|---------------------------------------|-----------------------|---|--|----------------|------------|
|--------------------------------------|---------------------------------------|-----------------------|---|--|----------------|------------|

Notons également que les dépenses réalisées trimestriellement étaient systématiquement transmises pour vérification au LFA qui n'a, à aucun moment, signalé des dépenses insuffisamment justifiées.

Ainsi :

- ✚ Pour des contrats d'acquisition ou de prestations de service, les pièces justificatives exigées étaient : les contrats, les cotations et le procès verbal de réception. Certains contrats signés avec des fournisseurs de réactifs de laboratoire ou de médicaments stipulaient que le règlement soit immédiatement consécutif à la signature du contrat (avances). L'état de cotation était le seul document sur la base duquel l'ordre de virement était alors effectué.
- ✚ Pour la justification des salaires délivrés, contrairement au standard d'analyse utilisé par le BIG, les documents requis sont le contrat de service, les bulletins de paie, le bordereau de remise du chèque ainsi que la copie du chèque. Une facture ne pouvant être requise dans ce cas de figure.
- ✚ Pour la justification des perdiems payés pour la supervision de la mise en œuvre et du suivi des activités des différents programmes, les documents requis, contrairement au standard d'analyse utilisé par le BIG, sont la fiche de budget, la fiche d'activités, la copie du chèque et l'émargement. Au terme de ces missions de supervision, les rapports de supervision et de formation produits permettaient de mettre en exergue l'état d'avancement des programmes par rapport aux cibles fixés dans le cadre de performance de la subvention dont les résultats atteints apparaissaient périodiquement dans les différents rapports de progrès formulés par le PR et transmis aux LFA et FM.
- ✚ Comme la mise en œuvre des subventions au niveau opérationnel relève de la responsabilité des sous bénéficiaires et ce conformément au plan d'action budgétisé initialement approuvé par le Fonds Mondial. Le PR signe alors des conventions de financement avec les différents acteurs impliqués dans la lutte contre les trois maladies prioritaires. Ainsi, les documents requis dans le cadre du processus de mise en œuvre sont les demandes de décaissement, copie des chèques, bordereau de remise de chèque, la remise périodique de rapport conditionnant le décaissement des tranches suivantes comme stipulés dans le

manuel de procédures comptables et financières. Ici encore, il n'y a pas lieu de présenter une facture.

Les montants retenus et analysés par les équipes du BIG comme insuffisamment justifiés dans la dernière version du rapport transmise le 12 octobre 2012 s'élèvent à **3 199 196 USD**.

La vérification des pièces a été faite selon la grille d'analyse élaborée par le PR conformément au manuel de procédures comptables et financiers et a permis d'objectiver un montant total de 2.477.192 USD comme disposant de toutes les pièces justificatives nécessaires ou avec des compléments de supports comptables (**soit 75% du montant présenté comme insuffisamment justifié**).

| | SECRETARIAT EXECUTIF du CTILSPT | | | | | OIG |
|--|---------------------------------|-------------|-----------------|------------|------------------|--|
| | HIV Round 4 | HIV Round 6 | Malaria Round 6 | TB Round 6 | Total SE/CTILSPT | Rapport OIG (version du 12 octobre 2012) |
| Dépenses libellées comme insuffisamment justifiées, disposant de toutes les pièces justificatives nécessaires | 1 947 875 | 0 | 0 | 0 | 1 947 875 | 3299196 |
| Dépenses libellées insuffisamment justifiées avec complément de supports comptables | 529 317 | 0 | 0 | 0 | 529 317 | |
| TOTAL DEPENSES | 2 477 192 | 0 | 0 | 0 | 2 477 192 | 3 299 196 |

Un montant de 2 477 192 USD soit près de 75% du montant initialement libellé insuffisamment justifié a été suffisamment agrémenté des pièces justificatives nécessaires.

III. DEPENSES INÉLIGIBLES et DEPASSEMENTS BUDGÉTAIRES

Compte tenu de l'importance du nombre des opérations répertoriés dans cette catégorie dont près de 76% des montants identifiés (soit 1 859 158 USD) renvoient vers les rapports des audits spéciaux menées par le LFA sur les dépenses de la série 4 et de la série 6, le PR n'est toujours pas mesure d'apporter des réponses complètes, appropriées et exhaustives à ces catégories de dépenses identifiées comme inéligibles. En effet, les ci-haut cités rapports spéciaux du LFA n'ont été transmis, malgré les multiples demandes, que le 12 octobre 2012 soit 7 jours avant la date butoir de transmission des commentaires.

Néanmoins, il est à rappeler que le suivi des activités du PR était soumis à plusieurs étapes de vérification qui conditionnaient les décaissements du Fonds Mondial :

- Pour la période couverte par le rapport d'enquête, le PR n'a eu à souffrir d'aucun retard de décaissement malgré les dépassements ou les dépenses inéligibles signalés par le présent rapport. Des rapports de progrès périodiques reflétant les états d'avancement des programmes étaient transmis au LFA avec un état de suivi budgétaire montrant l'exécution sur les différentes lignes budgétaires et expliquant les écarts négatifs (dépassements budgétaires) rapportés dans le PUDR. D'éventuelles explications insuffisantes du PR se devaient de faire réagir les agents de vérification ; ce qui aurait probablement permis de mitiger les risques à un stade précoce.
- Pour la même période couverte, les aides mémoires des missions effectuées régulièrement par les équipes du Fonds Mondial et du LFA ne signalent aucun dysfonctionnement majeur dans l'exécution des subventions du FM.

IV. FRAUDE ET ABUS

S'agissant de la partie du rapport d'investigation considérée par l'OIG comme relevant de la fraude, du détournement ou du gaspillage, au vu des éléments d'informations répertoriés dans le rapport d'investigation, les conclusions portées nous semblent suffisantes pour démontrer le caractère suspect de ces transactions. Au terme de la procédure diligentée par les autorités compétentes du pays, des mesures seront probablement prises pour aller dans le sens des recommandations de l'OIG.

Courtesy translation from the original French

Republic of Djibouti
Unity - Equality - Peace



Multisectoral and Interpartner Coordination Committee (CCMI)

: 1974 DJIBOUTI: Tel(253) 21.35.23.13 EXTENSION 30: Tel (253) 21.35.90.60 Fax: (00253)
21.35.20.06

No. 31 /2012/CCMI

Djibouti, on 19/10/2012

The President of the CCMI

To

The Inspector General of the Global Fund

Re: **Definitive comments on the investigative report**

Your Ref.: OIG/JP_I2/273 dated 12 October 2012

Dear sir,

We confirm receipt of the abovementioned letter.

First of all, we would like to comment on the chronological order of the facts relating to the deadline set by the OIG for our country to formulate a well-argued response to the presumed facts and allegations put forward in your institution's report.

In fact, 27 months after the start of the audit mission carried out by your department, a first version of the survey report, written in English, was sent to us on 28 June 2012 with a deadline set for 12 July 2012 for any comments we wished to make.

Despite many requests for a reasonable extension to the deadline set, your Office turned down each of these.

In addition, our repeated requests for annexed documents essential to our understanding of the amounts highlighted were only taken into account late on. As an indication, the LFA's special reports describing the ineligible nature of USD 1,859,158 (representing a quarter of the total loss) were only sent to the CCMI on 11 October 2012, which is close to six weeks after the first request and this despite four reminders.

Furthermore, we are surprised at your claims that Djibouti did not send any answer to the OIG regarding what you refer to as the "fundamental aspects of the report" notwithstanding the preliminary answers that were sent to you.

As a reminder, our answers focused on the expenditure described as non-justified or not sufficiently justified, for which we are able to present all of the necessary supporting

Investigation of Global Fund grants to the Republic of Djibouti

documents (appendices A, B, C, D and E). The preliminary answers were formulated following an analytical review of the part relating to the non-justified or not sufficiently justified expenditure contained in the investigative report.

The comments previously sent by Djibouti were not picked up on nor mentioned in the new version of the investigative report.

As highlighted by [redacted], Senior Legal Advisor at the OIG, in his letter dated 18 October 2012 to the Ambassador of Djibouti in Geneva, we would like to hope that the OIG will reconsider certain amounts given the information provided.

You will find the definitive version of our comments attached and we would like to take the opportunity to emphasize our country's full and complete availability to cooperate with your institution.

We wish to assure you, Mr Inspector General, of our highest consideration.

Best regards,

AHMED SAAD SULTAN

C.c.:

- H.E. the Health Minister
- H.E. the Ambassador of Djibouti in Geneva
- [REDACTED], Director General of the Global Fund
- [REDACTED], Director for Africa and the Middle East
- [REDACTED], Regional Director, MENA
- [REDACTED], Portfolio Manager Djibouti

Investigation of Global Fund grants to the Republic of Djibouti

COMMENTS REGARDING THE INVESTIGATIVE REPORT BY
THE OFFICE OF THE INSPECTOR GENERAL OF THE GLOBAL FUND

I. UNJUSTIFIED EXPENDITURE

With regard to the amount of USD 1,839,237 highlighted by your services as having no supporting documents, our research has allowed us to account for a total amount of **USD 1,649,057** with at least one supporting document (**representing close to 90 % of the total amount**):

| Description of expenditure | R4/HIV/AIDS Grant | R6/HIV/AIDS Grant | R6/Malaria Grant | R6/Tuberculosis Grant | Total in \$US |
|----------------------------|-------------------|-------------------|------------------|-----------------------|------------------|
| Supporting documents found | 479,512 | 999,525 | 138,022 | 0 | 1,617,059 |
| Bank fees | 11,663 | 0 | 0 | 4,208 | 15,871 |
| Cancelled expenditure | 14,116 | 2,011 | 0 | 0 | 16,127 |
| Total in \$US | 505,291 | 1,001,536 | 138,022 | 4,208 | 1,649,057 |

Supporting documents found: USD 1,617,059

- With regard to the four sections broken down by grant and financing round, as shown in the table above, the accounting data found contains all of the necessary supporting documents (invoices, delivery slips, cheques, etc.).
- It should be noted that for the most part, the supporting documents have already been presented to the OIG team since they were referenced as such by the latter during their mission in Djibouti (code OIG). Unfortunately, these documents are listed as non-existent in the OIG report.

Bank fees: USD 15,871

- These are the bank fees for the four grants accumulated since the grants were issued, but these are not backed by supporting documents. The fees were accounted for using bank statements.
- Summary tables of bank fees are sent to the LFA each quarter for review then validation for the progress report.

Cancelled expenditure: USD 16,127

- USD 14,116: This corresponds to cheques made payable but never presented to the payee for lack of funds in the round 4 HIV grant accounts and duly noted in the Round 4 HIV closing report (Cabinet CECA).
- USD 2,011: This corresponds to a cheque made payable by the PR but rejected by the co-signer (Directorate of Foreign Financing) due to a procedural shortcoming on round 6 HIV (see annexed copy of the cheque).

An amount of USD 1,649,057, representing close to 90% of the amount initially reported as not being backed by supporting documents, has been identified.

II. EXPENDITURE WITHOUT SUFFICIENT JUSTIFICATION

Firstly, with regard to the methodology used by the OIG, it should be noted that expenditure considered as not having sufficient justification cannot be listed in the same categories. This expenditure cannot be considered according to the standard analysis grid used by the OIG’s auditing and survey teams who have requested **that an original invoice be presented systematically regardless of the nature of the expenditure** (see below). This context is only valid for everyday purchases which require as justification an order form, a delivery slip a certificate of receipt and in some cases, contracts for the procurement of medicines and reagents, etc.

For the rest, there are no major deviations regarding the analysis using the other criteria considered by the OIG’s team.

| Invoice attached (Yes/ No) | Original invoice (Yes/ No) | Invoice date | If there is no invoice, are there any other support documents? (Yes/No) | Copy of the cheque or copy of the bank transfer (Yes/ No) | Folder No. | Entered by |
|----------------------------|----------------------------|--------------|---|---|------------|------------|
|----------------------------|----------------------------|--------------|---|---|------------|------------|

Let us also note that quarterly expenditures were systematically sent to be verified by the LFA, who never flagged any expenditure as not having the necessary justification.

Thus:

For procurement or service contracts, the required documents for justification were: the contracts, pricing and record of receipt. Some contracts signed with suppliers of laboratory reagents or medicines stated that the payment should be made directly after signing the contract (payment in advance). The pricing sheet was the only document on which the money transfer was based.

For the justification of paid salaries, contrary to the analysis standard used by the OIG, the required documents are the service contract, pay slips, cheque deposit slip as well as a copy of the cheque. An invoice cannot be required in this case.

For the justification of per diems paid for the supervision of the implementation and follow-up of the activities of the different programmes, the required documents, contrary to the analysis standard used by the OIG, are the budget sheet, activity sheet, a copy of the cheque and the sign-off sheet. Following these supervision missions, the supervision and training reports produced allowed the status of the programmes to be highlighted when compared with the targets set regarding the performance of the grant

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with results regularly published in the different progress reports created by the PR and sent to the LFA and GF.

The implementation of grants on an operational level is the responsibility of the sub-recipients, and this in compliance with the budgeted action plan initially approved by the Global Fund. The PR thus signs financing agreements with the different players implicated in the fight against the three priority illnesses. Consequently, the required documents in the context of the implementation procedure are the requests for disbursement, copies of the cheques, cheque deposit slips, and the periodic report submission which determines the disbursement rate of the following tranches as stated in the accounting and financial procedures manual. Again, no invoice needs to be presented.

The amounts marked and analysed by OIG's teams as not having sufficient justification in the latest version of the report sent on 12 October 2012 reached **USD 3,199,196**.

Document verification was carried out according to the analysis grid created by the PR in compliance with the accounting and financial procedures manual and allowed a total amount of USD 2,477,192 to be confirmed as having all of the corresponding support documents or accounting elements (representing **75% of the amount presented as not having satisfactory justification**).

| | EXECUTIVE SECRETARIAT of the CTILSPT | | | | OIG | |
|--|--------------------------------------|-------------|-----------------|------------|------------------|---|
| | HIV Round 4 | HIV Round 6 | Malaria Round 6 | TB Round 6 | SE/CTILSPT Total | OIG Report (version from 12 October 2012) |
| Expenditure described as being not sufficiently justified with all the necessary support documents | 1,947,875 | 0 | 0 | 0 | 1,947,875 | 3,299,196 |
| Expenditure described as being not sufficiently justified with supporting accounting elements | 529,317 | 0 | 0 | 0 | 529,317 | |
| TOTAL EXPENDITURE | 2,477,192 | 0 | 0 | 0 | 2,477,192 | 3,299,196 |

An amount of USD 2,477,192 or nearly 75% of the amount initially considered as not being sufficiently justified was found to have the necessary supporting documents.

