Monitoring Processes for Grant Implementation at the Global Fund

The Global Fund

Office of the Inspector General

What is the Office of the Inspector General?

The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.

Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.

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The Global Fund believes that every dollar counts and has zero tolerance for fraud, corruption and waste that prevent resources from reaching the people who need them. If you suspect irregularities or wrongdoing in the programs financed by the Global Fund, you should report to the OIG using the contact details below. The following are some examples of wrongdoing that you should report: stealing money or medicine, using Global Fund money or other assets for personal use, fake invoicing, staging of fake training events, counterfeiting drugs, irregularities in tender processes, bribery and kickbacks, conflicts of interest, human rights violations...

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Audit Report
OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise the organization mission to end the three epidemics. The OIG generally audits three main areas: risk management, governance and oversight. Overall, the objective of the audit is to improve the effectiveness of the Global Fund to ensure that it has the greatest impact using the funds with which it is entrusted.

Advisory Report
OIG advisory reports aim to further the Global Fund mission and objectives through value-added engagements, using the professional skills of the OIG auditors and investigators. The Global Fund Board, committees or Secretariat may request a specific OIG advisory engagement at any time. The report can be published at the discretion of the Inspector General in consultation with the stakeholder who made the request.

Investigations Report
OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund mission to end the three epidemics. The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts.

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1. Executive Summary

1.1. Opinion

Grant monitoring is the process by which the Global Fund reviews and measures programmatic and financial performance over the grant implementation period. Grant monitoring should assess progress, identify risks as well as corresponding mitigating measures, ensure that funds are used as intended, and that Global Fund programs achieve impact. The outcome of this process is critical to the grant management lifecycle as the Secretariat uses it to inform ongoing financing under the Global Fund's Performance-Based Funding approach (see section 2.1 for an explanation of this approach).

Following the recommendations of a High-Level Panel in 2011 to improve the organization's management and internal controls, the Global Fund has taken significant steps to establish appropriate governance structures, processes, controls and systems in managing its portfolio of grants. However, several control improvements are still needed to ensure that governance, risk management and internal controls over grant monitoring are fully effective and sustainable. Specifically, key control gaps were identified in the Annual Funding Decision process, a critical milestone in evaluating grant performance over the implementation period, and the commitment of funds for program activities. These control gaps could compromise the ability of the Global Fund to apply its Performance-Based Funding principles effectively.

The timing of this audit corresponds to a period when grant management systems are undergoing significant change with the implementation of a comprehensive new platform called the Grant Operating System. The new platform is still being implemented. Core modules supporting the grant lifecycle, such as the Annual Funding Decision and Disbursements, were being developed during the audit and only released in September. Thus, whilst the audit considered relevant functionalities designed in the new system, its scope did not include a comprehensive assessment of this system which is under development. The audit evaluated grant monitoring processes in the past two years. Some of the control issues identified by the OIG relate to limitations in legacy grant management systems. The Secretariat expects them to be addressed once the new system has been fully implemented. However, whilst this system will provide a more robust platform to support grant management, several of the issues identified in the audit also had other root causes beyond system limitations. These include a lack of adequate guidelines to support the operationalization of the policies, limited delineation of roles and responsibilities in process oversight, or quality assurance gaps. As part of the implementation of the new system, including its second phase planned for 2018, the Secretariat plans to review grant implementation processes and controls and will make the necessary updates based on the outcome of such a review. Until these control enhancements are completed, the risks identified in this report will not be fully mitigated.

1.2. Key Achievements and Good Practices

The Global Fund has continuously refined over time how its grants are managed. In line with recommendations from various assurance, oversight and governance bodies (including the Technical Evaluation Review Group, the Board and its committees, and the Office of the Inspector General), the organization has improved its grant management structures, processes, controls and systems to enhance efficiency and effectiveness.

In 2015, the Global Fund launched the Accelerated Integration Management Project (AIM) to align business processes and data as well as to deliver an integrated solution to support portfolio management. The completion of the project, scheduled for the end of 2017, will fundamentally change the way grant management activities are executed from allocation of funds to grant closures. Several processes will be streamlined. AIM is also expected to enhance the internal control environment for grant management activities and to strengthen portfolio management by providing visibility over the full grant lifecycle. It should also drive organizational alignment and collaboration through simplified and integrated processes, as well as increasing transparency and usability of data.

Other initiatives in the past two years have also sought to enhance the Global Fund's management and monitoring of its grants. The Differentiation for Impact Project was launched in 2016 to adapt management processes and staff resources according to the size of the grants, disease burden and impact on the Global Fund's mission. As a result, countries are now divided into three categories: High Impact, Core and Focused. Another initiative from the same period, Implementation Through Partnership,[1] tried to bring key partners together to address implementation bottlenecks in different countries.

The organization has strengthened assurance mechanisms over grant performance through Local Fund Agents and, where necessary, Fiduciary Agents. The Secretariat has also revised a number of its operational policies with additional process and control requirements. Most of the policy changes relate to grant-making activities. For example, changes made to the Grant Revisions Policy are, in design, a significant improvement over the previous policy in terms of both process clarifications and additional controls required to support grant revisions.

Many of the control gaps identified in this audit correspond to issues that the Secretariat intends to address with the implementation of AIM and through ongoing improvements of the end-to-end processes supporting grant implementation. Although the effectiveness of the new processes cannot yet be assessed, the Secretariat's proactive identification of the issues and the initiatives already taken to address them are indicative of a maturing risk mitigation culture.

1.3. Key Issues and Risks

Annual Funding Decision Process

The Annual Funding Decision process is is the cornerstone to Performance-Based Funding as it evaluates grant performance over the implementation period. Its main purpose is to assess recent grant performance to ensure that funds are used as intended, to evaluate if expected results are being achieved, and to provide the right level of funding based on performance. The Global Fund has made significant efforts over the past five years to formalize this process with detailed policies, implementation of controls over the performance and approval of the funding decision, and improvements in the supporting systems.

However, several gaps exist in the current performance review process of grants, including a lack of clarity in policies and procedures, gaps in preventive and detective controls over the review and approval of the funding decision, and insufficient delineation of roles and responsibilities. These gaps limit the effectiveness of the approval process in ensuring that key policy requirements have been met, that deviations are adequately documented and that key information supporting the funding decision is validated.

Requirements in Annual Funding Decision policies are not clear - The current policies contain several requirements to support the funding decision. However, due to insufficient guidance, interpretations of these requirements differ significantly across different Country Teams. Whilst grant performance ratings are a key component of the funding decision, clear criteria are not in place to guide the adjustments to the final ratings. As a result, in some cases, expected adjustments are not applied while, in other cases, significant adjustments are made without adequate support.

Limited controls to ensure validity, accuracy and completeness of information presented for approval in the Annual Funding Decision - Limited controls are in place to validate the accuracy and completeness of key elements of the funding decision. The audit identified several exceptions in the sample of funding decisions reviewed:

- Ratings adjustments for known data quality issues were not made by the Country Team in 47% of the funding decisions reviewed. In another 33% of the funding decisions, required adjustments to the ratings were not made to account for major program management and

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[1] The second phase of this initiative is currently in progress andhas been renamed Impact Through Partnership - Transformation

financial issues. In both situations, the rationale for not adjusting the ratings was not documented by the Country Team in the funding decision.

- When funding decisions included exceptions requiring further approval as defined in the operational policy, they did not receive the requisite level of approval in 60% of the cases reviewed and there was no documentation to support the deviation from policy.

- When Conditions Precedent (contractual preconditions with an agreed date for completion) were attached to the Grant Agreement and were not met, these were not taken into account in 53% of the funding decisions reviewed and no explanation was documented for the exception.

Grant Performance Framework and Grant Budget

A Performance Framework and a Grant Budget are critical tools used to effectively monitor grant performance. The Performance Framework sets out the program targets against which the grant performance is assessed. The Grant Budget allocates financial resources for each program module and intervention to achieve those targets. In recent years, the Global Fund has developed comprehensive guidelines to support the development of both. However, controls are not effective to ensure that the final Performance Framework and Grant Budget are consistent with those guidelines. Through the implementation of the new Grant Operating System, the Secretariat has taken steps to address the data quality issues in the Performance Framework for existing grants. Interim quality controls are also being implemented to ensure data quality for Performance Frameworks on new grants signed in the 2017 – 2019 allocation period.

Limited alignment between the Performance Framework and Grant Budget - There is limited alignment between the grant performance indicators and the budgeted allocation of resources in the grant budget. Out of 27 grants reviewed, the OIG noted that, on average, 28% of the total grant budget was allocated to activities or line items for which there were no related performance indicators.

Limited correlation between programmatic and financial performance of the grants- For example, several grants received the highest performance rating of A1 ("Exceeding expectations") while absorbing as little as 25% of the funds. Whilst there can be a number of valid reasons for the variances between programmatic performance and absorption, such as contributions from other donors or reporting results on national targets, this may also indicate a misalignment between the Performance Framework and Grant Budget in some cases.

A new Quality Assurance Framework process was formalized in August 2017 to ensure better compliance with the guidelines. While the new process was tested and found generally adequate, it still needs enhancing by including controls to ensure accountability for validity, accurancy and completeness of the Performance Frameworks. Actions to fully operationalize this new framework are in progress.

Ongoing Grant Monitoring Processes over the Grant Implementation Period

The Global Fund has developed various reporting requirements to routinely monitor grant performance throughout the implementation period. As these reporting requirements have expanded over time, complex and often duplicative processes have developed without being sufficiently tailored to the specific country context or to the nature and timing of the various grants. As a result, compliance with the reporting requirements has become increasingly challenging. For example, routine progress updates from the Principal Recipient take an average of 129 days to submit compared to the 75-day requirement. Some of the progress updates were submitted as late as 11 months after the period end. Similarly, Performance Letters from the Global Fund to the Principal Recipients took an average of two months to complete. Some of the letters were not issued at all whilst others as late as 11 months after receiving the Progress Update from the Principal Recipient.

In response to cumbersome grant management processes, the Secretariat implemented the Differentiation for Impact Project to optimize the allocation of staff resources and to adapt the grant

management processes to the materiality and risk level of different portfolios. Whilst this initiative is a significant step forward and will take time to implement, it has not yet resulted in the material shift in underlying processes necessary to fully achieve its objectives.

Grant Revisions

Although the Secretariat has improved grant revision policy and processes, there is a lack of effective mechanisms (system-based or manual) to track grant revisions. This limits the ability of the Secretariat to monitor the revisions and to ensure consistent application of the policy with the right levels of approval obtained. Grant revision tracking was improved under the new system through two new releases in May and August 2017. While the new system allows grant revision tracking, it is still dependent on the country teams flagging material exceptions. A new release, aimed to detect significant changes in grants performance frameworks and budgets, is expected to go live in October and to address the gaps indentified in the audit.

Grant Monitoring Processes at Global Fund Portfolio and Country level

Grants are currently monitored mostly at a country level (active grants for the country) and, in some limited cases, at the regional portfolio level (active grants in a specific region). However, there is a need for more systematic monitoring of overall portfolio performance at the senior management level. Whilst grant management is the core business of the Global Fund, an effective oversight body at the executive management level, with cross functional representation, is not yet in place to monitor the high level performance of the grant portfolio, evaluate emerging trends and guide the related responses at a strategic level.

1.4. Rating

	Objective 1. The adequacy and effectives of core Grant Implementation Processes
	1.1 Annual Funding Decision OIG rating: Needs significant improvement. The audit identified several weaknesses in both the design and the effectiveness of internal controls over the Annual Funding Decision. Several of these issues relate to inadequate legacy systems and processes that are already undergoing significant change. Until the new systems and processes are fully functional and proven to be effectively operating, reasonable assurance cannot be provided on the consistent and effective application of performance-based funding decisions.
	1.2 Ongoing Grant Performance Assessment and Monitoring OIG rating: Needs significant improvement. Some significant internal control gaps and exceptions exist around the setup of the Performance Framework and Grant Budget, delayed submissions and inconsistent operational use of core grant monitoring tools such as Progress Updates, Performance Letters, Annual Financial Report and Quarterly Cash Balance Reports. Until these gaps are addressed, there is not reasonable assurance that grant performance issues will be identified on a timely basis and adequately addressed.
	1.3 Grant Revisions OIG rating: Needs significant improvement. One significant internal control gap exists due to the lack of an effective mechanism to track grant revisions performed. Until an effective tracking process is instituted, there is no reasonable assurance that grant revisions are performed for valid reasons, are accurately and completely captured, their impact on grant performance effectively assessed, and they are approved at the right level
	Objective 2. The adequacy and effectives of Secretariat Grant Monitoring Structures
	OIG rating: Partially effective. Whilst individual country programs are monitored at the Country Team level, and in some cases at the regional level, there is need to enhance the monitoring of overall grant portfolio performance by senior management through an effective oversight mechansim at the executive level.

