

Investigation Report

Global Fund Grants in

Kenya

Fraudulent and collusive practices in the hotel procurement process for program activities, and fraudulent payments to vendors at NASCOP

GF-OIG-22-O19
5 December 2022
Geneva, Switzerland

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1. Executive summary

1.1 Investigation at a glance

The National AIDS and STIs Control Programme of Kenya (NASCOP) is a Sub-Recipient under Global Fund grant KEN-H-TNT for which the Principal Recipient is the National Treasury of the Republic of Kenya. The Office of the Inspector General of the Global Fund (OIG) found that staff at NASCOP engaged in fraudulent and collusive practices during the hotel selection process for program activities. In a separate instance, staff at NASCOP manipulated payment records to fraudulently pay third parties that did not deliver any goods or services.

The former NASCOP procurement officer systematically fabricated quotations from different hotels, colluded with hotels to receive fictitious quotations, and edited hotel quotations to falsely simulate competitive procurement processes. Due to the inadequate segregation of duties, the former procurement officer was able to manipulate multiple procurement processes without being detected.

Separately, the former NASCOP accountant falsified payment records to fraudulently pay third parties disguised as printing vendors without delivering any services. Non-transparent bank statements at NASCOP hampered and delayed the daily validation and reconciliation of individual payments to beneficiaries.

The systematic nature of the misconduct concerning hotel procurements at NASCOP rendered the entire amount of hotel expenses, US\$1.4 million, vulnerable to fraud. The OIG found that a lack of segregated duties, a weak financial management system, and non-transparent banking records at NASCOP created an enabling environment for prohibited practices.

The OIG recommends the Secretariat pursue from the Principal Recipient an appropriate recoverable amount from the grant's hotel expenses including the loss of US\$46,940 identified in this report. This amount comprises the overpricing in the hotels NASCOP hired as well as double payments made to a printing vendor.

In response to the OIG's Letter of Findings, NASCOP has acknowledged the fraudulent practices and weak internal controls described in this report. NASCOP has committed to making improvements.

1.2 Genesis and scope

In June 2021, the Global Fund Secretariat notified the Office of the Inspector General that its Local Fund Agent (LFA) had noted red flags in NASCOP's financial controls during the latest Progress Update and Disbursement Review (PU/DR). The red flags included irregular hotel payments where various hotels that supposedly submitted losing bids confirmed that they had not, in fact, submitted any quotations. The LFA review also noted printing expenditures paid to third parties without supporting documentation.

Based on the LFA's findings, the Global Fund Secretariat requested a refund of the falsified payments made to third parties for US\$42,295 and the non-compliant expenses identified through the review of hotel expenses to the amount of US\$13,777.

The scope of the OIG investigation was based on the issues the LFA identified. It also included additional hotel and printing expenses during the New Funding Model 2 (NFM2) grant.¹ The investigation focused on identifying the individual(s) responsible for the fraudulent activities and ascertaining whether the fraudulent practices the LFA identified were opportunistic or represented more entrenched wrongdoing. The investigation included a risk-

¹ From 1 January 2018 to 30 June 2021

based sample of 14 major hotel suppliers, including hotels where the LFA had identified red flags. A total payment of US\$280,670 was made to these 14 hotels (representing 20 percent of the entire hotel expense of US\$1.4 million, involving 238 different vendors). Of the 14 vendors selected for review, OIG sampled different individual transactions spread across the grant cycle based on the materiality of each transaction. The findings included in this report relate to this sample.

NASCOP used hotels to carry out several programmatic and technical reviews including the elimination of mother-to-child transmission; review of certified training curriculums (e.g., HTS curriculum, national HIV integrated curriculum), data review activities (e.g., data cohort analysis, data quality assessments, HIV case-based surveillance data analysis) as well as training on policy documents.

The investigation also included a review of all printing expenses amounting to US\$1.4 million recorded and identified in NASCOP's books of account during the NFM2 implementation period. Additionally, the investigation covered a review of more than 5,000 documents from NASCOP's computer systems. The investigation faced multiple challenges in obtaining independent bank statements, including supporting documentation from NASCOP, and when scheduling interviews. For example, it took the bank approximately four months and multiple follow-ups to provide detailed bank statements in an electronic format with beneficiary details.