III. INELIGIBLE EXPENDITURE and BUDGET OVERRUNS

Given the large amount of transactions listed in this category, of which close to 76% of the identified amounts (representing USD 1,859,158) refer to the special audit reports carried out by the LFA on the expenditure of round 4 and round 6, the PR is still not able to provide

complete, appropriate and expansive answers to these categories of expenditure identified as ineligible. In fact, the abovementioned special reports by the LFA were only sent, despite multiple requests, on 12 October 2012 which is 7 days prior to the set deadline for sending the comments. However, it should be reminded that the follow-up of the PR's activities was subjected to several verification steps which determined the rate of Global Fund disbursements:

- For the period covered by the survey report, the PR did not suffer any delay in disbursements despite the overruns or the ineligible expenditure flagged in the present report. Periodic progress reports reflecting the statuses of the programmes were sent to the LFA with budgetary monitoring indicating the implementation on the different budgetary lines and explaining the negative deviations (budget overruns) reported in the PUDR. Any insufficient explanations by the PR would attract the attention of the verification agents; which would probably have allowed the mitigation of risks at an early stage.
- For the same covered period, the briefs from the missions carried out regularly by the teams of the Global Fund and the LFA do not flag any major dysfunctions in the implementation of the Global Fund's grants.

IV. FRAUD AND ABUSE

Given that this is the part of the investigative report considered by the OIG as relating to fraud, misappropriation or waste, and given the pieces of information documented in the investigative report, the conclusions reached seem to satisfactorily demonstrate the suspicious nature of the transactions. Following the procedure carried out by the country's competent authorities, measures will likely be taken which comply with the OIG's recommendations.

IV. BACKGROUND

Contextual Background

15. The Republic of Djibouti has a population of 889,000 (2010, UN WPP), spread across five rural districts (Ali Sabieh, Arta, Dhikil, Tadjourah and Obock)⁷ with over three quarters of the population living in the capital, Djibouti town. With HIV/AIDS, Djibouti has had to contend with a generalized epidemic of the disease, the transmission of which is mainly heterosexual. The prevalence of HIV/AIDS has stabilized at 3.1 percent since the early 2000's, and is higher in urban areas than in rural ones and with no significant difference between prevalence in males and females. For tuberculosis, the country has a very high prevalence of all forms of the disease. The incidence rate has been estimated at 869 per 100,000 with the incidence rate for smear positive pulmonary TB at 340 per 100,000 in 2008/2009. With malaria, the number at risk of the disease has been estimated at 10-15 percent of the population with about 5,000 cases per year with simple malaria cases representing 90 percent of total cases.

16. In 2003 the World Bank initiated a grant program to stem the HIV/AIDS epidemic in Djibouti, which continued for five years. Through a Round 4 HIV/AIDS⁸ grant in 2005, the Global Fund contributed to this program with the following objectives: to intensify the program and improve the quality and availability of drugs and supplies; to recruit more technical staff at all levels; and to increase coverage to all regions and facilities. The fight against HIV/AIDS in Djibouti was further assisted by a subsequent Round 6 HIV/AIDS⁹ grant from the Global Fund. The national TB program had also benefited from World Bank financing and subsequent funding from the Global Fund through a Round 6 grant¹⁰. The Ministry of Health started its national malaria program in 2007 which was also strengthened by a Round 6 Global Fund grant¹¹.

17. Under Global Fund grant rounds 4 and 6, the Republic of Djibouti applied for funding of USD 40 million, of which more than USD 34 million had been approved and over USD 23 million disbursed to the country as of June 30, 2012. (Round 9 and Round 10 grant funding was still under negotiation at the time of this report.)

Summary of grants by disease program and funding Round

| | Total Funding Approved ¹² | Committed at Phase 1 | Committed at Phase 2 | Total Funds Disbursed ¹³ |
|-----------------|--------------------------------------|----------------------|----------------------|-------------------------------------|
| HIV/AIDS | | | | |
| Round 4 | 11,998,400 | 7,271,400 | 4,346,901 | 11,978,365 |
| Round 6 | 17,724,756 | 7,885,027 | N/A | 5,128,704 |
| Sub Total: | 29,723,156 | 15,156,427 | 4,346,901 | 17,107,069 |
| Malaria | | | | |
| Round 6 | 4,528,221 | 3,007,388 | N/A | 2,825,406 |

⁷ Plan National de Suivi et Evaluation des activités de lutte contre le SIDA, le Paludisme et la Tuberculose à Djibouti ; May 2009

⁸ DJB-404-G01-H; 24 January 2005

⁹ DJB-607-G04-H; 1 June 2007

¹⁰ DJB-607-G04-T; 1 June 2007

¹¹ DJB-607-G04-M; 1 June 2007

¹² In USD equivalent, from Core_GrantDetailsRaw_Report_En.xls available from the Global Fund website (October 2012). Figures exclude de-commitments and refunds.

¹³ As of June 2011 and in USD equivalent, from Core_DisbursementsDetailsRaw_Report_en.xls available from the Global Fund website (October 2012). Figures exclude refunds.

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| Tuberculosis | | | | |
|--------------|------------|------------|-----------|------------|
| Round 6 | 5,973,885 | 2,269,098 | N/A | 1,743,928 |
| Total: | 40,225,262 | 20,432,913 | 4,346,901 | 21,676,403 |

OIG Investigations Unit

18. The OIG Investigation Unit is responsible for conducting investigations of fraud, abuse, misappropriation, corruption and mismanagement (collectively, “fraud and abuse”) that may occur within the Global Fund and by Principal Recipients (PRs), Sub-Recipients (SRs), (collectively, “grant implementers”), Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs), as well as third party vendors.¹⁴

19. The OIG is an administrative body with no law enforcement rights. The OIG does not have subpoena power, and it cannot charge anyone with a crime. As a result, its ability to obtain information is limited to Global Fund policies, the rights the Global Fund reserves vis-à-vis the entities under investigation, and on the willingness of witnesses and other interested people to voluntarily provide the OIG with information. The OIG can, however, coordinate its efforts with law enforcement to obtain evidence, and evidence collected by the OIG can be used by law enforcement to enforce violations of domestic law.

20. Given the OIG’s administrative character, the OIG establishes findings of fact upon the identification of “credible and substantive evidence” of that fact. This standard is akin to the normally employed “more likely than not” administrative standard used by the community of International Financial Institutions (IFIs).¹⁵

21. OIG investigations aim to: (i) uncover and identify the specific and full nature and extent of fraud and abuse of Global Fund funds, (ii) identify the individuals and/or entities responsible for and implicated in the schemes, (iii) determine the amount of funds misappropriated; and (iv) the location of the funds, in order to allow the Organization to be best placed to effectuate recoveries. Upon concluding on its findings, the OIG issues reports such as this one, in which it makes recommendations to the Global Fund for recovery of losses, charges of misconduct of Global Fund staff, if appropriate, and sanctions of vendors, as appropriate. It also provides the Secretariat and the Global Fund Board with an analysis of lessons learned for the purpose of preventing future harm to grants due to fraud and abuse, and other forms of misconduct identified. Finally, the OIG makes recommendations for referrals to national authorities for prosecution of any crimes or other violations of national laws, and supports such authorities as necessary throughout the local national process.

22. To this end, during April and May 2010, the OIG carried out an audit at country level to:

- (a) assess the adequacy of the internal control and programmatic systems in managing Global Fund grants;
- (b) assess the efficiency and effectiveness of the management and implementation of grants;

¹⁴ *The Global Fund Charter and Terms of Reference for the Office of the Inspector General*, available at <http://www.theglobalfund.org/documents/oig/TheCharter.pdf>.

¹⁵ See

<http://siteresources.worldbank.org/INTDOII/Resources/FinalIFITaskForceFramework&Gdlines.pdf>, signed by the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, International Monetary Fund, Inter-American Development Bank, and World Bank. This standard is adopted by IFIs for purposes of sanctioning vendors found to have engaged in fraud, corruption, collusion, and coercion in IFI-financed contracts.

- (c) measure the soundness of systems and procedures in place to safeguard Global Fund resources; and
- (d) identify and assess any risks to which Global Fund grants are exposed, and the adequacy of measures to mitigate those risks.

The OIG's Investigations Unit then conducted targeted investigations into alleged wrongdoing based on preliminary evidence uncovered by the Audit Unit, the LFA and the external auditors.

Origins of the Investigation

23. Until 2008, the Secretariat had given satisfactory performance ratings (B1 or better) to all active grants in Djibouti. However, systematic and significant delays in submission of PU/DRs and in the disbursement of funds to sub-recipients resulted in a downgrade of those ratings. Between late 2008 and late 2009, the Secretariat was informed that the PR was systematically late in the preparation and submission of its periodic PU/DRs and that when provided the reports were generally of poor quality and requiring significant clean-up by the PR, with the assistance of and after numerous follow-up by the GF, prior to submission of acceptable products to the GF.¹⁶

24. Subsequent to the depletion of Round 4 HIV funds around October 2008, the PR failed to provide the GF with PU/DRs for the final period January to October 2008. The PR also failed to provide the audit reports covering the final grant year and the close-out period. These reports were eventually provided with a one year delay. These delays, coupled with certain expenditure anomalies identified by the GF in the Round 6 grants, resulted in the Secretariat's decision to engage the LFA to perform more in-depth special expenditure verifications.¹⁷

25. In October 2009 the Global Fund's Secretariat concluded that, in respect of the final close-out audit for the Round 4 HIV grant, the PR had violated GF rules relating to the selection of an external auditor since the engagement of the audit firm BCS had not been subject to competitive tendering.¹⁸ In respect of the audit report itself, the Secretariat was made aware of striking similarities in form and substance to a prior year audit report submitted by a different audit firm and also noted suspiciously that the final audit report rendered an unqualified opinion whereas all previous reports had been qualified.

26. Around that same time, the Secretariat had also identified ineligible and inadequately supported expenditures. In particular, The legitimacy of a USD 80,000 bank transfer made from a program bank account but for which no supporting justification had been provided was questioned. Upon verification, it discovered that the funds had in fact not been transferred to the SR but to another bank account unrelated to the GF programs. The supporting documentation ultimately provided by the PR to the Secretariat appeared to have been falsified in attempt to make it appear relevant to the timing of the fraudulent bank transfer.¹⁹

27. As a result of these issues, the Secretariat commissioned the LFA to perform a special verification of all expenditures incurred during Phase 2 of the Round 4 HIV grant. That review led to the identification of USD 360,904 in ineligible expenditures which have since been refunded to the GF by the Government of Djibouti. The Secretariat then commissioned the LFA to perform the same special

¹⁶ See LFA memo on Special Financial Verification, 15 August 2010

¹⁷ Ibid

¹⁸ See email from FPM to Executive Secretary of the PR, 14 October 2011

¹⁹ See LFA memo on Special Financial Verification, 15 August 2010

verification on expenditures for all three Round 6 grants. That review resulted in the identification of an additional USD 514,513 in ineligible expenditures.²⁰

28. On the heels of these findings, the OIG launched a multi-disciplinary team to undertake a comprehensive audit of the Djibouti grants. The audit identified further issues to be pursued by the OIG Investigations Unit.

V. METHODOLOGY

Scope of Audit and Investigation

29. The OIG conducted an audit of the Djibouti portfolio, covering all active and closed grants since the inception of Global Fund support in 2005 until 31 March 2010 and all aspects of the management and operations of the grant programs, covering the performance of PRs, sub-recipients, the country coordinating mechanism and the local fund agent²¹.

30. This audit report was released to the Board as GF-OIG-10-015-A on 29 October 2012.

31. The OIG Audit work did not closely examine the nature and extent of fraud. The OIG audit fieldwork approach covered data collection, interview with relevant stakeholders, review of documentation, direct observation, control and substantive tests and field visits to project sites, to examine possible control weaknesses. Substantive representative sampling of transactions was followed for high risk areas (between 20% and 40%) of the audit population.²²

32. The OIG investigation focused predominantly on pursuing the alleged financial improprieties identified by the Audit Unit and the Secretariat, through the LFA. These targeted investigations were complemented by a review of other expenditures on a sample basis. This investigative review entailed the scanning and analysis of supporting expenditure documentation obtained from the PR, the review of canceled checks drawn on program bank accounts and the verification of the legitimacy of expenditure documentation directly with third party vendors.

Limitations of the Investigation

a. Timeliness

33. As further described throughout this report, the pace and expediency of the investigation were severely hampered by the state of the program's books and records. Further, the OIG encountered significant delays in its request to receive copies of canceled checks drawn on program bank accounts. Such documentation is customarily requested as part of OIG's audits and investigations. OIG originally made its request for check copies in April 2011 but did not receive any of checks until late August 2011. The final submission from the bank of canceled checks drawn on program bank accounts were provided to OIG in October 2011.

34. Further, two critical audit reports relating to the 2008 closure of the Round 4 HIV grant were not issued by the external audit firm until April 2011.²³

²⁰ Ibid

²¹ Note that some investigated expenditures were dated after March 2010 as did certain special verification and PU/DR reviews.

²² For the Round 4 HIV grant, the OIG Audit Unit extended its sample to 80% of the total population.

²³ See CECA audit report on Round 4 HIV/AIDS close-out dated April 2011.

35. Lastly, the CCM took over four months to revert to the OIG with their comments on the draft investigation report.

b. Cooperation with Local Authorities

36. At the outset of the investigation, the OIG sought to engage with the competent national authorities including the Inspector General of the State (Inspecteur général d'État) and the Public Prosecutor (Procureur de la République). As part of a second visit in May 2011, the Public Prosecutor informed the OIG that investigations of these cases, suspended for political reasons as a result of on-going electoral campaign, would now be resuming. He stated however, that he could not share any information regarding the case with the OIG.²⁴

37. While the Inspector General of the State made himself available at the OIG's request, he made it clear that he was not to be involved, in any capacity, with the OIG's investigative process and was not prepared to share any evidence obtained by his office with the OIG. He nevertheless requested to be kept informed of the conclusion of the investigation. The police officer in charge of the investigation (Section de Recherche et de Documentation de la Gendarmerie) stated that professional secrecy prevented him from discussing the case with the OIG and refused to provide any information on the development of the case.