1.5. Summary of Agreed Management Actions

The Global Fund Secretariat has plans to address the risks identified in this audit, including through a follow up stage, Phase II, of the new Grant Operating System. This project will be launched at the beginning of next year for a period of 18 months. Its aim is i) to develop new grant lifecycle modules (e.g. grant closure), ii) to enhance the modules launched under the current Phase I of the new system, and iii) to better align processes, policies and controls with the new system. Through the following Agreed Management Actions, the Secretariat will:

- review grant implementation processes and controls implemented in the Grant Operating System re-design;
- update controls and associated operational guidance, as appropriate.; and
- develop business intelligence reports to regularly monitor operational performance and compliance.

In addition, as part of the Impact through Partnership Transformation project, a Portfolio Review Committee to review portfolio wide performance on a regular basis will be implemented. The Secretariat will also complete a post implementation review of the Differentiation for Impact Project.

The OIG will perform a follow-up audit once Phase II has been completed, the new system is fully operational, and the revised processes and controls have been operational sufficiently long to enable a test of their effectiveness.
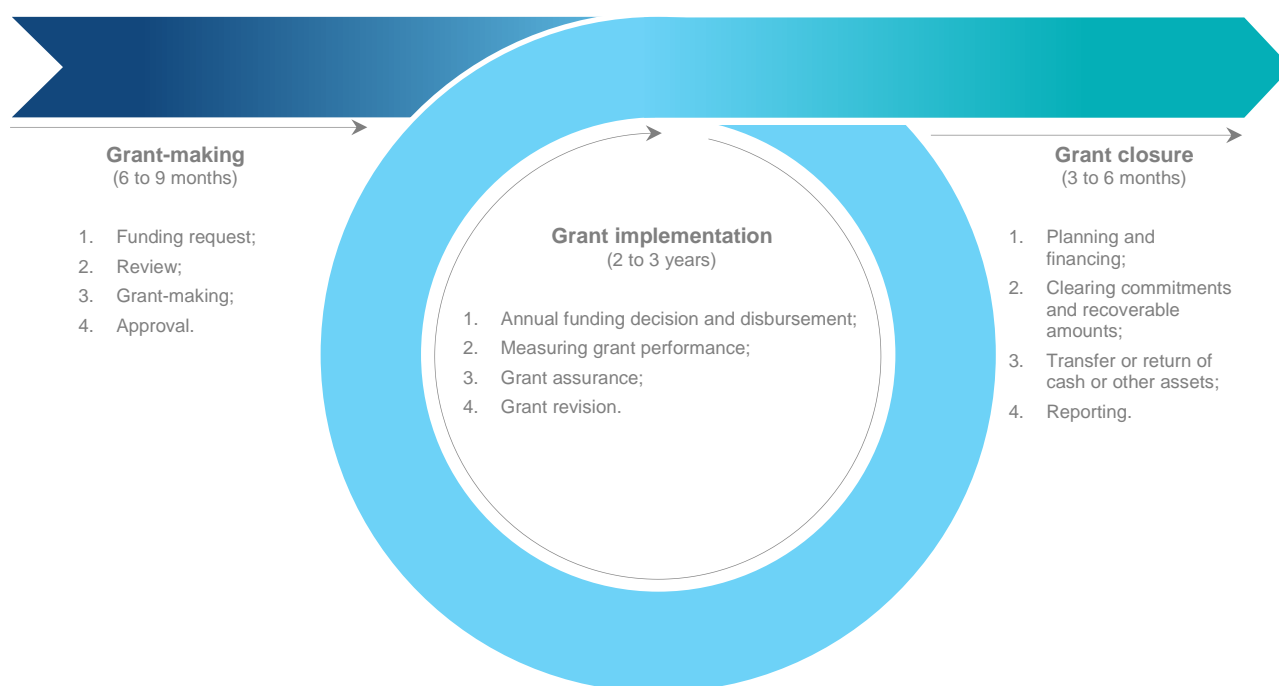
2. Background and Context

2.1. Overall Context

The Global Fund is an international financing institution that supports countries to end the epidemics of AIDS, tuberculosis and malaria. The organization raises funds from donors and invests them in over 100 countries. The Global Fund is not an implementing entity but rather supports programs through grant arrangements that are based on national health strategies.

Funding arrangements are formalized in grant agreements. Public or private entities, called Principal Recipients, are responsible for implementing grants approved by the Global Fund Board.[2] Principal Recipients around the world currently manage a portfolio of 384 active grants (at 31 March 2017), for a total of over US$11 billion of Global Fund financing. Each grant usually covers three years of program implementation.

Figure 1. The three phases of the Global Fund grant lifecycle at a glance.

Grant-making
(6 to 9 months)

1. Funding request;
2. Review;
3. Grant-making;
4. Approval.

Grant implementation
(2 to 3 years)

1. Annual funding decision and disbursement;
2. Measuring grant performance;
3. Grant assurance;
4. Grant revision.

Grant closure
(3 to 6 months)

1. Planning and financing;
2. Clearing commitments and recoverable amounts;
3. Transfer or return of cash or other assets;
4. Reporting.

Performance-Based Funding

Performance-Based Funding is one of the core principles of the Global Fund. It promotes accountability and provides an incentive for Principal Recipients to use available funds as efficiently as possible. The Global Fund assesses Principal Recipients and grants based on programmatic and management performance. Grant agreements document the standards for measuring grant performance via three contractually binding components.

- The **Program Description** outlines the objectives of the grant and the broad categories of activities, also called program modules and interventions.
- The **Performance Framework** defines the indicators and targets across the program modules and interventions.
- The **Grant Budget** reflects the costs associated with the program modules and interventions over the grant period.

The Global Fund uses a modular framework, which defines standardized categories called program modules. The modules are broad program areas. These areas are further divided into a

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[2] The Global Fund typically signs Framework Agreements covering multiple grants with Principal Recipients. In such cases, individual grants are memorialized through Grant Confirmations. For ease of reference, Framework Agreements and Grant Confirmations will be referred to in this report as "Grant Agreements.

comprehensive set of interventions essential for responding to the three diseases and toward building resilient and sustainable systems for health.

Grant Management Country Teams

Country Teams are responsible for monitoring and assessing grant performance. Country Teams are led by a Fund Portfolio Manager who is responsible for managing all stages of the grant cycle from application to grant closure. The Fund Portfolio Manager defines the overall strategy for the portfolio to ensure that Global Fund grants have maximum impact. The manager also engages and manages strategic relationships with in-country actors to implement portfolio strategy. He or she is generally supported by a Program Officer, a Finance Officer, a Public Health and a Monitoring and Evaluation Specialist, and a Health Products Management Specialist. All these members of the Country Team have defined responsibilities across the grant management lifecycle.

The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: Focused (smaller portfolios, lower disease burden, lower mission risk), Core (larger portfolios, higher disease burden, higher risk) and High Impact (very large portfolio, mission critical disease burden). The number of resources per Country Team varies depending on the portfolio category.

Grant Monitoring Processes

The Country Team monitors and assesses grant performance and budget execution through the Annual Funding Decision, disbursement process, and routine reports on programmatic performance from the Principal Recipient:

Annual Funding Decision and Disbursement Process - The Annual Funding Decision is the process of determining and setting aside (i.e., "committing") grant funds to be disbursed on a staggered basis to the Principal Recipient, and relevant third parties, in accordance with the Grant Agreement. It is aimed at:

- reviewing implementation progress of each grant (programmatic, financial and management aspects) and assigning an overall grant rating;
- determining and committing the funding to be disbursed to each eligible grant recipient for a period of up to 12 months (plus a buffer period), and establishing the schedule for the disbursements; and,
- identifying implementation issues and risks, as well as the corresponding mitigating measures.

Principal Recipient Reporting - Principal Recipients report to the Global Fund on programmatic performance bi-annually (for High Impact and Core portfolios) and annually (for Focused portfolios). Programmatic performance measures the results that are achieved against the indicators contained in the Performance Framework. Management performance takes into account progress on prior management actions and implementation issues in four functional areas (monitoring and evaluation, program management, financial management, and pharmaceutical and health product management).

The Global Fund formally acknowledges progress updates through a Performance Letter, which includes a final grant rating for the period under review. Before agreeing on a new grant, Country Coordinating Mechanisms and the Global Fund consider the rating evolution over time in deciding to continue or to replace a Principal Recipient. The Principal Recipients are responsible, in turn, for monitoring and managing the performance of the Sub-Recipients they contract.

In addition to these formal grant performance-monitoring activities, Country Teams also conduct country missions. Country missions are useful to obtain relevant updates on grant implementation and performance. They are also designed to address concerns and performance bottlenecks with the Principal Recipient, the Country Coordinating Mechanism and partners, and to ensure ongoing country dialogue from grant-making through implementation to closure.

Grant Assurance - Where necessary, the Country Team engages with assurance providers such as the Local Fund Agent to verify grant performance and budget execution results in country. This is formalized through an assurance plan for each portfolio developed by Grant Management and oversight provided by the Risk Management department. The Country Team may also leverage reports provided by partners or in-country stakeholders to assure themselves on the implementation of key mitigating actions.

Grant Revisions - During grant implementation, a Principal Recipient can request a revision to the grant. The Global Fund has developed and implemented an operational policy on grant revisions. The policy outlines the types of grant revisions, the processes, documents and approval levels for each grant revision. The goal of a grant revision is to allow Global Fund investments to adjust to programmatic requirements during grant implementation to ensure maximum impact.

2.2. Evolution of Grant Management Processes and Systems

The Global Fund has grown rapidly over the last 15 years. In 2011, weaknesses in oversight and fiduciary controls prompted a crisis in donor confidence. The Global Fund Board appointed the High-Level Panel to assess the crisis and to advise on a way forward. The panel recommended concrete steps to transform the organization's management and internal controls. Several of the recommendations affected directly the Global Fund's approach to managing its portfolio of grants.

In response to the panel recommendations, the organization set out to establish solid foundations of governance, risk management and internal control systems and processes. Core organizational processes and controls are defined in Operation Policy Notes consolidated in an Operational Policy Manual. The policy notes provide comprehensive guidance to Country Teams and Principal Recipients in executing day-to-day grant management activities. Five years on, the Global Fund continues to develop its processes and embed them in everyday management to ensure adequacy and effectiveness of its internal controls.

Structures

The Country Team approach was developed in response to the High-Level Panel recommendations for more effective and efficient oversight of the grant portfolio. This matrix management approach is designed to leverage the expertise of Country Team members to reach high-quality outputs and decisions and to quickly resolve issues. At the same time, the Grant Management Division also reorganized itself into regional teams to tailor grant management to regional economic, political, linguistic, and institutional specificities. Most recently, the Differentiation for Impact Project adapted Country Team work to the needs of each portfolio according to strategic priorities and to tailor the allocation of effort and resources to risk and materiality levels.

Systems

Up until 2010, grant management activities were mostly manual. Since then, the Secretariat has implemented several systems to automate the grant management processes. An internal application known as the Grant Management System (GMS) has been the main support to grant management activities. Country Teams used the GMS system for data entry at grant level, day-to-day management, and assessment of grant performance. Since mid-2016 and the AIM project, the new Grant Operating System is being rolled out gradually to replace the GMS application. Once fully implemented, the new system will allow Country Teams to handle all critical steps in managing the grant lifecycle, from Funding Request to Grant Closure. In addition, Country Teams use an Oracle-based business intelligence platform, the Business Analysis and Reporting Tool, to produce reports and dashboards for management information and decision-making. The implementation of the new Grant Operating System represents a fundamental shift in the execution of grant management activities. As of the conclusion of this audit, the system is already able to support the following grant lifecycle stages: Allocation and Program Split, Funding Request, Grant-Making and Approval, Grant Revisions, Principal Recipient Reporting, different types of financial reporting, and Master Data. The module to support the Annual Funding Decision process was also launched in September 2017.