1.3 Country context

The National Treasury of the Republic of Kenya is the Principal Recipient of the Global Fund's HIV, TB and malaria grants.²

NASCOP is a unit within the Ministry of Health that is responsible for the implementation and technical coordination of HIV and AIDS programs in Kenya. More specifically, NASCOP is involved in policy and guidelines formulation, procurement and supply chain management coordination, capacity building as well as monitoring and evaluation of Kenya's HIV response. Through these activities, NASCOP contributes to the bulk of implementing Kenya's AIDS Strategic Framework. NASCOP is a Sub-Recipient (SR) of Global Fund grant funds through the KEN-H-TNT grant via the government's Principal Recipient, The National Treasury (TNT).

For the NFM2 implementation period,³ a total budget of US\$25.58 million was granted to NASCOP. From this budget, NASCOP recorded a total of US\$1.4 million in hotel expenses involving 238 different hotels. During the same period, NASCOP also recorded a total of US\$1.4 million as payments made for printing expenses. These payments were made through different Electronic Fund Transfers (EFTs) that often included several payments grouped together and presented to the bank through a single bank check.

² KEN-H-TNT, KEN-T-TNT, and KEN-M-TNT

³ Period covers 1 January 2018 to 30 June 2021

From a grant management perspective, for the NFM2 period, the grant performance rating of the HIV grant was rated as “B1” (which indicated 60 to 89 percent progress in the implementation of various activities during the period) and the Secretariat views the relevant risks at the country level as high.

For the NFM3 implementation period, the grant has been rated C1⁴. ‘C’ to the extent the program delivered expected results on a scale of A to E, where A being the highest; and ‘1’ to the extent the budget was utilized as agreed on a scale of 1 to 5, where 1 is maximum.

Grant #	NFM2	NFM3
KEN-H-TNT	B1	C1

Relevant Risk	Latest Grant Residual Risk Rating
Accounting and financial reporting	High
Internal controls	Medium
Financial fraud, corruption, and theft	High
Procurement processes and outcomes	High

⁴ The Global Fund has recently revised its grant performance rating definitions






1.4 Impact of the investigation

This OIG investigation highlights that hotel contracting represents an inherently high-risk activity that is vulnerable to fraud, particularly in the absence of a procurement plan with a list of preferred hotels and pre-agreed rates.

As noted, individual hotel contracts were relatively small in value with NASCOP spending about US\$1.4 million of its budget on hotels during the review period, representing around 5.5 percent of its total program expenditure. The OIG found that NASCOP's lack of internal controls and weak financial management system, including non-transparent banking records, facilitated the fraud.

NASCOP no longer employs the two staff involved in the fraudulent activities. In response to the OIG's Letter of Findings, NASCOP confirmed that it is improving internal controls and that disciplinary actions would be taken against the former staff identified during the investigation⁵.

To mitigate any residual risks, the OIG has recommended the measures below to the Secretariat.

	Take appropriate action against all parties responsible for the prohibited practices identified through the investigation.
	Strengthen banking processes to validate and reconcile individual payments to different beneficiaries.
	Enhance controls and oversight of the PR's procurement processes, including establishing proper segregation of duties.
	Implement an accounting system to triangulate procurement to payment records, including maintaining vendor master data.
	Finalize and pursue an appropriate recoverable amount based on the findings of this report.

⁵ Refer to Annex A for the summary of response from NASCOP

2. Findings

2.1 Systematic fraudulent and collusive practices were found in the hotel selection process at NASCOP during the NFM2 implementation period potentially impacting US\$1.4 million in hotel expenses and resulting in a non-compliant amount of US\$204,511

Fraudulent practices in the hotel selection process and overpricing of 18.7 percent

The OIG found at least 16 editable hotel bidder quotations on the computer of the former NASCOP procurement officer. The fact that he was the last to modify several of these editable quotations indicates his fraudulent practices and manipulation of hotel procurement processes. Of the 16 hotels with editable quotations, NASCOP concluded contracts with 12 for a total amount of US\$162,471. The OIG considers the total amount paid to these hotels as non-compliant and potentially recoverable by the Global Fund.