38. It is clear that while the authorities in Djibouti appear to be willing to solicit information from OIG, they do not intend to support or assist the OIG in its own investigation nor do they intend to provide the OIG with information on the development of their own investigations. Given the seriousness of the fraud and mismanagement identified in this report, the OIG is of the view that any future disbursements to Djibouti under new grants be made contingent on a good faith undertaking of a full and complete investigation by the relevant national authorities and proper communication of the results of those investigations to the GF. Only in such a circumstance can the full nature and extent of the misconduct be identified, appropriate steps taken, and meaningful measures put in place to prevent further misappropriation.

Relevant Concepts of Fraud and Abuse

39. The Global Fund Code of Conduct for Suppliers provides the following definitions of relevant concepts of misconduct:²⁵

- “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; “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
- “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.

40. The International Financial Institution Anti-Corruption Task Force provides similar definitions.²⁶ Other relevant concepts of criminal law are:

²⁴ See record of conversation with State Prosecutor, 29 May 2011.

²⁵ See <http://www.theglobalfund.org/documents/business/CodeOfConduct.pdf>

²⁶ See note 13, supra. The definitions are:

- A corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.

- “Misappropriation” means the intentional, illegal use of the property or funds of another person for one’s own use or other unauthorized purpose, particularly by a public official, a trustee of a trust, an executor or administrator of a dead person’s estate, or by any person with a responsibility to care for and protect another’s assets (a fiduciary duty).
- “Conspiracy” which means an agreement to do an unlawful act. It is a mutual understanding, either spoken or unspoken, between two or more people to cooperate with each other to accomplish an unlawful act.

Exchange Rate

41. The amounts described in this report are described in US Dollars. To the extent amounts were originally quoted in Djibouti Francs, those amounts were translated at a rate of 1 USD to 177 DJF.

VI. SIGNIFICANT INVESTIGATION FINDINGS

Overview

42. The OIG’s investigation uncovered a variety of misappropriation and fraud schemes perpetrated by representatives of the PR which resulted in direct monetary loss of over USD 755,000 in grant funds. Those schemes included the diversion of program assets for non-authorized use and fraudulent procurements. Further, the investigation uncovered other schemes that, while they may not have resulted in a direct quantifiable monetary loss to the GF, evidence a pattern of reckless behavior on the part of the PR, and an intentional effort to mislead the GF. Such schemes included the submission of a bogus external audit report and the falsification of CCM meeting minutes. Finally, the audit and investigation found that the PR and its SRs incurred over USD 2.4 million in ineligible expenditures across the four grants and an additional USD 5.4 million in improperly supported expenditures.

The PR Has Incurred USD 679,408 in Grant-Related Expenditures for Which It Has Not Paid Its Vendors

43. Due to the PR’s failure to adhere to strict budgetary controls, the PR has yet to pay, as of the date of this report, for USD 679,408 in certain program-related expenditures incurred between 2006 and 2010. During the course of confirming invoices directly with third party vendors, OIG identified 17 vendors²⁷ who asserted that while goods or services had been rendered, the PR had not made payment. The OIG referred these cases to the Executive Secretary of the PR for further discussion during its mission in May 2011 and the PR in turn provided the OIG with an additional 17 invoices for which the vendors asserted not having been paid.²⁸ These 34 unpaid invoices represent a wide range of goods and services including car

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- A fraudulent practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.
 - A coercive practice is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.
 - A collusive practice is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

²⁷ See Records of Conversation for: Multiservices Olympiques, Station Service Shell, ETS Wassell, Entreprise Obari, L’Horizon, Dis-Pro, Glacieres Coubeche, Waberi, ATTA, Djibouti Travel and Tourism Agency, Societe des Loisirs, Moustapha ali Mohamed, Mohamed Al Doura, CIBS, NDJED, Rallye Pieces Auto.

²⁸ See Records of Conversation for: Socomer SARL, Hotel Sheraton, La Nation, Asli Pieces Auto, Laboratoire Bio Rad, BM Trading, Cabinet Colas, Cabinet MSA, Djibclean, Electricite de Djibouti, Hassan Souldan, Houssein Habaneh, Ets. MFF, Filga Foire Informatique, GIZ, Moussa Bahdon, Saha Diagnostic and Garage Houdan.

maintenance, drug purchases, and audit fees ranging in value from USD 712 to USD 216,215.²⁹

44. Included in the list is an invoice totaling USD 216,215 for the purchase and delivery of antiretroviral drugs (ARVs) in 2009. According to the vendor, his firm won the tender for the procurement of ARVs but was requested by the Executive Secretary of the PR at the time to provide only half of the originally contracted volume due to budgetary issues, noting that the remainder of the contract would be fulfilled once budgetary issues were resolved. Several months thereafter, the former Executive Secretary requested that the balance of the order be fulfilled but that payment would be made after delivery of the goods, not prior as stipulated in the contract. While the vendor acquiesced and delivered the goods, the PR never made the payment to the vendor³⁰.

45. Also included in the list are invoices from two separate audit firms, Cabinet Colas and Cabinet MSA for external auditing services provided on GF grants.³¹

The PR Transferred Grant Funds to a Non-GF Program and Submitted Falsified Documentation to Mask the Transfer

46. In the process of conducting its normal financial verification of an HIV Round 6 disbursement request (Q5 and Q6 disbursements for HIV (Jul '08-Dec '08), the GF noted a lack of supporting documentation relating to a USD 80,000 transfer by the PR from the program's bank account on July 22, 2008. Based on the wire transfer banking form provided by the PR, the transfer appeared to have been made to the benefit of the HIV program's main SR: PLS Santé (the Health Ministry's HIV program). It was discovered that the bank account number listed on the bank transfer order did not match the account number typically used by that SR.³²

47. In following up on this bank transfer, a representative of PLS Sante was interviewed by the LFA and acknowledged that, despite the description on the bank transfer order, the funds did in fact not hit the PLS Sante's account and that the account number listed on the bank transfer order did not belong to PLS Sante. In further research and discussions with the PR, the account to which the funds were transferred was identified as a separate account, unrelated to the GF program bank accounts, controlled by the Ministry of Health and titled "Plan Moyen Terme Contre SIDA".³³

48. As seen below, the bank transfer order submitted to the GF erroneously lists the beneficiary of the payment as "PLS Santé" (the legitimate SR), an apparent attempt on behalf of the PR to mask the true beneficiary of this transfer.³⁴

²⁹ See Record of Conversation for Société des Loisirs and Saha Diagnostics.

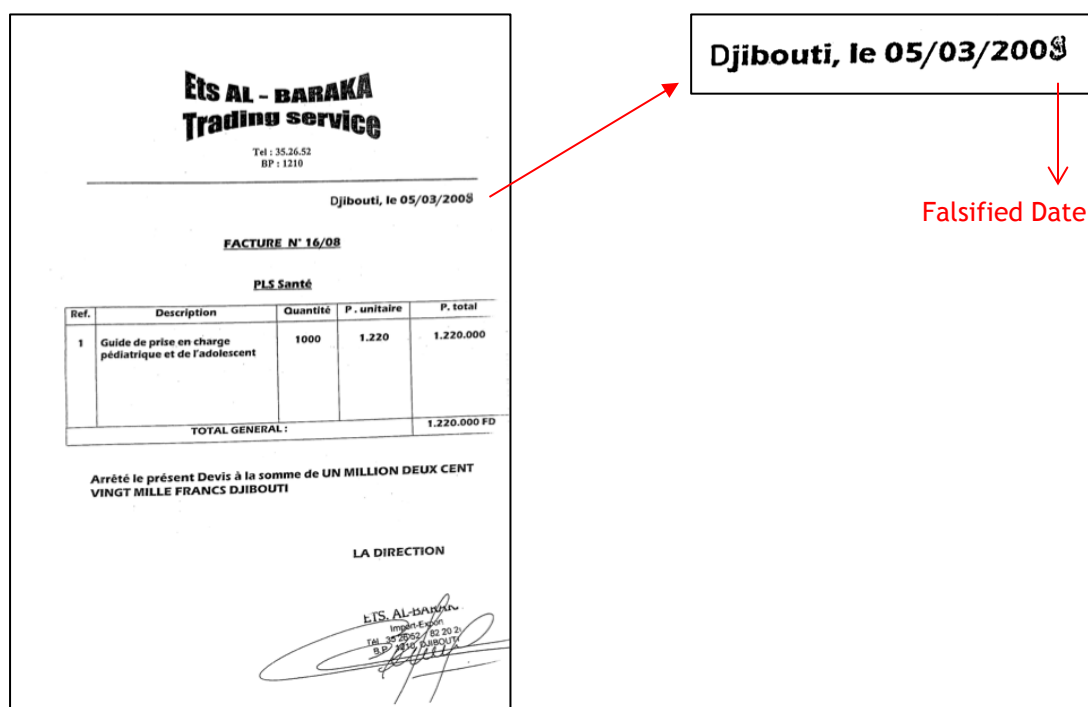
³⁰ Letter from Saha Diagnostics to the Executive Secretary of the PR, 21 April 2011. The OIG notes that upon information received from the LFA, the PR has committed to pay the balance of this outstanding invoice.

³¹ See documents Cabinet Colas.Fac.pdf and Cabinet MSA.Fac.pdf

³² See LFA memo on Special Financial Verification, 15 August 2010, p.3

³³ Record of Conversation with LFA, 24 May 2011

³⁴ Ibid. 2011



50. Similarly, as part of the normal PU/DR review, a similar unauthorized transfer was noticed, dated 8 October 2008 in the amount of USD 35,000, from the Round 6 Malaria bank account to the Intergovernmental Authority on Development “IGAD”, an entity unrelated to the GF grants.³⁶ At the prompting of the GF Secretariat, the amounts in question were ultimately paid back to the respective GF accounts as follows: USD 18,076 on 16 June 2009, USD 61,924 on 16 July 2009, and USD 35,000 on 21 June 2009.

51. The OIG concludes that representatives of the PR, under the direction of the Executive Secretary at that time, transferred GF funds to non-GF program accounts in contravention of the grant agreement. Further, in the case of the HIV Round 4 transfer totaling USD 80,000, the Executive Secretary knowingly sought to deceive the GF as to the true nature of the transfer by submitting falsified expenditure documents³⁷. These amounts have since been refunded to the respective program bank accounts.

The PR Falsified the Tender Related to the Provision of Audit Services and Submitted a Falsified Audit Report to the GF

52. Cabinet CECA (Djibouti) had been the PR’s external auditor of record for the life of Round 4 grant. For the grant’s close-out period from April to October 2008 however, the PR appointed a new auditor—Business Consulting Service SARL (BCS) in June of 2009—without GF notification or approval.

53. The PR submitted an audit report from BCS to the GF on 23 June 2009.³⁸ Based on its review of the report, several issues were noted by the GF in the form and content of the report, including: (1) the fact that the auditor issued a clean audit opinion whereas all previous opinions had been qualified; (2) the format of the report was such that it appeared that it may have been copied and pasted from a previous CECA audit report; and (3) previous years’ outstanding advances to SRs

³⁶ See Executive Summary of the PU/DR review form; 3 April 2009.

³⁷ Record of Conversation, 24 May 2011.

³⁸ Email LFA and FPM, 23 June 2009 and email FPM, 23 June 2009.

totaling over USD 800,000 as of the prior audit had been completely cleared by BCS as justified. In addition to these anomalies, the GF took issue with the fact that the PR appointed BCS without input or review from the GF as required. The Secretariat became aware of those concerns on 31 August 2009.³⁹ As a result, the GF notified the PR on 14 October 2009 that it was rejecting the BCS audit report and was requiring the PR to re-tender the audit work and have a new audit completed for the close-out period April to October 2008.⁴⁰

54. Minutes of a meeting held on 21 April 2009 by the National State Audit Agency reflect the approval of two new licensing applications for the provision of audit services in Djibouti.⁴¹ One of the approved individuals is listed on the articles of incorporation of BCS as the owner of that entity.⁴² The articles of incorporation of BCS, while signed and stamped, are undated. Further, an affidavit of authenticity appended to the articles of incorporation, while stamped, is unsigned and undated. A second attachment to the articles, an affidavit from Banque Indosuez Mer Rouge detailing the deposit of the required capital, is dated 1 June 2009. A receipt dated 10 June 2009 indicates that BCS was registered with the Djibouti department of Commerce on that date.⁴³ Finally, the Ministry of Finance issued BCS's professional license ("patente") on 9 August 2009.

55. Based on the various documentation described above, BCS was not authorized to operate as an audit firm in Djibouti until 9 August 2009 at the earliest, the day that its "patente" was issued by the Ministry of Finance.⁴⁴ Notwithstanding, the bid evaluation report prepared by the PR on 3 June 2009 indicates that the bid evaluation committee reviewed a proposal submitted by BCS on 19 May 2009 and awarded the tender to BCS on that date.⁴⁵ The contract for audit services between the PR and BCS, stipulating a USD 14,000 payment, is dated 4 June 2009, 3 days after BCS's apparent incorporation on 1 June 2009 and two months prior to the receipt of its patente, enabling it to officially engage in business.

³⁹ See "LFA Comments on Audit Report", DJI-404-G01-H, 31 August 2009.

⁴⁰ See LFA memo on Special Financial Verification, 15 August 2010, p.3 and email from FPM to Executive Secretary, 14 October 2009.

⁴¹ Minutes of the Cour D'Appel "Commission D'inscription Des Commissaires Aux Comptes" 21 April 2009

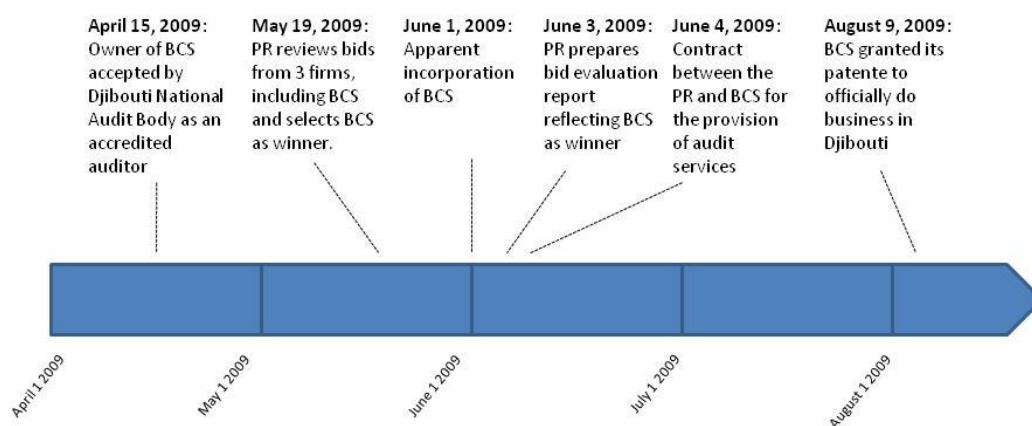
⁴² "Statut Du Cabinet de Commissariat au Compte et d'Expertise Comptable Business Consulting Service".

