

AUDIT REPORT

# Audit of Grant Closure Processes

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GF-OIG-21-004  
16 March 2021  
Geneva, Switzerland

 **The Global Fund**  
Office of the Inspector General

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# 1. Executive Summary

## 1.1. Opinion

Grant Closure, the final stage of the grant lifecycle, involves an assessment of grant accomplishments, recovery of any unutilized cash balances and/or ineligible expenditures, and final accounting of assets.

The Secretariat has significantly improved its grant closure processes since 2016. A new policy and procedures clarify the requirements for closure, including Implementation Period reconciliation, and strengthen key controls. By recording grant closure steps, the Grant Operating System (GOS) has improved visibility, tracking, recording and archiving. Processes could however be further optimized. This includes assessing the content and risks of duplication in various financial and assurance reports when verifying final cash balances and expenditure, as well as clarifying the method of calculating cash balances in financial closure reports. Overall, despite these minor efficiency issues, the design of policies, procedures and systems was found to be **effective**.

As of December 2020, the Secretariat had fully closed 59% of the 507 grants which were past their grant closure date. Of those that remained open, 25% had pending recoveries or refunds, while the other 16% generally had administrative issues and therefore low entailing risks. In both cases, closure is dependent on Principal Recipients fulfilling outstanding requirements. While the average closure time has reduced from 1,326 to 500 days, only 20% of grants were closed within the required twelve months.

Reminders to Principal Recipients on pending closure deliverables need to be embedded in standard processes, and grant closure and recoveries processes need to be aligned in order to consistently track refunds/recoveries.

The Secretariat has made concerted progress in reconciling and, where possible, settling differences between reported cash balances and those calculated based on total grant disbursements and expenditures. However, where differences remain unreconcilable, they have not been explicitly identified in reports to the Board/Committees, and grants have not been closed. Closing cash balances need to be systematically deducted from funds available for disbursements in the next implementation period. The implementation of grant closure policy, procedures, systems, and governance is rated as **partially effective**.

## 1.2. Key Achievements and Good Practices

### **Improved Grant Closure operational policies, IT systems and tools**

In September 2018, the Secretariat implemented a new Operational Policy Note (OPN) and new Operational Procedures for Grant Closure and the Implementation Period (IP) Reconciliation process, adapted to the Global Fund's current funding model. Grant closure processes are now managed centrally within the Grant Operating System (GOS)<sup>1</sup>. Grant closure processes are now managed better, and there is improved visibility and tracking. Procedures have been automated in line with the new OPN and Operational Procedures.

### **Significant progress on closing long-outstanding grants**

In October 2018, the Secretariat established the Long Outstanding Closure (LOC) Initiative and helped Country Teams close 177 long-outstanding grants.<sup>2</sup> The Executive Grant Management Committee (EGMC) waived certain closure requirements for 27 grants through an exception memo, where Country Teams could demonstrate adequate efforts, and where spending extra effort to obtain outstanding reports, documents or cash refunds/recoveries was not considered value for money.

<sup>1</sup> The Grant Operating System (GOS) is the Global Fund's core platform to manage grants throughout their lifecycle (e.g. funding request to grant closure) including the entry and recording of electronic approvals on key grant life cycle controls.

<sup>2</sup> There were 350 long outstanding grants at the time. Of the remaining, 122 grants (71%) were left open only due to pending refunds or recoveries.

### **Strengthened controls, monitoring, and accountability**

The Secretariat has established and applied seven key financial controls to ensure that grant closure processes are effective. A closure module in GOS provides an audit trail and clearer visibility and tracking of deliverables and status. Allowable exceptions and approval processes have been defined in the operational policy. Closure targets have been defined and included in individual objectives for managers (Fund Portfolio Managers, Regional Managers and Department Heads), aligned with the agreed goals of the Performance and Accountability Framework (PAF) reporting. A grant closure dashboard now shares key information with the entire Secretariat, and is being enhanced further.