During an examination of a sample of 14 hotel providers, the OIG found seven instances where the losing hotel bidders confirmed that the quotations NASCOP provided that were purportedly related to the respective losing hotel bidders had been falsified and did not originate from them. Furthermore, the losing hotel bidders stated that their hotel prices were lower than those of the winning bidders.

Several other hotels did not respond to the OIG's request for price comparison. The OIG's price comparison between the prices NASCOP paid and independent prices that OIG obtained from the losing bidders confirmed an average overcharge of 18.7 percent. This resulted in an estimated loss of US\$29,992 to the Global Fund grant for these seven hotels.

The former Procurement Officer explained his behavior by stating that at times the program activity deadlines were tight and there was not enough time to carry out an entire procurement process. He claimed that in those instances, he prepared documentation after the hotels had already been selected. He further claimed that he did not change any quotations and used copies of quotations received before the relevant program activities were concluded. However, he did not provide any evidence to support these claims.

Collusive practices in the hotel selection process resulted in a non-compliant expenditure of US\$73,475

The OIG noted at least two instances when the former procurement officer received multiple quotations from two different hotels, enabling him to simulate competitive procurement processes. In both cases, hotel personnel emailed quotations from different hotels including, but not limited to, the hotels they represented.

The OIG's analysis revealed that quotations pertaining to the hotel where the person providing them was employed had a lower price than other hotel quotations in the same email. Such practices constitute a collusive scheme designed to simulate competition. A total of US\$73,475 (US\$31,435⁶ and US\$42,040) was paid to these two hotels during the NFM2 implementation period.

For one of the two hotels, the OIG found editable quotations in the system of the former procurement officer (as noted in the findings above). The former procurement officer further fabricated quotations from one of the two hotels and then used these fabricated quotations to simulate competitive procurements on another occasion. The respective hotel representative confirmed to OIG that the quotation used on another occasion was fabricated and had not been provided by them, indicating the former procurement officer in the scheme. The OIG considers the total amount paid to the two hotels, US\$73,475, as non-compliant and potentially recoverable by the Global Fund.

The former procurement officer admitted that in some instances he had used hotels as NASCOP "agents," receiving several quotations from them as bids in the contracting process. He also admitted to using such practices

⁶ Included in the non-compliant sum of US\$162,471 already identified for fraudulent practices in the hotel selection processes.

in other instances of hotel procurement. He conceded that such practices lead to uncompetitive procurements based on principles of fairness and transparency. But then claimed that he did not receive monetary or non-monetary benefits from the winning bidders and that he acted on his own without any outside direction.

Conclusion

Based on the systematic nature of the fraudulent schemes that OIG discovered at NASCOP, including fabricated quotations, collusion with hotel suppliers, and confirmation of overpricing of 18.7 percent in hotel procurements, the OIG considers that the full US\$1.4 million that NASCOP spent on hotel expenses was potentially impacted by fraudulent practices.

With its sample verification, the OIG identified US\$29,992 in overpricing and a non-compliant amount of US\$204,511 (combining US\$162,471 and US\$42,040) due to fraudulent and collusive practices (refer to Annex B for the calculation of the OIG verified non-compliant hotel expenditure in detail). Moreover, if the overpricing of contracts continued at the same rate identified in the OIG sample, losses to the Global Fund could be closer to US\$263,572 (representing 18.7 percent of NASCOP's total hotel expenses).

Agreed Management Action 1

Based on the findings of the report, the Global Fund Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.

OWNER: Head, Recoveries Committee

DUE DATE: 31 May 2023

Agreed Management Action 2

The Global Fund Secretariat will request that the Principal Recipient take appropriate action toward all parties responsible for the prohibited practices described in this report.

OWNER: Head, Grant Management Division

DUE DATE: 31 May 2023

Agreed Management Action 3

The Secretariat will work with the Principal Recipient to strengthen controls and oversight of the procurement process identified by the OIG in this investigation.

OWNER: Head, Grant Management Division

DUE DATE: 31 August 2023

2.2 Payments to three vendors without supporting documents resulted in a non-compliant amount of US\$16,948

A total amount of US\$42,164 was paid to two companies falsely described in NASCOP records as a single printing company that NASCOP had contracted on other occasions. Additionally, a wrongful double payment amounting to US\$16,948 was made to another printing company.