⁴³ "Tribunal Du Commerce - Registre du Commerce - Registre Chronologique"; 10 June 2009.

⁴⁴ The World Bank Group "Doing Business" website indicates that the issuance of the patente is a condition precedent to setting up a business in Djibouti. See www.doingbusiness.org/data/exploreeconomies/Djibouti/

⁴⁵ "Proces Verbal Relatif Au Recrutement d'un Cabinet d'Audit pour La Clôture Du Round 4/VIH/SIDA"; 3 June 2009.

Timeline of BCS Appointment



56. The bid evaluation report indicates that the bid evaluation committee evaluated the technical qualifications of the three bidding audit firms and gave MSA and Tadoral overall scores of 65 and 67 respectively, which were below the mandatory technical qualification threshold of 70 set by the bid evaluation committee; and thus were declared technically non-responsive. BCS received an overall score of 87. Given the fact that the owner of BCS had just only received accreditation from the State Audit Agency the month prior to the proposal, and the fact that BCS had yet to be even formally incorporated, it is unusual that it would have received higher technical scores than its competitors, which are established audit firms in Djibouti.

57. A representative of Tadoral, one of the alleged bidding firms, confirmed to OIG that it was never solicited to provide a bid for this particular tender and that it had in fact never done so.⁴⁶ A representative of the other bidding firm, MSA, confirmed to OIG that while his company did indeed begin work on the Round 4 close-out audit, that his firm quickly recused itself from the work given the PR's failure to pay MSA outstanding fees for previous audit work.⁴⁷

58. The bid evaluation report was signed by four employees of the PR making up the purported bid evaluation committee, including the Executive Secretary at the time. One of these other individuals confirmed to OIG investigators that he/she did in fact not participate in any bid evaluation and was forced by his/her superiors to sign the bid evaluation report. Another individual also attested to the fact that he/she was forced to sign the evaluation report and further stated that no such bid process occurred at all.⁴⁸

59. The audit report submitted by the PR to the GF under BCS letterhead exhibits obvious red flags and anomalies as follows: (1) the "final version" of the report remains unsigned; (2) the date of the audit opinion is June 18, 2008 which is not possible as the contract was not executed and fieldwork could not have occurred until June 2009; and (3) significant similarities exist in the format of the BCS report and the predecessor audit reports that supports a finding that the prior legitimate reports were used as a template to create the BCS report. Some of the similarities are highlighted below:

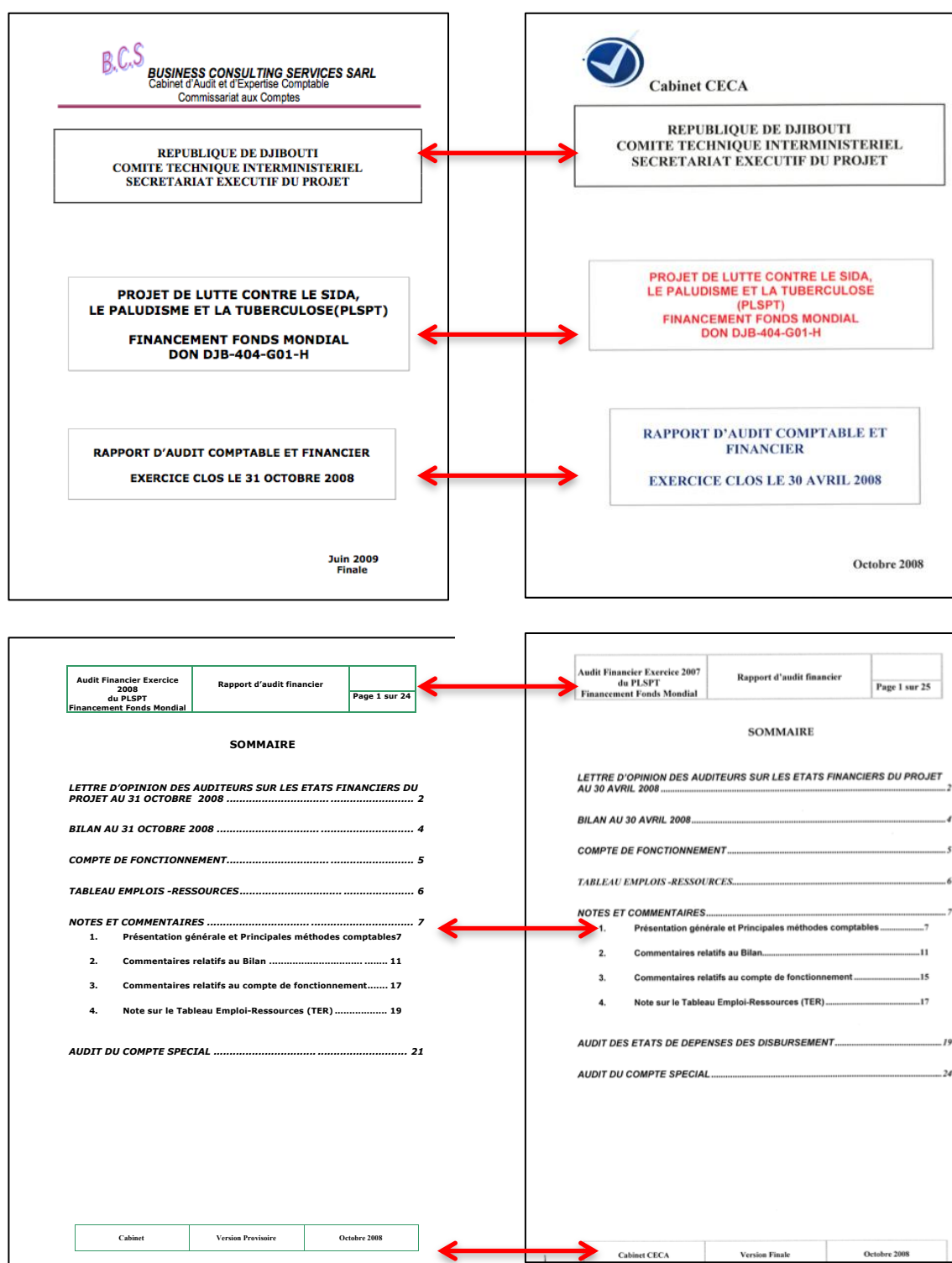
Almost Identical Cover Pages and Table of Contents between Fake BCS Report and Legitimate Audit Report

⁴⁶ Email from Tadoral to OIG dated May 20, 2010

⁴⁷ Email from Cabinet MSA to OIG dated May 20, 2010

⁴⁸ Records of Conversations, 28 May 2011.

Investigation of Global Fund grants to the Republic of Djibouti



60. The BCS auditor issued an unqualified opinion on the program financial statements, which is counter to all other predecessor audit reports reflecting qualified opinions. In particular, the BCS audit report reflects that USD 813,553 in advances to SRs highlighted by the previous auditor (during the previous audit period) as unjustified had been adequately cleared during its current audit. Subsequent to the GF's rejection of the BCS audit report, the PR re-engaged CECA, with GF approval, to re-perform the close out audit. That audit report concludes that the advances to SRs (some dating back to 2005) had in fact not been fully justified and that an outstanding balance of USD 300,702 still remained. Further, of the advances justified, the auditor found that USD 164,629 of the expenditures was

deemed ineligible.⁴⁹ Finally, based on review of the Round 4 bank account activity, no payments appear to have been made to BCS or its owner either prior or subsequent to the alleged completion date of the audit. It is unidentified what work, if any, BCS actually performed in furtherance of the Round 4 Close out audit.

61. Given the preponderance of the evidence, including the fact that BCS was awarded the audit contract prior to its legal incorporation as an audit firm, the fact that PR falsified the bidding process to steer the contract to BCS, the fact that the form of the BCS audit report is almost identical in key aspects to the form of prior audit reports from a different firm, and the fact that the content of the BCS audit report was erroneous (in particular the advances to third parties), there is credible and substantive evidence that the representatives of the PR, under the direction of the Executive Secretary at the time, conspired to deceive the GF by creating and submitting a fake audit report related to the Round 4 HIV close out period.

Representatives of the Ministry of Health Falsified CCM Meeting Minutes in an Attempt to Deceive the GF Secretariat

62. As further described in Section IV of this report, in response to the GF's finding that USD 592,855 in Round 4 HIV grant expenditures were found to have been incurred significantly over-budget, the GF secretariat requested on 19 November 2009 that the PR and CCM provide a written explanation and endorsement for how over-budget expenditures benefited the previously established grant objectives.⁵⁰ In response, the CCM provided the GF on 5 January 2010 with minutes to a December 21, 2009 CCM meeting, a letter from the former Minister of Health and a signed sheet allegedly indicating that 28 members of the CCM endorsed the budget overrun explanations submitted by the PR.⁵¹

63. The OIG successfully contacted 18 of the 28 signatories appearing on the endorsement sheet. Of those, 15 confirmed that while they did recall attending a CCM meeting on December 21st, 2009, and signed an *attendance sheet* evidencing their presence, they did not sign the *endorsement sheet* with the caption as it appears on the document transmitted to the GF.⁵² Several individuals specifically stated that while they did remember a general discussion about budget overruns, no actual dollar amounts were discussed and that they did not specifically approve or endorse the USD 592,855 amount. Of the 3 remaining individuals contacted, two that held posts within the government of Djibouti confirmed having signed the document that included the header detailing the over-budget amount. One of the two individuals was the CCM focal point that drafted the meeting minutes and submitted the documentation to the GF. The second was a Djibouti government civil servant. Lastly, one other civil servant declined to directly answer the OIG's questions stating that his role as a government employee places him under the direction of the various ministers and that he signs documents that are presented to him.

64. The following is an excerpt of an email sent to OIG by a CCM member in response to OIG's request for information surrounding the CCM meeting and endorsement of the USD 592,855:

⁴⁹ CECA Round 4 HIV/AIDS audit report for the period ending 31 October 2008, April 2 2011, p. 25.

⁵⁰ Letter from GF Unit Director to Executive Secretary of the PR, 19 November 2009.

⁵¹ Email from CCM Focal Point to GF Unit Director; 6 January 2010 attaching: Letter from Minister of Health of Djibouti to GF Unit Director; 5 January 2010 and related documents.

⁵² Records of Conversations, 1 November 2011; 2 November 2011; 31 October 2011; 30 October 2011; 27 October 2011; email to OIG, 12 November 2011.

"[...] In respect of the annexed document, I do not recall having signed an attendance sheet with this header, and further note that the header makes no sense. Normally, one should have submitted a summary of said meeting, signed by members of the CCMI and not an attendance sheet that does not include a description of the underlying facts."

CCM Endorsement Page Submitted to the GF

FICHE D'ENDOSSEMENT
des membres du CCMI
sur le dépassement budgétaire Round 4 VIH/
Sida d'un montant de 592 855 \$

Djibouti, le _____

| Noms | Organisme | Adresse e-mail | Signature |
|-------------------------------------|------------------|------------------------|-------------|
| Hime Degmo Mohamed Issack | UNFPA | unfpa@intnet.dj | [Signature] |
| Abou ADJAH A. Niguir | M/Santé | ougnou@oppho.com | [Signature] |
| Aicha Ibrahim Djama | UNFPA | idjama@unfpa.org | [Signature] |
| Mahamout Hassan S | MPP | mfahamout@yaho.com | [Signature] |
| Mostafa IYANE | MS | | [Signature] |
| HULUTE Jean Bosco | UNHCR | hulute@unhcr.org | [Signature] |
| M ^{re} Hanna Hassan Guenou | PNLP | hannahassan@pnlp.dj | [Signature] |
| Ali Mohamed Affada | PLS/Justice | alaffada@pnlp.dj | [Signature] |
| Jane Bouagila Jane | ARDEP | Jane.bouagila@ardep.dj | [Signature] |
| Khaled Abou Ali Amal Hassan | MCCFT | khali@ccft.com | [Signature] |
| Mansour H. Ahmed | USAID | ahmedmansour@state.gov | [Signature] |
| FARAHD HASSAN FARAH | F.H.I | farah@fhi.org | [Signature] |
| Dr. Sidiyasa Fanch B | Systeme de Santé | indelf@yaho.com | [Signature] |
| MARIO TOUDETTE | PAM | mario.tourette@pam.org | [Signature] |
| Josefa KARRATO | UNICEF | jkarrato@unicef.org | [Signature] |
| Dr. Saïd A. Guelleb | PNLT | saïdguelleb@pnlp.dj | [Signature] |
| Dr. IBRAHIM MOHAMMED | PLS Santé | ibrahim@pnlp.dj | [Signature] |
| M ^{re} Ibtine Farah Omar | Arret | PI-13-37 | [Signature] |
| 2-SANON SANON OA | M.S | sanon@ms.dj | [Signature] |
| Mr HOUSSOU Ali Hassan | Quinzième | houssou@quinzieme.dj | [Signature] |
| HALWA Abdel Reyahel | UDATS | | [Signature] |
| Amimu Idress Ismael | A.F.A.S | amimu-idress@afas.dj | [Signature] |

Header not existent on attendance sheet signed by CCM meeting attendees

65. Based on the foregoing, and all reasonable inferences that can be drawn therefrom, there is substantive and credible evidence that representatives of the Ministry of Health provided a falsified document to the GF making it appear as though the CCM members expressly approved and endorsed the full over-budget amount, when in fact this had not been the case.