## **1.3. Key Issues and Risks**

### **Grant closure times could be further shortened through simplification and prioritization**

The average grant closure time after the implementation period end date, while significantly reduced from 1,326 to 500 days, remains high: only 20% of grants meet the operational policy requirement of 365 days. As of December 2020, 41% of 507 grants (412 for funding cycle 2014-2016 and 95 rounds-based)<sup>3</sup> past their closure date had not yet been closed. Of these, 25% have pending refunds/recoveries (posing medium risk) and 16% are pending administrative requirements (posing low risk<sup>4</sup>). Grant closure processes could be optimized and simplified. For example, grant final expenditures and cash balances are currently reported and verified through the external auditor's report, as well as via Local Fund Agent-verified Financial Closure Reports (FCR) and the expenditures reported in final progress updates (PU). The purpose and content of these reports could be simplified, and regular reports need to adhere to policy-defined timelines, to avoid blocking grant closure.

Guidance could be clarified to improve compliance. For example, 20 of 40 sampled grants suffered five-month delays in submitting FCRs, mainly due to ambiguity regarding FCR calculations. This was mainly due to the learning curve since FCR was introduced. As a result, there were multiple iterations and cash balance versions by Principal Recipients, Local Fund Agents and Country Teams. As self-identified by Grant Management and Finance, further aligning the grant closure and recovery processes would facilitate the consistent tracking of refunds, recoveries and negotiation updates, before closing grants.

### **Cash balance reconciliation process needs to be strengthened**

Secretariat calculations of outstanding cash balances on grants due for closure are materially accurate, however some differences could not be resolved due to limited information on opening cash balances from Global Fund legacy systems for certain grants. The Secretariat reported the uncommitted cash balance to the Audit and Finance Committee in 2018; however, reporting could be further improved to make explicit reference to the differences, and to close remaining open grants.

Deducting Principal Recipients' grant-end cash balances from their total disbursable funds for the next cycle has proved challenging. Finance data show that a total cash balance of approximately US\$4million was carried forward from the 5<sup>th</sup> to 6<sup>th</sup> grant cycle, but this was not deducted from total disbursable funds under the new cycle.<sup>5</sup>

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<sup>3</sup> Old Global Fund disease grants prior to New Funding Model (NFM1).

<sup>4</sup> Date source: GOS data – IT extract from December, 2020.

<sup>5</sup> Implementation period (IP) cash balances are used to determine what amount is transferred to the next Implementation Period for continuing Principal Recipients. These balances are to be deducted from the Purchase Order for the new grant, which caps the total funds available that can be disbursed under the new cycle. These calculations are then used for disbursing funds periodically.

#### 1.4. Objectives, Ratings and Scope

Objective	Rating	Scope
The adequacy of grant closure operational policy, procedures, systems and governance to ensure grants are closed on time, in compliance with existing operational policy.	<b>Effective</b>	<b>Audit period:</b> Grants from the funding cycle 2015-2017 (NFM 1) due for closure, as well as the long-outstanding grants before funding cycle 2015-2017.
The effectiveness of the grant closure operational policy, procedure, systems and governance to ensure that grants are closed on time, in compliance with existing operational policy.	<b>Partially effective</b>	