Independent bank confirmation showed that the payments purportedly made to a company that NASCOP had procured printing services were in fact made to two different entities in the amounts of US\$27,640 and US\$14,524 without procuring any services. Payments to the two companies were not recorded in NASCOP's general ledger. Neither the payment vouchers, local service orders nor any other documentation pertaining to these two payments was shared with the OIG.

A background search on these two companies indicated that they were owned by the same person. No other business was recorded with either of these companies or their owner at NASCOP. Of the two fraudulent payments, one was credited back to NASCOP's bank account. The Global Fund Secretariat demanded a refund of the second payment which was also refunded back to the Global Fund program bank account.

A review of the Electronic Fund Transfer (EFT) details obtained from the bank found that the payment was approved by the former director of Medical Services and Preventive and Promotive Services, MOH, and the former accountant of NASCOP. During an interview, the former accountant confirmed that it was his signature on the EFT. The first page of the EFT had been fraudulently changed to include the above two entities instead of the printing vendor. This page of the EFT obtained from the bank was only signed by the former accountant, indicating that he manipulated the final payment.

Example: In one instance, an irregular payment of US\$2,735 was paid to a hotel owned by the former director of Medical Services and Preventive and Promotive Services, MOH, without any supporting documentation. The amount was later refunded to NASCOP's Global Fund program bank account. Due to manual accounting and voucher preparation, no audit trail was found to identify the individuals responsible for making the wrongful payment to the hotel. The OIG review of EFT records obtained from the bank confirmed that both the former director of Medical Services and Preventive and Promotive Services, MOH, and the former accountant of NASCOP had signed the payment voucher. However, they both denied their involvement in making the hotel payment.

The former accountant confirmed to the OIG that the details provided on the EFT were his contact details. However, he denied presenting the document to the bank and making changes to the original EFT to include the two ghost payees. He further denied having any knowledge of the two entities and their owner.

The OIG's investigation also identified a wrongful double payment made to the printing company amounting to US\$16,948. The first payment was recorded in October 2019 without any payment voucher number details. The second payment was carried out in January 2021 for the same amount with a payment voucher number.

A review of the supporting documentation with the January 2021 payment indicated that most were related to payments made in 2019. These documents included a supplier invoice, a delivery note, an acknowledgment by NASCOP's store department, as well as an acceptance and inspection report.

The OIG found that the former accountant signed the payment voucher. However, he claimed that someone else on his team – not him – examined the voucher. He did not provide any evidence to support this claim. This indicates a potential lack of diligence in the signing of final payment vouchers.

The OIG's conclusion is therefore that NASCOP paid the vendor twice for the same services provided in 2019. There is no evidence that similar services were performed for the payment in 2021. The OIG considers the double payment of US\$16,948 as a loss to the Global Fund that is potentially recoverable.

Agreed Management Action 4

The Global Fund Secretariat will work with the Principal Recipient to strengthen how it implements payment procedures and recording processes, maintaining proper vendor master data.

OWNER: Head, Grant Management Division

DUE DATE: 31 December 2023

2.3 Lack of segregation of duties, weak financial management system, and non-transparent banking records at NASCOP created an enabling environment for prohibited practices

The OIG's examination of NASCOP processes identified a lack of segregated duties for hotel procurement. The former procurement officer was not only responsible for acquiring quotations but evaluating those proposals and preparing local procurement orders (LPOs).

The former procurement officer informed the OIG that on several occasions, program personnel selected hotels without competition and that he was asked to prepare documentation post-selection. This indicates a collusive arrangement within NASCOP to circumvent proper procurement procedures. Furthermore, the OIG found that a procurement plan relating to hotels was not maintained. The former procurement officer did not keep a list of pre-qualified hotels, which further encouraged ad-hoc hotel selection and booking.

NASCOP prepared its books of accounts and cash book in an excel workbook without using accounting software. Accounting records did not include vendor management or payment links to local purchase orders. Such controls were either lacking or implemented manually by the finance team, creating an environment conducive to accounting and payment manipulation. The OIG found this occurred in multiple manual interventions without any audit trail.

NASCOP failed to ensure that its bank provide detailed and transparent bank statements. The bank statements did not include final beneficiary names and often listed payments through a single bank check wherein several payments were grouped together and presented to the bank. Therefore, regular validation and reconciliation of individual payments to beneficiaries were not possible directly through bank statements.