Equipment Purchased with Program Funds Cannot be Located or Accounted For

66. During the course of its Round 6 Special Verification Review in August 2010, the LFA recommended to the GF that it commission a separate fixed asset audit to verify the physical existence of the fixed assets purchased with Round 4 and Round 6 grant funds. The audit firm CECA was engaged to perform this special audit in conjunction with its re-audit of the Round 4 HIV close-out period. CECA issued its special fixed asset verification report in April 2011, covering fixed asset purchases made between 2005 and 2008.⁵³

⁵³ CECA Fixed Asset Audit Report, February 2011.

67. Consistent with previous findings by the LFA and the OIG, CECA noted that the PR had not consistently maintained a fixed asset ledger during the life of the grants. For the purposes of this fixed asset audit, the PR had to recreate a fixed asset ledger on the basis of existing invoices, purchase orders, delivery receipts and other documentary evidence. The auditor used the list compiled by the PR and the associated documentation as the starting point for the audit.⁵⁴

68. Overall, the auditor was unable to locate GF-funded assets originally valued at over USD 275,000. Missing assets were identified in all categories including, vehicles, computer equipment, office equipment, furniture and other assets. The auditor noted that in many cases, in particular for computer equipment, the underlying documentation did not include any serial number or model number references making it impossible to trace to specific equipment. Of the 48 computers purchased by the PR with GF funds for example, the auditor was only able to locate 17, two of which were inoperable. The auditor noted that the PR kept no records indicating whether any of the computers had been retired due to obsolescence or damage. Further, the auditor makes the point that due to a lack of proper tracking and accounting, he was unable to conclude that the 17 computers actually found were the same ones purchased with GF funds or from some other funding source.⁵⁵

Missing Assets as Detailed by External Auditor CECA

| Category | Total Purchased (USD) | Missing Assets (USD) | | |
|----------------------------------|-----------------------|----------------------|---------|---------|
| | | Round 4 | Round 6 | Total |
| Automobiles | 416,468 | - | 21,666 | 21,666 |
| Computers | 90,218 | 48,689 | 14,520 | 63,209 |
| Computer Hardware | 59,130 | 33,256 | 6,832 | 40,088 |
| Copy Machines | 98,619 | 11,815 | 1,647 | 13,462 |
| Furniture | 83,722 | 28,664 | 9,912 | 38,576 |
| Audio-visual equipment | 79,513 | 30,745 | 2,866 | 33,610 |
| Air conditioners & Refrigerators | 63,642 | 28,244 | 16,101 | 44,345 |
| Motorcycles/Bicycles | 33,820 | - | 20,701 | 20,701 |
| | 925,133 | 181,413 | 94,245 | 275,657 |

69. Of the USD 275,657 identified as missing by the external auditor USD 35,191 had already been identified by the OIG or the LFA as ineligible and is therefore included in loss figures elsewhere in this report. The balance of USD 240,466 is included in the overall loss figure to be reimbursed by the PR.

A Vehicle Purchased with GF Funds Was Diverted from the Program and Used for Non-Authorized Purposes

70. In August 2007, the PR tendered a contract for the purchase of 11 vehicles allegedly for use in all four grant programs. Five vehicles were charged to the HIV Round 4 grant, four to Malaria Round 6, one to TB Round 6 and one to HIV Round 6. As part of its special audit of fixed assets in April 2011, the external auditor CECA undertook a physical review of each of these vehicles and noted that it could not locate one, a Toyota Hilux pickup truck valued at USD 21,666, and further noted that the PR was unable to provide any registration documents related to this vehicle.⁵⁶

⁵⁴ Ibid

⁵⁵ Ibid

⁵⁶ Ibid

71. The OIG investigated the whereabouts of the missing vehicle during its investigation mission to Djibouti in May 2011. According to two different sources, the former Minister of Health and the former Executive Secretary of the PR approached the owner of the car dealership in early October 2007⁵⁷ to request a substitute one of the 8 pickup trucks initially ordered for a Toyota Land Cruiser Prado to be delivered directly to the Minister of Health. The former Executive Secretary instructed the car dealership to issue its invoice to the PR as detailed in the original contract and that a second payment in the amount of USD 16,752⁵⁸, representing the cost of the upgrade, would be made by the Office de la Protection Sociale (“OPS”), a government entity and an SR to the GF programs.⁵⁹

72. The OIG indeed identified a check dated 30 October 2007 in the amount of USD 16,752 drawn on the OPS program bank account.⁶⁰ According to representatives of the OPS, the former Executive Secretary of the PR provided the OPS with a pro-forma invoice, in the amount of USD 16,752, from the car dealership for the fictitious purchase of ambulance tires, and instructed the SR to make the payment directly to the car dealership. The SR representative indicated that he never received the tires, nor did he expect to, as he understood the invoice to be fake and that no tires would ever be delivered. He further stated that he made the payment without questioning it as it was clear to him that the instructions came from the level of the Ministry of Health.⁶¹

73. Based on the foregoing, substantive and credible evidence exists that a vehicle intended to be used for GF program purposes was diverted from the program for unauthorized and undisclosed use by the Minister of Health of Djibouti. Further, a payment in the amount of USD 16,752 was fraudulently charged to the program and concealed with falsified documentation. The amount of USD 38,414, representing the total amount paid for the vehicle, has been included in the overall loss figure as calculated in this report.

Expenditures Were Incurred via Fraudulent Procurements

74. The OIG identified 16 expenditures totaling USD 179,030 for which associated bid documents were found to be fictitious. In these instances, the invoices and related bids submitted by allegedly independent competing companies were found to be illegitimate, have striking similarities including identical formatting, identical spelling errors and the same phone numbers. In four of these instances, the vendors in question admitted that the bids that bore the name of their companies were fake and in three of those instances, the vendors told OIG investigators that they were instructed by the PR to create and submit the fake bid documents.⁶²

⁵⁷ Handwritten note dated 2 October 2007.

⁵⁸ DJF 2,985,176

⁵⁹ Records of Conversations, 31 May 2011, 1 June 2011

⁶⁰ Check #1874255 dated 30 October 2007

⁶¹ Record of Conversation with program manager of PLS Social Security, 1 June 2011

⁶² Records of Conversations, 6 July 2011, 25 May 2011, 26 May 2011 and 31 May 2011.

Expenditures with Fraudulent Procurements

| Round | Disease | Winning Vendor | DJF Amount | USD Equiv. | Date |
|-------|---------|----------------------------------|-------------------|----------------|----------|
| 4 | HIV | Café Restaurant Al-Baraka | 700,000 | 3,955 | 05/12/05 |
| 4 | HIV | Café Restaurant Al-Baraka | 2,070,000 | 11,695 | 09/02/08 |
| 4 | HIV | Entreprise Ambado | 550,250 | 3,109 | 11/02/06 |
| 6 | Malaria | Entreprise De Construction Sahan | 1,725,000 | 9,746 | 09/13/08 |
| 4 | HIV | Entreprise Electro-Clim | 501,500 | 2,833 | 09/20/05 |
| 4 | HIV | Entreprise Koyna | 600,000 | 3,390 | 05/28/06 |
| 4 | HIV | Entreprise Lucie | 1,667,400 | 9,420 | 09/09/05 |
| 4 | HIV | Ets Al-Baraka Tdg Service | 700,000 | 3,955 | 09/10/07 |
| 4 | HIV | Ets Al-Baraka Trading Service | 2,655,000 | 15,000 | 06/08/07 |
| 4 | HIV | G Tours | 4,800,000 | 27,119 | 05/01/08 |
| 4 | HIV | Global Multi Service Co. | 4,840,000 | 27,345 | 12/30/07 |
| 6 | Malaria | Magasin Hol-Hol | 4,495,000 | 25,395 | 12/13/08 |
| 4 | HIV | Patisserie d'Ambouli | 80,000 | 452 | 05/23/08 |
| 4 | HIV | Pharmacie de l'indépendance | 4,500,000 | 25,424 | 03/17/07 |
| 4 | HIV | Sans Fil Net | 1,000,000 | 5,650 | 08/10/07 |
| 4 | HIV | Societe Alephe | 804,100 | 4,543 | 10/24/07 |
| | | | <u>31,688,250</u> | <u>179,030</u> | |

75. The following are illustrative cases of procurement fraud identified:

Magasin Holl-Holl

76. The PR incurred an alleged expenditure under the Round 6 Malaria grant for the purchase of T-Shirts, banners, posters and other items. According to invoice and bid documentation provided by the PR, Magasin Holl-Holl submitted the winning bid in the amount of USD 25,395 (DJF 4,495,000). Two other companies, Global Multi Service Co. and Multi Services Olympiques submitted allegedly competing bids.

77. While the “competing” bids submitted under this tender show that the three companies had different phone numbers, other invoices and bids identified by the OIG for these same companies show that the winning bidder, Magasin Holl-Holl shared the same phone number with at least one of the alleged “competing” bidders, Global Multi Services Co.⁶³

⁶³ See Record of Conversation for Global Multi Service Co.pdf, 8 May 2011

Investigation of Global Fund grants to the Republic of Djibouti

Invoice and "competing" bids for Purchase of Apparel

Invoice from Winning Bidder

DJI-029405

MAGASIN HOLL-HOLL

IMPRESSION EN TOUS GENRES
FOURNISSEUR DE SUPPORTS PUBLICITAIRES
B.P. 4230 - TEL 253 34 14 10

500
T.V.A.

Dossier n° 19/12/2008
09/12/08
FACTURE N° 37/2008

DESTINATAIRE : Secrétariat Exécutif


| QUANTITE | DESIGNATION | UNITAIRE | PREX | TOTAL |
|----------|--|----------|------|-----------|
| 1000 | Posters, Affichage (avec message et image) format 80 x 60 cm | 400 | | 400 000 |
| 2 | Rollup | 20 000 | | 40 000 |
| 2000 | T-shirts (avec message et slogans) | 800 | | 1 600 000 |
| 12 | Banderoles (avec message et image) 1 x 10 mt | 15 000 | | 180 000 |
| 2000 | Dépliants (avec message et image) A4 | 90 | | 180 000 |
| 5000 | Brochure (avec message et image) A5, 26p. | 300 | | 1 500 000 |
| 150 | Polos (avec slogans) | 1 300 | | 195 000 |
| 1000 | Casquettes avec un mpression | 400 | | 400 000 |
| TOTAL | | | | 4 495 000 |

Arrêter la présente facture à la somme de :
Quatre Millions Quatre Cent Quatre vingt Quinze Mille Francs Djibouti

MAGASIN HOLL - HOLL
Tel: 34.14.10 B.P. 4230
DJIBOUTI

Competing Bids

DJI-029406


Global Multi Service Co.
Publicité - Imprimerie - Papeterie - Informatique ET Service
Advertising - Printing - Stationeries - IT Supplies & Other Services

Proforma NO 2866/2008
27/11/2008


DESTINATAIRE: Secrétariat Exécutif

| DESIGNATION | Quantité | | TOTAL |
|---|----------|---------|------------|
| Poster Affichage (avec message et image) | 1,000 | 500 | 500000.00 |
| Rollup | 2 | 22,000 | 44000.00 |
| T-shirts (avec Message Slogans) | 2,000 | 900 | 1800000.00 |
| Banderoles (avec message et image) 1*10mt | 12 | 17,000 | 204000.00 |
| Dépliants (avec message et image) | 5,000 | 100 | 600000.00 |
| Brochure (avec et image) A5,26p. | 150 | 400 | 60000.00 |
| Polos (avec slogans) | 1000 | 1350.00 | 1350000.00 |
| Casquettes avec une impression | | 450 | 450000.00 |
| TOTAL | | | 4908000.00 |

Le Directeur
MOUSTAPHA MOHAMED HADJI

Tel: +253 28 11 547 / +253 28 303465 Fax: +253 28 221200 Email: must@multis.com

DJI-029407


MULTI SERVICES
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IMPRESSION EN TOUS GENRES
FOURNISSEUR DE SUPPORTS PUBLICITAIRES

Tel: (253) 28 68 88 - Fax: (253) 28 38 87 - Rue de MAORID, B.P. 620, DJIBOUTI
Compte N° OMR: CJP 10 016758 8 300 0 00 / Compte N° BIC: MARI 620 014 001 03
E - mail : multiservices@multis.dj - www.multiservices.dj
Pale N°: 003694 - RC N°: 7433A

Facture Proforma REF: 08 160-00A
DATE: 04/12/2008

DESTINATAIRE : Secrétariat Exécutif

| Quantité | Désignation | P.U.FD | P. Total FD |
|----------|--|--------|--------------|
| 1000 | Posters, Affichage (avec message et image) format 80X60cm | 450 | 450.000 |
| 02 | Rollup | 20.000 | 40.000 |
| 2000 | T-shirts (avec message et slogans) | 850 | 1.700.000 |
| 12 | Banderoles (avec message et image)1x10mt | 16.000 | 192.000 |
| 2000 | Dépliants (avec message et image) A4 | 90 | 180.000 |
| 5000 | Brochure (avec message et image) A5, 26p. | 300 | 1.500.000 |
| 150 | Polos (avec slogans) | 1.400 | 210.000 |
| 1000 | Casquettes avec un impression | 450 | 450.000 |
| TOTAL: | | | 4.722.000 FD |

TOTAL: Quatre million sept cent vingt deux mille francs Djibouti

Multi Services
DIRECTEUR
Tel: 35 68 88 - D.P. 620, Djibouti

Other Bids Showing that Magasin Holl-Holl, Global Multi Services Co. and Global Advertising Co. Share the Same Fax Number

DJI-035640

MAGASIN HOLL - HOLL

IMPRESSION EN TOUS GENRES
FOURNISSEUR DE SUPPORTS PUBLICITAIRES

Tél : 35 14 10 ou 81 72 55 Fax : 35 17 65

Facture Reconnue

DESTINATAIRE : PROGRAMME NATIONAL DE LUTTE CONTRE LA TUBERCULOSE

| QUANTITE | DESIGNATION | P.U.FD | P. TOTAL FD |
|--------------|---------------------------|--------|------------------|
| 2000 | T. Shirt avec impressions | 600 | 1 200 000 |
| TOTAL | | | 1 200 000 |

TOTAL : UN MILLION DEUX CENT FRANCS DJIBOUTI

MAGASIN HOLL - HOLL
 Tél: 35.14.10 Fax: 35.17.65
 DJIBOUTI

DJI-007746

Global Advertising Co.