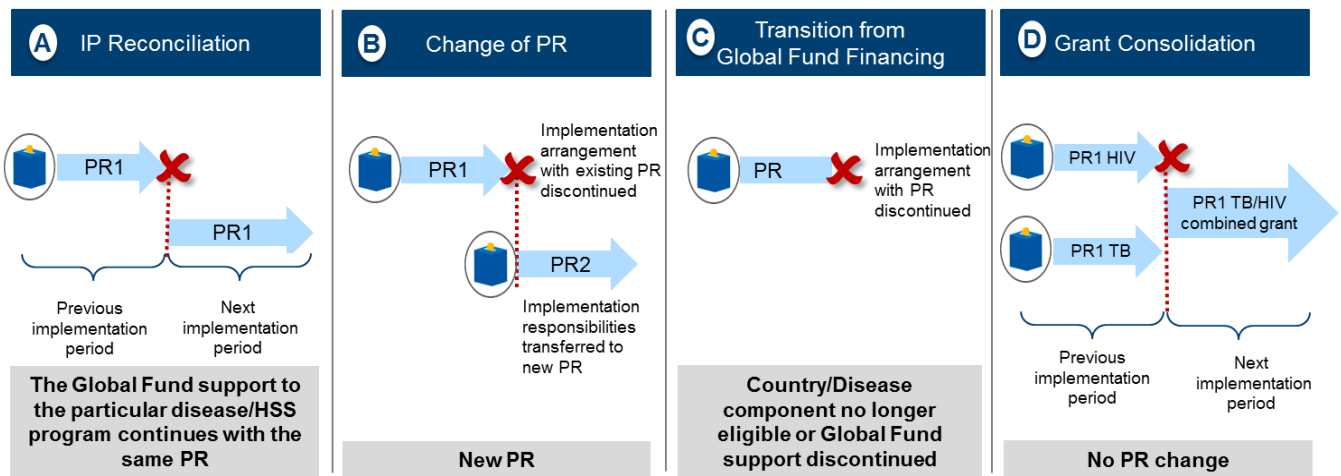
## 2. Background and Context

### 2.1. Grant Closure Processes

A [2016 OIG audit](#) of Global Fund grant closure processes identified the following key challenges:

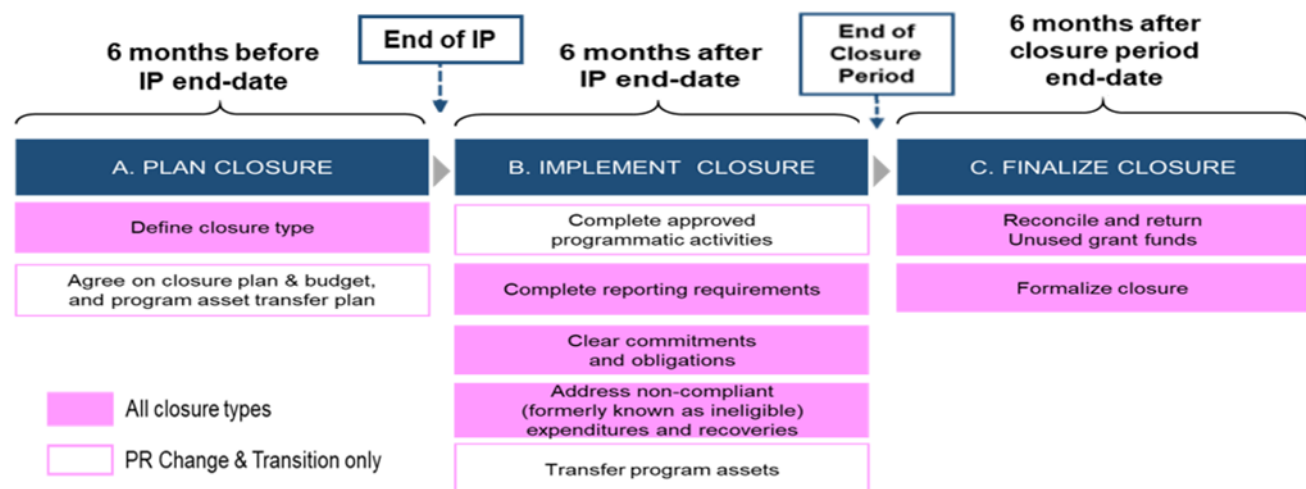
- Grant closures and related refunds not monitored or tracked systematically across the whole portfolio.
- Secretariat financial reporting requirements for implementers needed to include grant-end cash balance reporting and outstanding recoveries, and comply with grant closure requirements.
- The Secretariat had weak controls over use of Global Fund-financed assets, increasing the risk of misuse, misappropriation and embezzlement. There were no materiality thresholds for reporting on remaining assets while closing grants.

The Secretariat’s revised Operational Policy Note differentiates an Implementation Period (IP) reconciliation (Figure A in image below) from a grant closure process. It defines three different types of grant closure: Change of Principal Recipient (Figure B), Transition out of Global Fund financing (Figure C), Consolidation (Figure D)<sup>6</sup>.



