



THE OFFICE OF THE INSPECTOR GENERAL

The Global Fund to Fight AIDS, Tuberculosis and Malaria

**Report on Lessons Learned from the Office of the Inspector  
General's Country Audits**

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## ACRONYMS

ACT	Artemisinin-based Combination Therapy
ART	Anti-Retroviral Treatment
ASP	Additional Safeguard Policy
ARV	Anti-Retroviral
CCM	Country Coordinating Mechanism
CP	Conditions Precedent
CPI	Consumer Price Index
CTA	Country Team Approach
DOTS	Directly Observed Treatment, Short course
DQA	Data Quality Audits
DRC	Democratic Republic of Congo
EECA	Eastern Europe and Central Asia
EFR	Enhanced Financial Reporting
FPM	Fund Portfolio Managers
GF	Global Fund
HIV	Human immunodeficiency virus
HR	Human Resources
HSS	Health System Strengthening
IGA	Income Generating Activities
KPI	Key Performance Indicators
LAC	Latin America and Caribbean
LFA	Local Fund Agent
M&E	Monitoring and Evaluation
MDR	Multi-Drug Resistant
MENA	Middle East and North Africa
MESS	Monitoring and Evaluation System Strengthening
MOH	Ministry of Health
NGO	Non-Governmental Organization
OAI	Office of Audit and Investigations (UNDP)
OI	Opportunistic Infection
OIG	Office of the Inspector General
OSDV	On-Site Data Verification
OVC	Orphans and Vulnerable Children
PHPM	Public Health Policy and Management
PMAS	Pharmaceutical Management Advisory Services
PMU	Pharmaceutical Management Unit
PQR	Price and Quality Reporting
PR	Principal Recipient
PSI	Population Services International
PSM	Procurement and Supply Management
PUDR	Progress Update and Disbursement Request
PLWHA	People Living With HIV and AIDS
RCC	Rolling Continuation Channel
SR	Sub-Recipient
SSR	Sub Sub-Recipient
TA	Technical Assistance

## Lessons learned from the OIG's country audits: 2010

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TB	Tuberculosis
TDF	Tropical Disease Foundation
TI	Transparency International
TPPA	Third Party procurement agents
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
WHO	World Health Organization

### EXECUTIVE SUMMARY

1. Following on from its first Lessons Learned report in 2009, the OIG has carried out a review of the lessons learned from seven country audits using strategically relevant criteria which point to actions that might be considered as part of the “reform agenda” to help move towards a more efficient and effective Global Fund.
2. The criteria have been crafted into a number of questions namely:
  - i. What is the environment within which programs are implemented?
  - ii. How have program funds been spent and what are the risks associated with the areas where funds are spent?
  - iii. Are the results achieved commensurate with the expenditure incurred?
  - iv. What impacts the effectiveness of grant programs?
  - v. Can recipients manage the funds effectively?
  - vi. Was the control environment adequate to safeguard grant resources?
  - vii. How effective have the oversight arrangements been?
  - viii. Have past audit recommendations been implemented?

#### **What is the environment within which programs are implemented?**

3. Having an appreciation of the environment not only creates an understanding of the risks that may impact the grants but helps identify strategies that will enable the program to meet its objectives. The environment is characterized by high disease burden, high poverty rankings, poor infrastructure, high corruption ranking, implementation bottlenecks and by low capacity i.e. structures, systems, personnel, tools, policies etc.

#### **What are the risks associated with the areas where funds are spent?**

4. The risks identified across the seven country audits by type of expenditure were:
  - i. Procurement and Supply chain management related costs where there had been inadequate forecasting resulting in expiries and stock outs; deficient procurement processes resulting in procurement delays; logistics management challenges with leakage from the distribution chain; and limited compliance with the Global Fund quality assurance policies which raised the risk of counterfeit/substandard pharmaceutical products.
  - ii. High planning and administration costs where PRs charged varying management fee rates which could not be justified, lack of transparency on how these fees were spent and questionable bases for allocating common costs.

- iii. High human resource costs with risks related to reasonableness of staff numbers, allowance types and amounts and per diem and top up allowance related risks.
- iv. Training and technical assistance where these two interventions could not be easily linked to the overarching goal of capacity building and fraud related risk in training.
- v. Within the 'other' category, the OIG focussed on the support offered to targeted populations such as orphans and vulnerable children which by its nature was highly susceptible to fraud especially with regard to (a) identifying beneficiaries; (b) ensuring that the benefits reach beneficiaries; and (c) controls over the products that are purchased and their equitable distribution.

### **Are the results achieved commensurate with the expenditure incurred?**

5. Looking back to 2002 when the Global Fund was created, it goes without saying that the Global Fund supported programs have contributed to a massive scale up of interventions at a country level and internationally. All the countries audited showed evidence that the Global Fund support has made a difference in the fight against the three diseases. However concerns still emerged about the appropriateness of indicators and targets, and the robustness of the systems to collect data and data quality.

### **What impacts the effectiveness of grant programs?**

6. The Paris declaration is at the heart of defining criteria for making aid more effective. The Global Fund's commitment to the declaration is evident from its key performance indicators and its operations manual which guides staff on how the declaration can be operationalized. However the country audits highlighted some adherence issues related to two of the five Paris principles i.e. alignment given the extent of parallel or vertical systems, in all but one of the seven countries; and to a lesser extent given concerns around the principle of harmonization.

7. Other areas that affected grant effectiveness were (a) lack of absorptive capacity especially as the number and size of grants grew and capacity building interventions were of questionable effectiveness; (b) failure to apply the principle of additionality given that in some countries there was a growing reliance on the Global Fund as the primary funder of the three diseases; and (c) strengthening the engagement of civil society at a country level so it continues to be an effective partner in the fight.

### **Can recipients manage the funds effectively?**

8. The primary concern lies with whether the recipients have the capacity as assessed by the LFAs to manage program funds. The country audits have thrown

up concerns about capacity which are not in line with the generally positive capacity assessments LFAs have provided. The arrangements where multilateral organizations or international non-governmental organization were nominated as PR due to the failure to identify a national entity with appropriate capacity were meant to be temporary. However there were no established mechanisms at the outset to ensure that the relevant PRs built the requisite capacity of national entities to take over the role of PR. Sub recipient management also remains a challenge with shortcomings noted in the selection, management and monitoring of SRs.

### **Was the control environment adequate to safeguard grant resources?**

9. All the PRs reviewed needed to strengthen management control. The extent to which PRs were aware and were putting in place measures to address the shortcomings varied. The shortcomings noted generally arose from the failure of the processes put in place to ensure:
- i. The economical, efficient, and effective achievement of the program's objectives;
  - ii. Adherence to grant agreements, country laws and organisation policies;
  - iii. The safeguarding of assets and information;
  - iv. The prevention and detection of fraud and error; and
  - v. The quality of accounting records and the timely production of reliable financial and management information.

### **How effective have the oversight arrangements been?**

10. The Global Fund model makes provision for formal oversight by the Secretariat and by country level providers. However the OIG country audits showed that the effectiveness of these arrangements can be strengthened by:
- i. Ensuring that PR oversight structures are operational and their agendas include a review of program activities and results;
  - ii. Operationalizing CCM oversight functions;
  - iii. Ensuring compliance with the Global Fund audit arrangements;
  - iv. Requiring LFA's to provide better assurance to the Global Fund on program performance; and
  - v. Addressing constraints to the Secretariat's oversight function e.g. constraints arising from the model and inadequate implementation of its policies.

### **What next?**

11. This report comes at a time when the Global Fund is considering what action is needed to make the Global Fund more efficient and effective. What follows are a set of over-arching issues which would be a good basis for consideration as part of the 'reform agenda'. These have been taken into



account by the Comprehensive Board Working Group and the Secretariat as they identify the 'reforms' needed. Some are already the subject of initiatives being taken by the Secretariat. The OIG would suggest that the Secretariat provide a status report on the actions taken in response to the issues raised at the end of September 2011.

12. Strategically, the Global Fund need to consider:
  - i. The relevance of the model as it was developed given the environment that the Global Fund is operating in. The Global Fund needs to consider whether it should retain or redefine its principles of being just a financial institution, reliance on national ownership, additionality etc. If the model is to stay as it is, then consideration should be given to identifying how best to mitigate the risks that emanate from the model. This would include consideration of the need for more directive and proactive engagement in grant management at country level and in questioning the continued absence of country presence;
  - ii. Embracing risk management and making it part and parcel of the grant making process; and
  - iii. Revisiting the appropriateness of its KPIs in light of the need for increased consideration for quality of products, service delivery and value for money.
  
13. Operationally, the Global Fund should consider:
  - i. Establishing minimum acceptable capacity standards, assess PRs rigorously and hold them accountable when things go wrong;
  - ii. Enforcing its policies and guidelines that have not been implemented at country level starting with the grant agreement and instituting mechanisms to monitor compliance by recipients e.g. in areas like quality assurance, staff salary rates and types, budgeting;
  - iii. Establishing or clarifying policies that are not in place to address the risks related to the common high risk areas e.g. management fees;
  - iv. Introducing in the performance frameworks indicators related to the qualitative aspects of the grants e.g. evaluations and value for money;
  - v. Operationalizing reward mechanisms and punitive action to the grant making process especially in line with Performance Based Funding;
  - vi. Establishing an accountability framework that clarifies roles, responsibilities, authorities and accountabilities of various stakeholders within the Global Fund model;
  - vii. Incorporating transition clauses with set deadlines when parallel systems are established: and
  - viii. Optimizing the available data validation processes in place to further enhance data quality.

14. The Global Fund has various policies and initiatives in place to address many of the issues identified. As the Board and the Secretariat take forward their reform agenda, consideration should be given to emphasizing the following:

- i. Strengthening the procurement processes so they always secure value for money. This may need the LFA to monitor high risk transactions;
- ii. Minimizing the loss of products by strengthening the logistics management chain;
- iii. Ensuring the safety of patients from counterfeit and/or sub-standard drugs by enforcing the requirement to test pharmaceuticals throughout the supply chain;
- iv. Improving accountability by enforcing the requirement that proper books of account are maintained and all transactions adequately supported, the failure of which would result in a refund;
- v. Strengthening controls over expenditure by ensuring that budgeting guidelines are consistently applied across the Secretariat and that the LFA undertakes a more thorough review against budgets;
- vi. Regulating the cost areas that are most prone to abuse by requiring full disclosure of these activities in reports and requiring that verification of activities is undertaken e.g. salary rates and types, management fees, training, per diem payments, travel etc.;
- vii. Establishing the real needs before acquiring further assets;
- viii. Developing measures to establish additionality and monitor it across all countries;
- ix. Providing guidance on the types of environments where the sale of products would be appropriate;
- x. Instituting capacity building programs and processes for transitioning programs to national systems; and
- xi. Encouraging programs to undertake evaluations etc.

15. There is scope to strengthen oversight by:

- i. Considering how CCMs can be made effective in their current form i.e. taking into consideration that they are not accountable to anyone, often have conflicts of interest, and have not devoted adequate effort to oversight.
- ii. Addressing appropriateness of LFA terms of reference and matching the skill set with the terms of reference. LFA performance should be assessed more stringently so that they are held accountable for significant problems identified in grant management;
- iii. Revisiting the audit arrangements followed by the recipients to ensure that they provide adequate assurance on grant implementation;
- iv. Strengthening collaboration with its in country partners; and

- v. Strengthening the Secretariat oversight through, among other things, computerizing the grant making process, incorporating risk management in its business processes etc.

### Management response

16. The Secretariat's response was as follows *"We've read through the document, and in general found it to be a very useful report, and a valuable input into the continued development of our reform agenda work plan.*

*We're encouraged by the fact that the majority of the recommendations in your report are ideas that we're either already implementing, or have on our work plan for implementation over the coming months.*

*Some recommendations - particularly those related to minimum standards and requirements on financial management skills and systems - we need to look at in greater detail, in order to assess which might be possible and desirable to impose now, and which would require capacity building of our PRs as an intermediate step for our lower capacity implementing countries.*

*There are also recommendations of a more "strategic" nature, which encourage for example rethinking the business model and the role of CCMs, LFAs, etc. These will undoubtedly be useful inputs in strategy discussions, where more fundamental shifts in the Global Fund's business model are being considered.*

*Overall, we appreciate the thoughtfulness of the OIG's Lessons Learned Report, and we are fully committed to taking the issues raised into account as we move forward with our reform agenda."*

### BACKGROUND

#### Overview

17. The Office of the Inspector General (OIG) provides the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks affecting the Global Fund's programs and operations. One of the ways it does so has been through country audits that seek to:

- i. Assess efficiency and effectiveness in the management and operation of grants;
- ii. Measure the soundness of systems, policies and procedures used in safeguarding Global Fund resources; and
- iii. Identify risks the Global Fund supported programs may be exposed to and recommend measures to mitigate them.

18. While necessary to ensure effective financial control, sound stewardship and accountability, the value of the OIG audit to the Global Fund cannot be fully realized without appropriate actions, particularly on the part of the Secretariat and those responsible for governing operations at both corporate and program level. Therefore, in this report, the OIG sets out the lessons learned and the scope for improvement that should be considered by the Global Fund in the light of its audit findings.

19. Following on from its first Lessons Learned report in 2009, the OIG has carried out a review of the audit findings elaborated in its country reports for 2010 to enable the Board and the Secretariat to benefit from the lessons learned, and to facilitate improved management for the future.

#### Objectives of the review

20. The purpose of this review was to synthesize and identify common shortcomings arising from the country audits; and to identify lessons learned that may further strengthen oversight and controls at the Secretariat and PR level. The objectives of the review were to draw on findings in order to:

- i. Identify opportunities for improvement arising from common country audit findings;
- ii. Identify ways in which shortcomings can be addressed at Secretariat and country level, so they do not recur in other countries; and
- iii. Review the status of implementation of audit recommendations of country audits carried out prior to 2010.

### Scope

21. The review covered seven country audits/reports namely Cambodia, Cameroon, the Democratic Republic of Congo, Haiti, Nepal, Philippines and Zambia. The review is based on an analysis of published OIG reports.

### The report

22. This report will not repeat the findings of the audit reports that form the basis of this report. These respective country audit reports are available on the Global Fund website. The OIG cautions that the issues covered in this report relate to the findings arising from the seven countries and were not necessarily present in other countries not covered in this report. That said, many of the issues also arose in previous and more recent audits undertaken by the OIG.

23. Individual areas for improvement, and therefore lessons to be learned, may always arise at grant or country level. However, in order to make an effective contribution to accountability and facilitate improvement for the future, this report focuses on common shortcomings which are characterized not just by their frequency or incidence but by their effect and impact. This report, therefore, deals with key shortcomings in program implementation which involve or give rise to:

- i. An adverse effect on grant performance (because of the Global Fund's emphasis on recipients' accountability for the achievement of targets);
- ii. An adverse effect on value for money (because resources are precious and limited); or
- iii. A lack of compliance (with grant conditions or requirements), where performance is compromised or in doubt.

24. These findings have been analyzed to identify lessons learned for wider application, from the perspective of strategically relevant criteria. The criteria has been crafted into a number of questions namely:

- i. What is the environment within which programs are implemented?
- ii. How have program funds been spent?
- iii. What are the risks associated with the areas where funds are spent?
- iv. Are the results achieved commensurate with the expenditure incurred?
- v. What impacts the effectiveness of grant programs?
- vi. Can recipients manage the funds effectively?
- vii. How effective have the oversight arrangements been?
- viii. Have past audit recommendations been implemented?
- ix. What next?

**WHAT IS THE ENVIRONMENT WITHIN WHICH PROGRAMS ARE IMPLEMENTED?**

25. Understanding the environment within which the Global Fund operates is important because it is the driver to the strategies that will work and not work. Some common cross cutting characteristics of the countries covered in this review were:

- i. The countries had high disease burdens in at least one of the three diseases. The high disease burden was further complicated by drug resistant disease traits in some countries e.g. malaria in Cambodia and TB in Philippines.
- ii. The countries had high poverty rankings and had a high dependence on external resources to provide services.
- iii. Low capacity at all levels in terms of structures, systems, personnel, tools, policies etc. This affected program absorptive capacity at various levels.
- iv. Infrastructure challenges in countries like Zambia, Haiti, DRC and Nepal. In other countries, there were regions that were considered 'hard to reach' and staff had to receive incentives to work there e.g. Zambia and Philippines.
- v. Some of these countries were not politically stable and the insecurity affected the delivery of programs e.g. in DRC and Nepal.
- vi. Most of the Global Fund's grants were to countries in the bottom quartile of the CPI ranking by Transparency International (TI) which had implications for the fraud risk. The founder of TI, Mr. Peter Eigen, stated that "*Additional aid resources are needed, but their delivery has to be structured in a way that takes account of the risk of corruption.*"
- vii. The grants are provided in a resource constrained environment. Donors are also calling for better accountability of funds.

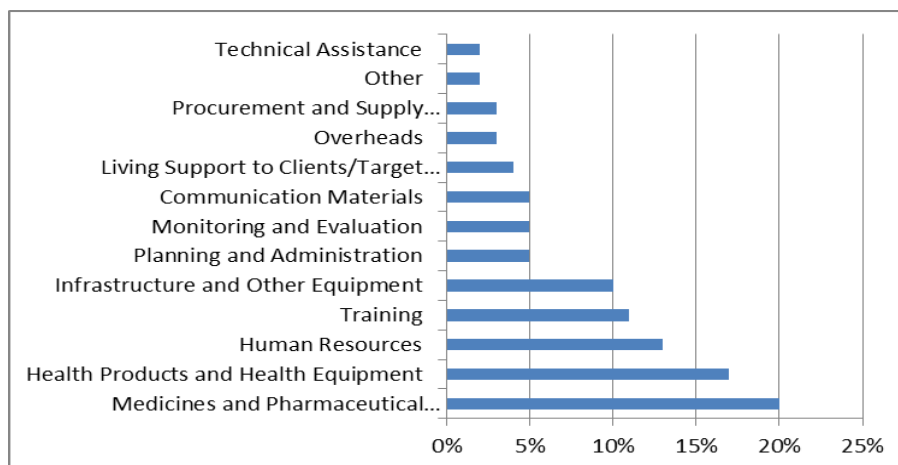
26. Having an appreciation of the environment above not only creates an understanding of the risks that may impact the grants but also help to identify strategies that will enable the program to meet its objectives.