The non-transparent bank statements hindered and delayed the detection of disguised payments to incorrect beneficiaries. Moreover, any changes made after the approval of the payment voucher and before its presentation to the bank could not be validated directly through bank statements. Therefore, EFT manipulation was able to go easily undetected. After multiple follow-ups, it took the bank approximately four months to provide detailed bank statements with all beneficiary names.

Agreed Management Action 5

The Global Fund will work with the Principal Recipient to strengthen mechanisms that permit the validation and reconciliation of payments.

OWNER: Head, Grant Management Division

DUE DATE: 31 October 2023

3. Global Fund response

Action to be taken	Due date	Owner
1. Based on the findings of the report, the Global Fund Secretariat will finalize and pursue, from all entities responsible, an appropriate recoverable amount. This amount will be determined by the Secretariat in accordance with its evaluation of applicable legal rights and obligations and associated determination of recoverability.	31 May 2023	Chair, Recoveries Committee
2. The Global Fund Secretariat will request that the Principal Recipient take appropriate action toward all parties responsible for the prohibited practices described in this report.	31 May 2023	Head, Grant Management Division
3. The Secretariat will work with the Principal Recipient to strengthen controls and oversight of the procurement process identified by the OIG in this investigation.	31 August 2023	Head, Grant Management Division
4. The Global Fund Secretariat will work with the Principal Recipient to strengthen how it implements payment procedures and recording processes, maintaining proper vendor master data.	31 December 2023	Head, Grant Management Division
5. The Global Fund will work with the Principal Recipient to strengthen mechanisms that permit the validation and reconciliation of payments.	31 October 2023	Head, Grant Management Division

Annex A: NASCOP's response

On 19 August 2022, the OIG provided NASCOP with a copy of its Letter of Findings, which represented the full record of relevant facts and findings. NASCOP was given an opportunity to provide comments and supporting documents on the findings and conclusions. NASCOP provided its response on 2 September 2022. OIG duly considered all the points in NASCOP's response and made appropriate revisions as part of this final report. In response to the Letter of Findings, NASCOP stated that:

- The Ministry considered the facts presented and concurs with the findings that the former procurement officer and former accountant engaged in malpractices and would take disciplinary actions against them.
- The Ministry recognized the systemic and structural shortcomings and will improve its internal controls.

Annex B: Table explaining OIG verified non-compliant hotel expenditure

The table below details the non-compliant and potentially recoverable amounts that the OIG has identified in this report from the total hotel expenses of US\$1.4 million.

Category	Particulars	# Of vendors	Total contracts (US\$)	Non-compliant amount (US\$)	Remarks
A	Editable Quotations Found	16*	162,471	162,471	Potentially recoverable
B	Collusion Found	2	73,475	73,475	Potentially recoverable
	Overlap between the two sub-categories	-1	-31,435	-31,435	Included in US\$162,471
	Total non-compliant group 1		204,511	204,511	Potentially recoverable
		# Of vendors		Overpricing Found (US\$)	
C	Overpricing Found	7	157,925	29,992	Potentially recoverable
	Further overlap between vendors from category A and category C	-1	-41,401		Overpricing of US\$ 3114 is considered in US\$ 29,992
	Total non-compliant group 2			29,992	

*Includes two overlaps; one in relation to a vendor where the OIG found collusion and another vendor where the OIG found overpricing.

Annex C: Methodology

Why we investigate

Wrongdoing, in all its forms, is a threat to the Global Fund's mission to end the AIDS, tuberculosis and malaria epidemics. It corrodes public health systems and facilitates human rights abuses, ultimately stunting the quality and quantity of interventions needed to save lives. It diverts funds, medicines and other resources away from countries and communities in need. It limits the Global Fund's impact and reduces the trust that is essential to the Global Fund's multi-stakeholder partnership model.

What we investigate

The OIG is mandated to investigate any use of Global Fund funds, whether by the Global Fund Secretariat, grant recipients or their suppliers. OIG investigations identify instances of wrongdoing, such as fraud, corruption and other types of non-compliance with grant agreements. The Global Fund Policy to Combat Fraud and Corruption⁷ outlines all prohibited practices, which will result in investigations.