3. The Audit at a Glance

3.1. Objectives

The Audit of Monitoring Processes for Grant Implementation at the Global Fund is part of the 2017 Annual Audit Plan of the OIG. The overall objectives of the audit are to provide reasonable assurance to the Board over:

1. The adequacy and effectiveness of the following core grant implementation processes:

   • Annual Funding Decision: Reviewing implementation progress of each grant, determining, and committing annual funding to be disbursed to each eligible grant recipient.

   • Monitoring and Assessing Grant Performance: Routine progress reporting on grant performance by Principal Recipients throughout the grant implementation period.

   • Grant Revisions: Adjustments to the timing of grants, programmatic and/or financial requirements during grant implementation.

2. The adequacy and effectiveness of Secretariat grant monitoring structures to ensure achievement of objectives and impact at a grant, country and portfolio level.
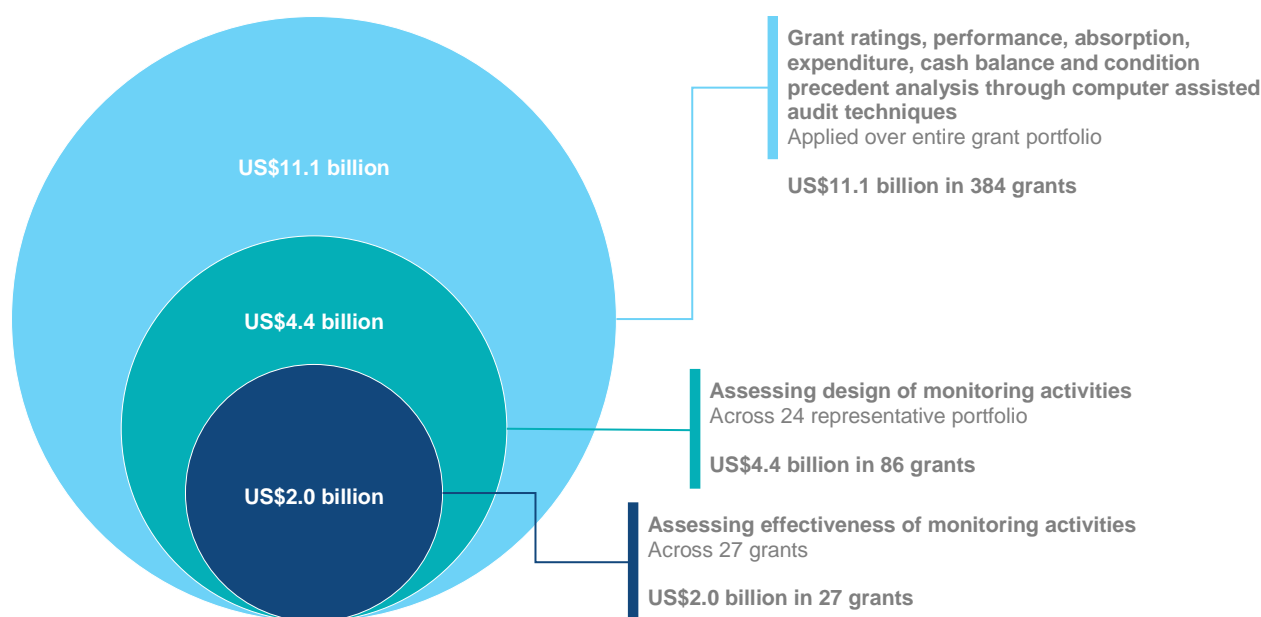
Where relevant to the above grant implementation processes, the audit also assessed the adequacy and effectiveness of strategic initiatives such as Differentiation for Impact and Implementation through Partnerships.

3.2. Scope and Methodology

Scope

The audit considered all active Global Fund Grants as of 31 March 2017 and selected 27 grants based on portfolio categorization (High Impact, Core and Focused), type (challenging operating environments, regional grants and health system strengthening grants), risk and materiality. The review covered grants signed in the 2014 – 2016 allocation period covering an implementation period from January 2016 to March 2017.

Figure 3. Sample of Global Fund grant portfolio reviewed in this audit.

Grant ratings, performance, absorption, expenditure, cash balance and condition precedent analysis through computer assisted audit techniques
Applied over entire grant portfolio

US$11.1 billion in 384 grants

Assessing design of monitoring activities
Across 24 representative portfolio

US$4.4 billion in 86 grants

Assessing effectiveness of monitoring activities
Across 27 grants

US$2.0 billion in 27 grants

US$11.1 billion

US$4.4 billion

US$2.0 billion

Out of Scope

Grant Operating Systems - The Secretariat is currently implementing the new Grant Operating System following the AIM project mentioned above. Given the significant changes introduced with AIM, the audit did not test the effectiveness of existing grant management systems other than the Annual Funding Decision system.[3] Nor did it cover the new system as its implementation is still in progress.

The following grant implementation processes already reviewed or under review in other OIG audits, are also outside the scope of this audit:

- the adequacy and effectiveness of internal controls for disbursements. This was covered as part of a 2016 Treasury Audit (GF-OIG-17-001) and an Internal Controls Follow-Up Review (GF-OIG-16-007);

- the adequacy and effectiveness of the recoveries process, covered in a previous audit released in 2016 (GF-OIG-16-021);

- the adequacy and effectiveness of risk management within grant management, covered in a previous audit released in 2017 (GF-OIG-17-010);

- the adequacy and effectiveness of grant assurances as these are covered under a separate forthcoming 2017 OIG audit of in-country assurance;

- the accuracy and completeness of data under grant monitoring processes as this is covered under a separate forthcoming 2017 OIG audit of data quality.

Methodology

The audit included the following procedures:

- a review of relevant policies and processes;
- a detailed analysis of grant management, financial, risk, and programmatic data;
- a review and testing of grant implementation documents - this includes all documents from the time of signing the Grant Agreement to before the grant is closed;
- a review of the Differentiation for Impact and Phase 1 of the Implementation Through Partnerships project documents;
- interviews with staff in grant management (Country Teams, directorate and support teams), finance, risk management, supply chain management and monitoring and evaluation teams; and
- an analysis of work and findings of previous OIG audits and investigations, the Technical Evaluation Reference Group, (an independent group that advises the Global Fund on various aspects of monitoring and evaluation), and partner reviews as relevant to the grant implementation process.

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[3] Those other systems, such as BART- grants reporting system and GPT – document management system will be decommissioned once AIM is fully implemented.

4. Findings

4.1. Gaps in Design of Internal Controls Limit the Effectiveness of the Sign-off Process of the Annual Funding Decision

The Annual Funding Decision process is a critical milestone in evaluating grant performance over the implementation period. This process has become more formalized with several controls built in, including standard templates to enhance consistency; automated controls to determine preliminary indicator ratings; and formal approval processes. However, several gaps still exist in the current performance review process, including a lack of clarity in policies and procedures; missing preventive and detective controls to ensure the reviewer has all the elements to sign off the decision; and insufficient delineation of roles and responsibility between different reviewers. These internal control gaps limit the effectiveness of the approval process to ensure that all requirements have been met, deviations adequately explained and key information verified. Some of these control gaps relate to limitations in the legacy GMS system, which is currently being replaced.

The Annual Funding Decision process is at the core of Performance-Based Funding. Grant performance is reviewed on an annual basis and funding decisions are linked to this performance. Whilst there are a number of monitoring processes throughout the grant implementation period, the Annual Funding Decision process is the only time when performance is comprehensively and holistically assessed by Secretariat staff independently of the Country Team. The Global Fund has an Operational Policy Note in place, which details the process and controls for the Annual Funding Decision. The main purpose of this process is to assess recent performance to ensure that grant funds are used as intended, to evaluate if expected results are being achieved, and to provide the right level of funding based on performance.

Process background

Due to the relative complexity of the process, additional background on the Annual Funding Decision is provided below for relevant context of the identified internal control weaknesses.

All commitments to the grant are processed through the Annual Funding Decision, with the exceptions of commitments related to the procurement of health products through the Pooled Procurement Mechanism, the online procurement platform wambo.org, and a private sector co-payment mechanism for artemisinin-based combination theray called AMFm.[4] Annual funding is intended to cover sufficient cash flows for one year of operations and a buffer period (three months for High Impact countries and six months for Core and Focused countries). The buffer period allows time for a Progress Update by the Principal Recipient and the assessment of that update by the Global Fund.

The Annual Funding Decision is not performance-based in the first year of implementation, as previous data is not available. However, subsequent funding decisions issued over the grant implementation period are based on grant performance. The Principal Recipient submits a Progress Update report on a semi and/or annual basis. If required, the Local Fund Agent verifies the results and then the Program Officer currently captures those results in the GMS system (before the move to the new Grant Operating System as mentioned above). Based on these results, the current GMS system automatically generates a Quantitative Indicator Rating. The Program Officer and the Public Health and Monitoring and Evaluation Specialist are then required to adjust the rating if there are any known data quality issues in the country that could undermine the reliability of the results reported by the Principal Recipient. This adjusted rating is known as the Indicator Rating. A defined funding range is associated with each rating level and the Annual Decision Making Form checks that the proposed funding amount is within that specified range. If the funding is out of range, additional explanation to support the recommended funding is required from the Country Team. If within range, the Country Team makes final adjustments to the indicator rating by assessing the financial

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[4] Commitments related to the procurement of health products through the Pooled Procurement Mechanism and the private sector co-payment mechanism for ACT follow a different approval process that is separate from the Annual Funding Decision process.

performance, program management and any risk issues to determine an Overall Grant Rating and the final Annual Funding Decision amount. The Fund Portfolio Manager reviews the final information with the Finance Officer and recommends all funding decisions for approval. Funding decisions are supported by an approval framework as shown below:

Figure 4. Annual Funding Decision approval framework.
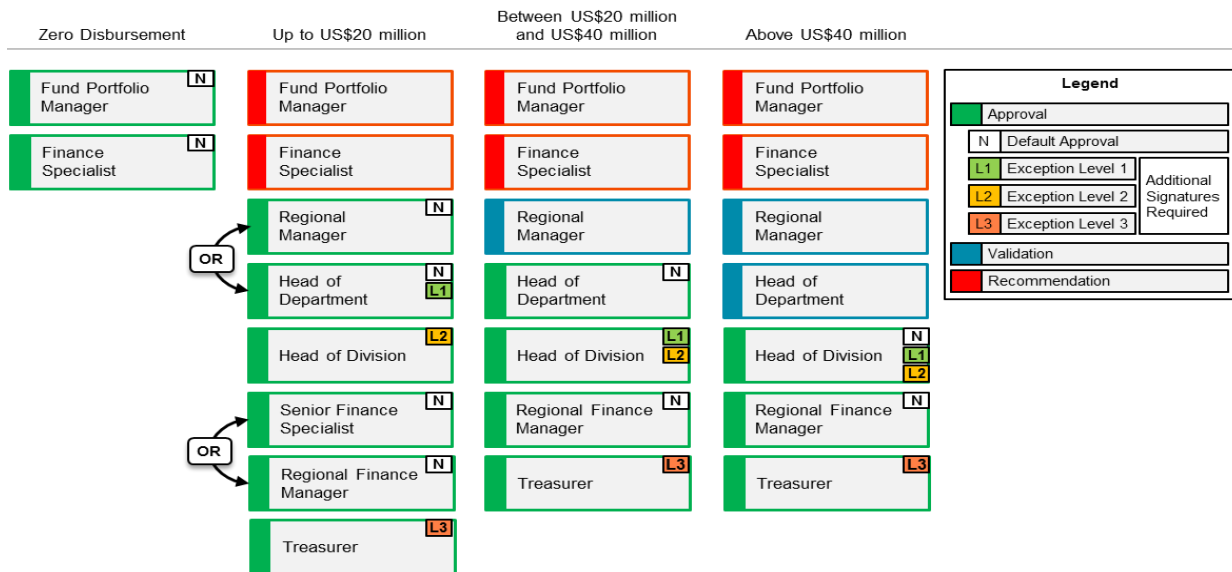
Note: The Executive Director approval is required in cases where there is an OIG-confirmed misuse of funds.
For Level 2 exceptions, RFM is expected to consult with the Head of Program Finance and Controlling & CFO as appropriate.