## HOW ARE THE FUNDS SPENT AND WHAT ARE THE RISKS ASSOCIATED WITH THE AREAS WHERE FUNDS ARE SPENT?

### How have program funds been spent?

27. The OIG reviewed the consolidated 2009 Enhanced Financial Reporting (EFR) results to understand where program funds had been spent. This is a good place to start in identifying what are the risks associated with the areas where funds are spent. The data is used with the realization that there are concerns on EFR data accuracy, classifications and completeness. However, it provides some good information for trend analysis.

28. Based on the 2009 EFR data, program funds are spent as illustrated in the chart below:



Source: EFR 2009 cumulated costs

### Procurement and supply chain management

29. A significant portion of grant funds is spent on PSM related activities. The Five Year evaluation identified PSM as one of the weak links to program implementation. Challenges in PSM are not unique to the Global Fund but have been characteristic of development aid for many years. The World Bank has ranked PSM as one of the areas most prone to corruption. PSM systems that are beset by corruption are particularly destructive since they promote excessive public investment without the country deriving much benefit from the investments.

### Inadequate forecasting and quantification

30. Appropriate and accurate forecasting of need for drugs and other health products is important for cost effective and successful program delivery. Forecasting and quantification of drugs was identified in the last Lessons

Learned report as a challenge and is also picked up as a challenge in all the seven countries reviewed.

31. The challenges noted related to the lack of a consistent and robust methodology for the quantification of need. This contributed to the drug stock outs and/or expiry of drugs noted across all the countries and excessive ordering facilitated theft in some countries.

### Deficient procurement processes

32. As was highlighted in the last Lessons Learned report, the seven countries faced procurement delays which affected the timely implementation of programs and sometimes put the lives of patients on treatment at risk. These delays sometimes resulted in emergency procurements at prices that were higher than prevailing rates as was seen in Zambia and Haiti. The causes of the delays were:

- i. Delays in the preparation and approval of the PSM plan. This affected the timely disbursement of procurement related funds e.g. Haiti;
- ii. Bureaucracies and/ or inadequate capacity to procure by PRs e.g. WHO in Nepal, UNDP in DRC etc.;
- iii. Delays in the appointment of Third Party Procurement Agents (TPPAs) as was the case in Haiti and Zambia; and
- iv. Failure by the government to provide counterpart funding for the payment of taxes related to procurement expenditure in Nepal.

33. The OIG noted deficiencies in the procurement processes in most of the seven countries. This sometimes resulted in purchases that did not represent value for money:

- i. The procurement methods employed were often inadequate given the amounts involved. In Haiti, Cambodia, Philippines and Zambia, the 'shopping'<sup>1</sup> method was often used when the amounts involved were large and called for a proper bidding process to be undertaken;
- ii. Instances were noted where the technical specifications were 'wired' to favour particular bidders. The evaluation processes did not follow the criteria stipulated in the bid documents. Evidence of this was present in all the countries (with the exception of DRC where the OIG was not able to review UNDP's procurement process). The OIG was not able to provide assurance that these practices resulted in value for money;
- iii. In all the countries where TPPAs were used, there were no reconciliations performed between the PR and TPPA records. In Cameroon, this resulted in an overpayment of some US\$ 3 million;

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<sup>1</sup> Shopping is a simple and rapid procurement method where purchases are based on a few informally gathered quotations obtained from potential suppliers. It is the least competitive method and can easily be abused.



- and
- iv. There were cases noted where suppliers did not deliver all the products ordered e.g. Haiti and Zambia.

Opportunities for improvement in logistics management

34. Drug management at central through to facility level remained suboptimal for all countries audited. Most PRs lacked effective logistics management information systems which resulted in inaccurate reporting of quantities in storage, losses and poor stock issuance controls.

35. With regard to stores control and storage conditions:

- i. In all the countries visited, the store record keeping was poor with inventory records not maintained or with records not up to date. In Nepal the records were not updated with the receipts and issue of some goods which raised the risk of loss;
- ii. In all cases, stock records were not well maintained at treatment centres, districts and central warehouses;
- iii. Annual physical verifications of assets and stocks were carried out. Physical stock could not be reconciled to records in some cases;
- iv. Most stores lacked temperature control mechanisms and pharmaceutical products were kept in stores at conditions that put their efficacy at risk;
- v. Expired drugs were still on the shelves in all the countries audited raising the risk of issuing expired drugs etc. The OIG noted instances in Cambodia where expired medicines were distributed to patients at health facility level.

36. There were also losses noted in the stores and leakages in the distribution chain e.g. in Nepal and Cambodia. In Cameroon, the OIG could not reconcile the nets purchased to the number distributed.

37. The Secretariat is working closely with law enforcement agencies and partners to minimize the loss of products and strengthen the logistics management and supply chain. The Secretariat has carried out a preliminary assessment of the problem and quantification of possible loss. It is working with partners to resolve the problem with an initial action plan developed to address the issues noted.

Quality assurance challenges

38. The Global Fund's quality assurance policy defines the requirements for finished pharmaceutical products funded from Global Fund resources. The PRs generally complied with the policy with regard to the type of products procured. However, in all countries audited, the testing of pharmaceuticals along the supply chain was either not done at all, or when done it was not in

conformance with the policy i.e. tests were not carried out in WHO prequalified reference laboratories. The Five Year evaluation also noted that compliance to the quality assurance policy was still a challenge.

39. The Cambodia report quoted a study that revealed that compromised products were available in the market. Although this study was cited only in the Cambodia report it also listed other countries funded by the Global Fund that had sub standard and/or counterfeit drugs in circulation. This is a fundamental public health issue because of patient welfare and risk to lives. The presence of counterfeit or sub standard drugs may also contribute to the build up of drug resistance.

40. Mitigating the risk of counterfeit and compromised pharmaceuticals calls for action to have transparent procurement, secure arrangements for the movement of drugs through the supply chain and robust country regulatory oversight and enforcement. These areas are a challenge not only to the Global Fund but for other development partners as well. The current Global Fund quality assurance policy can minimize the associated risks if enforced.

### **Planning and administration**

41. All the countries audited by the OIG spent significant resources on program running costs. In some cases there was no detailed budget breakdown of costs, leaving the PRs to spend these funds at their own discretion. As the OIG notes later, this category benefitted from most of the budget reallocations.

### Reasonableness of management fees/ overhead costs

42. There has been a marked increase in the number of PRs requesting management fees over the years. These costs take two forms i.e. the costs incurred in country by PRs to administer grants and the costs incurred by INGOs which relate to costs incurred in their headquarters to support their country office. In line with the Global Fund policy, the OIG recognizes that management fees are justifiable but in negotiating these costs, there is a need to take into account the principles of transparency, efficiency and accountability. The Global Fund is establishing policies to address the risks related to this area e.g. the policy on headquarter costs charged by INGOs that is being rolled out in 2011.

43. The following related issues call for attention:

- i. The definition of management fees was diverse ranging from a blanket fee that covered all administrative costs to a general overhead fee that was supplemented by specific administrative cost charges as was the case in Cambodia and Haiti. The PRs that applied the latter approach had inconsistencies in defining what was covered

- under overhead and what the specific administration charges would be.
- ii. The OIG was not provided in any country with the basis of the level of management fees charged. The rates charged differed by PR e.g. in Nepal, Save the Children charged 5 percent, UNDP charged 7 percent and PSI charged 12 percent on non-procurement related expenditure. In Zambia two civil society PRs charged 10 percent and 15 percent respectively.
  - iii. In some cases, the fees were computed as a percentage of the grant budgets and not actual funds disbursed/managed as was seen with SRs of one of the PRs in Zambia. In consequence, the program was charged for managing funds that in some cases were not disbursed and/or spent. Typically these fees should be a percentage of expenditure because this represents the actual funds managed.

44. The payment of management fees was sometimes at different levels i.e. with overheads charged at PR, SR and SSR level. This was the case in Haiti, Zambia and the DRC. The multiple layer of fees in some cases resulted in significant percentages of grant funds going towards the management fees.

45. There was a general lack of transparency around how management fees were spent. Funds were often withdrawn from the grant bank account and no accountability provided. There was no supporting documentation maintained for these charges to explain how these funds were spent. The OIG could not confirm that the fees were used for program related activities and that the fees charged were reasonable i.e. when compared to actual costs. In Haiti and Zambia, the funds were spent on activities that were not program related.

46. The work of the Global Fund Secretariat working group should also consider having a policy on management fees charged by in country PRs and this should take into account the issues raised above.

### Basis of allocation of common costs

47. Some of the grant funds were used to meet common administration costs e.g. utility, rent, salaries, fuel maintenance etc. which should have typically been shared with other funders. For the cases noted where common costs were allocated across donors e.g. in the Philippines, there was no agreed basis for allocating those costs. The OIG could not therefore provide assurance that the allocation of common costs across donors was reasonable.

48. There was limited guidance from the Global Fund in its budgeting guidelines on how such situations should be treated. In consequence, the allocation of funds across donors was left to the discretion of the PR and in some cases, the Global Fund covered all or a significant portion of the common costs as

was seen in the Philippines and Haiti. The Global Fund should consider strengthening and putting into practice a policy on how common costs should be addressed.

### Human resource related matters

#### Reasonableness of staff numbers

49. The staff numbers recruited to manage the Global Fund supported grants were excessive in Philippines, Cambodia and Haiti. In these cases, the LFA failed to provide the Secretariat with assurance on the reasonableness of staff numbers. This arose from the recruitment of staff being driven more by the number of grants managed and not based on the work load. For example in Cambodia, a project co-coordinator, M&E, PSM and finance staff were recruited for each grant irrespective of size. This resulted in a duplication of roles and staff resources that were not fully utilised.

#### Reasonableness of the types and rates of staff incentives

50. The Global Fund budgeting guidelines stated that salary costs should be budgeted at the most cost effective level to achieve the objectives of the program. The reasonableness of staff salaries and benefits was questionable as evidenced by the results from salary surveys in some countries audited by the OIG e.g. Haiti and Zambia. These surveys showed that program staff salaries were significantly higher than government staff salaries and the rates paid to staff doing similar work in other institutions.

51. The staff incentives also differed by PR, were not harmonised with the rates paid by other donors and were not aligned to the standard remuneration standards of the country. One PR in Zambia paid their staff a settling in allowance of 30 percent of basic salary, a monthly housing allowance of 50 percent of basic salary, a transport allowance of 20 percent of basic salary as well as children's education allowance and a gratuity which was not in line with the country standards. In Haiti, a manager received an annual bonus from program funds and received a transport allowance despite having a fueled program car at his disposal.

52. The payment of high salaries and incentives (i) created some disgruntlement among government staff; (ii) affected the commitment shown to the work of other donors; and (iii) resulted in government staff migrating to the more lucrative contract positions as was seen in Cambodia, DRC and Haiti. This also raised the risk that skilled staff would be lost should the Global Fund support come to an end.

53. The budgeting guidelines provide for apportionment of costs according to the level of effort applied in cases where staff are partially working on the

Global Fund grant. In some cases PRs were implementing other donor programs but the total staff costs were charged to the program. In cases where apportionments were made, the basis of apportionment was not provided to the OIG. In Zambia, the apportionment was based on funds disbursed as opposed to time worked by staff on a program.

54. The PRs increased staff salaries periodically but the increases in some cases were noted to be high e.g. in Haiti where staff received increases of up to 238 percent. In Haiti, Philippines and Zambia, the increases were without Global Fund approval and the PRs did not provide the OIG with the basis against which the increases were computed. Salary revisions should be justified e.g. through performance evaluations and empirical data such as inflation rates. Salary increases that are to be financed from grant funds should be approved by the Global Fund prior to their execution.

55. The Global Fund budgeting guidelines provided adequate guidance on salary rates and types but these were not taken into account in determining salaries and incentives at a country level. There was limited evidence that the LFAs provided the Global Fund with the relevant assurance on the reasonableness of salaries. The Global Fund needs to consider whether it has done enough to regulate HR related costs and whether controls in place are adequate to safeguard resources against abuse or misuse.

### Payment of top up allowances

56. As is highlighted in the last Lessons Learned review, the debate about the payment of top up allowances continues. The argument for paying top up allowances was for the programs to retain professional staff for program implementation. However, there are debates on the undesirable side-effects for the public sector since these allowances are often not sustainable and services were disrupted once they could not be paid as was seen in Haiti. The Global Fund has provided guidance on the payment of top ups which was not followed in the cases below and this was not picked up by the LFA.

57. The Global Fund required that top ups be paid against a formal written policy, endorsed by the CCM. In some countries, such a policy did not exist e.g. Cambodia and Cameroon. In other countries, the policy existed but was not complied with e.g. in Zambia where the approved policy was not consistently applied across PRs. This resulted in payments to personnel that did not qualify and application of different rates across PRs. In some cases e.g. in Cameroon, top ups were paid without Global Fund approval.

58. The Global Fund specified in its budget guidelines that payment of top ups should be linked to the achievement of program objectives. However this was not always the case as was seen in Cambodia where top ups were paid

from Global Fund grant funds to personnel that were not involved in the programs.

59. The identification and deployment of volunteers to undertake various program activities was often beneficial to the programs but not sustainable without funding from donors since they were not aligned to the sector's normal incentive schemes. This was the case in Cameroon, Haiti and Zambia where the failure to pay volunteers resulted in their failure to offer program services. This was contrary to the Global Fund guidelines that required that PRs have a sustainability plan detailing how the costs would be funded after the Global Fund grant.

60. The OIG noted various weak controls surrounding the payment of top ups with no clear definitions about who was to be paid, how much and by whom. The risk of 'ghost' workers was noted in Cameroon where there was no staff register in place. There were also instances noted where there were multiple payers of top ups and there was a risk of double and/or triple payment e.g. in Haiti.

### Severance funds

61. The PRs in Philippines and Haiti used program funds to create severance funds or 'end-of-project staff compensation' schemes. These funds were not budgeted for and deductions from grant funds for these purposes were without Global Fund approval. The PRs' justification for creating these funds was that their staff were contract staff that should be rewarded at the end of their contracts. The same PRs however also used this reason to justify the payment of high salaries.

### Payment of per diems and other allowances

62. The last Lessons Learned report identified per diem related risks and the OIG noted that these same risks were prevalent in the countries audited. For example the per diem, honoraria, facilitation fees etc. rates were not harmonized across PRs and SRs. Staff also received allowances to undertake work that was within their mandate e.g. in Zambia where staff received allowances to evaluate tenders and in Cambodia where directors received honoraria to open and close workshops.

63. In some cases, staff received per diems for more days than were in the month and in other cases received per diems for being in two different regions at the same time. In Zambia, an analysis of per diems paid to program staff revealed that based on the per diems paid per month, staff were apparently never in their offices for months on end.

64. The risks above are covered in the Global Fund's budgeting guidelines but are not being followed. If applied rigorously this will ensure a stronger control environment and reduce the risks of loss of program funds.

### Training and Technical Assistance

65. The use of the term 'weak capacity' is common place in the development aid arena. As is often the case, training and technical assistance interventions became the default solutions to the institutions assessed as having weak capacity.

### Training

66. The approach to capacity building was in most instances about strengthening the capacity of individuals through numerous trainings in the form of meetings, workshops, courses and overseas conferences. Undoubtedly, training was needed in program implementation in order to address capacity gaps, provide updates on new disease related issues etc. However most of the 'training' through Global Fund supported grants was undertaken in a vacuum. There were no capacity assessments to analyze the underlying problems, education/training strategies or plans were not in place and so training could not be rationalized.

67. Training was one of the expenditure categories most prone to abuse. Irregularities were sometimes identified in training activities ranging from workshops that didn't happen, inflated costs, non-existent attendees, non-existent service providers, training related costs not following proper procurement processes etc. While one cannot generalise that trainings always resulted in abuse, from a risk management perspective, it is important to understand the risks inherent to training and institute mitigating measures to address such risk.

68. The training related indicators covered only quantitative (i.e. focused primarily on numbers trained) and not qualitative aspects. Training events were not evaluated to verify whether training objectives were met. In almost all cases training related targets were achieved or exceeded but there was no process to validate whether this had resulted in any real value to the programs. For example one PR in Zambia met their training targets but a review of the materials revealed that the technical content of some of the trainings was unsuitable for the defined audience.

69. Program funds were also used to cover international trips labeled as 'training'. These trips were in some cases excessive as seen in the case of Cambodia and in other cases could not be linked to the achievement of program objectives e.g. the accountants from Cambodia attended a TB related international conference.

70. Training is and will continue to be an important element to the programs supported by the Global Fund. The Secretariat has recognised that activities that involve cash transfers for training events - including per diems, travel, meals and expense payments - pose high risk of misuse. In December 2010 the Global Fund, in consultation with partners and implementers, requested PRs to submit detailed annual training plans. Training activities which do not comply with approved training plans will no longer be eligible for Global Fund funding. Additionally, LFA verifications and scrutiny of training activities has been enhanced to include, inter alia, spot-checks and routine verifications of participant-lists.

### Technical Assistance (TA)

71. There is broad agreement that the objective of TA should be capacity building. The OIG audits found that TA was often not well regulated i.e. with set objectives on what deliverables would emanate from the TA and what capacity will be built. Therefore, there was not a sound basis for assessing the effectiveness of TA. In Cambodia some PRs complained about the quality of the TA they received but the challenges they were facing possibly emanated from a lack of clarity about what was expected from the TA provided.

72. In order to be effective, TA should accomplish tasks with others, not for others. However the TA often took the form of 'doers' rather than mentors where hired personnel got involved in program implementation in the areas noted to lack capacity instead of coaching people within the respective institutions to do the work. In consequence there was no transfer of skills to core staff and generally the national systems did not benefit from the TA as was noted in Cambodia. In Nepal, contracted staff were appointed to run the PMU and there were no mechanisms in place to pass skills on to national staff.