### 2.2. Grant Closure Activities<sup>7</sup>

Grant closure stages and steps, which are set out below, vary depending on the type of closure.



<sup>6</sup> The Global Fund Secretariat Operational Procedures on "Implementation Period Reconciliation and Grant Closure", page 1

<sup>7</sup> The Global Fund Operational Policy Note: "Implementation Period Reconciliation and Grant Closure", Page 2

The new Operational Policy Note and accompanying training modules define specific timelines for IP reconciliation and closure, and the accountable stakeholders. The grant closure process should be completed 12 months after the IP end date. The required documentation can be tracked through GOS.<sup>8</sup>

## Required closure documentation

	CLOSURE PLAN   BUDGET	PROGRAM ASSET REGISTER & TRANSFER PLAN	LAST PU   TAX REPORT OF IP / GRANT	FINAL AUDIT REPORT	EVIDENCE OF ASSET TRANSFER	FINANCIAL CLOSURE REPORT	NOTIF. LETTER
	1	2	3	4	5	6	
TEMPLATE	No   Yes	No	Yes	No	No	Yes	Yes
IP RECONCILIATION		*	✓	✓	*	✓	
CONSOLIDATION		*	✓	✓	*	✓	✓
PR CHANGE	✓ ✓	✓	✓	✓	✓	✓	✓
TRANSITION	✓ ✓	✓	✓	✓	✓	✓	✓
INDICATIVE DEADLINES	3 mos before grant end date	3 mos before grant end date	60 days after grant/IP end date   31 July	3 mos after grant/IP end date	As soon as transfer is made, no later than by closure period end date	7.5 mos after IP end date or 45 days after end of closure period	After Financially closed

- ✓ GOS-generated template, **imported** back into GOS
- ✓ Offline document, to be **attached** in GOS

\* Program Asset Register and Transfer Plan are submitted at time of grant-making of the next implementation period

<sup>8</sup> Grant Closure trainings: [https://tgf.sharepoint.com/:p:/r/sites/inside/\\_layouts/15/Doc.aspx?sourcedoc=%7B35084A34-B074-4730-8DFA-FB4FAA7D9216%7D&file=GM\\_Closures\\_Training\\_en.pptx&action=edit&mobileredirect=true&cid=3a445bef-7364-4ac7-9580-2449b437a850](https://tgf.sharepoint.com/:p:/r/sites/inside/_layouts/15/Doc.aspx?sourcedoc=%7B35084A34-B074-4730-8DFA-FB4FAA7D9216%7D&file=GM_Closures_Training_en.pptx&action=edit&mobileredirect=true&cid=3a445bef-7364-4ac7-9580-2449b437a850)

## 3. Findings

### 3.1 Grant closure times could be reduced through simplification and prioritization

The Secretariat has revised and improved grant closure policies and procedures, improving visibility, tracking, and accountability. However, 41% of grant closures are overdue (16% are pending administrative requirements entailing lower risks), and grant closure processing times could be further improved. While there are low risks that outstanding cash balances in overdue grants are misused, the delays entail administrative and reporting burden for management and staff.

The OIG noted significant progress made by the Secretariat on grant closure, compared to the 2016 audit:

**A revised Operational Policy Note (OPN) and new Operational Procedures** on Grant Closure are aligned to the current Global Fund funding model. They differentiate between cases of Principal Recipients changing or ending, as opposed to PRs continuing beyond the implementation period/cycle, simplifying closure requirements and facilitating a more efficient process.

**Grant Operating System (GOS).** The new grant closure module in GOS is aligned with the Closure OPN and Procedures. It follows the structure of the OPN requirements, providing better visibility of requirements, respective due dates for submissions, and actual submissions by PRs/Local Fund Agents. The system provides an audit trail of each process, including the date of action taken, the responsible owner for the approval process, and supporting documentation. GOS documents the required processes and archives the required documents.

**Financial Closure Report (FCR).** This is a new requirement for PRs to report on final expenditures, confirmation on commitments and obligations, and supporting reconciliation of final grant cash balances.