Since September 2017, subsequent disbursements are processed through the Grant Operating System. Whilst the system has changed, including a number of additional controls, the overall process and manual controls for the Annual Funding Decision remain largely the same as described above. The following figure summarizes the overall Annual Funding Decision process as defined in the Operational Policy Note, the key controls built in the process, and the weaknesses identified in the design or operation of those controls, which are further elaborated on in this finding:

Figure 5. Global Fund Performance Based Annual Funding Decision and Disbursement Process, and exceptions identified.
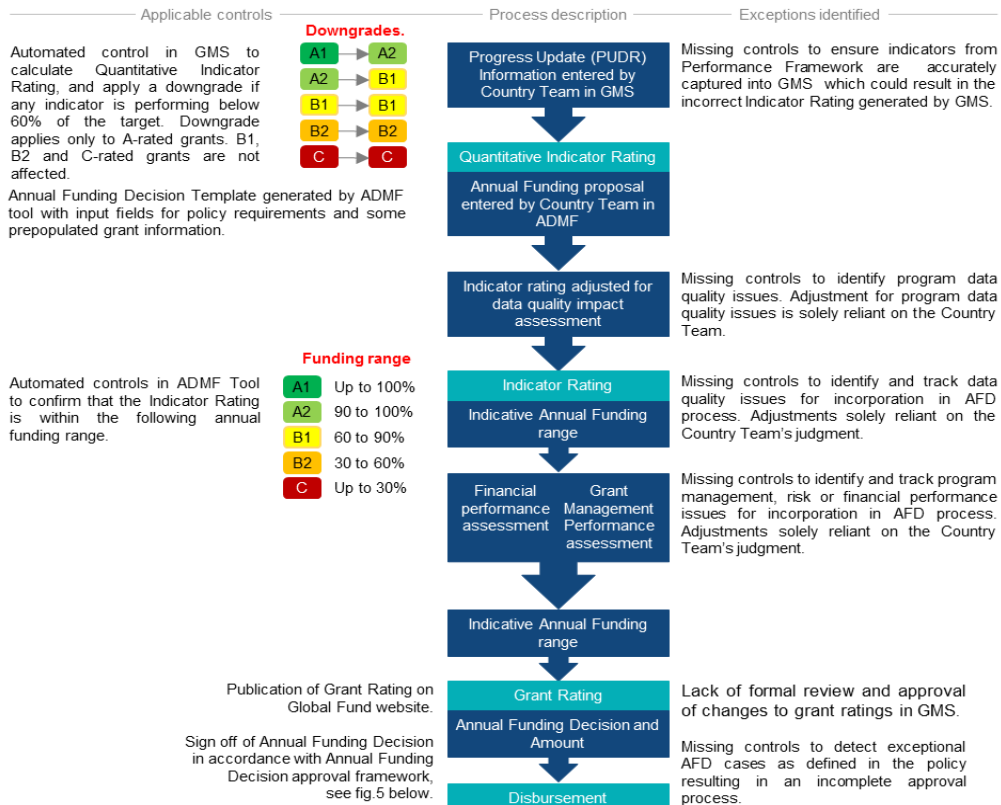
Because of the above-mentioned gaps, several exceptions were identified in the OIG review of 15 Annual Funding Decisions processed between November 2015 and March 2017. The exceptions relate to gaps in process design and to limitations in the legacy GMS system. At the time of the audit, the new Grant Operating System had not yet been fully implemented. As a result, the OIG cannot validate the extent to which the issues from the legacy system will be effectively remediated by the new system.

Controls for the Accuracy of Performance Indicator Data Set Up in the legacy GMS System:

GMS derives the quantitative indicator rating by comparing grant performance results against specific targets for the various indicators. The Country Team manually sets up these indicators, from the Grant Performance Framework, into GMS. Controls are not currently in place to prevent or to detect manual input errors when the indicators are recorded in the system. If the indicators or targets are incorrectly entered in the system, the resulting quantitative indicator rating generated by GMS during the Annual Funding Decision would be compromised. The audit identified several such input and set-up errors, which are detailed in Finding 4.2. This risk was also confirmed during the current implementation of the new Grant Operating System when the Secretariat identified several data quality issues in the Performance Framework for exisiting grants. Validation steps were taken to clean up these data issues as part of the migration of existing grants to the new system and interim controls designed to ensure the quality of Performance Frameworks for new grants signed in the 2017 – 2019 allocation period.

Controls over Adjustments to Grant Ratings for Data Quality Issues:

The Annual Funding Decision process requires that ratings be adjusted if a grant has known data quality issues such as, for example, overstated program results. The Operational Policy does not define the severity of data quality issues to be considered by the Country Team and does not provide guidance on potential triggers or scope of the downgrades. For the sample of 15 Annual Funding Decisions tested in this audit, data quality issues were identified in 47% (7 out of 15 grants) of the grants, yet the rating was not adjusted. Some of these data quality issues were grant-specific, such as the Principal Recipient's inability to report impact and outcome indicators due to delays in their management information system. Others were more systemic issues, such as identified weaknesses in the national health information systems, lack of data quality assurance mechanisms, or weak supervision systems. Due to the lack of guidelines in the current process, it is unclear which of these issues should have triggered an adjustment to the ratings. The Annual Funding Decision tool did not document how these data quality issues were factored in the performance ratings and the rationale for not adjusting those ratings. In addition, it is not possible to ascertain the completeness of the potential downgrades as data quality issues are currently not formally recorded and tracked.

Controls over Calculations for Out-of-Range Funding:

The Annual Decision Making Form process recommends a funding range relative to the performance of the grant. The funding range calculation is a key control to ensure that the proposed funding amount is in line with grant performance, in application of the Performance-Based Funding principle. If the proposed funding is out of range, a justification and an additional sign-off are required. The audit identified exceptions in the formula and input fields of the calculation, which limit the effectiveness of the control. The following exceptions were noted for 20% of the sampled grants:

- *Incorrect formula in the calculation of the funding range* – The funding range calculation takes into account the ratio of cumulative funded amounts to date in relation to the cumulative grant budget. In July 2016, the Secretariat updated the policy to exclude all Pooled Procurement Mechanism commitments from the funding decision process, as they are handled outside of the Annual Funding Decision process. This policy change was not reflected in the tool. As a result, Pooled Procurement Mechanism commitments continued to be incorrectly included in the cumulative grant budget (denominator) generated by the tool although they were no longer included in the funded amount (numerator) captured by the

Country Team. The net effect of this error is an increase in the calculated funding range. Thus, amounts that are actually out of range are not being detected.

- *Missing controls to ensure completeness of required information for the system to calculate the funding range* - The calculation of the funding range requires two key data points that are necessary for the system to generate an out-of-range flag. These include the Indicator Rating (quantitative indicator rating adjusted for data quality issues) and the Indicative Annual Funding Decision Range. However, the system controls in the current GMS system do not either reject the calculation if the required fields are missing or generate an out-of-range flag. Instead, when required information is missing, the system generates a "not applicable" result instead of an out-of-range. Thus, in these cases when incomplete data is entered, the related grants would not be flagged as out-of-range for escalation and additional approval. In the sample tested in this audit, two grants fell in this category of exceptions.

It should be noted that the funding range is an indicative, rather than a prescriptive range. The operational policy contemplates valid reasons why funding may be provided outside of that indicative range. However, the same policy also prescribes that these reasons should be documented in the Annual Decision Making Form. If the system does not enable effective identification of out-of-range funding, such instances may not be consistently identified and the underlying rationale documented. As a result, there is a risk that the proposed out-of-range funding may not be subject to the appropriate level of review and approval.

Controls over Adjustments for Major Program Management and Financial Performance Issues:

The Annual Funding Decision process requires the Country Team to make an initial analysis of the program management risk and financial issues. The risk team also provides independent inputs in the review of the issues and risks. The outcome of theses analyses may result in adjustments made to the final overall grant indicator rating to reflect the impact of major risk exposures, management issues and outstanding Conditions Precedent. If no adjustment to the rating is made, then a justification should be documented by the Country Team in the decision form to be approved. However, the current process does not include controls to ensure that these issues have been taken into consideration in the processing of the funding decision. As a result, across the sampled grants, there was inconsistent application of risk and management issues and Conditions Precedent in the funding decision that were not detected by the Country Team, Risk Management or the approvers of the decision. For example:

- *Risk and Management Issues* – For 33% of the sampled grants, major program management and risk issues were identified but no documentation was included in the Annual Funding Decision for the lack of adjustment to the overall grant rating.

- *Application of Conditions Precedent* - Some of these conditions need to be fulfilled before a disbursement is made whilst others can be fulfilled at anytime during the grant implementation period. Based on the entire population of 1,541 Conditions Precedents, 958 (62%) did not have a due date set. In the absence of clear guidance for the treatment of CPs, the OIG was not able to confirm that all of the 958 CP's should have had a due date assigned to them. For the 583 that did have a due date set, 51% were past their due date (listed as either not started or in progress). In 53% of the sampled funding decisions tested, the Country Team either did not document open Conditions Precedent at all or did not provide any explanation for those that were overdue. As a result, there is no evidence to demonstrate that Conditions Precedent were appropriately considered in the funding decision.

Controls for Detecting Exceptions to Standard Annual Funding Decisions that Require Additional Approval:

The Annual Decision Making Form policy identifies a number of exceptions to the standard Annual Funding Decision. These exceptions are classified into three levels, with each level requiring additional approval from the standard Annual Funding Decision approval process. However, there

are no manual or system controls in place to detect the majority of exceptions. In the absence of a control built into the system, highlighting exceptional Annual Funding Decision cases is solely reliant on the discretion of the Country Teams. As a result, the correct approval level for the Annual Funding Decision was not obtained for 60% of Annual Funding Decisions tested in the audit that contained exceptions, as defined in the policy. In these cases, there was also no explanation documented in the funding decision form around the exception.

Controls over Ratings Changes:

The final grant rating determines the annual funding allowed under Global Fund policies for every Principal Recipient. The rating is published externally. The Global Fund also has a Key Performance Indicator, which measures the amount of disbursements made to each grant rating type. However, the following weaknesses affect the integrity of the grant rating:

- *Lack of adequate guidance on rating upgrades* – the Annual Funding Decision policy allows the Country Team to manually adjust ratings that are generated by the GMS system. This is a reasonable provision to allow system calculations to be supplemented with judgmental considerations when necessary. These adjustments can be either upgrades or downgrades. However, whilst there are specific provisions and criteria regarding the manual downgrades, the current policy does not include guidance on the triggers and the levels of approval required for manual upgrades to grant ratings.

- *Lack of validation for grant rating changes* –The system-generated grant ratings, in the current GMS system, can be changed by anyone in the Country Team at any time. However, this legacy system does not keep an audit trail of changes made to the grant ratings. As a result, at the time of the sign -off, the reviewer is unable to tell if the ratings are the original system-generated ratings or adjusted ratings following manual changes. Furthermore, because the system is not locked down following review and sign-off, the assigned grant ratings can be subsequently changed following the approval stage. There is no process to check periodically the integrity of grant ratings. Notwithstanding these control gaps, it is important to note that the audit did not identify any systematic bias in the direction of the ratings changes, as shown below. In fact, there were more ratings downgrades than there were upward adjustments, which suggests that, despite the lack of controls from a process standpoint, in substance the adjustments were likely made for valid reasons rather than an indication of any bias on the part of the country team:

Figure 6. 35% of manual rating adjustments performed between 2014 and 2016
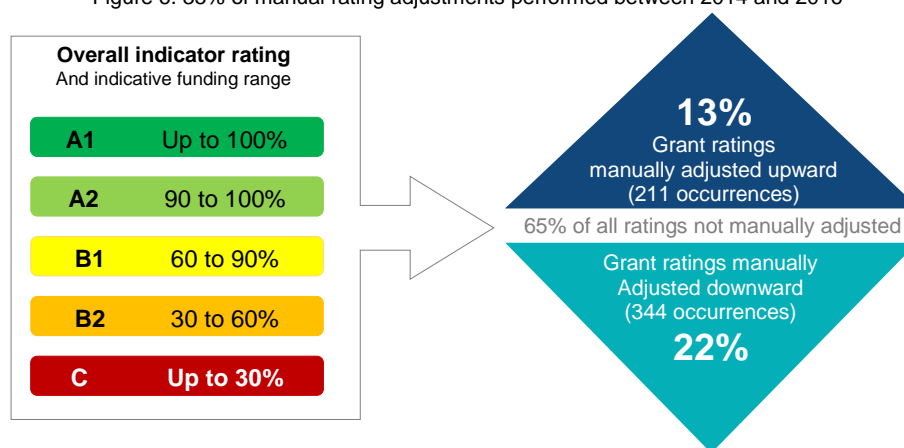
The OIG identified that 35% of the ratings in its sample of grants had been changed. Of these, 13% of the changes were upgrades with 17 grants increasing by three levels (from C to A2) and five grants going up by four levels (from C to A1). A detailed analysis of these five grants and of three more grants that had a four-level downgrade (from A1 to C), suggests that most of the changes made by the Country Teams are driven by the limitations and inadequacies in the ratings model as noted above. These included indicators that were incorrectly set up in the current GMS system or performance results that were wrongly captured in the system. The manual changes were made directly in GMS

during the regular grant cycle and outside of the annual Annual Funding Decision process. Therefore, the normal controls and required justification associated with the Annual Funding Decision process did not apply. Supporting documentation for these ratings changes, or evidence of approval, were not available.