73. As with training, unless the PRs undertook a proper analysis of what the problem was, it would not address the problem e.g. TA was ineffective in addressing the demoralisation of national staff due to poor salaries and incentives. In Cambodia, the PRs appointed TA to support the contracted staff. This did not represent value for money because contracted staff were expected to have the requisite skills when appointed. In fact they were remunerated very well under the assumption that they were appropriately skilled.

74. Ideally TA should be for a short defined period of time with a specific purpose. However, the lack of structures to take over the TA created a TA dependent environment and programs where it is used extensively had no choice but to continue with the TA in order to deliver the programs. Another negative impact is that it has undermined existing capacity as government staff moved to occupy some TA positions.



### Other

75. Within the 'other' category, the OIG considered the support offered to the targeted population such as orphans and vulnerable children. Living support includes support for income generating activities, and monetary or in-kind support to enable them to access program services. The OIG also considered the issues surrounding the sale of health products at subsidized prices.

76. These activities are fundamental to patients but by their nature are susceptible to fraud because of challenges relating to (i) the identification of beneficiaries; (ii) ensuring that the benefits reach beneficiaries; (iii) controls over the products that are purchased and their equitable distribution; (iv) Monitoring and Evaluation required for support provided in kind etc.

77. The challenge has been for PRs to institute effective and verifiable control systems and processes to ensure that goods and services reach and affect their intended beneficiaries. The Global Fund provides guidance on the management of support to beneficiaries but this guidance has not generally been incorporated into programs design. This has resulted in the control shortcomings to the programs as detailed below.

#### Income Generating Activities (IGAs)

78. Income generating activities are often set up to support orphans or PLWHA. The success rate of these activities was often poor. Based on the findings of the country audits, the OIG noted that this is usually due to the PRs' inability to identify, assess and support IGAs and the beneficiaries' inability to identify viable projects and the lack of skills to run sustainable IGAs as was noted in Zambia. These funds were given to foster families and PLWHA as seed capital but because of other pending needs, the capital was often consumed.

#### Orphans and Vulnerable Children (OVCs)

79. The Global Fund supports programs for OVCs and/or assistance to foster families. The aid takes different forms i.e. (a) education, food, and other purposes; (b) basic care and support for OVCs and their families and this sometimes is through income generating activities; (c) mental health treatment to OVCs and their caregivers; (d) support for school food programs (e) assistance to eliminate school fees and provide employment training; (f) protection and promotion of the inheritance rights of OVC etc.

80. The challenges noted with OVC related programs are detailed below:

- i. There was no agreed definition of an OVC in the programs. This left the interpretation to the SRs and this affected the basis of identification of OVCs and was subject to abuse. The program should ideally target OVCs related to the three diseases but they are often

- defined in a more general sense;
- ii. In all cases reviewed, there was no criteria for the identification of the beneficiaries and so the process of identification appeared to be haphazard and one could not get assurance that it was free of bias;
  - iii. The terminology 'support' was also ambiguous and subjective to each person's interpretation. In Zambia, one SR interpreted support to mean sending one of their relatives to a leading university in South Africa, the cost of which could have supported many children; and
  - iv. The payment of school fees or provision of scholastic materials was risky since there were often no mechanisms in place to ensure that the products reached their intended beneficiaries.

### Patient incentives

81. This was monetary or in-kind support given to patients to enable them to access program services. It took the form of transport allowances, patient incentives, grants for revenue-generating activities, food and care packages, costs associated with supporting patient care etc.

82. The challenges noted that related to patient incentives related to the following:

- i. Health products that should have been provided free of charge e.g. nets and condoms were on sale to the public in Cambodia;
- ii. In Zambia and Philippines patients paid a small fee to access treatment that should have been offered free of charge. In Cameroon, the charge for testing of TB patients was a deterrent to patients starting treatment; and
- iii. The purchase and distribution of products was often prone to leakage. In Cameroon, the PR could not reconcile the number of nets purchased with those distributed; and
- iv. Some products were also not in use e.g. nets in Cambodia.

### Sale of health products at subsidized prices

83. The sale of health products at subsidized prices was another avenue through which Global Fund supported programs got goods to where they are most needed. The terminology that has been used to describe these activities has been 'social marketing' although based on its definition<sup>2</sup>, the sale of commodities at subsidized prices does not equate to social marketing. It is just subsidized marketing of health products.

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<sup>2</sup> Social marketing is the application of commercial marketing technologies to the analysis, planning, execution, and evaluation of programs designed to influence the voluntary behavior of target audiences in order to improve their personal welfare and that of their society.

84. The country audits have questioned the relevance of these activities in countries with high levels of poverty and significant morbidity and mortality. There were concerns that poor people could not afford important preventive commodities e.g. bed nets and condoms and the OIG suggested that certain health products should be provided free of charge especially if they would result in death if not accessed e.g. treatment drugs.

85. In Cambodia the MOH stopped the Global Fund supported social marketing of nets following a malaria survey that found that only 2 percent of the nets passing through this channel actually reached the population at risk. In DRC, the audit report stated that *'social marketing is difficult to apply in a country with most of its population being extremely poor making health products unaffordable; with a low appreciation of the benefits of health products e.g. condoms and nets, on their health and livelihood; and with insufficient stocks to cover the whole country'*.

86. The other issues noted that related to these activities were that:
- i. The reporting to the Global Fund was not to end users but to wholesalers. The results were flawed because in some cases the products were not sold by wholesalers yet results had already been reported to the Global Fund.
  - ii. There were no mechanisms in place to ensure that the products got to the intended beneficiaries and at the appropriate prices. In Cambodia, products were sold at much higher prices than the recommended price.
  - iii. Prices applied for products at community level were quite high and were not representative of the population's purchasing power as was seen in the DRC.
  - iv. The PRs did not always credit the grant programs with the revenue received as was seen in the DRC and Cambodia. The grant agreement stipulates that the all program related income should be reported and used for program activities.

87. There is no doubt that 'social marketing' has its place in development programs. However the Global Fund need to provide guidance through criteria on when it is relevant to a country or program context in order to ensure that the programs reach the intended beneficiaries. The controls over these programs should be strengthened to ensure impact, appropriate reporting and accountability.

**ARE THE RESULTS ACHIEVED COMMENSURATE WITH THE EXPENDITURE INCURRED?**

**Good results**

88. Looking back to 2002 when the Global Fund was created, it has to be emphasized that the Global Fund supported programs have contributed to the scale up of interventions at a country level and internationally by increasing the number of people living with HIV in low and middle-income countries that now have access to lifesaving anti-retroviral drugs, and in providing insecticide treated bed nets and treatment for TB.

89. All the countries audited showed evidence that the Global Fund support has made a difference in the fight against the three diseases. Some of the good results reported are highlighted below.

90. Zambia reported a scale up the ART treatment services through some 350 ART sites with an estimated 60 percent of the national ART need being met. The TB treatment success rate was about 90 percent. There was also a reported reduction of malaria incidence during the period 2006 to 2008 from an incidence of 412 per 1,000 people in 2006 to 252 per 1,000 people in 2008.

91. In Cambodia, the HIV program reported that it achieved success in its "100 percent condom use program" that reached more than 90 percent of entertainment workers and ART and Opportunistic Infection (OI) services expanded to 51 sites in 20 provinces. The Malaria program reported a decline in the Malaria incidence rate from 7.5 per 1,000 in 2004 to 4.1 per 1,000 in 2008 and the Malaria mortality rate declining from 2.8 per 100,000 in 2004 to 1.4 per 100,000 in 2008. The TB program reported that basic DOTS had reached 100 percent of health centres and the TB cure rate stood at 91 percent against a target of 85 percent.

92. In Haiti, the HIV prevalence rate decreased from 3.1 percent in 2001 to 2.2 percent in 2007; the TB treatment success rate increased from 72 percent in 2001 to 81.7 percent in 2007; and 290,671 bed nets were distributed or sold.

93. In the DRC, at the time of the audit, the PR reported that some 23,280 patients were receiving ARV treatment; the TB program reported that it had reached 100 percent coverage and more than 80 percent of patients had completed treatment; and under the Malaria program, mosquito nets and ACTs had been distributed.

94. Data quality issues were noted in six of the seven countries. These issues that affect data quality need to be addressed in order to increase the reliance that can be placed on the results reported.

### Monitoring and Evaluation

95. Some countries lacked a national system that could collect data e.g. Cameroon's HIV program where the data collected was grant specific. Other PRs used national systems but opted not to use them for a variety of reasons. In consequence, there was no alignment of program M&E systems to the national systems in the majority of the countries audited. The verticality of M&E systems extended to data tools, guidelines, the collection and analysis processes and the provision of technical assistance.

96. The emphasis by the Global Fund on M&E has predominately been on 'what' needs to be monitored to the relative neglect of 'how' to best go about it. A 'tug of war' between pressure to achieve planned targets and the need to strengthen national M&E systems ensued with the former often winning. The creation of parallel systems came at a price of failing to strengthen the national structures and it remains questionable if the new systems represented best value for money since most of them would not remain post Global Fund.

97. Cambodia's MoH created a parallel M&E system in 2003 due to shortcomings in the national M&E systems and in order to demonstrate that it had achieved targets set. In 2008, Cambodia's three disease departments became PRs and established other M&E systems bringing the total number of operational M&E systems to five. The new systems were independent of the national systems and were not sustainable post the Global Fund.

98. UNDP established parallel M&E systems in DRC because the national systems could not produce complete and timely information. The shortcomings in the national systems remain unaddressed six years later and would need to be addressed before UNDP transitions the grants to the national systems. The quest for 'ideal monitoring systems' may become self-defeating unless national monitoring system challenges are addressed head on.

99. The Global Fund Board recently approved a new grant architecture that promotes a single stream of funding per PR per disease. This new grant architecture brings important changes to the organization's operating model including how performance management is conducted, It is anticipated that the new grant architecture will put the Global Fund in a better position to support the national program approach, which allows improved alignment with national cycles and systems which offer robust data quality.

### Indicators and targets

100. The quality of indicators has improved over the years but some indicators are still inadequate. The OIG lists below opportunities for improvement with regard to indicators and targets:

- i. Indicators used in the grant performance monitoring frameworks

were often additional to and/or different from national health indicators. This affected the data collection and analysis process. Even in cases where there was alignment of tools, there were differences in the way in which data was processed, analyzed and stored. In consequence, the monitoring of performance for some Global Fund supported programs created an additional burden to countries.

- ii. Although the Global Fund states that its indicators do not necessarily have to be directly and exclusively attributed to Global Fund support, the wording of some indicators promoted the attribution of results to the Global Fund and therefore justified the creation of parallel systems.
- iii. The indicators tended to provide an emphasis on quantitative aspects i.e. 'measurability' and this took precedence over qualitative aspects. Regrettably, results that were hard to express in numbers were overshadowed by things that could be measured. For example indicators covered number of people trained but did not address the outcome of the training i.e. its relevance and applicability to the program.
- iv. In six of the seven countries audited, grants had their own objectives and indicators and these resulted in multiple indicators and monitoring systems, in rapid succession and complicated the M&E systems.
- v. The indicators were often project type output indicators tracking inputs rather than performance related outcomes. There was, however, an improvement noted in later grants signed.
- vi. Some PRs lacked the mechanisms to collect data for some indicators. In other cases it was impractical to collect data on indicators e.g. indicators that were listed for quarterly reporting yet periodic surveys were required to collect data.

101. The setting of baselines has improved in more recent grants. However some of the targets set by the PRs remain unrealistic. This was because there were no baseline surveys in place when most of the programs initially started.

102. The LFA's role in reviewing of indicators was sometimes not evident. The Secretariat need a robust system for indicator review in place that picks up some of the shortcomings identified.

### Data quality

103. Data quality<sup>3</sup> is at the heart of the Global Fund's performance based funding and so is a corporate priority to the Global Fund. The Global Fund has

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<sup>3</sup> Data quality is about having data that has integrity and is accurate, complete and timely.

put in place an M & E and data quality assessment framework to assist PRs report high quality data on program implementation. This framework includes three initiatives i.e. the monitoring and evaluation system strengthening tool (MESS), the On-site data verification (OSDV) and data quality audits (DQA) which all aim to improve data quality within the portfolio. These initiatives have gone a long way in strengthening the quality of data over the years.

104. The data assurance mechanisms have definitely raised awareness at country and Secretariat level about the quality of data and created opportunities to address issues related to the data. Some 300 OSDVs were carried out in 2009, and the results showed that overall 20 percent of the data point verifications conducted by the Global Fund had major reviewed had major data quality issues impacting 27 percent of indicators. The challenge remained in identifying what needed to be done to address the issues noted.

105. The country audits also identified data related issues. The OIG audits confirmed some of the issues highlighted in OSDVs e.g. the fact that data could not be tied to underlying records and the data capture in registers was sometimes incomplete as was the case in Cambodia and Haiti.

106. The causes of the data related issues were primarily system centric and so should have ideally been identified and addressed during the MESS. They related to the data collection, analysis, verification and validation processes as detailed below:

- i. The systems for supervision and data verification were not operational for most PRs audited. Data that was reported in the PUDRs had not been verified by PRs in some countries e.g. the DRC and Cambodia;
- ii. The national systems did not always collect data from the private sector/ civil society and data from these service providers had to be collected outside the system, a process which sometimes lacked checks and balances to ensure that the data was accurate;
- iii. Data collection tools were available in all cases reviewed but in some cases were not standardised which resulted in challenges at the consolidation and analysis stage. In Zambia, there were standardised forms but these were too sophisticated for data collectors. In some cases, the data tools were also not comprehensively completed.
- iv. Data on some program indicators could not be derived from national systems and so additional tools were created which resulted in an additional burden to the already constrained resources at facility level.
- v. Staff that were involved in the data collection process sometimes lacked capacity as was seen in Nepal. In other cases, the M&E offices

- were not adequately staffed to undertake this important role as was seen in DRC;
- vi. Some SRs reported late while others did not report at all and this impacted the accuracy of the data reported. In Haiti, the PR had to go to the SRs and extract the data for reporting purposes; and
  - vii. The definition of some indicators by PRs was sometimes vague and this affected the data collection by health workers at facility level since it was subject to different interpretations.

107. Some countries that qualified for OSDVs did not have any undertaken and this was a missed opportunity to strengthen data related issues. This was the case in Zambia where only one OSDV was undertaken over a period of two years yet the grants qualified for OSDVs. Some OSDVs were also undertaken by financial staff and this again became more of a 'numbers game' without comments being made on the qualitative aspects of the indicators and data as well as service delivery.

### Program evaluations

108. Some of the grant budgets made provision for evaluations. However, the OIG noted that evaluations were rarely undertaken. In an environment where there are resource constraints and competing priorities, program evaluations would provide information to stakeholders about:

- i. The program's impact in a country;
- ii. The program's strengths and potential limitations and identification of improvements;
- iii. How to prioritise funding by identifying program components that are most effective or critical; and
- iv. Draw attention away from just the numbers and bring the qualitative aspects of programs to the decision making table.

109. These evaluations did not necessarily have to be Global Fund centric but could be part of a national evaluation. There are points in the grant making cycle that would be ideal for the Global Fund to consider such evaluations when making decisions e.g. at the Phase 2 review stage.

### Quality of service delivery

110. The Global Fund has sometimes been accused of 'pushing numbers' at the expense of quality of service delivery within the programs it supports. However quality of service delivery is an implementation issue that falls within the ambit of the PRs' mandate.

111. At a country level, supervision is one of the ways in which quality of services can be assured. Most of the country audits reported supervision



related shortcomings i.e. the commitment to and the effectiveness of the supervision of programs was lacking. This is not unique to the Global Fund supported programs.

112. One of the challenges to supervision may have been the fact that the supervision in six countries was vertical by nature. Commonly each PR and disease program did its own supervision in isolation from other health or disease programs. There was little seen of a culture of sharing the resources that were available (vehicles etc.) or of moving towards integration and cooperation.

113. The supervision related issues noted in the country audit reports were:

- i. Some countries did not undertake supervision visits due to lack of funds as was reported in Cameroon;
- ii. There were no guidelines or capacity to undertake supervision as in the DRC and in Nepal;
- iii. In cases where supervision had taken place, there was no evidence that feedback was provided to the SRs e.g. in Nepal;
- iv. Some PRs lacked the capacity to undertake supervision e.g. in DRC and Nepal;
- v. In countries where supervision was undertaken e.g. Haiti, it was not comprehensive in as far as it covered only quality of data and did not cover quality of services; and
- vi. There was no evidence that the findings were followed up e.g. in Cambodia.

114. Most of the issues that were identified in the OIG reports at SR level had not been picked up by the PRs. The effectiveness of the supervision visits remained questionable since many challenges noted at SR level remained unaddressed. In Haiti, there were major disagreements between the PR and its SRs due to failure to address issues that affected program implementation.

115. The Global Fund should consider including in its assessments a requirement that PRs have mechanisms in place that monitor quality of service.

## WHAT IMPACTS THE EFFECTIVENESS OF GRANT PROGRAMS?

116. Many papers have been written on the prerequisites of aid effectiveness. The Paris declaration is at the heart of defining criteria for making aid more effective. Other areas that underpin aid effectiveness are (a) absorptive capacity; (b) fiscal sustainability, predictability and fungibility<sup>4</sup>; (c) capacity building; and (d) engaging civil society.

### Paris Declaration Principles

117. The Global Fund is a signatory to the 2005 Paris Declaration. The principles of the Global Fund are underpinned by the Paris Declaration. Evidence of the Global Fund's commitment to the Paris Declaration can be seen in the fact that some of its key performance indicators (KPIs) are linked to the declaration and its operations manual provides guidance to staff on how the declaration can be operationalized.

118. Application of the Paris declaration to Global Fund supported programs is admittedly easier said than done and it is commendable that there are processes in place that continuously monitor achievement of commitments in the declaration. The OIG however, noted that opportunities to support the Paris Declaration principles during the design and implementation of Global Fund supported programs were sometimes missed. This was, however, more prevalent in the earlier grants.

119. The adherence challenges revealed by the country audits related more to two of the five Paris principles. The principle of alignment has often been ignored, with parallel or vertical systems, mechanisms and practices reported in all but one of the seven countries. And to a lesser extent there are concerns around the principle of harmonization. Some of the structures that are unique to the Global Fund like the CCM have not been aligned to the principles of harmonization and alignment.