Secretariat Exécutif
ARRIVEE LE 13/06/06
 Enregistrement Sous Le No. 3/06

DJBOUTI, LE 02 12 06

TEL : 359596 Fax : 351765
 Mobile : 845150/817252
 Email : moustglobal@gmail.com
globalad@restraf.dj

FACTURE NO : 2751

LIVRER A : SECRETARIAT EXECUTIF
 ADRESSE : DJIBOUTI

| QUANTITE | NATURE | PRIX UNITAIRE F.D | TOTAL F.D |
|--------------|------------|-------------------|------------------|
| 5 000 | T.SHIRTS | 700 | 3 500 000 |
| 1 500 | CASQUETTES | 400 | 600 000 |
| LOTAL | | | 4 100 000 |

Le Directeur,
 Moustapha Mohamed

DJI-008266

Global Multi Service Co.
 Publicité - Imprimerie - Papeterie - Informatique ET Service
 Advertising - Printing - Stationeries - IT Supplies & Other Services

FACTURE No123/07

29/12/2007

DESTINATAIRE: MINISTERE DE LA SANTE
 ADRESSE: SECRETAIRE EXECUTIF

| DESIGNATION | QUANTITE | PRIX UNIT | TOTAL |
|-----------------------|----------|-----------|------------------|
| Boîte à stylog (PTPE) | 275 | 16 000 | 4 400 000 |
| TOTAL | | | 4 400 000 |

Arrete le present proforma a la somme de: QUATRE MILLIONS QUATRE CENT MILLE FRANCS DJIBOUTI

MOUSTAPHA MOHAMED HADJI

Tél: 35 95 96 / Msc: 84 51 54 Fax: 35 17 65 Email: moustglobal@gmail.com Compte N° 101001812000000 015

SAME FAX NUMBER
"35 17 65"

78. In addition to the procurement issues, the OIG discovered that the owner of the Magasin Holl-Holl did not have a license (“patente”) to sell the goods listed in the invoice and he claimed that he did so under his wife’s patente.⁶⁴ During a meeting on 24 May 2011, the owner of Magasin Holl-Holl provided the OIG with his wife’s phone number. However, upon further effort, the OIG discovered that the number was not in service. Other inconsistencies also surrounded this transaction

⁶⁴ See Records of Conversation for Magasin Holl-Holl.pdf, May 8, 2011.

Investigation of Global Fund grants to the Republic of Djibouti

including: (1) the internal order form (“bon de commande”) is dated 7 January 2009, three weeks after the receipt of the bids; (2) the approved order form is incomplete in terms of goods description as includes only one line item for t-shirts as opposed to 8 different goods line items as evidenced in the invoice and delivery notice. Further, the order form appears to have been falsified as to amount; (3) the goods receipt document (“bon de livraison”) is unsigned and therefore there is no evidence that goods were actually received; and (4) while the check was written to Magasin Holl-Holl, it was ultimately endorsed to another company named “Entreprise Askar”. The owner of Magasin Holl-Holl told OIG investigators that Entreprise Askar was owned by his wife but he provided no evidence to substantiate this explanation. Further, phone calls to the wife, based on the phone number provided by the owner of Magasin Holl-Holl, went unanswered and unreturned.

Order Form (“Bon de Commande”)

SECRETARIAT EXECUTIF DJI-029412

COMITE TECHNIQUE INTERSECTORIEL DE LUTTE CONTRE LE SIDA, LE PALUDISME ET LA TUBERCULOSE

BON DE COMMANDE N° 00838

Activité :

EXERCICE : 2009 Financement : 100%


IDA B FM R4 SIDA R6 SIDA PALU AFD GA

Compagnie : _____ Catégorie : _____

Date de la Commande : 07/01/2009 Fournisseur : MAGASIN HOLL-HOLL

| N° | Description | Quantité | Prix Unitaires | Montant |
|-------|-------------|----------|----------------|--------------|
| | tee-shirt | | | 4,475,000.00 |
| TOTAL | | | | 4,475,000.00 |

Le Directeur Administratif et Financier
Secrétariat Exécutif



Order date after bid dates

Incomplete goods description

Hand-corrected amount

Goods Receipt Document (“Bon de Livraison”) Unsigned by PR

DJ-028409

MAGASIN HOLL-HOLL

IMPRESSION EN TOUS GENRES
FOURNISSEUR DE SUPPORTS PUBLICITAIRES
B.P. 4230 - Tél. 34 14 10

Djibouti No. 1512/2008

BON DE LIVRAISON

DESTINATAIRE : Secrétariat Exécutif

| QUANTITE | DESIGNATION |
|----------|--|
| 1000 | Posters, Affichage (avec message et image) format 80 x 60 cm |
| 2 | Rollup |
| 2000 | T-Shirts (avec message et slogans) |
| 12 | Banderoles (avec message et image) 1 x 10 mt |
| 2000 | Dépliants (avec message et image) A4 |
| 5000 | Brochure (avec message et image) A5, 25p. |
| 150 | Pôles (avec slogans) |
| 1000 | Casquettes avec un impression |

MAGASIN HOLL - HOLL
Tél: 34.14.10 B.P: 4230
DJIBOUTI

Unsigned by PR

Check Written to Magasin Holl-Holl

CH1009

بنك اندوسيز البحر الأحمر
BANQUE INDOSUEZ
MER ROUGE

N° A886618

B.P. DJF 4 435.000 - المبلغ
Payez contre ce chèque la somme de: *quatre millions quatre cent* ادفرا بموجب هذا الشيك مبلغ *أربعة ملايين وأربعمائة ألف*
quatre cent quinze mille francs فقط
à l'ordre de *Magasin Holl-Holl*

بنك اندوسيز
BANQUE INDOSUEZ
MER ROUGE
TEL: 35-30-16
DJIBOUTI

Written to MagasinHoll-Holl

CH1011

10,100,131,330,000 -

Veuillez payer ce chèque à l'ordre ENTREPRISE ASKAR

MAGASIN HOLL - HOLL
Tél: 34.14.10 B.P: 4230
DJIBOUTI

But endorsed to EntrepriseAskar

Entreprise Lucie


79. Three competing bids for construction services present striking similarities sufficient for the OIG to conclude that substantive and credible evidence exists that the same individual created all three documents, or that the individuals worked in collusion with one another. The general layout, title, font, capitalization and table headers are all virtually identical.

Investigation of Global Fund grants to the Republic of Djibouti

Winning bid from EntrepriseLucie

“Competing Bids”

DJI-023988



ENTREPRISE LUCIE
Tél : 35 03 13
B.P. 1624
DJIBOUTI

Construction
Bâtiments
tous travaux

Djibouti, le 3/3/05

Secrétariat de exécutif

Objet : entretienne du centre médicale de Tadjourah

Devis estimatif

| Désignation | qte | P u | P t |
|--|--------------|-------|-----------|
| Travaux de plafonds en contre plaqué de 4mm2 Déposer+ fourniture + pose des plafonds en contre plaque 4mm2 y compris traitement termites+peinture et chevrons n°5 pour encadrement au centre des mandrier et toute sujétion (surface 5,50 m x 5,50 m = 30,25m2 le chambre 8-chambre x 30,25m | 242m | 4.800 | 1.161.000 |
| Travaux des faux plafonds D+F+P+ des faux plafonds y compris toute sujétion | 86m | 3800 | 326.800 |
| Travaux électriques Mise en place l'installation électrique y compris toute sujétion | F T | F T | 100.000 |
| Travaux de la couverture Réparation de couverture de tôles Alum avec de papier goudrons et toute sujétion | Alum avec de | | |
| TOTAL | | | 1.667.800 |

Arrête le présent devis a la somme de un million six cent soixante sept quatre cent franc Djibouti

Directeur des
l'Entreprise Lucie
M. A. M.

DJI-023991

Entreprise Barragoyta
Tel 83 9034
B :p 2951

13/9/05

Secrétariat de exécutif

Objet: entretienne du centre médicale de Tadjourah

Devis estimatif

| Désignation | QTE | P U | P T |
|---|--------|---------|-------------|
| Travaux de plafond et contre plaque Déposé +fourniture +pose de plafond et contre plaque de 4 mm y compris traitement termites +peinture et chevrons n°5 pour un encadrement au centre de mandrier et toute sujétion (5,50 m x 5,50 m = 30,25 m 2 chambre 8- chambre d'hospitalisation d'hommes | 242 m2 | 5600 | 1.355200fd |
| Travaux des faux plafonds D+F+P+ des faux plafonds y compris de fixation et toute sujétion | 86 m2 | 4500 | 387000 |
| Travaux des toitures Réparation de tôles d'alum avec des papiers goudrons y compris toute sujétion | F T | 130.000 | 130.000 |
| Travaux électricité Mise en place d'installation électrique y compris toute sujétion | F T | 150.000 | 150.000 |
| TOTAL | | | 2.022200 fd |

Arrête le présent devis a la somme de deux million vingt deux mille deux cent franc Djibouti

المنظمة
للبناء
BARRAGOYTA
Tél: 83 9034
B.P. 2951
AHMED MOHAMED

Almost identical formatting between three different bidding companies

DJI-023990

Entreprise KALMAMIS
TEL 35 70 13
B p10246

le 10/9/05

Secrétariat de exécutif

Objet : entretienne du centre médicale de Tadjourah

Devis estimatif

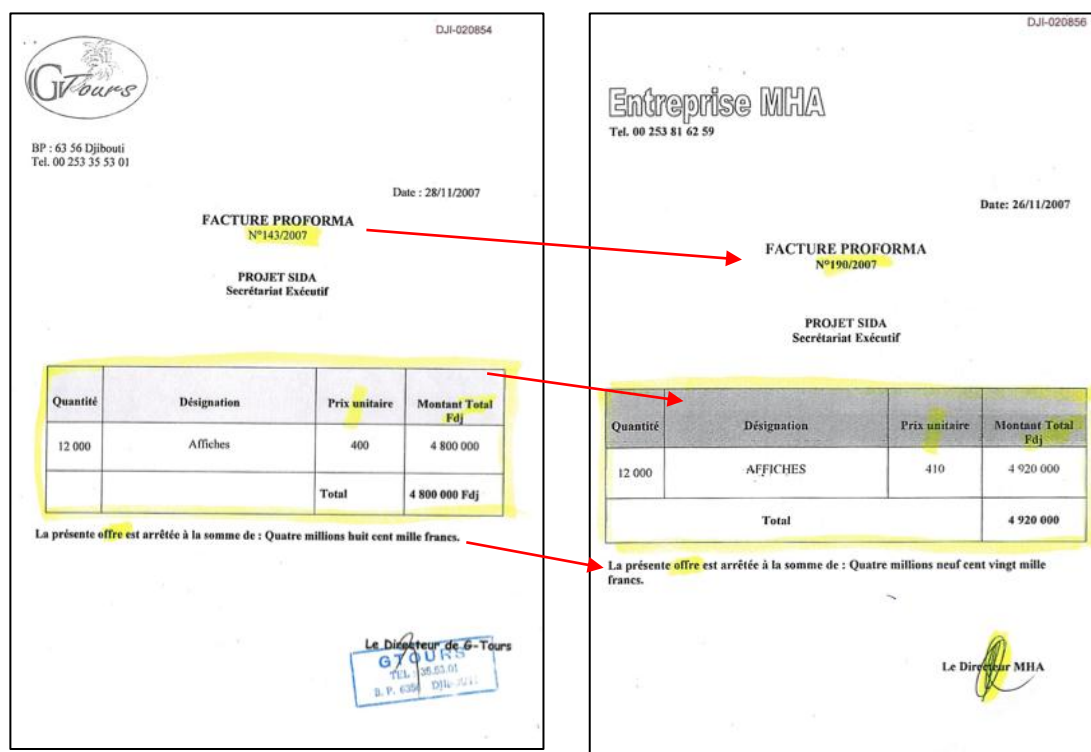
| Désignation | qte | P u | P t |
|---|-------|------|-----------|
| Dépose de fourniture + pose des plafonds en contre plaque y compris traitement termites+peinture et toute sujétion | 242m2 | 5000 | 1.210.000 |
| D+F+P+ des faux plafonds y compris toute sujétion | 86m2 | 4000 | 344.000 |
| Réparation de toiture de tôles d'alum avec des d'étanche goudrons y compris d'électricité mise en place le câblage a toute sujétion | F T | F T | 258.000 |
| Total | | | 1.812.000 |

Arrête le présent devis a la somme de un million huit cent douze mille franc Djibouti

KALMAAMIS
Travaux Publics et Privés
.C 1809/A
☎ 35 61 22 - BP 10246

G Tours

80. Two competing bids for the purchase of posters present are virtually identical, supporting that the same individual created both documents. The general layout, invoice number format and table headers are all virtually the same.



A Significant Construction Contract Was Fraudulently Steered to a Company Owned by the CCM’s Focal Point

81. The PR tendered a contract for the construction of a new drugs warehouse at the central drug agency “CAMME” in late 2007. The bid evaluation report dated 12 November 2007 indicates that the National Procurement agency (“Commission Nationale des Marchés Publics”) evaluated bids from four companies including Entreprise Omar Elmi, Entreprise SAM, Entreprise Daryeel and Entreprise Hamagal.⁶⁵ The bid evaluation report and related construction contract dated 20 November 2007 indicate that the contract was awarded to Entreprise Hamagal. The contract was signed by Abdourahman Ahmed, an individual listed as the Director of Entreprise Hamagal.

82. The OIG contacted each of the three losing bidders and attempted to meet with their representatives. In the case of Entreprise SAM, the OIG was able to establish initial phone contact however subsequent phone calls and requests for a meeting went unheeded.⁶⁶ In the case of Entreprise Daryeel, its representative met with OIG investigators and confirmed the veracity of the bid for the CAMME construction.⁶⁷ Lastly, in the case of Entreprise Omer Elmi Kairett, the owner confirmed that he never submitted a bid for the tender in question and noted that the signature and stamp on the bid document bearing his company’s name were fake.⁶⁸

⁶⁵ See Bid evaluation report for CAMME construction: “Procès-Verbal de la Commission Nationale des Marchés Publics” 12 November 2007.

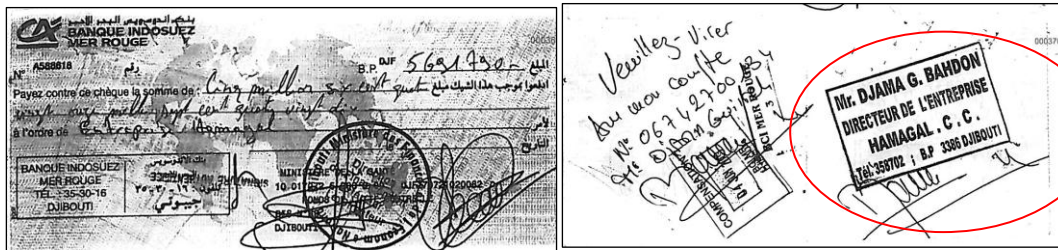
⁶⁶ See Record of Conversation “Hamagale.pdf”; 29 October 2011.