The issues identified above also have a primary root cause in the insufficient guidance on the application of the various control requirements around the Annual Funding Decision. The current Operational Policy Note for the Annual Funding Decision has several requirements for the funding decision process. However, the operational policy falls short of providing sufficient guidance on how these requirements are expected to be applied. As a result, a significant level of interpretation by the Country Team is required, which has resulted in a high degree of inconsistencies. In addition, there is also diluted accountability: whilst there are various levels of approvals across different functions, the roles and responsibilities of each approver in the chain are generally not defined. Therefore, it is not clear if an approver is signing off on all aspects of the Annual Funding Decision or only on specific sections relevant to his or her sphere of influence. The Secretariat plans to address the above root cause through AIM Phase 2. Processes and policies will be better aligned with the new system and issues identified in this report will be addressed under this initiative.

> **Secretariat actions in progress** – Through Project AIM, the Secretariat identified several data quality issues related to the Performance Framework and Progress Updates from Principal Recipients, which significantly influence the Annual Funding Decision process. Therefore, in the design of the new Grant Operating System, a number of controls have been put in place to improve the data quality of key inputs into the Annual Funding Decision. In addition, a number of controls have been specifically included in the Annual Funding Decision module, which will partially address the exceptions identified by the OIG. Finally, the integration of all grant modules is expected to give users and reviewers full transparency of key grant information related to the funding decision. The Annual Funding Decision module was implemented in September 2017 and should be operational before the end of the year.
>
> Due to limitations in the original design and definitions of Conditions Precedent, the Secretariat has also moved to the concept of Grant Requirements for the 2017 to 2019 funding cycle. Grant Requirements are now classified into sub-categories: requirements that need to be fulfilled before disbursement or access to funding and special requirements that are not linked to disbursement or another defined event. Therefore, only grant requirements that are required for disbursement and access to funding will be necessary for future Annual Funding Decisions.

Agreed Management Action 1

In early September 2017, the Secretariat launched a Disbursement Module in the new Grant Operating System to support the Annual Funding Decision process, which introduced strengthened controls. This completed the Grant Operating System development for Phase I, which also included the Grant Revisions process and the Principal Recipient reporting process. The Secretariat will conduct a review of grant implementation processes and controls implemented in the Grant Operating System re-design from the Annual Funding Decision to Ongoing Grant Monitoring and Principal Recipient Reporting and Grant Revisions.

Based on the above review outcomes, the Secretariat will update controls as appropriate during AIM Phase II, balancing the rigor of controls with workload considerations, risk and portfolio differentiation. The Secretariat will revise the relevant operational guidance to clearly articulate business requirements changes and develop business intelligence reports to regularly monitor operational performance and compliance.

Owner: Mark Edington

Due date: 31 December 2018

4.2. Weaknesses in Quality Assurance over the Grant Performance Framework

The Performance Framework and Grant Budget form part of the overall Grant Agreement between the Global Fund and the Principal Recipient. They set the foundation for measuring and monitoring grant performance. In recent years, the organization has implemented comprehensive guidelines for the development of the Performance Framework and Grant Budget to ensure that Principal Recipients are accountable for the achievement of program objectives. These tools also allow the organization to track investments and to ensure value for money. However, there are control weaknesses in Performance Frameworks for grants signed in the 2014 – 2016 allocation cycle and relatively limited alignment with the Grant Budget that limit the effectiveness of grant monitoring activities.

The Performance Framework should be aligned to program goals and the indicators should be substantively aligned with the activities funded by the Grant Budget. The Global Fund has formal guidelines for the development of a Performance Framework. The guidelines recommend standard modules, interventions and indicators for the main types of programs funded by the organization (treatment or prevention of HIV, TB and malaria). The modular approach to grants allows for consistency in tracking results, program budgets and expenditures throughout the grant lifecycle. Each module of intervention contains coverage, impact and outcome indicators. Results against these indicator targets are used to determine performance ratings. The Principal Recipient and the Country Coordinating Mechanism, with the input of the Local Fund Agent and the Country Team during the submission of the funding request, develop the Performance Framework. It is further refined during grant-making when the Public Health, Monitoring and Evaluation Specialist reviews it against the Global Fund Guidelines.

The Grant Budget is an allocation of financial resources for each program module of interventions to ensure that objectives are reached. The Principal Recipients and the Country Coordinating Mechanism, with the input of the Finance Officer and the rest of the Country Team during the submission of the funding request, also develop the Budget. It is refined during grant- making when the Finance Officer reviews the budget in more detail. The Regional Finance Manager also reviews the budget for appropriateness.

Lack of Effective Quality Assurance over the Development of the Grant Performance Framework

The Global Fund has developed comprehensive guidelines for the Performance Framework to ensure alignment with program goals. This guidance includes standard indicators for typical program goals and objectives. However, an effective quality assurance process is needed to ensure that the content of the Performance Framework adheres with the guidelines. For 27 grants reviewed, the following weaknesses were noted in the Performance Framework:

- for two HIV grants, standard treatment indicators for HIV were not included in the Performance Framework, without documentation of the rationale for the omission;

- in one grant, the standard impact indicators were not used at all; and

- in three grants, coverage indicators were incorrectly assigned to a Princiapl Recipient that was not responsible for the disease component or module of intervention.

In addition, previous OIG reports for South Africa (GF-OIG-17-014), Tanzania (GF-OIG-16-002), Uganda (GF-OIG-16-005) and Kenya (GF-OIG-15-011) also noted similar weaknesses in the Performance Framework of grants in these countries. The gaps in controls to ensure that the Performance Framework supporting the Grant Agreement is consistent with Global Fund guidelines may affect the accountability of the Principal Recipient to deliver on program goals. Whilst there will always be valid reasons for deviations from the guidelines (country context, national strategies,

recipient capacity), the current controls in the process do not support adequate documentation and validation of these reasons.

Subsequent to the signing of the Grant Agreement, the portfolio Public Health, Monitoring and Evaluation Officer is responsible for capturing key data from the Performance Framework into GMS. This data includes indicators, targets (number and percentage), baseline and disaggregated data. However, effective controls (system or manual) are not in place to ensure that the officer accurately and completely captures all the relevant information. As a result, the OIG identified the following data discrepancies in its sample of 27 grants:

- For seven grants and 14 indicators, target values were either missing in the Performance Framework or the target value captured in GMS was not consistent with the framework. In these same seven grants, there were also instances where target values were incorrectly captured in GMS with percentages used when actual values were required.

- For three grants and five indicators, disaggregation requirements were not set in GMS in accordance with the framework or guidelines; for three other grants and eight indicators, the baseline values (aggregated or disaggregated) were not indicated or set in accordance with the framework or the guidelines.

- In 15 grants, the indicator cumulative type (i.e., if the indicator should be calculated on a cumulative basis or not) was incorrectly captured in GMS and inconsistent with the Performance Framework.

Ineffective controls over the capturing of key Performance Framework information into GMS may compromise the accuracy and completeness of information. Depending on the indicator and target value, this could potentially impact the resulting quantitative rating that is generated by the system based on the framework data. Other indicators such as disaggregation requirements are mainly for country analysis purposes.

The Monitoring and Evaluation and Country Analysis team also noted similar deficiencies with the Performance Framework during the data migration exercise of Project AIM. These issues included both the strategic alignment of the Performance Framework with the program goals and objectives as well as data quality issues captured into GMS. The AIM team performed a data cleanup of all Performance Frameworks before migrating to the new Grant Operating System. However, the AIM team also identified persistent weaknesses in the data quality of the Performance Frameworks for the current first two phases of grants signed in the 2017 – 2019 allocation cycle, suggesting that this is an ongoing issue. The project team now performs a quality control check for all new Performance Frameworks entered into the new Grant Operating System. Also following the audit, the team has agreed to conduct a quality assurance process for the development of the framework. This is still being operationalized and is expected to be effective before the end of 2017.

Best practice

Out of the sampled grants, the OIG noted that grants within the Cameroon portfolio had a Performance Framework that adequately covered all key objectives of the Grant Agreement. This was due to the Country Teams' integrated and cascading approach with the Principal Recipient for the development of the Performance Framework. Technical specialists first reviewed and assessed the framework for appropriate coverage of the grant objectives, and alignment with other grants for the country in support of the national strategy. This was not just limited to the Public Health, Monitoring and Evaluation Specialist but also included the Health Products Management Specialist, Legal Counsel, Risk Officer and Finance Officers.

> **Secretariat actions in progress** - In the compilation and reporting of KPIs for 2015 and 2016, the Secretariat identified shortcomings related to the Performance Framework. The individual frameworks could not be aggregated to give a view of the Global Fund performance against KPIs. Therefore, deeper root cause analysis on underperforming portfolios is challenging. Subsequently, the Strategic Information team within the Strategy Investment and Impact Division has extensively analysed all the Performance Frameworks to conclude on the alignment between grant performance indicators and the corporate KPIs. The Secretariat will present a solution to address this issue for approval to the Global Fund Board in November 2017.

Limited alignment between the Grant Budget and the Performance Framework.