120. The OIG lays out below the highlights of the areas that have been noted to be a challenge to implementing the Paris Declaration.

### Harmonization<sup>5</sup>

121. The nature of the three diseases demands a certain level of funding consistency and continuity. Harmonization promotes the use of program-based aid modalities. The Rounds, both by design and in implementation, operated more as projects than programs. This was because of the concentration on

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<sup>4</sup> Fungibility addresses the question of whether or not donors are able to successfully ring-fence their additional funds.

<sup>5</sup> Harmonization refers to the use of common procedures and approaches among donors in order to reduce duplication.

achieving predefined targets at the level of outputs within a defined duration which created a tension between the project modality of the Global Fund supported programs and a future-oriented programmatic focus.

122. The Global Fund design i.e. based on Rounds and the performance based funding model, made it difficult for the country to have comprehensive information on aid flows to enable countries to plan accordingly. The countries usually counted on their proposals always being honored and the rejection of any proposal often took the country by surprise and in some cases had negative impacts e.g. in the case of Haiti TB and Cameroon HIV grants. The Global Fund is currently reforming its architecture and this involves reforming the 'rounds' system into a single stream of funding. It is expected that the new grant architecture will address most of the issues raised above.

123. The Global Fund supported programs also usually had independent planning, funding, disbursement, monitoring, evaluating and reporting activities. The Global Fund was involved in some country sector reviews but still undertook separate missions and diagnostic reviews.

124. Coordination and collaboration also remained a challenge across PRs and with other programs run by government and other donors. For example in Philippines, microscopes were procured by different PRs for the same facilities and laboratory technicians were provided with different incentives for recording test results by different PRs. In Zambia, the payment of top up allowances by different PRs to service providers in the health sector did not follow the same criteria.

### Alignment<sup>6</sup>

125. Secretariat staff are encouraged to proactively seek opportunities to improve program alignment. However there is emphasis on alignment being sought without compromising the Global Fund core principles of transparency and accountability. Alignment is therefore only possible where PR systems are sufficiently strong. The Global Fund has instituted measures for assessing PR capacity and these are used as a basis for guiding the decision on whether to align to national systems.

126. The Global Fund has identified potential areas for alignment and set KPIs accordingly. The Global Fund has not met some of its targets with regard to (i) alignment to PR planning, reporting and disbursement schedules; (ii) the use of national financial systems i.e. in budget execution, financial reporting procedures and auditing; the use of national PSM systems; and (iii) the use of national M&E systems.

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<sup>6</sup> Alignment refers to donors' support and use of recipient cycles and national systems.

127. While it is easier to align program reporting cycles to the national systems, the other areas have been more challenging due to capacity challenges. It is noteworthy that the creation of parallel systems started before the Paris Declaration. However, there is no evidence of the countries moving towards aligning these systems to the national systems<sup>7</sup>.

### **Absorptive capacity**

128. One of the program constraints listed by most LFAs was lack of absorptive capacity where the large additional funds inflows strained national capacity for planning, management and service delivery. In consequence, the additional aid sometimes was not used effectively to achieve its intended results.

129. Most non-government organizations grew very fast and the government structures also had to take on additional responsibilities that evolved from the grants. The increase in PRs' operations called for an equivalent capacity increase to handle the growth. It remained questionable as to whether the organizations' capacity and control environments had evolved sufficiently fast in order to manage the increasing number of grants effectively. This was also not taken fully into consideration in nominating PRs by CCMs.

130. There was no evidence that a rigorous analysis of the reasons for the stretched capacity and of options and their implications for the way forward was undertaken by PRs. With hindsight, the solutions to the 'strained absorptive capacity' sometimes had far reaching implications if the experiences in the DRC, Philippines, Nepal and Cambodia below are anything to go by:

- i. In DRC, government institutions at provincial, local and community level were excluded from being SRs because they 'lacked capacity'. However the audit revealed that some SRs also lacked the requisite knowledge and experience and relied on the 'failed' government structures to fulfill their mandate. UNDP's parallel PSM structure was also sometimes less effective than the national program e.g. under the TB program where the new systems called for an increase in buffer stock due to delays in procurement.
- ii. In Nepal, PMUs were set up and these were staffed with consultants and run independently of the national systems. The program also appointed district M&E staff who were not well integrated into the district health system and therefore not effective in their role.
- iii. In Cambodia, the solution to strained absorptive capacity was to appoint three new PRs i.e. the three MOH's three disease institutions, thus bringing the number of PRs to four within one

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<sup>7</sup> National systems include all local level implementers involved in the implementation of a national strategy and include both governmental and non-governmental entities.

institution. To some this fragmentation was not cost-efficient since it resulted in the duplication of tasks, roles and systems in all the PRs. As the funding moved from the MOH to its departments so did the power shift thus weakening the mother Ministry's ability to exercise oversight over the programs in these institutions.

- iv. In the Philippines, the capacity problem was 'addressed' by increasing the staff levels but they did not have the right skills and this did not translate into any real capacity enhancement.

131. Contrary to the Global Fund policy that programs should use national systems to the extent possible, most PRs set up parallel structures because the national systems were assessed as cumbersome or inadequate. The OIG noted that the new systems did not necessarily address the shortcomings identified in the government structures. This sometimes resulted in a loss of checks and balances and created a weak control environment. This was the case in the Ministry PRs in Zambia, Nepal and Cambodia.

132. There was a clear lack of focus on building the long-term capacity of national systems which needs to be more fully addressed through the Global Fund's policies and grant oversight. The lack of long term capacity building strategies raises the risk that temporary stop-gaps will become permanent e.g. technical assistance and setting up program management units. These interventions in the long run do not represent value for money because there was no real capacity built and after the programs close would not result in any real benefit to the national structures.

133. Capacity building was centred on and should have gone further than skills development i.e. training and TA. It did not consider other elements of capacity elements such as technological, organizational, institutional and resource capabilities. The training and TA related issues and their effectiveness in affecting capacity have already been covered.

134. The Global Fund as part of the grant negotiation process needs to operationalize its policy and encourage PRs to use national structures, systems and procedures for implementation of program activities. In cases where parallel systems have to be set up, these structures should be for a defined period of time with relevant capacity building and transition plans for the eventual transitioning back to national structures.

### Health System Strengthening

135. It is commendable that the Global Fund has recognised the need to strengthen the health systems within which programs are implemented. Increased funds for the prevention and control of the three diseases will not help achieve the desired outcomes and impact if shortcomings in the health system systematically undermine individuals' attempts to work properly.

136. The HSS grants are more recent grants and have not been reviewed because at the time of the audits most of them were just starting. However a lesson learned from the review of the Cambodia Round 5 HSS grant revealed that this important intervention can fail to affect the national systems if not properly planned and incorporated into the national systems. This goes back to the point made about undertaking a proper analysis on what capacity weaknesses existed in the institutions and targeting funds to areas that would address the underlying cause of problems and not just addressing symptoms of the problems.

### **Additionality and sustainability of programs**

137. The Global Fund requires recipients to treat its funds as additional to the host country resources and from other external sources to fight the three diseases. However, over the years there has been increasing reliance, sometimes over reliance, on the Global Fund as the primary source of funding for any one of the three diseases.

138. A study by the Institute for Health Metrics and Evaluation published in the Lancet<sup>8</sup> revealed that overall global public health financing had increased by 100 percent over the last decade. However on average for every health aid dollar given, developing country governments shifted between US\$ 0.43 and US\$1.17 of their own resources away from health. The trend was most pronounced in Africa, which received the largest amount of health aid.

139. This raises the risk of the sustainability of programs in the event that the Global Fund is unable to provide the required assistance for any reason. The Global Fund is also restricted in taking any punitive action in case of poor accountability, failure to meet targets etc. because it would jeopardise the program. It also can affect the application of performance based funding in cases where there are poor results but no other key funder of country programs.

140. In Haiti the national stakeholders counted on their proposals always being accepted and the rejection of the Round 8 tuberculosis proposal affected the program significantly. This was also the case in Cameroon where at the time of audit the country had failed to get other grants and where the Global Fund have had to institute special measures to ensure continuity of services.

141. The Secretariat has yet to define a way to assess the additionality of Global Fund grants and further guidance from the Board on this matter is necessary. Close monitoring of the principle of additionality has often proved difficult in contexts of weak data and/or access to data, especially when PRs

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<sup>8</sup> Public financing of health in developing countries: a cross-national systematic analysis.

do not have control of the data provided.

142. Additionality remains as one of Global Fund's core principles but there is no agreed upon mechanisms to measure it. The Global Fund needs to revisit the applicability and consequences of not adapting this principle at country level. Otherwise this principle will remain irrelevant and not operational at country level. Mechanisms to measure national health expenditures and establishment of collaborative targets to maintain or increase the share of government expenditures going to health need to be considered. Consideration should be given to asking the LFA to verify additionality at all key stages in the grant making process.

### **Engagement with civil society**

143. Civil society has been instrumental in the design and development of the Global Fund. Civil Society organizations have been effective voices on the Global Fund Board. At country level, they sit on the CCM normally representing the needs of vulnerable and marginalized groups infected and affected by the three diseases as well as in implementation, where civil society has a proven and effective role in targeting hard-to-reach communities and in prevention and treatment of literacy. The Global Fund strongly encourages countries to nominate at least one government and one non-government PR to lead program implementation. Some programs have been implemented alongside governments in a mechanism now known as dual-track financing.

144. There is a recognised lack of capacity of civil society at a national level in proposal preparation, shaping program implementation, and program oversight. Civil society CCM representatives need more opportunities to build their skills and capacities on a range of issues. They also need capacity building in order to be able to compete favourably as PRs.

145. Private/ public collaboration was working well in some countries but not so well in others. The good collaboration lay with, among other things, the definition of roles and responsibilities with one party's activities being complementary of another instead of replacing them. This was the case in Haiti where the collaboration was positive with the Ministry setting policies and implementing some program activities and with the private sector complementing the work of the Ministry e.g. the Ministry gave some NGOs the mandate to oversee some health regions.

146. In DRC, UNDP contracted large numbers of SRs to implement the programs. Although UNDP's approach achieved some positive results, SRs remained accountable to UNDP which undermined the national programs' coordination role. There were also instances noted where the diagnosis and treatment protocols were contravened by SRs. There was also no continuity in the programs when SRs were changed and some SRs threatened not to

cooperate if changed thus endangering the lives of patients.

147. In the Philippines, the MDR TB program evolved around an NGO, TDF. The Global Fund faced serious challenges at the time it wanted to move away from TDF as PR since only TDF had the requisite capacity to manage the MDR TB activities and TDF was unwilling to cooperate which put the lives of patients at risk. The capacity built within TDF was not transferable once TDF was removed from being PR.

148. The negative aspects of the collaboration above proved disadvantageous to the programs since:

- i. In some cases it resulted in 'chiefdoms' where the civil society or private sector was unwilling to cooperate in the event that proposals were made to change them.
- ii. The structures often did not align well with the Government policy setting environment.
- iii. The established systems and capacity tended not to be sustainable post the Global Fund support. The capacity built was rarely transferable and remained only beneficial to the respective organizations.
- iv. Because there is no synchronization of systems, it resulted in the duplication of roles and wastage of scarce resources.

149. In some instances, NGOs were appointed as PRs and they had Ministries reporting to them as SRs e.g. in Philippines, Haiti. This proved challenging especially because the Ministries were the regulators of the health sector and probably had more technical experience than the PR but had to report to and be accountable to an SR.

150. This is not to say that SRs do not have an important role in the overall response to the three diseases but that the response should be led by government. Specific activities related to policy setting, quality assurance and regulation should be led by the Ministry of Health and strengthened by the civil society/private sector. In cases where the civil society or private sector takes on the role of a Ministry, this should be time bound with structures in place to ensure the eventual transfer of the role back to the Ministry. All stakeholder involvement should be better defined and coordinated to ensure that there are synergies realized and that all activities work towards meeting common goals.



## CAN RECIPIENTS MANAGE THE FUNDS EFFECTIVELY?

### Nomination of PRs by CCMs

151. The CCMs are expected to nominate PRs that have the capacity to manage grants. All PRs in the seven countries audited by the OIG were assessed by the LFAs who rated them as having adequate capacity to manage the grants. In cases where the capacity gaps were identified, actions were identified to address the gaps but there was no evidence that the plans were closely followed through.

152. The OIG country audits follow to a large extent the assessment tools used by LFAs to assess PR capacity. The program management issues raised in the country audit reports raise the question about whether nominated PRs had the requisite capacity to implement grants and if not, whether any gaps were identified by the LFA assessments and appropriate measures put in place to strengthen PR capacity.

153. The focus by the CCMs as presented through the proposals focused on 'what' should be funded and did not comprehensively address 'how' best to implement the grants. CCMs often treated all grants separately i.e. as one offs and not as part of national disease programs and therefore sometimes ended up with multiple structures. The administration and management of these grants soon became cumbersome with the rising number of grants since they were all managed independently. The Secretariat has recently embarked on an exercise of consolidating grants.

### Selection of national organizations as PRs

154. The Global Fund operations manual requires that multilateral organizations or international non-governmental organization be nominated as PR only if a qualified national entity is not available. Such arrangements are meant to be temporary with the relevant PRs building the requisite capacity of national entities to take over the role of PR.

155. The use of multilateral organizations or international non-governmental organization creates an extra layer of management which increases the management costs of the grants.

156. In practice, all the countries under consideration in this report had either multi-lateral or international NGOs as PRs and with the exception of UNDP, there was no evidence seen of arrangements to transition to the national systems. In the case of UNDP, The Secretariat has been actively following up the need for UNDP to establish capacity building and transition plans for the countries where it is PR. This move should be replicated for all grants in similar circumstances.

157. One would, however, expect that eight years into the Global Fund's existence, capacity of national systems should be built and the process to transition PR-ship to national systems underway. The OIG appreciates that there are potential risks associated with transitioning to systems with inadequate capacity or quality since such systems can jeopardise grant implementation. However, unless a process to build the requisite capacity and transition grants to national programs is instituted, this may never happen.

### UNDP as a PR

158. UNDP manages all Additional Safeguard Policy<sup>9</sup> grants and grants in challenging environments. UNDP is PR in some 27 countries and is responsible for managing approximately 12 percent of the Global Fund's overall portfolio. Two key issues have been identified across audits related to UNDP namely (i) limited or complete lack of access to information and (ii) the creation of parallel systems, with limited focus on capacity building and no plans to transition to national systems.

159. Audits of UNDP are guided by the single audit principle which states that *"The United Nations Board of Auditors and the appointed External Auditors of the specialized agencies and of the International Atomic Energy Agency retain the exclusive right to carry out external audit of the accounts and statements of the United Nations Organizations. If special reviews are required, governing bodies should request the appointed External Auditor to carry out specific examinations and to issue separate reports to them on the results"*.

160. The financial regulations and rules of the United Nations give the UN's external auditors the exclusive right to audit the accounts and statements of the UN. Comparable principles apply to the specialized agencies of the UN system.

161. Whilst the Global Fund can access the generalized reports of the work undertaken by the UN Board of Auditors, UNDP policy does not allow the Global Fund access to the reports of the Office of Audit and Investigations on the basis of the single audit principle and its policy on confidentiality. UNDP asserts that internal audit reports are confidential and may only be disclosed to member states in limited situations. Since the GF is not a member state, it is not eligible to review such reports.

162. The OIG has sought appropriate access to program sites, records and audit reports. This has culminated in some improvements in the arrangements

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<sup>9</sup> ASP is part of this risk-management strategy, which can be invoked in full or in part, based on risks identified in the country where a particular grant or group of grants is being implemented.

for access. UNDP's OAI has put in place a unit that focuses on Global Fund grant specific audits. The OIG has no input on the scope of OAI audits and, does not have access to the working papers or detailed reports.

163. The OAI provides the OIG with summaries of OAI's audit findings. These summaries have so far been inadequate. They are usually two page summaries that cover the scope of the audit i.e. the country audited, functional areas reviewed and the period covered. They provide the rating for the management of Global Fund projects without providing the basis for rating. The report also states how many recommendations have been made and in some cases lists what the high risks are. If there has been a prior audit undertaken, the report also provides the status of implementing the recommendations.

164. The OIG has been able to conduct audits "around" UNDP (i.e. OIG can audit UNDP's Sub-recipients) and can therefore gain some understanding of the management by UNDP of grants in this way. However, this does not give a sufficient insight into the grant operations and management by UNDP. The DRC audit found there to be a disconnect between the positive message about controls noted in the summaries and what the OIG's audit is showing.

165. In the DRC, it was agreed that the audit of activities funded by the Global Fund would be carried out simultaneously by the UNDP OAI and the OIG. All PR related work would be audited by the OAI with them providing the OIG with a summary of their audit report. The OIG audit focused on implementation of grants by partners other than UNDP. In Haiti and Nepal, there was less success in working out arrangements for the audits.

166. While recognizing that UNDP has gone some way to meet Global Fund requirements regarding access, the current position does not allow the OIG to provide assurance to the Board in regard to grants managed by UNDP yet these grants tend to be among the grants with the highest risks in the portfolio.

### **Sub Recipient management**

167. The Global Fund model provides for PRs to take responsibility for managing SRs. Almost all PRs implement program activities through SRs and SSRs. In some cases, a large percentage of funds is spent at SR level i.e. sometimes in excess of 60 percent. In Haiti, the SRs implemented 80 percent of the grants. The effectiveness of SR management was therefore a key success factor to programs. However, most PRs were seldom managing SRs effectively.

168. The Secretariat's guidance to PRs with regard to SR management is clear and the PR takes responsibility for all SR actions. The PR is required to (a) assess SR capacity to implement program activities; (b) contract SRs; (c) ensure SRs can collect the necessary data for reporting programmatic progress; and (d) put in place a system to manage the SRs.