⁶⁷ Ibid

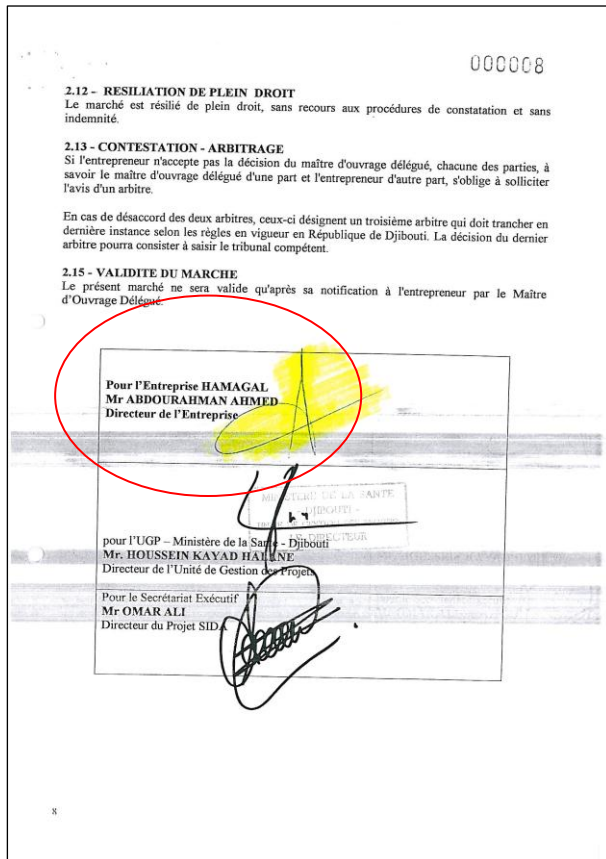
⁶⁸ Ibid

83. The document of completion of services (“Proces Verbal de Reception”) indicates that the construction of the CAMME was completed on 16 April 2008.⁶⁹ The OIG’s review of activity in the program bank accounts revealed that the PR issued four checks to Entreprise Hamagal for a total amount of USD 182,639 between January and June 2008.⁷⁰ The OIG obtained the canceled checks directly from the bank and noted that all four were stamped and endorsed by an individual identified as the Director of Entreprise Hamagal. This is inconsistent with the contractual documents for the CAMME construction contract which state that the Director was another individual named Abdourahman Ahmed.

Check Endorsement Showing the CCM Focal Point as Director of Hamagal



CAMME Construction Contract Showing Abdourahman Ahmed as Director of Hamagal



⁶⁹ Proces Verbal de Reception -Travaux de Construction d’un Hangar de Stockage des Medicaments pour la CAMME”; 16 April 2008.”

⁷⁰ Checks A444946, A588317 and A588618 from the Round 4 HIV account and check #A395757 from the HIV Round 6 account.

84. The OIG notes that this individual also served as the Focal Point for the CCM of Djibouti and was a civil servant with the Ministry of Health; additionally, that individual acted as the focal point for the Global Fund's Eastern Mediterranean Region constituency from 1 October 2005 to at least January 2010.⁷¹ A consultant services contract dated 9 October 2005 indicates that this individual was to be paid USD 2,000 to act as a consultant to the MoH and the CCMI with the terms of reference to that contract specifically referencing the Global Fund grants.⁷² The OIG's review of detailed program bank account transactions indicates that in addition to the amounts for CAMME construction project, this individual was paid at least USD 75,245 from GF program funds for consulting fees and travel expenses between October 2005 and November 2008.⁷³ The OIG interviewed the CCM Focal Point who confirmed that he was both the owner of Entreprise Hamagal and the CCM Focal Point.

85. The ownership by the CCM Focal Point of a construction company hired to perform work under the GF grant is in direct conflict with his engagement as a consultant to the PR. Specifically, in hiring him for consulting work and also hiring his construction company, the PR violated Article 27 of the Round 4 grant agreement which states: *"no person affiliated with the Principal Recipient shall participate in the selection, award or administration of a contract, grant or other benefit or transaction funded by the Grant, in which the person, members of the person's immediate family or his or her business partners, or organizations controlled by or substantially involving such a person, has or have a financial interest."*⁷⁴

86. Given this conflict of interest violation and the fact that at least one of the competing bids was confirmed to have been falsified, it is clear that this procurement exercise and selection lacked integrity, and was tainted by fraud. As such, the PR should reimburse the GF USD 182,395 representing the full amount of payments made to this individual related to the CAMME construction contract. Equally, the PR should ensure this person repays these amounts to the PR.. The OIG further recommends that this individual be precluded from any future involvement in the administration of GF funded grants.

VII. SPECIAL VERIFICATION REVIEWS PERFORMED BY THE LFA

Special Verification of Round 4 Expenditures

87. As a result of the LFA's identification of the questionable BCS audit and the submission of altered documents related to the fraudulent transfer of USD 80,000 to a non-Global Fund program, the Secretariat tasked the LFA in mid-2009 with performing a special verification review of the expenditures incurred during Phase 2 of the Round 4 HIV grant. The LFA findings in this section could be properly characterized as Secretariat findings but are presented separately for clarity and transparency purposes. The review entailed scrutinizing material and other high-risk

⁷¹ See "Composition of The Board of The Global Fund to Fight Aids, Tuberculosis and Malaria - List of Board Members, Alternates and Focal Points", Eighteenth annual board meeting, 7-8 November 2008, p.4. See also Consulting Services Contract between the PR and MOH Focal Point to CCM dated 9 October 2005 and email from MoH Focal Point to CCM to GF Unit Director "Endossement Depassement" dated 6 January 2010.

⁷² Consulting Services Contract between the PR and CCM Focal Point dated 8 October 2005

⁷³ Check # A395362, A886573, A395671, A793454, A889645, 4611189, 4611195, 4684054, 4684095, 4730500, 4765369, 4802180, 4802202, 4815803, 4815825, 4853933, 4853975, 4871613, A018875, A045638, A096455, A045668, A096610, A096514, A235054, A316802, A316805, A444724, A444785, A444900

⁷⁴ Round 4 Djibouti HIV Grant Agreement; Article 27. See also the Round 6 grant agreement at Article 21.

expenditures with the goal of determining: (a) the existence and legitimacy of underlying supporting documentation; (b) the extent to which expenditures were properly reported to the GF; and (c) the extent to which expenditures were in line with the work-plan and overall objectives of the program.⁷⁵

88. The LFA found that a total of USD 281,346 in expenditures were considered ineligible as they were not in line with grant objectives and further found that an additional USD 78,748 in expenditures were not supported by any documentation whatsoever. As a result of these findings, the Secretariat requested a reimbursement of USD 360,094 from the PR. The PR fulfilled this request and reimbursed this amount to the GF on 17 June 2010.⁷⁶

89. In addition to this ineligible amount, the LFA identified a total of USD 592,855 of budget overruns against established budget lines.⁷⁷ While these expenditures appeared to the LFA to be generally in line with program objectives, the LFA was not clear as to whether these should be considered as ineligible or not, and referred the matter to the GF. The GF Secretariat decided that it would request the CCM and the PR to provide a written endorsement attesting to how the expenditures benefited the programs, and upon receipt of such a written endorsement, would decide whether or not to accept the expenditures. Indeed, a 19 November 2009 letter from the GF Secretariat to the PR states: *“The GF reserves the right to decide on the eligibility of these expenses until the Executive Secretariat and the CCM provide, in writing, clarification on the reasons for the overruns on these budget lines and the positive impact that these overruns may have had on the performance and achievement of previously established objectives of the program.”*⁷⁸

90. In one example of these budget overruns, the original program budget included a line item related to the organization of activities surrounding the National Week for the Prevention of HIV. The total budget for this line item was USD 74,000 and related predominantly to the purchase of posters, t-shirts, advertisements and per diem payments. In actuality, the PR incurred expenses totaling 231,724 or 313% above the budgeted amount and the SRs incurred an additional USD 25,624 resulting in a total budget over-run of 347%.⁷⁹ The PR explained these overruns to the LFA in the following manner:

*“the national week took place predominantly in the interior districts of the north and south. This principally under the backdrop of the decentralization of CDV activities and concerns related to proximity to actors in the field. Indeed, the vulnerability and extreme poverty of the population constitutes a doorway to HIV transmission in the interior districts. This justifies the massive distribution of communication methods”*⁸⁰

91. In response to this explanation, the LFA recommended on November 3, 2009 to the GF Secretariat that this overrun be deemed ineligible by noting that “the PR does not sufficiently justify the massive overspending of the budget line without prior authorization of the GF”.⁸¹ Despite this recommendation, the GF Secretariat maintained its position that it would request a written CCM

⁷⁵ LFA Round 4 SVE sheet “#13 DJB HIV rd4 Workplan Expend 12Nov09.xls.

⁷⁶ Global Fund website, “Core_disbursementDetailsRaw_Report.xls”

⁷⁷ LFA Round 4 SVE sheet “#13 DJB HIV rd4 Workplan Expend 12Nov09.xls.

⁷⁸ Letter from GF Unit Director to Executive Secretary of the PR, 19 November 2009. See also Briefing note on Djibouti for the OIG, 3 February 2010

⁷⁹ LFA Round 4 SVE sheet “#13 DJB HIV rd4 Workplan Expend 12Nov09.xls, Tab 4.1.31

⁸⁰ Ibid

⁸¹ Ibid

endorsement of the overrun prior to making a decision.⁸² In response to the GF's request for a written endorsement from the PR and CCM for this and other over-budget amounts, the CCM's focal point sent an email to the GF Secretariat on 6 January 2010 attaching a letter from the President of the CCM, a document entitled "Answers to GF questions" which included explanations for budget over-runs, a spreadsheet with program indicator results, unsigned meeting minutes from an alleged 21 December 2009 CCM meeting and an endorsement sheet allegedly signed by all 28 members of the CCM.⁸³ The CCM explained the overrun on the National HIV week to the GF in the following manner:

"Since 2003, Djibouti organizes a week of information and mobilization on HIV issues beyond the day of the December 1 with the aim of creating a national event where key opinion leaders (President, Prime Minister, Minister of Health leaders, religious leaders, etc.) come together with a visible commitment towards national opinion.

In a country like Djibouti, where there is still a stigma, it is very important that the public finds the commitment of these leaders. That is why this week has been maintained. This week is the launch year of universal access with the spread and decentralization (interior regions) of PTPE services, screening and treatment. A significant number of informational supports (production of brochures, posters, rolls, T shirts, caps) have been produced to promote these services.

Thematic workshops (screening, PTPE, care) have been organized in each region with the main political actors, civil society, traditional and religious leaders.

Although this week's contribution to the overall results in the fight against HIV cannot be quantified, it constitutes in certain key areas, a factor that triggers an individual and collective dynamic. Indeed numerous people living with HIV spoke out publicly without being rejected."⁸⁴

92. The OIG requested from the Secretariat any and all internal documentation evidencing the GF's review of the PR's explanations and the related CCM endorsement.⁸⁵ The Secretariat did not provide any such documentation to the OIG, however the OIG did identify an email stored on the Country Programs intranet site from the previous FPM to the previous Program Officer in which the FPM notes, "I have reviewed the [explanation] and found it to be of very mediocre quality as it does not bring any new elements to explain the need for overspending with prior Global Fund approval."⁸⁶ Aside from this one email, there is no evidence that the Secretariat undertook any internal review of these explanations in view of making a determination on the eligibility of the budget overruns.

93. The OIG takes note of current and historic Operational Policy Notes ("OPN") that govern changes to scope and scale of performance frameworks in grant agreements. However these rules apply to future *pro-active requests* for modification submitted by grant recipients to the GF for approval.⁸⁷ Further, these

⁸² Ibid

⁸³ Email from CCM Focal Point to GF Unit Director; 6 January 2010 and related attachments.

⁸⁴ "Reponses au questions FM" attached to email from CCM Focal Point to GF Unit Director "Endossement Depassement" dated 6 January 2010.

⁸⁵ See email from FPM to OIG; 2 October 2011

⁸⁶ Email from FPM to Program Officer; 3 February 2010.

⁸⁷ See "Changes to Scope and/or Scale of Performance Frameworks in Board Approved Proposals or Signed Grant Agreements", 12 July 2011

rules require an active determination of the materiality of any proposed changes on established performance indicators. In the case of Djibouti, the overruns were incurred without any notification to, or approval from, the GF and there is no evidence that the GF Secretariat assessed the materiality of the budget overruns on the established indicators.

94. Further, internal secretariat correspondence on 2 February 2010 indicated the secretariat position to be that *“each Grant Agreement provides a legal basis for imposing refund demands for the two areas of possible misuse identified [in this case], relating to expenditures unsupported by the Program budget (“ineligibles”) and those which significantly exceed budgeted amounts (“overspend funds”). [...] Moreover each grant provides that the deviations to the budget can only be made pursuant to the written guidelines of the Global Fund or as otherwise authorized by the Global Fund(See Annex A, Section E in Round 4, Phase 1; Article 2(b) in Round 4 phase 2; and Article 2(b) in Round 6.”*

95. Based on the above, the Secretariat’s original decision to solicit a post-facto explanation and endorsement from the PR and CCM as to the propriety of over-budget expenditures appears dubious. Further, the OIG notes that despite questioning internally the adequacy of the explanations provided by the PR and the CCM, the Secretariat did not appear to have taken any steps to further push the PR and CCM for additional explanations, nor did it initiate the process of recouping the funds in question. Coupled with the fact that the OIG found that the endorsement sheet showing unanimous approval among CCM members in respect of the over-budget amount had been falsified, the OIG recommends that the PR be required to reimburse the GF for the full amount of the unapproved Round 4 budget over-runs totaling USD 592,855.