**A Grant Closure Dashboard** has been created, displaying critical information on grant closures to all Secretariat staff. At the time of the audit, the dashboard was undergoing updates and enhancements.

**Monitoring and reporting.** The Grant Management Division's Operational Efficiency Team monitors grant closure processes and status, in collaboration with the Finance Department. Senior management in Grant Management, Risk and Finance receive monthly status reports on closures and material cases with exceptional delays based on defined thresholds (but without a summary of overall trends in pending closures and refunds and materiality of outstanding recoveries/refunds involved).

**A Long Outstanding Closure (LOC) Initiative** was launched in August 2018 to close outstanding round-based and NFM 1 grants. The EGMC accorded waivers of various requirements for 27 grants where Country Teams could demonstrate rigorous follow-up with the countries, and where additional efforts were not deemed productive, and/or the outstanding requirements were not material.

The above has contributed to closing 51% of the grants due for closure, while improving the average time taken for closure, from 1326 to 500 days for the NFM 1 grants.<sup>9</sup>

However, many grants closures remain pending. While the risk of misuse of outstanding cash balances is reasonably low, these outstanding grants increase reporting, monitoring and follow-up responsibilities for countries, Country Teams and Secretariat management. This increases staff workload, lowers process efficiency and takes up management time. The following improvements on timely actions and follow-up with Principal Recipients (PRs) could further enhance process efficiencies and results:

**Learning curve and timely deliverables.** Half (20 of 40) of grants sampled had over five-month delays in FCR submission, delaying the reconciliation of outstanding cash balances and grant closure. Reasons for this included a low understanding of FCR calculations due to first-time implementation, resulting in multiple iterations and versions by PRs, LFAs, and Country Teams. The OPN requires PRs to be informed on closure processes six months

<sup>9</sup> Round-based grants: average closure time ranged from 379 to 3030 days, and for NFM1 grants, it ranged from 169 to 987 days.



before the end of the IP period, and recoveries to be resolved within six to 12 months of the closure period; however, for sampled grants, none of these timelines were met.

**Optimizing deliverables, and clarifying content and purpose.** The grant closure process requires submission of all closure documents and completion of regular reporting responsibilities, including a final audit report, financial closure report, last progress update including expenditures, and final tax report. Many of these documents validate cash balances, total grant expenditure and other items, sometimes with different cut-off dates. Clarifying the content and purpose of each report, timely completion of regular reporting steps as per defined policy timelines, and minimizing the duplication of information, would contribute to faster submissions and closures. For example, audit reports, a regular assurance requirement to be completed prior to grant closure, were pending deliverables for 91 grants, preventing them from being closed.

**Enhancing information reported to senior management.** While management receives frequent reports following defined thresholds, these could have enhanced focus on overall trend summaries and the materiality of amounts involved, to aid decision making, e.g. total number of outstanding grants due for closure, outstanding grants with material outstanding cash to be refunded.

**Integrating systems and tools:** Two-thirds (135/204) of open grants past their grant closure date involve recoveries or refunds. Currently, recoveries and related negotiations need to be manually tracked and updated in GOS and GFS modules, rather than Purchase Orders being automatically updated<sup>10</sup>. This entails extra work of reconciling Purchase Orders and tracking recoveries and negotiation updates before closing grants, increasing the risk of manual error. Recovery and closure modules in GOS are not integrated, and the recovery module has to be manually updated once a recovery has been concluded. As self-identified by Grant Management and Finance, further aligning grant closure and recovery processes would facilitate the consistent tracking of refunds, recoveries and negotiation updates, before closing grants.

**Regular follow-up on grant closures:** GOS does not currently send reminders/guidance to PRs on IP reconciliation and closure submissions upon grant end date. A [2020 OIG audit](#) identified gaps in essential documentation (such as demand letters) confirming refunds/deductions of final cash balances in GOS. Regular reminders to Principal Recipients on pending closure deliverables need to be embedded in standard processes.