169. The audits found that the minimum requirements above were seldom met:

- i. In almost all cases, there were delays in the appointment of SRs which affected grant implementation. In some cases, there was no documentation to prove that a proper SR selection process was undertaken. In cases where there was some evidence that such a process had happened, there was no evidence that the process was undertaken transparently;
- ii. PRs did not undertake SR assessments to confirm their capability to implement program activities. The OIG noted significant SR capacity issues that were neither identified nor addressed by the PRs;
- iii. These PRs did not have policies and procedures to guide SR management. In some cases there were no sub grant agreements signed with SRs that defined the scope of work; provided guidance on how program funds could be utilized; set out what activities the SR was responsible for and against what targets the SRs would be assessed. The allocation of activities in some cases appeared haphazard and could not be tracked against work plans and budgets;
- iv. There were often no audit arrangements in place to audit the funds transferred to SRs e.g. in Zambia. In cases where SRs were audited and significant issues raised, there was no evidence that the audit queries were followed up by the PRs e.g. for DRC and Haiti; and
- v. Most of the PRs and SRs expensed the monies advanced to SRs/SSRs upon disbursement. There was no system at the PR to track disbursements made to the SRs against the accountabilities received. It was therefore impossible for the PR to determine amounts unspent at any one point and to claim and follow up outstanding balances with the SRs.

170. Most PRs lacked effective mechanisms to monitor SR financial and programmatic performance. The OIG visited SRs as part of its audits and noted some generic issues that should have been picked up by PRs during the monitoring, for example:

- i. Some SRs did not maintain proper books of account raising the risk of errors in recording, processing and reporting Global Fund transactions. Expenditure incurred was not always supported;
- ii. Some activities that were undertaken by the SRs were not in the approved work plans and budgets. Budget/actual analyses were also not undertaken;
- iii. Many SRs visited had not accounted for program funds at the time of the audit;
- iv. The reporting structure was not formalized e.g. through the establishment of reporting formats. The information provided by SRs differed and this raised a report consolidation challenge;

- v. Some SRs did not report at all but continued to receive funding while others reported late; and
- vi. Reports submitted to the PRs in some cases could not be tied to underlying books of accounts.

171. The Secretariat approach to SR management is risk driven with assessments only undertaken for large SRs and those under the ASP. While there were many guidelines on managing SRs, these were not operational and the oversight mechanisms have failed to flag these problems. While it may be impractical for the Secretariat to take on a bigger role in SR management, it should drive the implementation of controls already instituted to ensure good controls over SRs.

**WAS THE CONTROL ENVIRONMENT ADEQUATE TO SAFEGUARD GRANT RESOURCES?**

172. All the PRs reviewed displayed weak management control. The extent to which PRs were aware and were putting in place measures to address the shortcomings varied. The shortcomings noted generally arose from the failure in applying the policies put in place to ensure:

- i. The economical, efficient, and effective achievement of the program's objectives;
- ii. Adherence to grant agreements, country laws and organisation policies;
- iii. The safeguarding of assets and information;
- iv. The prevention and detection of fraud and error; and
- v. The quality of accounting records and the timely production of reliable financial and management information.

**The economical, efficient, and effective achievement of the program's objectives (Value for money)**

173. There is no doubt that to date the Global Fund has achieved tremendous results in the three disease interventions. The numbers reported against targets are a reflection of the effectiveness of the programs in meeting their objectives. But there continue to be issues around the efficiency and economy aspects of the programs.

174. The focus of the Secretariat has previously been on the results achieved and getting the money quickly to where it is most needed with less attention provided to value for money. The Global Fund is now however giving a focus to value for money and have initiated various measures to address its components e.g. economy through tracking prices of key health products. The dialogue on value for money has evolved with the Global Fund considering putting mechanisms in place to measure the efficiency with which the results are achieved e.g. what is the transaction cost per outcome.

175. This report has highlighted types of transactions that did not represent value for money e.g. in procurements, capacity building interventions etc. The Secretariat and PRs need to do more with the volume of data that is collected. For example, an analysis which relates programmatic results to the financial and PSM inputs can provide valuable insights on whether value for money is being obtained from the funds invested in the programs.

176. Other areas identified through the country audits that affected value for money in the programs were:

- i. Budgeting;
- ii. Use of program related income and other donor funding; and
- iii. Disbursement processes.

### Budgeting

#### *Quality of budgets prepared*

177. Some budgets were not sufficiently broken down to enable effective monitoring. This is contrary to the Global Fund's guidelines that require that PRs prepare detailed budgets at least for the first two years. The Secretariat's budgeting guidelines clearly require that "*The Global Fund will not commit funds without a clear justification and detailed costing of the budget items which are to be funded by the Global Fund*". Therefore the budgets that are not broken down did not comply with this guideline and left the PRs with the discretion to determine what would be spent and resulted in some cases in ineligible expenditure.

#### *Budget padding*

178. Budget padding<sup>10</sup> was prevalent across most grants. This mostly took the form of inflating unit prices and/or number of items. The OIG also saw evidence that a couple of PRs had received funding from other funders to cover the same activities as the Global Fund. The OIG cannot determine how wide spread this practice is because in most cases PRs were unwilling to share information about who their other donors were and what activities they were funding.

179. The PRs argued that budget padding was necessary given the time lag between the preparation of budgets and the actual program implementation. Budgets were therefore padded to cater for foreign exchange fluctuations and inflation. In consequence, the PRs received unnecessarily high levels of funding e.g. in Philippines where a PR was able to purchase seven cars from a budget for four cars. Because all allocated budgets had to be utilized, this sometimes resulted in waste since results could have been achieved with fewer resources and in other cases resulted in ineligible costs in order to fully utilize funds received.

180. The Global Fund has recently (under Rounds 8 and 9) strengthened measures to more closely monitor the budgets proposed to achieve efficiency gains and there have been commendable savings realized. Measures that have been put in place include an independent review of budgets for large proposals for the Round 8 and 9 proposals. The Secretariat has also rolled out detailed guidance to LFAs on budget reviews in order to strengthen the review process. However this may be counter-productive since the knowledge that budgets will be cut often acts as an incentive for applicants to over-budget.

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<sup>10</sup> Budget padding is where the budget proposal is larger than the actual estimates for the program and is usually done either by increasing the program's expenses or decreasing its expected revenue.

### *Budget reallocations*

181. There were also frequent budget reallocations where funds from one budget line were moved to cover other costs. In some instances, the budget was changed to cover items that were not included in the approved budgets. The reallocations tended to move funds from technical to administration related budget lines e.g. purchase of assets and general operating costs as was seen in Cambodia and the Philippines. The PRs that often engaged in budget reallocations invariably had padded budgets and were still able to achieve targets with reduced funding in affected program areas.

182. The Secretariat has issued guidance on budget reallocations but this guidance was sometimes not followed. Most large reallocations were effected without seeking CCM or Global Fund approval. Sanctions have not been imposed previously except in cases where the OIG recommended that refunds be sought. The requirement that savings due to low implementation of activities can only be expended for the same activities in order to reach the intended targets was also not complied with e.g. in Cambodia.

### *Ineligible expenditure*

183. All PRs were noted to have incurred at least some ineligible expenditure i.e. expenditure that was not in line with the program objectives. This took on various forms e.g. (a) expenditure incurred before the grant start date that was charged to the grants; (b) payments of tax in cases where tax exemption had been obtained; (c) large unauthorised deviations from the budgets etc. There were no mechanisms in place to identify such transactions and in all cases identified the OIG recommended that funds be refunded. The Secretariat needs to closely monitor the recovery of funds.

184. Increasingly the OIG is questioning how programs are able to achieve the results when funds have not been applied to their intended purposes. This can be due to one of many things i.e. (a) budget padding; (b) undemanding targets; (c) having other funders for the same programs etc. Whatever the cause, this brings into question whether value for money was achieved.

### Program income

185. The grant agreement stipulates that any revenues earned by the PR or SRs from program activities should be accounted for and used solely for program purposes. The budgeting guidelines also stipulate that budgets should include relevant income generated from the sale of products. The income generated would then be monitored against budget periodically. However, the OIG audits often found that program income was not budgeted for or declared. When used, CCM/Global Fund approval was seldom sought.



186. The requirement in the budgeting guidelines that significant allocations arising from the realisation of program income should result in a change in the summary budget and performance framework was also not complied with. For example, in the Philippines the bank interest and the laboratory fees were used to purchase a building. In Cameroon, the bank interest was retained by a government agency. In Cambodia the funds from social marketing activities had not been declared to the PR and were only reimbursed after the audit.

### Disbursements

187. Increasingly the OIG has come across cases where due to delays in disbursements, other donors have stepped in to provide support and ensure continuity of programs e.g. as was the case in Haiti and Zambia. What remains questionable is what happens to program funds when they finally arrive in country. In such cases if funds are applied to the program then much higher results should be reported which has not been the case.

188. The disbursement of funds in some cases presented implementation difficulties to the PRs, including creating opportunity for misuse especially in light of weak PR financial controls and oversight. This was the case noted in Zambia where the release of funds just before grant closure without acceleration plans. It is questionable whether there was value for money obtained from transactions incurred in this period.

### **The prevention and detection of fraud and error**

189. The responsibility for the prevention and detection of fraud<sup>11</sup> and error<sup>12</sup> rests with the governance and the management of the PR. This is through the (a) setting of an appropriate tone at the top, (b) creation of a culture of honesty and high ethical conduct and (c) the implementation and continued operation of adequate accounting and internal control systems such as segregation of duties. Such systems reduce but do not eliminate the possibility of fraud and error and accordingly management assumes responsibility for any remaining risk.

190. As already mentioned in the introduction to this review, the environment within which Global Fund supported programs were implemented was highly susceptible to the risk of fraud and error and so fiduciary controls are needed to ensure that funds are invested in a manner that secures value for money. Indeed this was confirmed through most of the programs that

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<sup>11</sup> Fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.

<sup>12</sup> Error refers to unintentional mistakes in financial statements, such as mathematical or clerical mistakes in the underlying records and accounting data, oversight or misinterpretation of facts and misapplication of accounting policies.

presented one form of fraud risk or another. In Zambia, the PRs had identified fraud in their programs and actions taken to address it. However, in other cases there were no mechanisms in place to detect fraud when it happened:

- i. Manipulation, falsification or alteration of records or documents. This was evidenced in Zambia;
- ii. Pilferage of health products from stores as was seen in Nepal;
- iii. Charging the program for services not offered as was seen in Cameroon;
- iv. The flaunting of procurement processes to favour a particular service provider as seen in Cambodia;
- v. Overcharging by a procurement agent as was seen in Cameroon for purchases worth over US\$ 3 million;
- vi. Recording of transactions without substance as evidenced by the many payments identified that were not supported with third party documentation.

### Establishment of policies

191. PRs can prevent fraud and error by instituting policies and procedures that strengthen the control environment within which grants are implemented. However, in almost all cases the PR policies were inadequate to guide program operations and this weakened the control environment within which grants were being implemented. LFAs were expected to provide assurance during the assessment of PRs about the adequacy of policies and procedures in safeguarding resources.

192. As already mentioned, the parallel structures normally did not apply the national policies and created policies that were less cumbersome. In many cases this resulted in a weaker control environment as was seen in Zambia and Cambodia. In other instances the policies were inadequate to guide the program implementation at the scale of the Global Fund supported programs. Two PRs in the Philippines and Haiti lacked proper guidelines and were only preparing manuals at the time of the audit. Some of the policies were also not aligned to the requirements of the grant agreement.

193. Most PRs lacked formal guidelines that outlined the operational, financial and programmatic requirements that SRs were obliged to comply with when administering Global Fund grants. This resulted in significant internal control shortcomings at SR/SSR level and exposed Global Fund resources to the risk of loss. The grant agreement explicitly required that the conditions stipulated in it would be passed on to the SRs but there was in almost all cases no evidence that this was done either through the sub grant agreements signed with SRs nor manuals/guidelines for SRs.

194. There were also cases where there were controls in place but the OIG noted that management and staff overrode those controls. The management

controls were inadequate to identify cases of management override and often resulted in the loss of program funds. This was noted in Haiti where management paid themselves funds from the program and in the Philippines where management used program funds to purchase buildings. In Zambia, senior Ministry officials were implicated in a fraud investigation that was ongoing.

195. To combat the problem of fraud, another crucial element in deterring theft is the segregation of duties. There were issues noted with segregation of duties in almost all the countries audited especially in the financial management and PSM functions. The PRs attributed this to staff shortages. Situations that lack adequate segregation of duties call for stronger management involvement in order to oversee the processes but this was lacking in many PRs and often resulted in weaknesses in the two functions. In another related example, there was poor delegation of authority by management with management being involved in menial tasks and therefore losing managerial oversight as was seen in Cambodia.

196. The OIG has been faulted for the number of recommendations that are raised in its reports. However the number of recommendations is evidence of the number of areas that need to be strengthened. The recommendations seek to draw PRs attention to the scope for improvement in the management of the grant programs they are responsible for implementing. Almost all the recommendations cover the controls that the Secretariat has established as mandatory for the effective management of the programs it supports as defined in its LFA assessment tools.

### Quality of financial information

#### Books of account

197. Most PRs did not maintain proper books of account which was contrary to the grant agreement signed with the Global Fund. It is however noteworthy that the records maintained have improved over time. The OIG noted that the books of accounts were not up to date at the time of the audits e.g. in Haiti and Cameroon, the accounts were almost six months in arrears. The financial reports (PUDRs) that had been submitted to the Global Fund could not be tied to the underlying books of account in Philippines, Nepal, Zambia and Haiti. It is noteworthy that these figures should have been verified by the LFAs before they were presented to the Global Fund and by the external auditors of the PRs.

198. With regard to the financial management systems in place, the OIG noted the following issues:

- i. Some PRs used grant funds to procure accounting software but the software was not being used. This represented a missed opportunity

- for implementing an appropriate system. In Cameroon the accounting software had not been fully rolled out at the time of the audit;
- ii. Manual books of accounts and/ or books were maintained in MS Excel to record accounting transactions of multi-million dollar programs. These systems lacked checks and balances and run the risk that recording, processing and reporting errors would go undetected;
  - iii. The accounting systems in place could not link the expenditure incurred to the detailed approved budgets and therefore did not support the use of budgets as a cost control mechanisms. Grant funds were spent on activities that were not in the approved work plan and budget and without the requisite approval of the CCM and/ or the Global Fund Secretariat;

199. The PRs' record-keeping systems were generally poor with no proper archiving systems in place for securing program documentation. Invariably, some expenditure incurred could not be supported by third party supporting documentation. In Nepal, the Malaria program did not have any accounting records for the whole Round 2 Phase 1 grant. In Zambia, Haiti, Cameroon, the Philippines and the DRC, there were many transactions that could not be supported.

### **Safeguarding of assets**

#### Assets management

200. The PRs and SRs procured substantial numbers of assets e.g. motor vehicles computers, motorcycles, bicycles etc. In Cambodia, such assets worth US\$ 3.3M were procured under Rounds 1 and 2 alone. The OIG noted that assets are procured for every grant and the Global Fund continued to receive requests for more assets. The purchase of assets did not take into consideration what assets had previously been procured nor the condition that the assets were in.

201. The assets were noted to be excessive in some cases resulting in waste e.g. in Philippines, two PRs bought microscopes for the same laboratories. One PR in Zambia stated that they had given program vehicles to their staff for personal use because they did not have sufficient parking at the office. In Nepal, 16 semi-auto analyzers were purchased and never used because no training had been provided to users.

202. The controls over asset management were also weak with most PRs lacking a comprehensive register of all the assets procured. PRs also did not carry out periodic physical verification of assets raising the risk of loss and misuse. In Philippines, terminated staff left with program assets and there was no evidence seen of the PR trying to recover the assets.

203. The Secretariat does scrutinize asset acquisition and disposal at the budget screening phase. This will minimize waste of and ensure that PRs and SRs have established the real need for assets prior acquisition. Any deviations from the agreed work plan and budget should be documented and approved by the Global Fund but the OIG found that deviations are not always reported to the Secretariat.

### Treasury management

#### *Maintenance of bank accounts*

204. The grant agreement requires that grant funds are maintained in an interest bearing bank account. However, some PRs maintained program funds in bank accounts that were not interest bearing. Not only did this represent non-compliance with the grant agreement but was also a missed opportunity to increase the resources that are available for implementing program activities.

205. The grant agreement also requires that funds are kept in cash. However, PRs were increasingly holding grants funds in short term placements which in some instances was without the approval of the Global Fund. The guidance in the grant agreement on this matter is minimal and interpretation is left to the discretion of the PR which puts grant funds at risk. In the Philippines, one PR invested program funds in long term placements stating that there was no regulation that forbade this. The placement of grant funds into investments has its own risks and needs to be better regulated by the Global Fund.

206. The grant agreement provides for all income incidental to program income to be declared and reinvested into the program. However, in practice the identification, reporting and reinvestment of interest into the program sometimes did not happen. In the Philippines and Cameroon interest income was not always reported to the Global Fund and was in some cases used for non-program related purposes.

#### *Commingling of funds*

207. The OIG noted several instances where PRs commingled program funds with funds from other sources. The commingling was problematic because these PRs lacked accounting systems that could separate the funds received, spent and balances by grant. In consequence, there was a risk that program funds would be used for non-program related activities and the OIG could not verify the accuracy of reported grant balances to the Global Fund. For example a PR in the Philippines commingled grant funds and its accounting system could not isolate funds by source.

208. The Global Fund does not require PRs to maintain separate bank accounts but this is on the basis that such PRs have accounting systems that

can separate transactions. The blanket application of this guideline is problematic because of the risks alluded to above. One would expect that if a PR was assessed as having a weak accounting system then such PRs would be expected to maintain separate bank accounts.

### *Borrowing of program funds*

209. Most of the PRs entered into inter-grant borrowings where funds from one grant were lent to another program. In some cases, program funds were also often lent to other non-Global Fund related projects. The PRs attributed this to delays in disbursements. Inter grant borrowings should stop because they raise the risk that funds may not be available when needed for program implementation.

210. Personal loans were in some cases made to staff with deductions made from salaries periodically to recover the funds. The use of program funds for staff loans was not regulated and in some instances, the loans granted were large and not repaid in a timely manner. In some cases, the funds were not refunded e.g. in the Philippines where a terminated staff member was unable to clear his loans. In Haiti, the PR extended “loans” from program funds to its staff despite the fact that its regulations prohibited this practice.