Due to limited integration between budget development and the other grant-making processes, the OIG identified the following deficiencies:

Lack of formal mechanisms to monitor significant amounts in the Grant Budget - For the 27 grants reviewed, on average 28% of the budget was not covered in the Performance Framework. These activities related mainly to Health System Strengthening activities and to program management costs. Such activities are considered input indicators and therefore not covered in the Performance Framework, consistent with the organization's guidelines. However, there are no alternative mechanisms outside of the Performance Framework to formally monitor the performance of investments in these areas that are significant to the achievement of program goals and objectives or to assess their relative value for money.
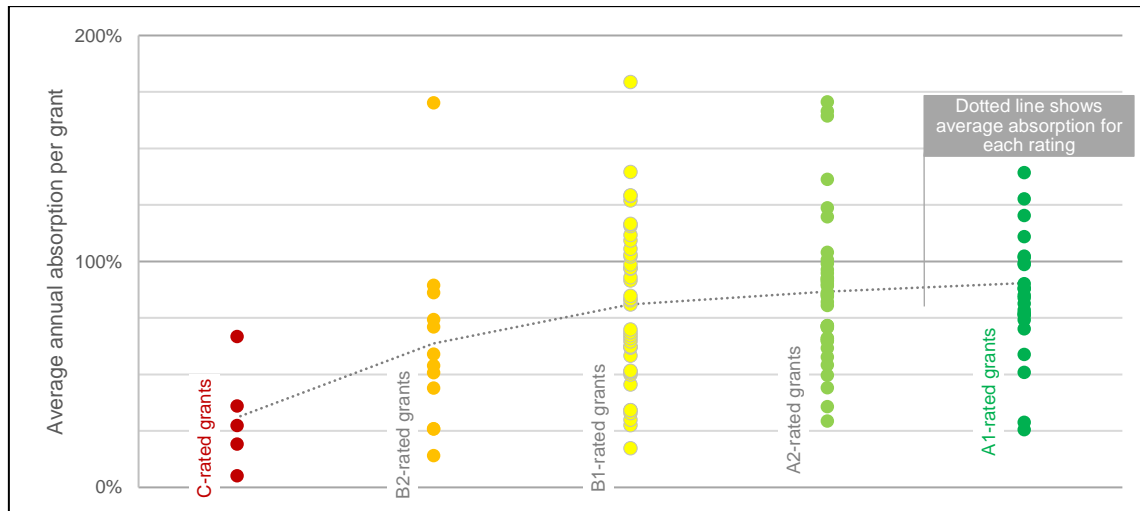
Correlation between absorption of funds and programmatic performance - There is also a material number of grants that achieve a positive programmatic rating without absorbing a relatively commensurate amount of funds. There can be a number of valid reasons

> **Best practice**
>
> Out of the sampled grants, the OIG noted that the Malaria E8 Grant managed by the High Impact Africa 2 Department had a Grant Budget that was strongly aligned to the Performance Framework. In the case of this portfolio, the Budget and all significant line items were also adequately covered in the Performance Framework. The Country Team effectively reviewed the budget submitted by the Principal Recipient and the Country Coordinating Mechanism following the agreement of the Performance Framework to ensure that all budgeted activities were linked to performance indicators.

for variances between programmatic performance and absorption. These may include contributions from other donors or the reporting of results based on national targets, which is increasingly seen by the Secretariat as a norm rather than an exception consistent with the Global Fund's objective of supporting national strategies and programs rather than just individual projects. However, it is also possible that significant discrepancies between grant ratings and actual absorption may be indicative, in some cases, of a potential misalignment between the Grant Budget and the Performance Framework. No analysis currently exists to separate the two and to validate whether the degree of the observed correlation between performance and absorption is reasonable or not. As illustrated in the figure below, whilst in aggregate there is a reasonable degree of correlation as expected between performance rating and overall level of absorption at the portfolio level, there are also several outliers in the distribution with many grants achieving the highest possible ratings (A1 or A2) whilst absorbing as little as 25% of the budgeted funds:

Figure 7. Distribution of grant ratings and average absorption of grant budget (2014-2015[5]).

A quality assurance process for the Performance Framework started in May 2017. The process was initiated by the AIM project team in coordination with the Monitoring Evaluation, Control and Analysis team and the Public Health, Monitoring and Evaluation specialists from Grant Management Division. It includes verifying i) the overall compliance with the organization guidelines ii) the completeness iii) the consistency between Performance Framework grants for same disease components in a given country and iv) the data. The first and second funding request submissions for the 2017 – 2019 allocation cycle - presented for approval to Grant Approval Committee in July 2017 - went through this process. In August 2017, the quality assurance process was taken over by the Monitoring Evaluation, Control and Analysis team from the AIM project team with formal guidance issued to all Grant Management staff including Public Health, Monitoring and Evaluation specialists.

Whislt the new process represents a significant improvement from the previous allocation period, the quality assurance is performed more from an advisory and not a control perspective. This happens through peer reviews by Public Health, Monitoring and Evaluation and, on a sample basis, by the Monitoring Evaluation, Control and Analysis team twice a year. As such, it does not include controls to ensure accountability for the validity, accuracy and completeness of the Performance Framework

- There is no sign off required from the Monitoring Evaluation, Control and Analysis Team for Performance Frameworks presented for review and approval to the Grant Approval Committee. The quality assurance process is assumed to have taken place.

- There is also no sign off required for the Performance Framework imported into the Grant Operating System either by the Monitoring Evaluation, Control and Analysis team or the Fund Portfolio Manager. The quality assurance process is assumed to have taken place before the import into the system.

The Secretariat will continue to operationalize the above quality assurance process for reviewing Performance Frameworks throughout the 2017 – 2019 allocation period. Based on the above developments, an additional Agreed Management Action was not deemed necessary. The OIG found the newly developed process to be generally adequate in design, subject to formalization of the controls during the operationalization stage, but its effectiveness cannot yet be evaluated. As a result, it will be included in the scope of a future follow-up audit.

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[5] This analysis is limited to 2014-2015. The Secretariat could not produce the 2016-abosprtion data. At the time of concluding this report, the Secretariat was in the process of collecting data through the Annual Financial Report. See finding 4.3 on effectiveness of the AFR.

4.3. Cumbersome Reporting Requirements Impacting Effectiveness of Grant Monitoring processes

The nature of Global Fund grants requires various aspects of performance to be assessed and monitored both at inception and throughout the life of the grant. Accordingly, the organization has institutionalized a number of reporting requirements for grants to meet these important business needs. However, over time, this has given rise to a broad range of complex, and often duplicative, processes that have expanded without being sufficiently tailored to a specific country context or the nature and timing of the various grants. As a result, several exceptions were identified by the OIG in performance reporting, which may limit the efficiency or effectiveness of grant monitoring.

The Global Fund has implemented a number of standard reports used for measuring and monitoring the performance of grants. These include, but are not limited to:

- Annual and/or semi-annual Progress Updates Reporting (Programmatic and Financial);

- Annual Financial Reporting (Financial);

- Quarterly Cash Balance Report (Financial);

- Health Facility Assessment Report or Data Quality Assessment Reporting (Programmatic);

- Risk Assessment and Action Planning Tracking Tool (Risk).

Country Teams monitor and assess grant performance through the Progress Update received from the Principal Recipient. Where necessary, the Country Team engages with assurance providers such as the Local Fund Agent to verify grant performance results in country. Results from programmatic, financial and management performance are formally acknowledged when the Country Team issues a Performance Letter, which includes a final grant rating for the period under review. In addition, recommended actions and timelines to address program issues are included in the letter. The Principal Recipient is responsible for monitoring and managing the performance of each Sub-Recipient and taking necessary actions as needed.

Inconsistent Reporting Limits the Effectiveness of Routine Performance Monitoring

Audit testing of 27 grants across 24 portfolios identified the following deficiencies related to the grant monitoring processes and reports.

Delays in submission of Progress Updates by Principal Recipients and Local Fund Agents - On average, it took Principal Recipients 129 days to submit Local Fund Agent verified Progress Updates to the Global Fund compared with the required 75 days. In three cases, the Progress Updates were received as late as 11 months after the period end. As a result, the Annual Funding Decision process was also delayed, as the Progress Update is a pre-requisite. However, due to cash balance in countries, program activities were not affected by these delayed funding decisions.

Delays and non-issuance of Performance Letters to Principal Recipients –In 71% of the portfolios tested, exceptions related to the issue of Performance Letters were identified. Letters were significantly delayed in a number of portfolios. The average time for the Country Teams to issue a Performance Letter following the receipt of the Progress Update was approximately two months. In one portfolio, it took as long as seven months. There are currently no policy requirements stipulating the time expected to issue a Performance Letter by Country Teams. In three portfolios, Fund Portfolio Managers had elected to withhold the Performance Letter. This was either because the information was outdated or because they preferred to communicate through more informal channels (face-to-face meetings, telephone briefings, etc.) This is contrary to the recommendations set forth in article 6.8 of the Global Fund Grant Regulations and, in those cases, approval from Grant Management leadership was not sought.

The delays in the submission of the Progress Update and Performance Letter could be because required timelines for submission have not changed since 2004. In the meantime, the contents of the Progress Update that need to be populated and reviewed have increased tenfold since 2004.

Inconsistent documentation of performance issues in Performance Letters – The approach to completing the letter and issuing it to the Principal Recipient was inconsistent across the 27 grants reviewed:

- Performance Letters from some portfolios covered the open action items from the prior period whilst others did not.

- Some Country Teams only documented major performance issues in the Performance Letter whilst others documented and communicated all issues, irrespective of materiality or likelihood of occurrence.

- Some letters contained action points for the Principal Recipient, including completion dates, and others did not. Some included the final grant rating while oth ers did not.

- Some Country Teams documented grant performance issues from all monitoring activities and results whereas others only included issues reflected in the Progress Update.

In addition to the lack of clear guidance, these inconsistencies also arise from the fact that a significant number of Country Teams are not using the Performance Letter as a tool to monitor grant performance. Instead, they are using a number of other avenues to communicate and monitor grant performance with the Principal Recipient. In 83% of the portfolios, Country Teams indicated that they used their country missions as the main tool to monitor and communicate performance with the Principal Recipient. However, in analyzing grant performance, only one of the 24 portfolios reviewed had systematically conducted country missions according to a predetermined work plan, with a specific agenda including grant performance reviews and follow up with implementers on outstanding action plans. For the other portfolios, mission reports focused on other areas of grant management such as grant-making negotiations, discussions with partners, attendance of disease fora and conferences, mass campaigns, site visits, without specific reviews of actual grant performance.

In a Performance-Based Funding environment, periodic Performance Letters are critical to formalize grant performance, major performance issues, root cause of performance issues, key actions and associated completion dates.

Ineffective use of the Annual Financial Report and Quarterly Cash Balance Report to monitor grant financial performance – Submissions of the Local Fund Agent-verified Annual Financial Report by Principal Recipients were particularly low, ranging from 36% in August 2015 to 50% in June 2017. Only the High Impact Africa 1 countries had an increase of 20% in submissions between 2015 and June 2017. The report is an important financial monitoring tool designed to assist the Secretariat in performing variance analysis on the different financial categories in the grant and to make better informed funding and investment decisions. While the submission rate is low during the year, the

Best practice

The Democratic Republic of Congo portfolio, a High Impact country, stood out for the development and implementation of a comprehensive performance improvement plan. The Country Team uses this to guide its day-to-day grant management activities. It covers all relevant Principal Recipient actions from different monitoring tools, including OIG audit reports and investigations. It also assigns accountability to the Country Team members for each area noted on the performance improvement plan. The team also integrates the results of this plan into the Performance Letter to ensure there is an adequate record of performance-related issues with the Principal Recipient. At year-end, the Fund Portfolio Manager issues a letter to take stock of the state of the portfolio to all interested parties, including the Country Coordinating Mechanism, all Principal Recipients, and development partners. Similarly, internally, the Fund Portfolio Manager issues a Country Team strategy for the year ahead. These external and internal communications by the Fund Portfolio Manager enable all parties to have better clarity on common goals, accountabilities, and interdependencies.

Secretariat does ensure that the overall submission rate is above 90% for the annual reporting to significant donors. There is a much higher submission rate for the Quarterly Cash Balance Report at 92%. However, for a sample of 15 grants, the required supporting bank statements of the Principal Recipient did not accompany 27% (4/15) of the submissions. The report without the supporting bank statement has limited value and defeats the purpose of the control to confirm in country cash balances prior to disbursement.

The above exceptions are symptomatic of a complex, sometimes duplicative and non-tailored approach to grant monitoring reporting requirements.

Complexity of tools – The Principal Recipient has to enter a large number of data points for each report for each performance review period. For High Impact and Core portfolios, the reports also have to be verified by the Local Fund Agent. Finally, Country Teams have to review and analyze all the information in each of the reports. This takes a significant amount of time to complete and review as well as involving high transactional costs for both the Principal Recipients and the Global Fund, which also takes time away from program implementation activities. For example:

- A Progress Update contains 12 worksheets to be populated. Each worksheet contains, on average, 461 data points that also need to be populated. This volume is also dependent on the the Principal Recipient's number of indicators and work plan-tracking measures.

- The Annual Financial Report requires input for 224 data points.

- The Quarterly Case Balance Report has on average 30 data points that need to be completed with supporting bank statements. This volume can also vary depending on the number of Principal Recipient bank accounts.

Duplicative Tools - Information required in standard grant monitoring tools is often duplicated. For example, the Quarterly Cash Balance Report contains financial information that is repeated in the Progress Update. At the Principal Recipient's financial year-end, these tools also overlap with each other and present exactly the same information. For example, the fourth quarter's Cash Balance Report will contain the same information on Principal Recipient cash balances as the Annual Financial Report and the annual Progress Update. In this context, the Secretariat has debated the merits of this quarterly report given the level of duplication with the other financial reports and, due to the timing of the reporting requirements. However, the Quarterly Cash Balance Report was retained as it was still considered still the most efficient way to monitor cash balances in country before disbursing funds. In addition, although the Progress Update, Data Quality Assessment and Health Facility Assessment present different types of programmatic information, there are currently three different reports for programmatic information related to the grant.