OIG investigations aim to:

1. identify the nature and extent of wrongdoing affecting Global Fund grants
2. identify the entities responsible for such wrongdoing
3. determine the amount of grant funds that may have been compromised by wrongdoing
4. place the Global Fund in the best position to recover funds, and take remedial and preventive action, by identifying where and how the misused funds have been spent.

The OIG conducts administrative, not criminal, investigations. It is recipients' responsibility to demonstrate that their use of grant funds complies with grant agreements. OIG findings are based on facts and related analysis, which may include drawing reasonable inferences. Findings are established by a preponderance of evidence. All available information, inculpatory or exculpatory, is considered by the OIG.⁸ As an administrative body, the OIG has no law enforcement powers. It cannot issue subpoenas or initiate criminal prosecutions. As a result, its ability to obtain information is limited to the access rights it has under the contracts the Global Fund enters into with its recipients, and on the willingness of witnesses and other interested parties to voluntarily provide information.

The OIG bases its investigations on the contractual commitments undertaken by recipients and suppliers. Principal Recipients are contractually liable to the Global Fund for the use of all grant funds, including those disbursed to Sub-recipients and paid to suppliers. The Global Fund's Code of Conduct for Suppliers⁹ and Code of Conduct for Recipients provide additional principles, which recipients and suppliers must respect. The Global Fund Guidelines for Grant Budgeting define compliant expenditures

⁷ (16.11.2017) Available at https://www.theglobalfund.org/media/6960/core_combatfraudcorruption_policy_en.pdf

⁸ These principles comply with the Uniform Guidelines for Investigations, Conference of International Investigators, 06.2009; available at: http://www.conf-int-investigators.org/?page_id=13, accessed 1.12.2017.

⁹ Global Fund Code of Conduct for Suppliers (15.12.2009), § 17-18, available at: https://www.theglobalfund.org/media/3275/corporate_codeofconductforsuppliers_policy_en.pdf, and the Code of Conduct for Recipients of Global Fund Resources (16.07.2012), §1.1 and 2.3, available at: https://www.theglobalfund.org/media/6011/corporate_codeofconductforrecipients_policy_en.pdf. Note: Grants are typically subject to either the Global Fund's Standard Terms and Conditions of the Program Grant Agreement, or to the Grant Regulations (2014), which incorporate the Code of Conduct for Recipients and mandate use of the Code of Conduct for Suppliers. Terms may vary however in certain grant agreements.

as those that have been incurred in compliance with the terms of the relevant grant agreement (or have otherwise been pre-approved in writing by the Global Fund) and have been validated by the Global Fund Secretariat and/or its assurance providers based on documentary evidence.

Who we investigate

The OIG investigates Principal Recipients and sub-recipients, Country Coordinating Mechanisms and Local Fund Agents, as well as suppliers and service providers. Secretariat activities linked to the use of funds are also within the scope of the OIG's work. While the OIG does not typically have a direct relationship with the Secretariat's or recipients' suppliers, its investigations encompass their activities regarding the provision of goods and services. To fulfill its mandate, the OIG needs the full cooperation of these suppliers to access documents and officials.

Sanctions when prohibited practices are identified

When an investigation identifies prohibited practices, the Global Fund has the right to seek the refund of grant funds compromised by the related contractual breach. The OIG has a fact-finding role and does not determine how the Global Fund will enforce its rights. Nor does it make judicial decisions or issue sanctions. The Secretariat determines what management actions to take or contractual remedies to seek in response to the investigation findings.

However, the investigation will quantify the extent of any non-compliant expenditures, including amounts the OIG proposes as recoverable. This proposed figure is based on:

1. amounts paid for which there is no reasonable assurance that goods or services were delivered (unsupported expenses, fraudulent expenses, or otherwise irregular expenses without assurance of delivery);
2. amounts paid over and above comparable market prices for such goods or services.
3. or amounts incurred outside of the scope of the grant, for goods or services not included in the approved work plans and budgets or for expenditures in excess of approved budgets.

How the Global Fund prevents the recurrence of wrongdoing

Following an investigation, the OIG and the Secretariat agree on management actions that will mitigate the risks that prohibited practices pose to the Global Fund and its recipients' activities. The OIG may make referrals to national authorities for criminal prosecutions or other violations of national laws and support such authorities as necessary throughout the process, as appropriate.