### *Other key controls*

211. The OIG noted that in some cases that PRs did not declare all the bank accounts that they maintained to the Global Fund e.g. the Philippines. In other instances, bank reconciliations had not been prepared which brought into question the accuracy of the financial reports submitted to the Global Fund and the quality of verifications undertaken by the LFA in reporting on bank balances. This was noted in Cameroon.

### Advances

212. PRs advanced funds to its staff and its SRs to undertake program activities. The following advance related issues were noted:

- i. Most PRs lacked a system that recorded and tracked advances to ensure all funds advanced are put to their intended use, accounted for and that any unused cash is refunded in a timely manner. At the time of the audits, PRs were unable to provide the OIG with a listing of SRs and staff that had outstanding advances.
- ii. All PRs expensed advances upon payment and this weakened their tracking of accountabilities from districts and SRs. The records for managing advances were found to be incomplete. Advances taken by staff were sometimes not accounted for.
- iii. The liquidation of staff and SR advances was not done at all and, where done, it was not done in a timely manner. In Nepal, some

- advances to districts had been outstanding for over two years.
- iv. SRs and staff were able to take additional advances without having liquidated prior advances taken.

### **Adherence with the grant agreement**

213. Grant agreements signed between the Global Fund and PRs stipulate conditions that PRs are obliged to follow in managing the grants and to ensure that the control environment within which programs are implemented remain adequate to safeguard Global Fund investments. Key areas stipulated in the grant agreement that were not complied with are covered elsewhere in this report. The other areas of non-compliance noted are covered below.

### Conditions precedent (CPs) and special conditions

214. The agreement lists CPs to disbursement and special conditions that should be complied with in order to address capacity gaps identified during the assessment of PRs. The CPs are assigned to specific disbursements and should be met before relevant disbursements are effected.

215. In all the countries audited, the OIG noted that there were CPs waived and/or postponed when making disbursements. There was no evidence seen that the Global Fund instituted alternative measures to address the risks that the CPs and special conditions were meant to address.

216. The Global Fund's operations manual provides mechanisms for waiving or postponing the application of CPs which involves the need for Director sign off. However, the need to establish mitigating actions to address the identified risks remained a challenge.

### Taxes

217. The agreement stipulates that all assistance financed under the agreement should be free from all taxes, customs duties, tariffs, import duties and VAT. There was no evidence seen that some PRs sought tax exemption status with the Government e.g. in Nepal and Cambodia. The OIG also noted that all PRs/SRs still paid taxes on all purchases irrespective of whether they had tax exemption status. This reduced the funds available for fighting the diseases.

218. There were also instances where PRs and SRs did not withhold taxes in line with the country laws e.g. in Cambodia where despite reminders from government, no PRs withheld tax from payments to consultants.

### Reporting

219. The grant agreement stipulates that all PRs should present progress reports to the Global Fund within 45 days after the period end but meeting this requirement has remained a challenge for most PRs. The delayed reporting affected the Global Fund's ability to make timely disbursements.

### Other

220. The grant agreement stipulates that PRs should take out insurance on program assets with a financially sound and reputable insurance company. However, all the PRs audited only insured vehicles. Failure to insure assets exposes the Global Fund assets to risk of loss. The agreement also prohibits the PR and its SRs from using the Global Fund logo without having valid license agreements in place with the Global Fund for such use. The logo was however invariably used without obtaining the requisite authority from the Global Fund.



## HOW EFFECTIVE HAVE OVERSIGHT ARRANGEMENTS BEEN?

221. 'Oversight' in management jargon, is equated with 'supervision' or arrangements for reviewing an entity's performance with particular attention to mitigating risks that threaten achievement of its mandates, and root out inefficiency and poor productivity. Oversight helps an organization to enhance its effectiveness and integrity. It is performed by the units and processes that provide 'supervision' and 'watchful care' within an entity. This is usually through the assessment, monitoring, audit, evaluation, inspection and investigation.

222. In accordance with the Global Fund architecture, PRs have full responsibility for managing grants at a country level. The Global Fund Secretariat's role is primarily focused on raising funds, disbursing funds and establishing policy and assisting countries with interpreting policy requirements when procuring products.

223. The Global Fund model makes provision for oversight by the Secretariat and by country level providers such as CCMs, PR boards/oversight committees and Local Fund Agents. There are other informal oversight structures in place e.g. the development partners that play a crucial role at country level in providing oversight e.g. through participation in the CCM, and providing support to the oversight structures e.g. by funding CCMs and providing feedback on country risks. In some cases, it was interesting that the informal oversight structures had 'their hand on the pulse' of the grants more than the formal structures.

224. There is a lack of clarity on who is responsible (accountable) for oversight. There is no accountability framework in place that defines the roles, responsibilities, authorities and accountabilities of various stakeholders in the grant making process. Oversight has been one of the functions most affected as responsibility for oversight was not clearly spelt out in the model and this resulted in oversight responsibilities 'falling through the cracks'.

### PR oversight structures

225. The PR oversight structures normally took the form of Boards, Committees etc. and typically reviewed the progress of the programs against the approved work plan and ensured that the control environment was adequate to safeguard resources. The countries audited indicated that these structures were not knowledgeable of the grants and were rarely involved in providing the required oversight. In many cases, the OIG did not see evidence of the grants being part of board agendas and management being required to make grant related reports to the Boards.

226. Within the oversight structures, if fully operational, this layer of oversight would probably be one of the most effective since it is nearest to the implementation of the programs. This is also because these structures can hold grant managers accountable for their actions which may be difficult in other oversight structures like the CCM. For example, some government PRs refused to report to the CCM because they were not accountable to it. The failure to ensure that the PR oversight structures paid attention to the grants represented a missed oversight opportunity. This is based on the assumption that the structures were effectively undertaking their oversight roles.

227. The LFA reviewed PRs oversight structures as part of the PR assessments. Although the LFA assessments noted that most PRs had operational oversight bodies in place, the OIG noted that in almost all cases these oversight structures did not in practice provide effective oversight over the grants. This left a vacuum in the PR structure since there was no one checking their progress and holding the PR management accountable for their actions. Some examples noted included instances where:

- i. There were no such structures set up to monitor the program as was noted with the grants in Cambodia and one PR in Zambia;
- ii. The bodies were not appropriately constituted i.e. with regard to the membership as was the case noted in one PR in Nepal and Zambia;
- iii. They were not independent of management as was the case in one PR in Zambia, the Philippines and Haiti;
- iv. They did not meet regularly;
- v. The Global Fund programs were not part of their agenda.

228. The Global Fund supported programs should be brought on to the agendas of the PRs' oversight structures. This is because the PR managers are primarily accountable to these structures and this may be the most effective to exercise 'supervision' over the grants and possibly the only way managers can be held accountable for their actions. This may involve elevating the grant discussions to the oversight level e.g. by FPMs meeting the Board members as part of the country missions to discuss any program related issues.

### CCMs

229. Oversight is one of the core functions of the CCM. The CCM has other functions that were extensively covered in the last Lessons Learned report. This report is only restricted to the CCM's oversight function. The composition of the CCM as defined by the Global Fund brought people together from different backgrounds with different agendas. The role of the CCMs has only become apparent in recent years and this has been evidenced by an improvement in CCM operations. The Grant Management Solutions has also provided technical assistance to many CCMs e.g. in Zambia. However, oversight by most CCMs remained weak.

230. Most CCMs did not have any or had ineffective oversight mechanisms in place to oversee implementation of Global Fund programs. There were no documented CCM oversight plans as required in the Global Fund guidelines e.g. in Zambia, Nepal and the Philippines. There was no evidence seen of CCMs actively undertaking field visits to verify and/or monitor the performance/results reported by PRs.

231. CCM oversight was typically characterized by PRs reporting to the CCMs. PRs did not receive guidance on the format these reports should take and the reports submitted by PRs tended to differ in content, in most cases the information was inadequate to support the CCM oversight function and aid decision making. In some cases, PRs did not provide reports at all and in other cases, reports contained scanty program related information (Zambia and Haiti). In some cases, PRs presented good programmatic reports but with inadequate financial information (Philippines). Key information that should have been provided to the CCM e.g. the external audit reports and annual reports were not covered.

232. The aspects that have affected the CCM's effective oversight included:
- i. Despite the fact that CCMs have been around for over eight years, the CCM memberships changed over time and there are sometimes no mechanisms to orient members. This resulted generally in the lack of appreciation of their responsibilities as CCM members especially with regard to oversight;
  - ii. There was a noticeable imbalance in the CCM business with the CCM activities dominated by proposal writing and limited time being committed to oversight work;
  - iii. Most of the CCMs time covered operational matters which were at the expense of its oversight /policy setting/strategic role. Such involvement in the day to day management of grants also affected CCMs' objectivity and independence and compromised their ability to provide effective oversight of the management of grants;
  - iv. As noted in the last Lessons Learned report, the CCMs faced attendance challenges relating to the wrong calibre of people attending meetings and in forming a quorum for meetings. This affected the CCM meetings deliberations;
  - v. The CCMs continued to be affected by conflicts of interest. In consequence the CCM often did not have the independence and objectivity to undertake oversight effectively; and
  - vi. Funding for CCM activities was also a challenge. Some CCMs were successful in attracting donor funding e.g. in Cameroon and Cambodia but others did not. The Global Fund recently started funding CCMs but countries complained that the funding was inadequate and not received on time.

233. Most of the CCMs made provisions for sub committees which had either not been created, whose terms of reference had not been clearly defined and which did not meet. For example, the Zambia CCM manual provided for disease specific committees which had not been formed at the time of the audit. The committees tended to be technical and often did not address cross cutting functional areas e.g. PSM.

234. The CCM oversight shortcomings noted resulted in a failure by the CCM to identify and rectify issues that affected Global Fund programs e.g. the capacity issues that plagued some PRs were not addressed in Haiti's Sogebank and Zambia's MOFNP. This also further weakened the control environment within which grants were implemented as was the case in Haiti and in the Philippines where the CCM did not ensure coordination among PRs resulting in duplicative activities e.g. where two PRs procured microscopes for the same laboratories.

235. The Secretariat is aware of the shortcomings in the functioning of CCMs and has already embarked on a number of measures to address these issues. These include establishing a new CCM funding policy to increase funding to CCMs, a review of the CCM guidelines, development and rolling out of the CCM oversight dashboard etc. The Global Fund need to ensure that measures are fully implemented if they are to reap the benefits e.g. the Zambia CCM attempted to develop a score card for measuring PR performance but the process was never completed.

236. The CCMs by their set up brought together different stakeholders in the fight against the three diseases. The CCM by its nature was also not accountable to anyone and in the same light does not usually have the authority over the PRs as was seen in countries like the Philippines and Haiti. In fact a study on CCM effectiveness stated that PRs were considered the dominant force compared to the CCM. The CCM work was also not the core work for all CCM members and this has affected the amount of time that members can commit to CCM activities. In their current form, oversight will continue to be a challenge for CCMs.

### **Audit arrangements**

#### PR audits

237. Audits are central to the Global Fund fiduciary arrangements to ensure that grant proceeds are used for the intended purposes. The grant agreement stipulates that PRs should have their books of account audited and a report presented to the Global Fund within six months of the year end. The Secretariat has also put in place a policy which seeks to strengthen the PR audit arrangements. All PRs audited by the OIG had external auditors in place.

However the quality of audit reports and the use of reports to aid decision making remained a challenge.

238. A review of the audit reports submitted to the Secretariat revealed the following issues. Most of these issues emanate from the failure to comply with the audit guidelines set out by the Secretariat:

- i. Some of the audit reports presented still did not meet the requirements of the Global Fund e.g. the need to identify program funds. This often emanated from the auditor's terms of reference that were not aligned to the Global Fund's audit guidelines.
- ii. The audits undertaken by the Supreme Audit Institutions of Ministries tended to be for the Ministry without specific attention paid to the Global Fund supported program.
- iii. Instances were noted where there was no evidence that the audit selection process was transparent as required by the Global Fund.
- iv. Some of the program auditors were not suitably qualified as evidenced by the quality of audit reports presented. In Zambia and the Philippines, the OIG noted that there were significant errors in the audited financial statements.
- v. There were also some cases noted where the LFA was also the PR auditor. The Global Fund was alerted to this conflict of interest and nevertheless received clearance.
- vi. The audit reports were always submitted later than their due date.
- vii. Instances were noted where the PRs received qualified opinions and there was no evidence of action being taken to address the reasons given for qualification. This resulted in subsequent qualified audit opinions.

239. Auditors are expected to gain an understanding of an organisation's internal control process. It is generally expected that the auditor should identify significant shortcomings that exist and reports on material shortcomings. The guidelines on audit also require that the auditors provide management letters on the program's control environment. However in many cases, the auditors did not produce management letters. In cases where they were produced, they failed to highlight significant control shortcomings identified in the OIG audit.

### Auditor's responsibility in the detection of fraud

240. The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor should be able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The OIG however noted that the auditors did not identify any fraud

risk as part of their audits. Auditors are required to do so under international auditing standards.

241. The Global Fund programs usually get a 'true and fair' opinion in their audits and it is questionable whether this type of assurance is adequate given the environment within which the Global Fund is operating i.e. high risk. The Secretariat may wish to consider varying the types of assignments undertaken in order to get assurance on how their funds are being used e.g. value for money reviews.

### SR audits

242. The responsibility of ensuring that SRs are audited is left to the PRs i.e. by requiring them to submit an SR audit plan. As already noted, these plans are seldom in place and even when they are, they are often not implemented. In cases where SR audits are undertaken, there was no evidence that issues arising from the reports were addressed. LFA responsibility stops at ensuring that such a plan is in place and not whether it is operationalized.

243. Some of these SRs receive significant sums of money and the current arrangements in place are inadequate i.e. assuming that the PR will ensure that such audits are undertaken and follow up key issues from the audits. This may be an area where a risk approach can be adopted i.e. where the Secretariat requires that audits for significant SRs to be submitted directly to the Secretariat through the LFA until such time that the PRs are able to take this responsibility seriously.

### Internal audit

244. The Global Fund policy is that internal audit is not a mandatory requirement. Until now, internal audit has not been a necessity but a 'good to have' but this is another area where a risk approach can be applied with higher risk PRs required to have such arrangements in place and the LFA reviewing these arrangements.

### **Local Fund Agent (LFA)**

245. One of the risk management processes built into the Global Fund architecture is the LFA. The work of the LFA was guided by the terms of reference detailed in the work orders and the LFA Manual. The LFA is responsible for undertaking the following:

- i. The assessments of PR capacities and systems;
- ii. Periodic verification of the financial and programmatic PR reports including Phase 2 and RCC review;
- iii. Annual financial reporting through Enhanced Financial Reporting (EFR);

- iv. Annual on-site data verifications; and
- v. Other reviews as may be requested by the Secretariat from time to time.

246. The OIG reports have consistently identified variable performance by LFAs. The role and effectiveness of LFAs as oversight bodies have come under a lot of scrutiny and criticism in the recent past with stakeholders asking 'where was the LFA?' The question remains about the effectiveness of the LFA function as an oversight mechanism for the Global Fund. The OIG summarizes below the LFA related findings arising from the seven country audits.

### LFA scope of the work

247. The OIG noted that the work of the LFA was limited with regard to the scope of work requested by the Secretariat. Until recently the work undertaken by LFAs was fairly consistent across countries and did not take into account the peculiarities and risks specific to the individual countries. For example, in Haiti and the Philippines, very little LFA work was done at SR level yet the expenditure incurred at SR level was over 80 percent and 65 percent respectively.

248. LFAs were not always proactive in providing the Global Fund Secretariat with information on the issues or risks which could affect grant performance as was required in the LFA manual. LFAs acknowledged that some of the issues identified during the OIG audits had come to their attention but there was no evidence that they were flagged to the Secretariat. In other instances however, issues were brought to the Secretariat's attention but no response was provided on how the matters would be resolved. In these cases there was no evidence of follow up by the LFA.

249. There were limitations to the LFA obtaining information from PRs in the DRC (UNDP), the Philippines (TDF) and in Haiti (Sogebank and UNDP). This was contrary to the Global Fund grant agreement that calls for PRs to provide LFAs with access to all program records and to cooperate with the LFA on other matters as requested by the Global Fund.

250. The LFA scope of work has also been limited because in some instances there was over reliance on desk reviews without verification of the information provided. In DRC this was due to security considerations in some areas. In Zambia and Nepal this was due to inaccessibility of sites while in the Philippines, the PSM expert had never been out to witness implementation at the regional, provincial, municipal, city and barangay (city) levels. Without evaluating the effectiveness of supply management systems at the lower levels it is questionable whether the LFA would be in position to make a reliable PSM assessment.

251. The question that many stakeholders have asked is whether the LFAs are being asked to do the right things. This question can best be answered when a country specific risk assessment is carried out. This has previously been recommended by the OIG and is now being taken forward by the Secretariat.

### Staffing

252. The quality of work also depended on whether the LFA had an accounting or public health background. The accounting firms came across more strongly on the financial management aspects of the work. The only exception noted was in Zambia where the health consultant hired was strong technically. The reverse was true for the firms with a public health background that offered strong capacity on the public health matters and did not do as well on financial management aspects.

253. The failure to strike a balance between the financial, public health/M&E and PSM remained a challenge for the assurance provided by the LFAs to the Global Fund. The last LFA retender provided an emphasis on all teams having appropriately skilled specialists but in practice, this remained a challenge. The Global Fund as part of the 2008 retendering process strengthened the definition of the experts required to undertaken LFA work.

254. The OIG noted that in some cases, the staff numbers and skills deployed were inadequate to effectively undertake the work assigned to the LFA e.g. in Zambia and Philippines. This took on different forms:

- i. The proposed staff in the work orders were not always used. This is evidenced in Zambia and the Philippines where the staff used were not the approved ones on the work order. In cases where staff left the firm, there was no evidence of approval by the Global Fund to replace staff previously proposed in the work orders;
- ii. There were frequent changes of staff in the Philippines, Cambodia and Zambia resulting in a lack of continuity in services provided and this affected the quality of work as staff at times did not receive training before taking on the Global Fund account; and
- iii. The LFAs sometimes failed to adapt to changes in the environment in which grants were being implemented in order for their work to remain relevant. This was evident in Philippines and Zambia where the growth in the size and complexity of grants was not matched with an equivalent strengthening of the LFA teams to provide the requisite oversight.