Special Verification of Round 6 Expenditures

96. Following the findings of the Round 4 Special Verification exercise, the Secretariat mandated the LFA to perform a similar exercise for each Round 6 grant. The review identified many of the same issues in the Round 6 grants as it had as part of the Round 4 special verification including ineligible expenditures, expenditures with no supporting documentation and budget overruns. The table below details the findings from the Round 6 special verification review⁸⁸:

Summary of Findings from LFA Round 6 Special Verifications⁸⁹

| | Round 6 (in USD) | | | |
|-------------------------|------------------|------------------|------------------|-------------------|
| | HIV | Malaria | TB | Total |
| Ineligible Expenditures | \$ 02,146 | \$ 04,621 | \$ 5,836 | \$ 492,603 |
| Budget Overruns | \$ 56,767 | \$ 20,917 | \$ 2,332 | \$ 460,016 |
| TOTAL | \$ 58,913 | \$ 25,538 | \$ 68,168 | \$ 952,619 |

97. Unlike for Round 4, the GF Secretariat did not request reimbursement from the PR of Round 6 ineligible expenditures totaling USD 492,603. Further, it did not seek written explanation and endorsement from the PR and the CCM approval for the budget overruns totaling USD 486,450. The GF informed the OIG that a request for reimbursement was not made at that time given that the OIG’s audit

⁸⁸ See LFA memo on Special Financial Verification, 15 August 2010

⁸⁹ The figures contained in the LFA’s Round 6 Special Financial Verification report dated August 15, 2010 were modified slightly based on reconciliation work undertaken by the Secretariat, the LFA and the OIG.

was about to commence.⁹⁰ The figures above have been incorporated into the overall loss figure to the extent they have not already been included in other loss categories.

Expenditure Anomalies from Q13-14 PU/DR Review

98. Due to delays in the submission of the Progress Update and Disbursement Request PU/DR by the PR, the standard review by the GF of Q13-14 (July to December 2010) expenditures was not completed until August 2011. Consistent with findings from its previous special verification reviews, the LFA identified issues with ineligible, improperly supported and possibly fraudulent documentation. The following table summarizes the relevant findings for each of the three Round 6 grants⁹¹:

| | Round 6 (in USD) | | | Total |
|--|------------------|--------------|---------------|----------------|
| | HIV | Malaria | TB | |
| Ineligible Expenditures | 30,028 | | 20,118 | 50,146 |
| Expenditures with no Justification | 9,419 | 8,074 | | 17,493 |
| Expenditures with Insufficient Justification | 60,394 | | 6,264 | 66,658 |
| Budget Overruns | | | 13,476 | 13,476 |
| TOTAL | 99,841 | 8,074 | 39,858 | 147,773 |

99. The OIG has confirmed the veracity of these findings.⁹²

100. The OIG takes particular note of the fact that the exceptions identified occurred during the period July to December 2010, over one year from the time the GF Secretariat informed the PR about problems in the Djibouti grants.⁹³ Indeed the PR and the CCM were aware of the serious issues raised in early to mid-2009 culminating in a special meeting of the CCM on 21 December 2009 to review and approve significant over-budget line items and in the reimbursement of Round 4 ineligible expenditures on 17 June 2010. That the PR continued to incur frequent and consistent expenditure anomalies throughout 2010 raises obvious concerns as to the intent of the PR and CCM to effect meaningful change, take appropriate remedial action in, and properly manage the GF-funded programs.

101. Based on the numerous deficiencies identified above, the GF Secretariat required the PR to engage a special fiduciary agent (“AGF”) in January 2011 to review all expenditures prior to their occurrence (“a priori” review).

102. The use of the AGF to review all expenditures on an “a priori” basis, by all measures a drastic step, but one which appears to have been necessary in the case of the Djibouti grants. As previously noted, an international NGO is slated to take over as PR for the Round 9 and 10 TB and Malaria grants. However, no such scenario has been envisioned for the pending HIV grant, for which complete management responsibility may return back to the current PR according to information received from the Secretariat. The Secretariat must be held accountable in ensuring that adequate fiduciary controls are put in place around the Round 9 and 10 grant expenditures, including the possibility of keeping on a fiduciary agent to act as an

⁹⁰ See LFA Comments on the Office of the Inspector General Investigation Report of Global Fund Grants to the Republic of Djibouti, 13 July 2012; p.4

⁹¹ See Q13-14 PU/DR review form.

⁹² Ibid

⁹³ See for example letter from GF Team Leader to Executive Secretary informing the PR about the ineligibility of the UISD 80,000 transfer; 15 July 2009. See also email from GF Team Leader to MoH, 1 November 2009. See also letter from GF Team Leader to Minister of Health; 25 February 2010.

additional safeguard and to continue the “a priori” review of expenses, either in total or in sample.

Special Verification of CCM Expenditures

103. The CCM received a total of USD 41,424 in funding from the GF to cover its expenditures during the period 1 November 2008 to 31 October 2009. The GF performed a special verification of CCM expenditures and produced a report on 24 August 2011. It found that of the USD 41,424 in total expenditures incurred by the CCM, USD 14,906 or 36% was deemed ineligible. Of this amount, USD 1,232 was used for the un-budgeted purchase of a laptop, USD 161 related to bank fees and the remaining USD 13,513 related to expenses with questionable and likely fraudulent supporting documentation.

104. The report noted that the CCM did not employ an accountant and that the CCM focal point at the time, had signature authority, along with other CCM members, over check disbursements.

VIII. LOSSES TO THE GLOBAL FUND

The GF’s Right to Reimbursement

105. Article 8 of the Round 4 HIV Grant Agreement establishes the GF’s right to demand repayment from the PR of any funds not used for the Program’s intended purposes:

In the case of any disbursement of the Grant that is not made or used in accordance with this Agreement, or that finances goods or services that are not used in accordance with the Agreement, the Global Fund, notwithstanding the availability or exercise of any other remedies under this Agreement, the Global Fund may require the Principal Recipient to refund the amount of such disbursement in United States dollars to the Global Fund [...].

106. Article 27 of the Round 6 Grant Agreements establishes the GF’s right to demand repayment from the PR of any funds not used for the Program’s intended purposes as well as for other violations of the terms of the Agreement:

Notwithstanding the availability or exercise of any other remedies under this Agreement, the Global Fund may require the Principal Recipient to immediately refund to the Global Fund any disbursement of the Grant funds in the currency in which it was disbursed in any of the following circumstances: (i) this Agreement has been terminated or suspended; (ii) there has been a breach by the Principal Recipient of any provision of this Agreement; (iii) the Global Fund has disbursed an amount to the Principal Recipient in error; or (iv) the Principal Recipient has made a material misrepresentation with respect to any matter related to this Agreement.

107. Article 20 of the Round 6 Agreements establishes that the PR is liable for any loss or theft of cash or items purchased with Grant funds:

The Principal Recipient shall be solely liable for the loss or theft of, or damage to any and all items purchased with Grant funds (including those in the possession of Sub-- recipients), and, immediately upon any such loss, theft or damage, shall replace such items at its own expense in compliance with the procurement requirements set forth in Article 18 and Article 19 of

this Agreement. In addition, the Principal Recipient shall be solely liable for the loss or theft of any cash in the possession of the Principal Recipient or any of its agents or Sub--recipients and shall have no recourse to the Global Fund for any such loss or theft.

108. Furthermore, Article 21 of the Round 6 Agreements explicitly forbids engagement in corruption or any other 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 participates in any practice that is or could be construed as an illegal or corrupt practice in the Host Country.

109. The OIG understands from its discussions with the Public Prosecutor and the Inspector General of State that the PR may as well have breached Article 5 (d) Compliance with Laws of the Round 6 agreements by violating administrative regulations and criminal law provisions:

The Principal Recipient's activities are operated in compliance with Host Country law and other applicable law, including but not limited to intellectual property law,[...]

Methodology for Calculating Loss

110. The OIG categorized the overall loss figures into three categories: (1) losses from fraud, theft and abuse; (2) losses from ineligible expenditures and (3) losses from unsupported and inadequately supported expenditures. Within these categories, the OIG tabulated losses identified by its audit and investigative teams, losses identified by the Secretariat, through the LFA, as well as losses identified by external auditors. The OIG performed a detailed reconciliation between these three sources to ensure that amounts were not double-counted. In total, the OIG identified USD 8,194,779 in losses across the four grants and the CCM funding agreement reviewed.

Investigation of Global Fund grants to the Republic of Djibouti

| CATEGORY | AMOUNT OF LOSS BY GRANT (IN USD) | | | | | | Total |
|--|----------------------------------|------------------|-----------------|----------------|---------------|----------|------------------|
| | HIV Round 4 | HIV Round 6 | Malaria Round 6 | TB Round 6 | CCM Funding | | |
| FRAUD, WASTE AND ABUSE | | | | | | | |
| Misappropriated Vehicle | | 38,418 | | | | | 38,418 |
| Fraudulent Procurement | 143,889 | | 35,141 | | | | 179,030 |
| Fraudulent Contracting for CAMME construction | 125,303 | 57,336 | | | | | 182,639 |
| Other Missing Assets (computers, motrocycles etc...) | 167,887 | 72,579 | | | | | 240,466 |
| Improper Transfer from Program bank accounts | 80,000 | | 35,000 | | | | 115,000 |
| TOTAL FRAUD, WASTE AND | 517,079 | 168,333 | 70,141 | - | - | - | 755,553 |
| INELIGIBLE EXPENDITURES | | | | | | | |
| Expenditures Inconsistent with Grant Agreement | 788,544 | 374,790 | 148,030 | 138,084 | 13,513 | | 1,462,961 |
| Budget overspend | 510,208 | 281,156 | 120,917 | 82,332 | 1,232 | | 995,845 |
| Overdraft charges | | 7,519 | 645 | 8,054 | 161 | | 16,379 |
| TOTAL OF INELIGIBLE | 1,298,752 | 663,465 | 269,592 | 228,470 | 14,906 | - | 2,475,185 |
| UNSUPPORTED AND INADEQUATELY SUPPORTED EXPENDITURES | | | | | | | |
| Expenditures with no supporting documentation | 683,451 | 1,047,589 | 103,989 | 4,208 | | | 1,839,237 |
| Expenditures with inadequate supporting documentation | 3,212,420 | 60,394 | | 26,382 | | | 3,299,196 |
| Unjustified SR Advances at grant closure | 300,702 | | | | | | 300,702 |
| TOTAL INADEQUATELY SUPPORTED EXPENDITURES | 4,196,573 | 1,107,983 | 103,989 | 30,590 | - | - | 5,439,135 |
| TOTAL LOSS | 6,012,404 | 1,939,781 | 443,722 | 259,060 | 14,906 | - | 8,669,873 |
| Amount Already Refunded by the Government of Djibouti | (440,094) | - | (35,000) | - | | | (475,094) |
| TOTAL AMOUNT OWED | 5,572,310 | 1,939,781 | 408,722 | 259,060 | 14,906 | - | 8,194,779 |

IX. RECOMMENDATIONS

111. The OIG makes the following recommendations as a result of the findings of this investigation:

- A. That the Secretariat seek to recover, from the Principal Recipient, all outstanding losses that the Global Fund and the grant programs suffered as a result of the misuse, mismanagement, misappropriation and related breaches of the grant agreement, as detailed herein, an amount currently identified by OIG as USD 8,194,779.
- B. That the Principal Recipient, assisted by the CCM, ensures through available legal means that all parties having participated in the misappropriation and misuse of grant funds retribute such amounts to the Principal Recipient and be held accountable as applicable under national administrative, civil and criminal laws.
- C. That the Secretariat continues to require the PR to make use of an external fiduciary agent for the a priori review of all expenditures under the Round 6 grants until grant closure and all new grants to be signed going forward.
- D. That the Global Fund Sanctions Panel, or the relevant GF structures, if the Panel is not able to examine the issue in a timely manner, examines the issues highlighted in this report and take appropriate sanctions against the Executive Secretary of the PR in place at the onset of the grants, and any company owned by or connected to him, notably being barred from participation, either directly or indirectly, in any future GF grants, and that these entities and this individual be debarred under the Global Fund Sanctions Procedure.
- E. That the Global Fund Sanctions Panel, or the relevant GF structures, if the Panel is not able to examine the issue in a timely manner, examines the issues highlighted in this report and take appropriate sanctions against the CCM Focal Point, and any company owned by or connected to this individual, notably being barred from participation, either directly or indirectly, in any future GF grants to the Government of Djibouti or any governance body of the Global Fund.
- F. That any continuation of Global Fund funding to Djibouti be conditioned by the Secretariat upon a good faith undertaking by the national authorities and the Principal Recipient to vigorously pursue restitution, prosecution and any other appropriate action as a result of the possible violations of administrative, civil and criminal laws identified in this report.

ACRONYMS

| | |
|-----------|--|
| ACT | Artemisinin-based Combination Therapy |
| ART | Antiretroviral therapy |
| ARV | Antiretroviral |
| BL | Bilateral |
| CAMME | Centrale d'Achat des Médicaments et Matériels Essentiels |
| CCM | Country Coordinating Mechanism |
| CSO | Civil Society Organization |
| CSW | Commercial Sex Workers |
| CBO | Community-Based Organization |
| CCM | Country Coordinating Mechanism |
| DJF | Djibouti franc (aka franc Djiboutien) |
| DOTS | The basic package that underpins the Stop TB strategy |
| ES | Executive Secretariat (to fight against HIV, TB and Malaria) |
| EU | European Union |
| FBO | Faith-Based Organization |
| GDF | Global Drug Facility |
| GNI | Gross National Income |
| HPF | Paul Faure Hospital |
| ITN | Insecticide Treated Net |
| IDA | International Development Association |
| LFA | Local Fund Agent |
| MOH | Ministry of Health |
| NGO | Non-Governmental Organization |
| OI | Opportunistic infections |
| OIG | Office of the Inspector General |
| OVC | Orphans and Vulnerable Children |
| PLSS | Programme de Lutte contre les IST VIH/SIDA (Ministère de la santé) |
| PLT | Programme national de Lutte contre la Tuberculose |
| PR | Principal Recipient |
| PNLP | Programme national de Lutte contre le Paludisme |
| PQR | Price Quality Reporting |
| SSA | Sub Saharan Africa |
| SR | Sub-Recipient |
| Swiss TPH | Swiss Tropical and Public Health Institute |
| TB | Tuberculosis |
| UNFPA | United Nations Fund for Population |
| UNICEF | United Nations Children's Fund |
| VPP | Voluntary Pooled Procurement |
| WB | World Bank |
| WFP | World Food Program |
| WHO | World Health Organization |