Agreed Management Action 1:

The Secretariat will undertake a review of the following areas of grant closure process and results to identify avenues for greater efficiency, timeliness and quality closure completion:

- content and purpose of closure requirements,
- further alignment with the recoveries process,
- regular CT reminders to PRs on pending closure deliverables,
- reporting to senior management on overall trends and material refunds,
- updates to guidance and training materials, as necessary.

OWNER: Head Grant Management Division

DUE DATE: 31 December 2021

<sup>10</sup>. Purchase Orders determine total funds available for disbursement under a grant. In case of refund or recovery into a grant, these amounts are deducted from the remaining disburseable amount under the grant.

## 3.2 Irreconcilable cash balances are hampering grant closures

The Secretariat has striven to reconcile outstanding cash balances with total disbursements and reported expenditures for the entire portfolio. Remaining unreconcilable differences are mainly due to limited information on opening cash balances from the Global Fund legacy systems. Final cash balances of previous periods need to be systematically deducted from initial purchase orders of new implementation periods, minimizing risks of excess cash available in-country.

Grant-end cash balance calculations are essential to determining how much cash a Principal Recipient should refund to the Secretariat (if it is discontinuing) or transfer to the next grant (if it is a continuing grant). For the NFM2 grant cycle, the Secretariat made efforts to reconcile outstanding cash balances as reported in Financial Closure Reports against total grant funds<sup>11</sup>. The OIG found the Secretariat's calculations to be materially correct.

The Secretariat did, however, identify grants where closing cash balances could not be reconciled with total grant funds and expenditures, due to Global Fund legacy systems having limited information about opening cash balances. The OIG confirmed this issue: of 23 sampled grants, three<sup>12</sup> showed a material difference between grant funds, reported expenditures and the FCR cash balance.

While the Secretariat reported the uncommitted cash balance to the Audit & Finance Committee in 2018, reporting could be further improved by making explicit reference to the differences, to ensure the Committee fully understands and accepts the risks. Three grants in OIG sample remain open; since the remaining differences cannot be further reconciled, a solution is needed to writing off and closing them.

For continuing Principal Recipients, the Finance Department did not deduct an estimated US\$4m<sup>13</sup> of in-country closing cash balances from total disbursements (Purchase Orders) for the next grant cycle. Where disbursements have been executed without subsequent adjustments, there are risks of excess cash in country, which is inefficient and risks misuse.

### Agreed Management Action 2:

#### The Secretariat will:

- identify the NFM1 grants where the cash balance has to be determined based on FCR validation, and conclude on process for refund or transfer to the subsequent implementation period;
- enhance the current monitoring across Finance and Grant Management Division, to ensure that cash balances from previous Implementation Periods, are deducted from grant purchase orders (funds available) for next period.

OWNER: Chief Financial Officer

DUE DATE: 31 December 2021

<sup>11</sup> Opening grant cash balance plus total grant disbursements minus total reported expenditures and ineligible/recoverable amounts.

<sup>12</sup> GHA-M-MOH (+US\$8.2m), GHA-H-MOH (-US\$11.5M), GHA-T-MOH (+US\$1.9M).

<sup>13</sup> MMM File from Finance: For the total 286 NFM1 grants under closure process, there was an estimated US\$335m of in-country uncommitted funds (ending cash balance). Out of this, the initial PO was not adjusted for 86 grants, with total expected cash balance of US\$45.8m.

## Annex A: Audit rating classification and methodology

<b>Effective</b>	<b>No issues or few minor issues noted.</b> 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.
<b>Partially Effective</b>	<b>Moderate issues noted.</b> 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.
<b>Needs significant improvement</b>	<b>One or few significant issues noted.</b> 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.
<b>Ineffective</b>	<b>Multiple significant and/or (a) material issue(s) noted.</b> 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.

OIG audits are in accordance with the Global Institute of Internal Auditors' definition of internal auditing, international standards for the professional practice of internal auditing and code of ethics. These standards help ensure the quality and professionalism of the OIG's work. The principles and details of the OIG's audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help safeguard the independence of the OIG's auditors and the integrity of its work.

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 is used to provide specific assessments of these different areas. 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.