255. In light of the poor quality of work delivered by the LFAs, the OIG reviewed the quality assurance arrangements that are proposed by the LFA to ensure acceptable standards. There was however limited evidence of the involvement of the Central Coordination teams in resolving the issues that impacted the LFA function in the countries audited.



256. The Secretariat's PHPM team has taken an active interest in the quality of experts offered by the firms in a bid to improve the quality of service. LFAs have been asked to replace experts that fail to meet the standards set by the Secretariat. This approach should be replicated across the other areas of expertise to ensure that to start with LFAs are appropriately staffed to do the work required.

### Quality of work

257. There was a disconnect between the work of the LFA as reflected by the ratings that PRs received and the PR assessment reports submitted by LFAs and the outcome of the OIG audit. For example PRs were rated by the LFA as having adequate capacity to implement Global Fund programs in Haiti, Zambia and the Philippines whilst the OIG concluded that there were significant shortcomings in their structures, policies and procedures.

258. The LFAs were provided with tools and detailed guidance on what areas the various reviews should cover. The tool, if rigorously completed, would provide the Global Fund with a reasonable amount of information for decision making. This tool also ensures that there is a consistent flow of information to the Global Fund from the different LFAs at country level. However, the quality of information that was passed to the Secretariat and the assurance provided was sometimes less than optimal. The tools also promoted a 'one size fits all' approach for countries with varying contexts and risks.

259. The LFA manual requires that reviews are undertaken from a risk management perspective. The LFA is also required to take into account trends in the PR's progress reported over time and mitigating factors where particular targets have not been met. Most LFAs, however did not undertake risk assessments of the PRs and the specific grants managed by the PRs. The resultant work was not targeted at high risk areas and in many instances could not point out shortcomings prevalent in the systems. In the recent past the Secretariat has called for all LFAs to undertake risk assessments and incorporate results in their work.

260. The OIG noted deficiencies in the work undertaken against the work orders signed with the LFA. This undermined and impaired the effectiveness of the LFA's role as the "eyes and ears" of the Global Fund at country level. For example

- i. The LFA was required as part of the PUDR review to check the completion of Price and Quality Reports. However, the OIG noted that this was not completed in Zambia and Haiti and this was never brought to the attention of the Secretariat;
- ii. The Global Fund threshold for grants qualifying for On Site Data Verification is US\$ 9 million. However, the OIG noted that the LFAs

did not undertake OSDVs in Zambia for grants that exceeded the threshold.

261. There were some instances where the information presented by the LFA to the Secretariat was factually inaccurate. The OIG expects an LFA to follow due diligence to confirm the factual accuracy of the information that is provided to the Global Fund for decision making. This affected the resultant recommendations made to the Global Fund for decision making. Examples of this were noted in DRC, Philippines, Cameroon, Zambia and Haiti.

262. The OIG noted poor documentation of work done by LFAs with very limited evidence of sign-off for performance and review of such work e.g. in Zambia which lacked supporting documentation up to 2008 and Cambodia where there was no information to support the reports produced. In the absence of working files, the OIG could not obtain evidence that the conclusions reached in the reports were adequately researched and supported.

263. The LFA was required to carry out their work in a swift and efficient manner to ensure timely decision making. The LFA deliverables were usually late and this affected the Global Fund's ability to make timely decisions. Specifically the LFA is required to transmit the final version of an ongoing PU/DR from the PR within 10 days after receiving the final version from the PR. From the LFA records, the delays were sometime due to late submissions by the PRs but in other cases, the delays were LFA centric e.g. in Zambia where no reports were submitted in 2009.

264. One challenge to the quality of work was the lack of proactiveness by LFAs to anticipate and provide timely solutions to emerging problems. LFAs stated that the Secretariat had not asked them to do work in areas of risk. However the LFAs could not provide evidence that they had always alerted the Secretariat of problems. The OIG also noted that simple things that could have been done to provide better assurance e.g. following up outstanding information with PRs was not done because the budget did not cater for them. The LFA mentality should in the OIG's view, move from that of a service provider to being a stakeholder in the process.

### *Areas that need strengthening*

265. PR capacity assessments often identify key control shortcomings especially with regard to absorptive capacity of national systems. The OIG identified shortcomings in areas that the LFA had provided assurance to the Secretariat on. Indeed the proliferation of recommendations by the OIG is evidence that there is still a lot to fix within the country but this is not the picture painted by the LFA assessments.

266. The challenges in undertaking assessments relate to:
- i. Assessments were normally interview based with no verification being undertaken of the information provided. The PRs were not challenged to provide evidence of the assertions made and so most of the information provided was on paper but not borne out by what happened in practice;
  - ii. Comprehensive assessments were not normally undertaken frequently. LFAs undertook incremental assessments which built on prior assessments implying that if the initial assessment was flawed then all subsequent assessments would be flawed;
  - iii. The budget review process was not strong in some countries with LFAs justifying PR budgets as opposed to objectively reviewing and questioning the assumptions contained in the budgets;
  - iv. The lack of proper analyses of the causes of identified shortcomings in order to provide sound advice on how the problems could be addressed. For example, LFAs usually recommended that PRs with capacity shortcomings should increase staff numbers or attend training but this did not always address the capacity weakness;
  - v. The drifting of programs away from national systems without plans to transition back;
  - vi. The appropriateness of indicators and targets; and
  - vii. Information provided during assessments became dated and there were no opportunities provided over time to go back and assess whether the capacities earlier assessed remained relevant to the fast pace of change within which programs were implemented.
267. With regard to the information collected over the life of the grant, the areas that 'fell through the cracks' were:
- i. Reviewing and reporting on PR and SR audit arrangements i.e. the auditor ToRs, selection process and the quality of audit report. The LFA should have alerted the Secretariat on qualified opinions in the audit reports and made recommendations on how these qualifications could be addressed. There was also no follow up of audit recommendations;
  - ii. The LFA often did not flag areas of significant non-compliance to the grant agreement. In cases where the CPs were postponed or waived, there was no evidence of the LFA reviewing the implications of these decisions and making recommendations on the residual risks identified;
  - iii. The risks under procurement and logistics management remained to a large extent unaddressed;
  - iv. The verification of results to a large extent continued to be a summation of numbers without the LFA stepping back to consider what the implication of the results in light of the big program picture;

## Lessons learned from the OIG's country audits: 2010

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- v. The audits raised questions about the processes followed and programmatic data reported by PRs although the LFAs had cleared these areas;
- vi. The basis of PUDR clearance when some PRs did not maintain proper books of account;
- vii. Significant internal control shortcomings that were pervasive to some grants were not identified;
- viii. The correlation of financial results to programmatic results e.g. the LFA stepping back and asking how grant specific results were achieved when funding had not been disbursed; and
- ix. Making appropriate disbursement recommendations based on results and in line with the performance based funding.

### LFA performance evaluations

268. The LFA costs continue to dominate the Global Fund's operating budget (the LFA budget stands at US\$ 72M in 2011). However, given the quality of services noted and the level of assurance provided it remains questionable if the LFA model reflects best value for money.

269. The last LFA retender process placed an emphasis on the evaluation of the performance of the LFA over time. This was supposed to create a basis for the retender process that should be run in about a year. In Haiti the Secretariat made a decision to change the LFA due to performance issues but this decision was later reversed. In Zambia and Cameroon the OIG recommended that the Secretariat consider changing the LFA based on the gravity of issues noted at a country level and the quality of service offered by the LFA. This recommendation has not been implemented and therefore raises a fundamental question on how effective the performance evaluation process is if LFAs are not held accountable for the quality of their work.

### Actions already in place at the Secretariat

270. The Secretariat has already embarked on steps to strengthen the LFA role which started with the LFA re-tendering in 2008/9. Additional measures include enhanced and systematic review of LFA performance, focused and more frequent LFA training, review and improvement of guidelines for LFAs (including instructions on LFAs taking a more risk-based approach to their reviews), willingness to replace LFAs where performance has been sub-standard etc. The effectiveness of the measures put in place to address the shortcomings can only be assessed over time. That said, the Secretariat have terminated the contracts of 10 LFAs in the last year based on poor performance.

## Secretariat

### What level of oversight does the Global Fund model expect from the Secretariat?

#### *The Global Fund as a financial instrument*

271. As a financial instrument rather than an implementing entity, the Global Fund:

- i. Relies on local stakeholders at the country level to implement programs;
- ii. Promotes rapid release of funds to assist target populations;
- iii. Monitors and evaluates program effectiveness and makes decisions on future funding based on program performance and financial accountability; and
- iv. As far as possible encourages the use of existing standards and processes in grant recipient countries.

272. The Global Fund applies a “light touch” to grant management by relying on local stakeholders at the country level to implement programs and manage grant proceeds and encouraging the use of existing standards and processes in grant recipient countries. This is consistent with the principle of ‘national ownership’. The Global Fund sets minimum principles and standards and not detailed procedures that guide implementation at a country level. It also monitors program effectiveness and makes decisions on future funding based on program performance and financial accountability. However, the “light touch” nature of the Global Fund raises risks especially when viewed in light of the environments within which the programs are implemented.

273. The Global Fund model in its current form arguably does not allow for the establishment of effective oversight arrangements in order to strengthen controls at a country level and ensure better value for money for its investments. Any further measures instituted by the Secretariat may be seen as the Secretariat overstepping its mandate with regard to national ownership.

274. The Global Fund has put in place certain fiduciary arrangements to ensure that the financial risks noted above are mitigated without imposing unnecessary new burdensome requirements on grant recipients. For example the assessments, verifications by LFAs, the additional safeguards policy<sup>13</sup>, audit arrangements etc. which if undertaken effectively should mitigate this risk. However as noted from the country audits, these arrangements are not fully effective.

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<sup>13</sup> The Additional Safeguard Policy is invoked when existing systems to ensure accountable use of Global Fund financing suggest that Global Fund monies could be placed in jeopardy without the use of additional measures.

275. Failure to strengthen the oversight function in the name of efficiency and letting national ownership take pride of place will come at the price of increased risk and may put the Global Fund's investments at risk. As the Global Fund continues to learn from its past experiences and make amendments to its operating model, this is an important issue that should in the OIG's view be considered.

276. The Global Fund's oversight is also underpinned by the work of the LFA. The extent to which these reviews have identified issues that are pertinent to the grants varied but in most cases was questionable. The Global Fund applying the current model also has limited choices when compared to other development partners like the World Bank because other mechanisms would be viewed as intrusive and going against the grain of the Global Fund model. So unless the LFAs' effectiveness improves, the oversight and decision making by the Global Fund will remain sub optimal.

### *The Global Fund's performance measures*

277. The Global Fund to Fight AIDS, Tuberculosis and Malaria was created to dramatically increase resources to fight three of the world's most devastating diseases, and to direct those resources to areas of greatest need. Under the measurement of its operational performance, the Global Fund is measured for its financing efficiency i.e. the speed of grant signing and disbursement and volume of financing. This KPI is reflected in the performance objectives of regional teams and the FPMs.

278. At the time the Global Fund was set up, this KPI was appropriate to address the urgent needs of recipients. Eight years later, programs should have evolved out of the 'emergency' mode. In light of the environment within which the Global Fund operates i.e. high risk, resource constrained, sometimes high transaction costs etc., the Board might wish to consider revisiting the KPIs that measure Secretariat performance, perhaps providing emphasis on the quality of disbursements as opposed to just volumes and speed of disbursements. Consideration may also be given to incorporating value for money measures under accountability.

### Who is responsible for oversight?

#### *Fund Portfolio Managers*

279. The Global Fund's oversight is coordinated by the Fund Portfolio Manager (FPM). The FPM interacts with country structures including the CCM, LFA, CPs and other sector players to facilitate smooth program implementation. Since the Global Fund, by design, has no direct in-country presence, the FPM relies greatly on the work of the LFA and feedback from the other in-country

stakeholders to make grant decisions.

280. The roles of the FPM are defined in the job descriptions that are reflected in the advertisements for FPMs. The description lists the range of activities that an FPM is responsible for grant negotiation, ongoing grant management and disbursement, program analysis and management, LFA management, information management, Global Fund representation, policy and strategy, support to Country Team, supervision and support to the Regional Team Leader.

281. The range of activities that the FPM is responsible for is diverse and brings into question what type of person the Secretariat should recruit bearing in mind that the Global Fund is a financial institution. The range of the activities an FPM is responsible for arguably goes against the grain of the principle of segregation of duties. The primary objective of segregation of duties is the prevention of fraud, errors, and abuse of authority and it is achieved by splitting tasks for a specific business process among multiple players. The CTA when fully operationalized can address the risks arising from the lack of segregation.

282. The seven OIG audits show that the Secretariat's oversight of grants has improved over the years as policies have been embedded in the grant making process. However there are variations in the oversight provided which could be due to a number of factors e.g.:

- i. There is no evidence of a set standard for the quality of oversight an FPM should provide and this has resulted in a lack of consistency of oversight offered by the Secretariat to the regions e.g. the work done by FPMs during country trips differed. This notion is reinforced in the Five year Evaluation<sup>14</sup> that states that *"...the Secretariat-level responses to PSM problems in countries are ad hoc and lack standardization. Some FPMs are actively intervening to resolve problems while others are more prone to leave this up to partners or the CCM. This was expressed in a staff interview as, "everything filters through the FPM's individual values."*
- ii. As already stated, the environment determines what strategies work. The role of the FPM will definitely be impacted by the factors in the environment and they should be supported to adapt to any changes. For example, the current drive for the grant management process to take into account risk assumes that everyone knows how to identify risk factors and apply these to the grant management process. The Secretariat should consider having programs that provide skills training to its FPMs to address risks that may emerge over time.
- iii. The KPIs have a bearing on the level of oversight provided by FPMs. As already stated, the KPIs as they stand today, favor speed and

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<sup>14</sup> Five year evaluation - Study Area 1 (Page 117)

volume of disbursements and by implication, a good FPM is one that can disburse more funds. In the same light, an FPM that withholds disbursements because of perceived risk in the grants may not be viewed as performing well.

- iv. The OIG audits have revealed instances where Secretariat oversight has been sub optimal. In a few cases, contraventions to policies have been with FPM approval. The problem noted was not so much the decision taken but the inadequate justification and support for the decision taken. This brings into question the principle of accountability i.e. the acknowledgment and assumption of responsibility for actions within the scope of a role or position, encompassing the obligation to report, and be answerable for resulting consequences.
- v. Increasingly, staff have complained about the work load and these complaints should be reviewed because if true will most definitely affect the quality of oversight.
- vi. The country audits revealed that oversight in most cases improved with changes of the FPM and this triggered the thought of the benefits of rotating FPMs. It has been proven that employees cannot sustain an interest in a given job for a substantial length of time as humans tend to outgrow their jobs. The Global Fund should consider rotation but this should be implemented as an HR strategy and planned appropriately so that it is not abused and it does not adversely affect grant management. Rotation would provide intrinsic motivation to staff by providing new challenges, remove complacency, provide job enrichment, improve performance, align competencies with organizational requirements, lower attrition rates etc. and optimistically take the individual and organizational performance to a higher plane.

283. All the above points to the need to (i) set standards for oversight; (ii) use this to refine the FPM terms of reference; (iii) assess the fit between the terms of reference and staff; (iv) develop a skills development programs to address any capacity gaps identified; and (v) hold people accountable for their work.

### *Country Team Approach*

284. The Global Fund has adopted the Country Team Approach (CTA) in order to enhance collaboration in grant management across the Global Fund Clusters. Under this approach, the FPM and representatives from the technical advisory teams i.e. Pharmaceutical Management Advisory Services (PMAS), Monitoring and Evaluation (M&E), Finance; and Legal form the Country Team. The extent of involvement of the technical advisory teams depended on whether the full



CTA<sup>15</sup> was applicable or normal or light CTA<sup>16</sup>. The CTA definitely has considerable merits. Time will tell whether it is effective in strengthening decision making and strengthening oversight.

285. If past experience is anything to go by, then the CTA will only be as effective as its application. In light of this, the areas that the Secretariat should consider as it rolls out the CTA include:

- i. Resolving the contradiction between the goals of the FPM and the technical advisory groups. The CT members work together to meet the goals and corporate key performance indicators within agreed timelines. The FPMs are assessed against their ability to sign agreements within the approved timelines and thereafter disburse funds to countries while the technical teams have the responsibility to ensure that due diligence is followed to identify and mitigate risks that Global Fund investments may be exposed to. This due diligence is likely to raise issues that delay the signing of agreements and disbursement of grants;
- ii. Identifying the specific environments that their countries operate in and using this information to identify grant risk factors and critical success factors and using these aspects to develop strategies for effective grant management;
- iii. Developing an 'air tight' process that ensures that the CTA is respected by all, is not person centric and is consistently applied across teams;
- iv. Putting measures in place to address the issues related to functional 'silos' which emanate from the set-up of the organization which is by function. The technical advisory teams that are responsible for ensuring that grant funds are protected from Global Fund fraud, waste, or abuse should not undertake their work in isolation but should ensure that all decisions are made in light of the work of the other functions and the overall Global Fund mission;and
- v. Implementing an accountability framework that addresses the roles, responsibilities, authorities and accountabilities of various stakeholders to ensure that the grant making process is managed more efficiently and effectively. This framework within the CTA should also hold technical advisory teams accountable for decisions made.

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<sup>15</sup> The Fund Portfolio Manager and relevant technical members of the Country Team reach a joint decision.

<sup>16</sup> The Fund Portfolio Manager reaches a decision with *advice* from other teams, except when the critical nature of a technical issue calls for a joint decision.

### What factors affect Secretariat oversight?

#### *Risk management*

286. A few years ago the Global Fund embarked on a process to develop a risk management framework with a particular emphasis on helping to construct a corporate risk profile for the Global Fund. The OIG will under its 2011 audit plan review the progress made on this process.