Non-tailored reports - Monitoring tools are generally required to be completed and reviewed regardless of the applicability to the grant and country. For example, if a grant is signed in March but the selection of sub-recipients is only scheduled for June followed by program implementation, a Progress Update verified by a Local Fund Agent is still required for the six-month period up to September. This is despite the fact that no program activities have yet taken place. In a sample of 27 grants, the OIG noted three such cases, which contributed to the delays in the submission of Progress Updates by the Principal Recipient and Performance Letters by the Country Team.

Best practice

For the Haiti portfolio, a Core country, the team refined and enhanced the structure of the Performance Letter to clearly distinguish programmatic, financial and other issues. It was also clear on the classification of each issue as major or minor. Management actions and deadlines were clear and the completed actions from the previous period were noted.

For the El Salvador portfolio, a Focused country, a summary of management actions open and closed is routinely disclosed to all Principal Recipients to outline the accountabilities of all parties to grant performance.

All the monitoring reports mentioned above and reflected in Figure 8 below, generate results data and grant performance issues. The tools and reports illustrated in the diagram are not necessarily all duplicative and many serve different and valid grant monitoring purposes. However, the diagram simply illustrates the complexity of the set of tools and sources of information (non-exhaustive) that need to be managed, analyzed and used for decision-making. Each of these need to be communicated to the Principal Recipient, along with action plans to address the noted performance issues. These actions plans then need to be tracked and followed up by the Country Teams. The sheer volume of data points generated by the cumbersome design of monitoring reports heightens the risk of ineffective monitoring.

Figure 8. Fund Portfolio Managers rely on a complex set of reports to monitor grant risks and performance
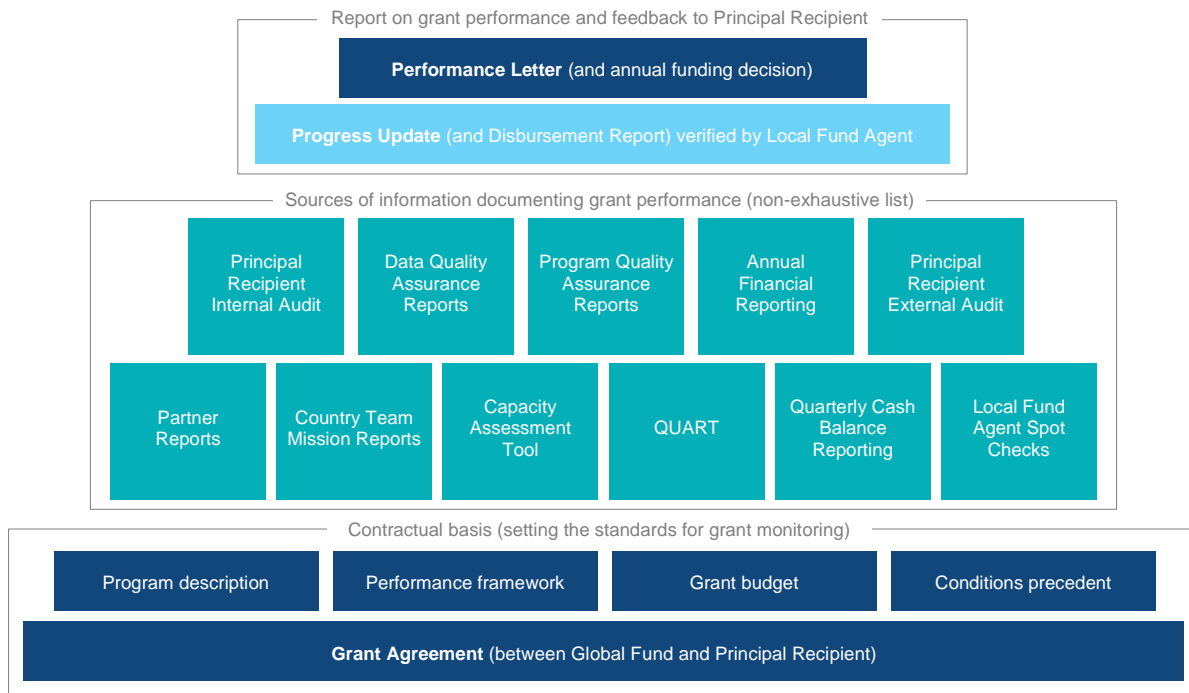
Secretariat actions in progress - The development and implementation of the GOS through Project AIM includes a specific module for Principal Recipient reporting which will be prepopulated with a significant amount of the required data in the Progress Update and other reports required such as the Annual Financial and the Quarterly Cash Balance Reports. The process of preparing and reviewing Progress Updates will therefore be less complex and time intensive. This process has been operational since May 2017; however, at the time of the OIG fieldwork audit, no grants had processed any Progress Updates. Therefore, the effectiveness of the revised process and system could not be tested by the OIG.

Agreed Management Action

Refer to Agreed Management Action 1

4.4. Design of Grant Revisions Improved but Monitoring Processes Not Established Yet.

The Secretariat has made significant improvements in the design of the grant revision process. These improvements provide more clarity on the types of grant revision and the documents and approval level requirements. However, there is no mechanism yet to track the validity and completeness of grant revisions made by Country Teams. Due to the timing of the updated Operational Policy Note, the Secretariat was still operationalizing processes and controls in the new Grant Operating System through Project AIM at the time of the audit. In addition, as no grant revisions had gone through the new system at the time of our audit the OIG could not test the effectiveness of the processes and controls in the system

There are typically five types of grant revisions, formalized through an amendment to the Grant Agreement through an implementation letter:

- *Grant Extensions (End-Date Revisions),* if the grant implementation period is being extended;

- *Additional Funding Revisions,* if the total funds for the grant increase, but not the implementation period;

- *Program Revisions*, if the programmatic scope/scale is being revised, but without extending the implementation period or adjusting total funds;

- *Budget Revisions*, for changes solely to the Grant Budget but that do not impact the Performance Framework; and

- *Administrative Revisions*, for changes made only to master data contained in Grant Agreement (e.g., Principal Recipient /Local Fund Agent contact details).

Each type of grant revision has defined triggers, specific timing and documentation requirements. An approval matrix is in place for each revision depending on the materiality of the revision. Approval can be at a Country Team level all the way up to the Global Fund Board Level with the exception of additional funding revisions, which will always require Board approval.

To the extent possible, Country Teams strive to limit the number of revisions by grouping different types of revisions under the same program implementation letter that serves as an addendum to the original Grant Agreement.

Improvements in Design of Grant Revisions Process

In its design, the grant revisions process is adequate. It represents a significant improvement from the previous Operational Policy Note. There is clarity on the different types of revision and the relevant triggers for the revision. The roles and responsibilities between the Principal Recipient, Country Coordinating Mechanism and the Secretariat are clearly described. The timing of revision, documents and approval requirements are also prescribed in the revised policy. The approval requirements are specific to the type of revision, portfolio categorization and materiality of the revision. The policy is also clear on the process to be followed for exceptional grant revisions, which in all cases require the highest level of approval authority. In the previous policy, there was no prescribed process of how the grant revision would be implemented and what grant documents and processes needed to be altered because of the revision. The new policy is clear on how each revision will affect the current grant and related core monitoring tools such as the Performance Framework and Budget. It also clarifies the implications of the revision on subsequent allocation periods if any.

Need for a Process to Monitor Grant Revisions to Ensure Right Level of Approval

Whilst significant improvements have been made to the grant revision process, a clear mechanism (system-based or manual) is yet to be established to track grant revisions made by Country Teams and to ensure their validity and an effective assessment of their impact. Currently, the Secretariat is only able to track Grant Revisions that require approval from the Grants Approval Committee or the Board, i.e. those involving additional funding requests and grant extensions. There are, however, a number of other revisions made to the grant during the implementation period, such as program or budget revisions, which are currently not tracked. As a result, the Secretariat is unable to determine if grant revisions made by the Country Team are valid and have obtained the right level of approval as defined in the policy. The limited nature of management information around grant revisions also prevents the Secretariat from analyzing the number, type and rationale behind grant revisions. Such analysis is important to assess the effectiveness of portfolio performance at a grant, country or Global Fund portfolio level and to apply lessons learned for future grants whilst still allowing Principal Recipients the flexibility to manage their programs.

The revised Operational Policy Note also contains a number of key controls for each type of revision, the documentation and required approval, which will need to be built into the Grant Operating System through Project AIM or performed manually to ensure consistency with the policy.

Secretariat actions in progress – From May 2017, GOS has been used to record grant revisions The revised policy is expected to be supported by a system that will generate key management information around grant revisions to ensure that they are valid and complete. In addition, the organization will benefit from understanding the reasons and common elements to a grant revision to make further improvements to the end-to-end grant management process. The OIG could not test the effectiveness of this process as no grant revisions were processed under the revised policy and Grant Operating System at the time of the audit.

Agreed Management Action

Refer to Agreed Management Action 1

4.5. Need for Formalized Processes to Monitor Grant Performance at a Global Fund Portfolio and Country Level

The current processes and oversight controls within the Secretariat are not sufficient to monitor grant performance at a Global Fund portfolio and country level. Historical data limitations for grant implementation activity and performance have limited the ability to monitor the performance of Global Fund grants at a consolidated level.

Whilst tools such as the regular Progress Updates do provide ongoing performance information to the country teams, robust performance analysis reports or dashboards are generally not used to analyze performance trends or to track emerging issues on a systematic basis. This limits the ability to routinely assess performance holistically, to evaluate the relationships between programmatic and financial performance, and to ensure alignment between risk management and performance drivers.

The lack of formalized processes to monitor grant performance on a systematic basis is partly due to significant limitations in current grant management data and systems. A key objective of the ongoing AIM project is to address these limitations and to enhance both the quality of data and the ability to aggregate and analyze information for decision-making.

Best practice

The Africa and Middle East and AELAC regional teams were the only two portfolios in Grant Management that systematically assessed country and grant performance on a monthly basis. However, the process is mostly manual. The team has developed internal tools and reporting templates to present country and grant performance. Performance issues are discussed, action plans are created and then followed up at the next regional team meeting. The monthly monitoring of grant performance serves as guidance to the Country Team on how to address challenges experienced with grants and countries and sets the tone for their monthly grant management activities.

Portfolio-level Oversight Controls Need Defining

There is currently no dedicated oversight body at the Secretariat responsible for monitoring the performance of the grant portfolio, the core business of the Global Fund. Structures and/or committees within the Secretariat such as the Executive Grant Management Committee and the Operational Risk Committee are not responsible for monitoring grant portfolio performance. Whilst the Management Executive Committee is the only structure with a mandate to monitor overall organizational performance, the broad nature of its mandate is such that it is unable to monitor grant performance at a portfolio or country level with sufficient granularity to be able to effectively address systemic performance issues.

The Management Executive Committee currently assesses organizational performance through the Global Fund Key Performance Indicator (KPI) Framework. The committee reviews the KPI results three times a year. Whilst action plans to address poor performing KPIs are discussed, process for systematic tracking and reporting on those action plans is not yet in place.

In the absence of a dedicated grant portfolio oversight body, with multi-disciplinary representation from all key areas of executive management (Grant Management, Finance, Risk, Legal, Strategic Investments and Impact divisions and departments), there is increased risk that monitoring of grant portfolio may be tactical and reactive to specific grant-level issues whilst potentially systemic and cross-cutting issues and trends may not always be proactively tackled.

Secretariat actions in progress – In 2016 already, the Secretariat recognized the current gaps in systematic and regular monitoring of grant performance. A number of processes exist in the organization but they operate in siloes, are limited by data quality issues and are not of a sufficient depth to actively address grant performance issues at a country and portfolio level. Initiatives to address these gaps form part of the Secretariat's Impact Through Partnership project.

This project is designed to enable the Global Fund to meet its strategic objectives, and specifically strategic objective 1: maximize the impact against HIV, TB and malaria. Implementation through

Partnership aims to ensure data is being used in country and internally to drive decision-making, action and improvement by:

1) improving the availability, timeliness, quality and use of data at all levels to support evidence based decision-making, address implementation and absorption bottlenecks and drive improvements in quality and outcomes; and

2) identify support internally and from partners to match country needs.

The intention is that a new committee responsible for conducting both country portfolio reviews and enterprise reviews will replace the current Operational Risk Committee. The new committee will conduct integrated reviews of risk and performance at a country level through country portfolio reviews and at a regional and global level through enterprise reviews. The intention is to host the first meetings before the end of 2017.

Agreed Management Action 2

As part of the Impact through Partnership Transformation project, the Secretariat will implement a Portfolio Review Committee that reviews portfolio wide performance on a regular basis. The Committee will also review individual grant performance for key disease components that are key drivers to the achievement of the organizations Key Performance Indicators.

Owner: Mark Edington

Due date: 31 December 2018

4.6. Differentiation of grant processes initiated but requires further improvements

The implementation of the Differentiation for Impact Project represents a significant step forward for the organization in the management of grants to achieve maximum impact. The Secretariat recognized the significant challenges associated with the old model, which lacked flexibility to tailor grant management processes to different country contexts. That historical model also allocated work effort almost equally across portfolios without necessarily adjusting for factors such as size of investments or level of disease burden. A number of reviews conducted over the years by the OIG and the Technical Evaluation Reference Group have highlighted that grant management processes and controls were not sufficiently differentiated and tailored. Processes and controls were largely the same for all Global Fund countries no matter the size of allocated funds, country context and the risks inherent in the country.The goal of Differentiation for Impact Project was to better prioritize and focus Global Fund resources to achieve maximum impact while managing risk globally.

This realignment is a continuous journey and, if implemented effectively, some of its benefits may take years to fully materialize. However, in the short tem and two years after its launch, it still remains unclear to what extent the immediate objectives of differentiating processes and optimizing resource allocations have been achieved. In general, up until now, the project has not yet achieved as radical a shift in resources and processes as initially envisaged.

Gaps in Change Management Activities to Support Implementation of the Differentiated Model

Key post implementation processes were designed to support and embed the differentiated model. However, many of these supporting processes were not implemented:

Change management and post implementation support to Country Teams – In its design, the project was meant to include post implementation support to Country Teams. This planned support included, for example, a dedicated team available to assist Country Teams on a day-to-day basis to answer questions, resolve challenges and issues in the transition to the new systems and revised processes. However, this support has been limited and not at the planned level, due to a number of conflicting priorities at the Secretariat. This has resulted in Country Teams struggling to adapt to the new processes and, in many cases, reverting to the old processes.

Post evaluation of the Differentiation for Impact Project and risk assessment - In its design, the Secretariat was supposed to evaluate the operational effectiveness of the differentiated model approximately six months (July 2017) after the implementation of the project. The purpose of the evaluation was to understand if the revised structures for Country Teams, processes and systems for grant management activities were working as intended and to make adjustments where necessary. In addition, the Secretariat would review the assigned risk profiles under the differentiated framework for Focused portfolios to confirm that there were no material changes and that the framework was fit for purpose. These evaluations have not yet occurred due to competing organizational priorities, and they are not scheduled in the current year. The delay in the evaluations may result in key gaps in processes and systems not being identified in a timely manner. In addition, key and emerging risks for Focused portfolios may be overlooked and the appropriate support to mitigate this risk may not available.

Grant Operating System - The differentiated model was implemented under the assumption that the new integrated grant management system would be fully functional and able to perform all necessary grant management activities. This would have reduced the administrative burden on the Country Team to perform daily grant management tasks and therefore would require less human resources. However, the project did not take into consideration the impact of the transition to a new system on the Country Teams as well as possible delays in the system implementation. For example, until the system is fully implemented, Country Teams have to use a mixture of the old and new systems for different grant management tasks. The implementation of the new Grant Operating

Systen is a significant undertaking for the organization and it is normal for a project of this size and complexity to encounter delays.

Limited Change to Grant Management Resources and Processes

Despite the objectives of the project to tailor processes for each portfolio, there has been limited change so far.

Grant Management Processes – Whilst the Secretariat has made significant efforts to amend grant management processes to the differentiated framework, the changes have been limited for the Focused portfolios despite a reduction in staffing. For example, the Annual Funding Decision Process remains the same. Processing an Annual Funding Decision still takes the same amount of time for a Focused Country Team as it does for a High Impact or Core Country Team. The same is applicable for the Progress Update. The scope of the Progress Update for a Focused country has not changed although it is now only required on an annual instead of a semi-annual basis. However, the Local Fund Agent now no longer verifies and analyses the results of the Progress Update for a Focused country. Therefore, the time gained by the Country Team to review the Progress Update semi-annually has been lost by the additional time needed to analyse the Progress Update in order to issue the Principal Recipient with a Performance Letter.

Country Team Resources –The Differentiation for Impact project was meant to align the staff resources allocated to the country teams with the size of each country's grant allocation, its disease burden and the strategic priorities of the organization. The project targeted to split the allocation of grant management resources at 42% for High Impact, 37% for Core and 21% for Focused portfolios. Following the implementation of the project, the grant management resources are currently split at 41% for High Impact, 35% for Core and 24% for Focused portfolios. Whilst this result was a significant achievement and very close to the initial target set by the project, the reallocation did not, however, consider several key factors that impact the actual level of effort required in the day-to-day grant management activities of Country Teams. For example, additional complexities such as number of grants, number and capacity of Principal Recipients in each portfolio, and the management of regional grants were not considered. In the case of regional grants, the OIG noted that 13 regional grants amounting to US$301 million (increasing to approximately US$450 million in the 2017 – 2019 allocation period) were added to the responsibility of eight High Impact country team portfolios. In one case, a single Fund Portfolio Manager and Country Team are responsible for six High Impact country grants amounting to US$442 million in addition to a Regional High Impact grant of US$116 million. As a result of these imbalances, whilst three high impact portfolios (Nigeria, DRC and India) received an increase in staff, the rest of the high impact country teams actually had an increase in portfolio responsibilities without a corresponding increase in resources. `

Agreed Management Action 3

The Secretariat will complete a post implementation review of the Differentiation for Impact Project and include a specific emphasis on the Focused portfolio.

Owner: Mark Edington

Due date: 31 December 2018

5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
1. In early September 2017 the Secretariat launched a Disbursement Module in the new Grant Operating System (GOS) to support the Annual Funding Decision process which introduced strengthened controls. This completed the GOS development for Phase I, which also included the Grant Revisions process and the Principal Recipient reporting process. The Secretariat will conduct a review of grant implementation processes and controls implemented in the GOS re-design from the Annual Funding Decision to Ongoing Grant Monitoring and Principal Recipient Reporting and Grant Revisions. Based on the above review outcomes, the Secretariat will update controls as appropriate during AIM Phase II, balancing the rigor of controls with workload considerations, risk and portfolio differentiation. The Secretariat will revise the relevant operational guidance to clearly articulate business requirements changes and develop business intelligence reports to regularly monitor operational performance and compliance.	31 December 2018	Mark Edington
2. As part of the Impact through Partnership Transformation project, the Secretariat will implement a Portfolio Review Committee that reviews portfolio wide performance on a regular basis. The Committee will also review individual grant performance for key disease components that are key drivers to the achievement of the organizations Key Performance Indicators.	31 December 2018	Mark Edington
3. The Secretariat will complete a post implementation review of the Differentiation for Impact Project and include a specific emphasis on the Focused portfolio.	31 December 2018	Mark Edington

Annex A: General Audit Rating Classification

Effective	**No issues or few minor issues noted**. Internal controls, governance and risk management processes are adequately designed, consistently well implemented, and effective to provide reasonable assurance that the objectives will be met.
Partially Effective	**Moderate issues noted**. Internal controls, governance and risk management practices are adequately designed, generally well implemented, but one or a limited number of issues were identified that may present a moderate risk to the achievement of the objectives.
Needs significant improvement	**One or few significant issues noted**. Internal controls, governance and risk management practices have some weaknesses in design or operating effectiveness such that, until they are addressed, there is not yet reasonable assurance that the objectives are likely to be met.
Ineffective	**Multiple significant and/or (a) material issue(s) noted.** Internal controls, governance and risk management processes are not adequately designed and/or are not generally effective. The nature of these issues is such that the achievement of objectives is seriously compromised**.**

Annex B: Methodology

The OIG audits in accordance with the global Institute of Internal Auditors' (IIA) definition of internal auditing, international standards for the professional practice of internal auditing (Standards) and code of ethics. These standards help ensure the quality and professionalism of the OIG work.

The principles and details of the OIG audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG auditors and the integrity of their work. The OIG Audit Manual contains detailed instructions for carrying out its audits, in line with the appropriate standards and expected quality.

The scope of OIG audits may be specific or broad, depending on the context, and covers risk management, governance and internal controls. Audits test and evaluate supervisory and control systems to determine whether risk is managed appropriately. Detailed testing takes place at the Global Fund as well as in country, and is used to provide specific assessments of the different areas of the organization activities. Other sources of evidence, such as the work of other auditors/assurance providers, are also used to support the conclusions.

OIG audits typically involve an examination of programs, operations, management systems and procedures of bodies and institutions that manage Global Fund funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources. They may include a review of inputs (financial, human, material, organizational or regulatory means needed for the implementation of the program), outputs (deliverables of the program), results (immediate effects of the program on beneficiaries) and impacts (long-term changes in society that are attributable to Global Fund support).

Audits cover a wide range of topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.

Annex C: Message from the Executive Director

The Office of the Inspector General (OIG)'s audit on *Monitoring Processes for Grant Implementation at the Global Fund* identified key control gaps in grant monitoring processes that were used during the past two years. However, the audit was conducted during a period when the Global Fund was implementing a comprehensive new platform called the Grant Operating System, with integrated data to support effective portfolio management. The audit acknowledges that the new platform was not within the scope of the audit. The grant monitoring processes that were the subject of the audit are no longer in use. The system improvements introduced by the Secretariat, including through the implementation of AIM, addresses many of the issues identified in the audit.

For instance, the audit identifies key control gaps in the Annual Funding Decision process. But the Grant Operating System now has an Annual Funding Decision module that was launched in September 2017 and is now fully operational, addressing the majority of those gaps. The module allows Global Fund staff to review the implementation progress of each grant, identify implementation issues, risks and corresponding mitigating measures, determine and commit funding to be disbursed on a pre-set disbursement schedule. Every grant funding decision and disbursement request is now processed through this system. Since mid-September, a total of 132 disbursements have been processed for a total of approximately US$180 million. At present, an additional 615 disbursements are in the pipeline for the remainder of 2017 and in 2018.

In addition, a Principal Recipient reporting module was launched in July 2016 with subsequent additions, supporting the generation of standard reporting forms based on differentiated profiles of the grants and pre-populates relevant sections in the Progress Updates/Disbursement Requests, Annual Financial Reports, Quarterly Cash Balance reports and Tax Reports. It also enables the review of progress for each grant, identifies implementation issues, risks and corresponding mitigating measures and supports an enhanced review and validation process. This results in simplifying and streamlining the preparation and review of these reports for Principal Recipients, Local Fund Agents and the Secretariat. Over 448 standard reporting forms have been issued.

The Grant Revisions module, launched May 2017, with enhancements in August 2017, enables the initiation, management and monitoring of revisions in line with the updated operational policy. It triggers the relevant review based on the type of revision. To date, 145 revisions have been initiated or processed through this module.

Building on all this work, the Secretariat will continue to review and update controls during the next phase of developing the Grant Operating System. We will revise relevant operational guidance to articulate business requirements changes. We will move forward with existing plans to establish a Portfolio Review Committee.

The improvements that we have achieved through the Grant Operating System represent a tremendous milestone in strengthening grant monitoring process. They are the result of an energetic and sustained effort by the Accelerated Integration Management (AIM) project that began in 2015 to review, re-design, and optimize the grant management processes and to deliver an integrated solution to support efficient portfolio management. AIM performed a comprehensive review and elaborated a blue-print for process and system changes that were self-identified, including for the key grant monitoring processes covered in this audit. Throughout 2016 and 2017, the AIM team worked extremely hard to streamline and automate the core grant management processes resulting in aligned processes, strengthened controls and enhanced efficiency. It is a credit to that team that monitoring processes for grant implementation are now in much stronger shape.

Respectfully,

Marijke Wijnroks