287. In an article, *Creating profitable advantages from Enterprise Risk Management*, enterprise-level risks were compared to what icebergs are to large ships i.e. where the majority of the risk is not visible above the surface. The article stated that organizations do not address enterprise-level risks not because they are not aware of them but because the overall value and meaning of each risk situation has not been assessed and mitigated. It goes ahead to state that unless addressed, resources will have to be spent later putting in place countermeasures to address risks that hit the organization.

288. To be effective, the Global Fund should institutionalize the concepts of risk management into its organizational culture and environment. The operationalization of risk management in its processes will help the Global Fund identify and tackle risks accordingly, encourage efficiency and ensure that appropriate decision making happens at all levels bearing in mind risk. It will also build donor confidence because they will know that the risk factors are being identified and addressed.

#### *Policies*

289. The Global Fund's role in oversight is primarily focused on policy setting and assistance to countries with policy requirements. The shortcomings noted throughout the report are not because there were no policies in place to guide the processes but because the processes were not implemented. The OIG has throughout this report pointed to various policies put in place by the Secretariat to mitigate anticipated risks which have not been implemented by the PRs.

290. The Global Fund has set out its primary policies in the grant agreement which provides a legal basis for ensuring the rights and responsibilities of both parties are stated. It also lists the conditions that recipients are meant to comply with in order to safeguard grant assets and reduce the risks that the grant monies are exposed to. The grant agreement has been supplemented with various guidelines. Internally the Global Fund has an operations manual that details the structures, policies, processes and relationships involved in the grant making process.

291. It is commendable that the Global Fund has continued to refine its policies to address and mitigate risks. However one cannot assess the effectiveness of the policies because they have not always been implemented at the operational level. The failure by PRs to comply with the conditions in the grant agreements and relevant guidelines has been raised in all country audits. There is also currently no effective mechanism to 'police' and enforce compliance with grant agreements and guidelines. Moreover, there are currently no sanctions imposed on PRs who fail to comply with grant agreements.

292. The Secretariat should consider refocusing its efforts to compliance with guidelines. Measures like ensuring that recipients are audited by a reputable firm would go a long way in strengthening grant oversight. Significant deviations from set policies should no longer be tolerated in order to ensure recipients have control environments that can safeguard grant resources.

### *Tools*

293. The OIG sought to obtain grant related information as part of the country audit planning process but noted that the available information and record keeping differed by country. In some cases, the OIG was referred to the LFA for information. The grant management system was manual with some information available in hard copy and other information available electronically on share point or on FPM's emails. The interfaces between the operations teams and the technical advisory teams are manual with grant related information scattered across the Secretariat.

294. The Global Fund should consider computerizing the grant management process. The computerized process would ensure consistency and make the process more efficient. This system would also ensure that that grant related information maintained is comprehensive, consistent, timely and relevant. The system would also incorporate control mechanisms that act as checks and balances to ensure that decisions are made in accordance with stipulated processes

295. The Global Fund has developed tools and templates over time. The tools have been adjusted to address risks that have been identified over time. The forms in some cases have become overly complicated and long. The computerization of the system would be an opportunity to revisit the appropriateness of tools to provide information for decision making in an efficient and streamlined manner.

### *Role of the LFA*

296. In the current model, the LFA remains central to the oversight of the grants. The fact that there are many challenges that have plagued the LFA model points to a need to rethink strategically how the model can best be modified to provide the requisite oversight. With the past experience under its belt and another LFA retender just round the corner, this may be the time to step back from fixing specific LFA emerging issues, (e.g. band aid) and consideration be given to how it can be reformed radically to make it more effective.

297. Over and above this, the following areas need to be addressed:

- i. Addressing the question about whether the LFA is being asked to do the right things. This question can only be answered once a risk assessment is undertaken and key success factors identified for each country;
- ii. The work of the LFA was FPM centric with some LFAs encouraged to have a hands on approach and others told to step back to allow national ownership. Some LFAs have commented about how working with different FPMs on the same grant is significantly different. There needs to be a standard set and a consistency across countries.
- iii. There is a need to ensure that the LFA remains independent and is able to provide accurate information to the Secretariat without fear or favour. In the LFA's view, the FPM is the boss and during country audits, some LFAs have expressed concern that they are asked to cut back on findings (or even change them) and some have flagged issues that have not been actioned by the Secretariat. The risks can be addressed if the CTA is effectively rolled out.

### *Better collaboration with the development partners*

298. The five year evaluation alluded to the need to build stronger partnerships e.g. with the in country partners. The Global Fund should encourage this collaboration especially having continued dialogue between FPMs and development partners because, as already mentioned, in country partners have grant related intelligence.

### *Innovation*

299. Innovation primarily started with companies in the private sector as they have tried to stay ahead of competition. Organizations in the public sector are increasingly aware of the need to innovate i.e. delivering services in creative, dynamic, cost efficient and effective ways. In the resource constrained environment, the Global Fund should also consider putting mechanisms in place that cause it to continuously self-evaluate and continuously seek to improve its performance since this will result in more lives being saved and also stay ahead

in the 'competition for funding'. Innovation will not only result in better ideas for grant management but improved performance as systems and processes are refined, increased staff satisfaction, motivation, productivity and retention and better team work.

300. The current reform agenda at the Secretariat is one such process through which ideas can be sought with the best ideas harnessed and translated into policies that are put into practice and closely monitored. That will result into a more effective organization. In order to transition to an innovative organization, *everyone* throughout the organization should be engaged in the task of developing and implementing new ways to reach the organization's goals. Ideas should be sought from levels below manager level since they are nearest to the operations of the grants and are best positioned to know the problems, their underlying causes and possible solutions. Innovation also means that problems cease to be about 'who' and move to 'what' with problems being seen as opportunities to innovate.

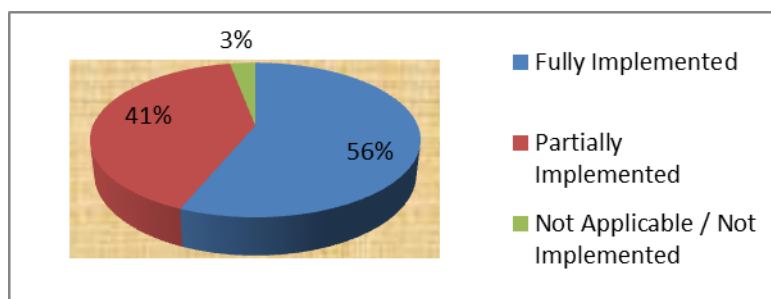
### HAVE PAST AUDIT RECOMMENDATIONS BEEN IMPLEMENTED?

301. For each audit recommendation, the Secretariat seeks to ensure that the responsible party for taking action has done so to the timeline agreed. The Secretariat provided the OIG with a status report on the implementation of recommendations.

302. This status was then validated by the OIG and when it had done so, the recommendation was considered closed. Where audit recommendations were partially implemented or not implemented at all, the status remained open. The OIG considered whether the action taken was appropriate in resolving/remediating the identifying risk. In cases where it was not feasible to implement the audit recommendation, the OIG reviewed the decision taken to assess if the Secretariat had taken adequate actions to ensure that the risks identified were mitigated.

303. The OIG received status of implementation reports for two countries i.e. Tanzania and Uganda but was unable to validate the status of implementation due to the non availability of the relevant staff. All of these countries still had outstanding recommendations and none of the audits could be closed off. These countries will be reviewed as part of the next review.

304. The OIG's review of the implementation status of audit recommendations revealed different results and areas of the process that needed strengthening. The overall verified status of implementation of audit recommendations is detailed in the chart below:



305. The process within the Secretariat to periodically follow up and monitor implementation of recommendations especially at the country level can be better defined and strengthened further. In consequence, the follow up, by the Secretariat, varied with the extent of implementation depending on the pro-activeness of the country team. The Secretariat should consider including in the TORs of the LFAs and external auditors of relevant countries a requirement to review the status of implementation of OIG audits.

### Implementation status

306. The details of the validation exercise of the status of implementation revealed misclassifications of implementation status by the Secretariat. The table below provides details of the validation exercise of 351 recommendations.

	Fully implemented		Partially implemented		Not implemented	
	Secr.	OIG	Secr.	OIG	Secr.	OIG
Review of grant application processes	5	19	21	8	2	1
Review of PSM management	0	7	12	10	5	0
DRC Country audit	0	22	49	27	1	1
Lessons Learnt from the country audits	2	2	19	19	1	1
Philippines country audit	29	45	17	5	10	6
PSM and Service Delivery - India	29	26	42	46	1	0
Review of LFA Tendering Process	15	16	1	0	1	1
Review of PR audit arrangements	37	37	0	0	0	0
Review of suspension and termination Processes	9	15	22	22	6	0
Sierra Leone	12	11	3	3	0	1
<b>Total</b>	<b>138</b>	<b>196</b>	<b>186</b>	<b>146</b>	<b>27</b>	<b>11</b>

307. The misclassifications noted above were often the result of narratives provided being outdated.

308. There was also a lack of clear guidance on when a recommendation should be reclassified from a status of “partially implemented” to being considered as “fully implemented”.

309. To address the issues above, the Secretariat should periodically, say quarterly, commit to updating the implementation status of the recommendations and clear guidance should be provided on when recommendations can be considered to be ‘fully implemented’.

### Timeliness of implementation of recommendations

310. Recommendations are sometimes not implemented on a timely basis as evidenced by the many actions not completed by the set target dates. There was also no process in place to identify, analyze causes of delays and correct the dates of implementation so that they remain relevant. The OIG noted that

## Lessons learned from the OIG's country audits: 2010

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33 percent of the partially implemented recommendations were actually “overdue”, i.e. the completion dates for implementation of these recommendations have elapsed. The table below shows the ageing of overdue recommendations:

	Number of recommendations
Less than 6 months “overdue”	6
6-12 months “overdue”	19
Over 12 months “overdue”	53
<b>Total</b>	<b>78</b>

311. In most cases, documentation to support the status reported was not readily available. The Secretariat did not maintain sufficient documentation to support the status of implementation and this complicated the validation process of actions taken to address identified risks.

312. In order to ensure proper follow up of recommendations, it is now commonly considered as best practice in other organizations to include the follow up of audit recommendations as part of management’s objectives. The Secretariat should consider adopting this approach in order to strengthen its follow up of recommendations. All PR level implementation of recommendations should be conditions precedent. Additionally, where the completion date has elapsed without achieving full implementation status, FPMs and PRs should be required to justify an extension of the target dates and a revised completion date instituted in agreement with the OIG.

### Clearing of recommendations that are no longer applicable

313. The OIG realizes that with time, some recommendations may become irrelevant due to a change in the circumstances e.g. in Haiti where the PR resigned after the audit. However, there is no process in place to guide the classifying of recommendations, which were previously agreed upon in an action plan, as “Not Applicable”.

314. The Secretariat should define the process that should be followed when a decision is reached not to implement a recommendation. The country team should justify the decision including an assessment of whether the risk initially identified has been resolved and if not, what alternative actions will be put in place to address the risk. Ideally such a process should be done in consultation with the OIG.



## WHAT NEXT?

315. Recommendations were developed in the country audit reports to address the various issues identified at a country level. This report does not repeat these recommendations but looks at issues that are over-arching and which would be a good basis for consideration as part of the reform agenda. In light of this, the draft report was shared with the Board's Comprehensive Board Working Group on 5-6 March 2011.

316. Strategically the Global Fund need to consider:

- i. The relevance of the model as it was developed given the environment that the Global Fund is operating in. The Global Fund needs to consider whether it should retain or redefine its principles of being just a financial institution, reliance on national ownership, additionality etc. If the model is to stay as it is, then consideration should be given to identifying how best to mitigate the risks that emanate from the model. This would include consideration of the need for more directive and proactive engagement in grant management at country level and in questioning the continued absence of country presence;
- ii. Embracing risk management and making it part and parcel of the grant making process; and
- iii. Revisiting the appropriateness of its KPIs in light of the need for increased consideration for quality of products, service delivery and value for money.

317. Operationally, the Global Fund should consider:

- i. Establishing minimum acceptable capacity standards, assess PRs and hold them accountable when things go wrong;
- ii. Enforcing its policies and guidelines that have not been implemented at country level starting with the grant agreement and instituting mechanisms to monitor compliance by recipients e.g. in areas like quality assurance, staff salary rates and types, budgeting ;
- iii. Establishing or clarifying policies that are not in place to address the risks related to the common high risk areas e.g. management fees;
- iv. Introducing in the performance frameworks indicators related to the qualitative aspects of the grants e.g. evaluations and value for money;
- v. Operationalizing reward mechanisms and punitive action to the grant making process especially in line with the PBF;
- vi. Establishing an accountability framework that clarifies the roles, responsibilities, authorities and accountabilities of various stakeholders within the Global Fund model;
- vii. Incorporating transition clauses with set deadlines when parallel systems are established; and

- viii. Optimizing the available data validation processes in place to further enhance data quality.

318. Specifically, the areas that the Global Fund should consider as it goes through the reform are:

- i. Strengthening the procurement processes so they always represent value for money. This may need the LFA to monitor high risk transactions;
- ii. Minimizing the loss of products by strengthening the logistics management chain;
- iii. Ensuring the safety of patients from counterfeit and/or sub-standard drugs by enforcing the requirement to test pharmaceuticals throughout the supply chain;
- iv. Improving accountability by enforcing the requirement that proper books of account are maintained and all transactions adequately supported, the failure of which would result in a refund;
- v. Strengthening controls over expenditure by ensuring that budgeting guidelines are consistently applied across the Secretariat and that the LFA undertakes a more thorough review against budgets;
- vi. Regulating the cost areas that are most prone to abuse by requiring full disclosure of these activities in reports and requiring that verification of activities is undertaken e.g. salary rates and types, management fees, training, per diem payments, travel etc.;
- vii. Establishing the real needs before acquiring further assets;
- viii. Developing measures to establish additionality and monitor it across all countries;
- ix. Providing guidance on the types of environments where the sale of products would be appropriate;
- x. Instituting capacity building programs and processes for transitioning programs to national systems; and
- xi. Encouraging programs to undertake evaluations etc.

319. There is scope to strengthen oversight by:

- i. Considering how CCMs can be made effective in their current form i.e. taking into consideration that they are not accountable to anyone, are plagued by conflict of interest and have not devoted adequate effort to oversight.
- ii. Addressing appropriateness of LFA terms of reference and matching the skill set with the terms of reference. LFA performance should be assessed more stringently so that they are held accountable for significant problems identified in grant management;

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- iii. Revisiting the audit arrangements followed by the recipients to ensure that they provide adequate assurance on grant implementation;
- iv. Strengthening collaboration with its in country partners; and
- v. Strengthening the Secretariat oversight through, among other things, computerizing the grant making process, incorporating risk management in its business processes etc.

ANNEX 1: Risk factors identified by country

	Cambodia	Cameroon	DRC	Haiti	Philippines	Zambia	Nepal
<b>Risks related to how funds were spent</b>							
Inadequate forecasting and quantification	✓	✓	✓	✓	✓	✓	✓
Deficient procurement processes	✓	✓		✓	✓	✓	
Logistics related challenges	✓	✓	✓	✓	✓	✓	✓
Counterfeit/ Substandard drugs	✓						
Management fee related issues	✓		✓	✓		✓	✓
Unjustifiably large staff numbers	✓			✓	✓		
Unreasonable incentives and unsupported salary increases	✓			✓	✓	✓	
Salaries not harmonized with sector	✓		✓	✓		✓	✓
Top up allowance issues	✓	✓		✓	✓	✓	✓
Creation of unauthorized severance funds				✓	✓		
Questionable basis for allocation of common costs	✓		✓	✓	✓	✓	
Issues with patient incentives	✓	✓	✓	✓	✓	✓	✓
<b>Risks related to data quality</b>							
Weaknesses in the M&E systems	✓	✓	✓		✓	✓	✓
Indicator related weaknesses	✓	✓	✓		✓	✓	✓
Data quality issues	✓	✓	✓	✓		✓	
<b>Risks that that affect effectiveness of aid</b>							
Systems nonaligned to the national systems	✓		✓	✓	✓	✓	✓

## Lessons learned from the OIG's country audits: 2010

	Cambodia	Cameroon	DRC	Haiti	Philippines	Zambia	Nepal
Capacity related issues including absorption	✓		✓		✓	✓	✓
Additionality and sustainability issues	✓	✓		✓	✓	✓	✓
PR that is a Multilateral organization or INGOs with no plan to transition		✓	✓	✓			✓
Poor coordination with other programs	✓	✓	✓	✓	✓	✓	✓
<b>Effectiveness of control mechanisms to safeguard resources</b>							
Proper books of accounts not maintained	✓	✓		✓	✓	✓	✓
Failure to comply with budgets and work plans	✓		✓	✓	✓	✓	✓
Ineligible unsupported or irregular expenditure	✓	✓	✓	✓	✓	✓	✓
Advances not recorded appropriately	✓			✓	✓	✓	✓
Asset management related weaknesses	✓	✓	✓	✓	✓	✓	✓
SR management related issues	✓	✓	✓	✓	✓	✓	✓
Investing program funds in short term investments					✓		
<b>Compliance</b>							
Incidental income not accounted for	✓	✓	✓	✓	✓	✓	
Inadequate or late reporting to the CCM or Global Fund	✓		✓	✓	✓	✓	✓
Noncompliance	✓					✓	✓

## Lessons learned from the OIG's country audits: 2010

	Cambodia	Cameroon	DRC	Haiti	Philippines	Zambia	Nepal
with the local tax laws							
Tax paid/ Inadequate effort to recover or get exemption	✓		✓		✓	✓	✓
Some assets not insured	✓	✓		✓	✓	✓	✓
<b>Oversight</b>							
Recommendations from prior reports not implemented		✓	✓	✓	✓	✓	✓
CCM conflict of interest	✓	✓	✓		✓	✓	
Undocumented processes to appoint PRs	✓	✓	✓				✓
Weaknesses with PR oversight structures	✓	✓	✓	✓	✓	✓	✓
LFA conflict of interest		✓				✓	✓
Inadequate assessment of PRs by LFA	✓	✓		✓	✓	✓	
Inadequate follow up of issues by the Secretariat		✓	✓	✓	✓		✓