



Audit Report

# Recoveries

Limited scope review of the Secretariat's Recoveries Report for the period up to 31 December 2015

GF-OIG-16-021  
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Geneva, Switzerland

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# I. Background

The Global Fund makes grants to implement public health programs in over 100 countries. These grants are designed to ambitiously develop and scale-up the delivery of health services. In some environments, this represents a significant risk given the institutional weaknesses and low capacity of the entities involved. The economic and social environment may also present material challenges to effectively deliver services. The Secretariat institutes measures to ensure that funds disbursed to implementers are appropriately managed; however, where non-compliance with grant agreements is identified, the Secretariat takes actions to address underlying weaknesses and seeks recovery of funds which were not used in accordance with the grant agreements. Recoveries typically arise from:

- published OIG reports (audit and investigations) referred to as OIG identified non-compliant expenditures; and
- normal course of grant management referred to as non-OIG identified recoveries.

While the OIG makes findings of non-compliance with the grant agreement, the Secretariat is responsible for taking corrective actions, including determining the appropriate amount to recover from implementers, and other management actions, as may be appropriate.

The OIG may propose remedies that include the recovery of funds compromised by contractual breaches. Under their contractual agreement with the Global Fund, grant implementers may be required to immediately refund any disbursements in cases of fraud, misrepresentation or breaches of any provision of the agreement. Recoverable amounts can be of various types, including for unsupported, fraudulent or otherwise irregular expenses without the assurance of delivery; overpricing between the price paid and comparable market price for such goods or services; ineligible expenditures; etc. The Secretariat is responsible for determining the final amounts that it will seek to recover and, in the course of that evaluation, management may occasionally make adjustments to the recovery amounts proposed by the OIG.

## **Board direction on recoveries**

A Board decision in May 2011 requires the Secretariat to publish a “Losses and Recoveries Report” before each regular Board meeting. The roles of the Secretariat and the OIG with respect to recoveries were further clarified at the November 2014 Board Meeting (GF/B32/DPO4 – see Annex C for the full text of the decision). Based on this decision, the Secretariat is required to:

- develop a methodology and format for reporting on recoverable amounts identified in the due course of grant management; and
- prepare and submit a report to the Audit and Ethics Committee in collaboration with the Finance and Operational Performance Committee<sup>1</sup> on a semi-annual basis for review.<sup>2</sup> This report should include the amounts reported by the OIG as being non-compliant and/or as constituting financial loss; the amounts deemed recoverable by the Secretariat based on the OIG’s findings and progress on outstanding recovery actions.

Under the same decision, the OIG is required to provide separate assurance on the recoveries process through regular reporting on the implementation progress of agreed management actions and reviewing of recoveries-related activities as agreed with the Audit and Finance Committee. The OIG last reviewed the recoveries process in August 2013 and analyzed in detail the recoveries-related agreed management actions in 2014.

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<sup>1</sup> The relevant mandate of these committees has now been joined in the Audit and Finance Committee

<sup>2</sup> Periods ending 30 June and 31 December of each year

## Secretariat's management of the recoveries process

To facilitate the determination of the appropriate amounts to recover from implementers, the Secretariat created a Recoveries Committee in July 2012. The Committee, chaired by the Chief Risk Officer, comprises the Head of Legal and Compliance, the Treasurer, and the Head of Grant Management. The OIG is invited to its meetings as a permanent non-voting observer. In addition to advising the Executive Director on the necessary actions required to resolve recoveries cases, the Committee also provides oversight of the recoveries processes. The Executive Director reviews and decides on all recommendations proposed by the Committee.

### Report for the period ending 31 December 2015

The Secretariat submitted its Recoveries Report for the period ending 31 December 2015 in line with the Board decision on recoveries. The report included recovery cases identified by the OIG since March 2009.<sup>3</sup> For the first time, non-OIG recoveries were included in the report. The non-OIG recoveries are identified by the Secretariat during the normal course of grant management. The amounts reported by the Secretariat are summarized below:

Table 1. Recoverable amounts as at 31 December 2015, all amounts in US\$ thousands.

	OIG identified	Non-OIG identified	Note
<b>Non-compliant expenditure</b>	137,940	17,613	Amount compromised due to implementers' non-compliance with grant agreement.
<b>Management adjustment</b>	<u>-27,727</u>	<u>-308</u>	Adjustments made by management based on additional considerations, which may include review of additional documents, and retroactive approval of expenditures reported by OIG as non-compliant where sound rationales exist
<b>Gross Recoverable</b>	110,213	17,305	Amount to be recovered after management adjustment
<b>Amounts Written off</b>	-3,489	-106	Amount considered unlikely to be recovered and written off by the Secretariat
<b>Allocation reduction</b>	-6,320	-	Reduction made to Countries allocations as means of resolving difficult cases
<b>Amounts recovered</b>	-47,318	-967	Actual recoveries made either in a form of cash or replacement of lost assets.
<b>Committed to pay</b>	<u>-14,863</u>	<u>-</u>	
<b>Net after commitment</b>	38,223	16,232	

<sup>3</sup> The first published OIG report to identify non-compliant expenditure was in March 2009 (cf [OIG reports here](#)). Prior to 2009, there was no formalized approach for identifying and recovering misused or non-compliant expenditure.

## II. Scope and Rating

This limited scope review follows the Board decision which requires the OIG to independently validate the Recoveries Report prepared by the Secretariat.

The review assessed the accuracy and completeness of the amounts listed in the Recoveries Report submitted to the Board for the period ending 31 December 2015. Specifically, the limited scope review sought to:

- confirm completeness and accuracy of the recoverable amounts reported to the Board;
- confirm that recommendations of the Recoveries Committee and decisions by the Executive Director are properly captured in the Recoveries Report; and
- assess the status of the recoveries listed in the Recoveries Report.

In performing the limited scope review, the OIG reconciled the amounts reported by the Secretariat to underlying supporting documentation such as OIG published audit and investigations reports, minutes of the Recoveries Committee meetings, the Executive Director's decisions on recoveries, demand letters and commitment letters signed by countries as at 31 December 2015.

### Limitation of scope

This review did not assess the adequacy and effectiveness of the recoveries process established by the Secretariat in response to the Board Decision Point on the communication of recoveries (see Annex C). As of the date of the OIG review, the Secretariat has not yet finalized its methodology and processes for recoverable amounts identified in the normal course of grant management operations. The process was subsequently finalized after the audit. Accordingly, the OIG was unable to review the design and effectiveness of this methodology and related processes.

### Rating<sup>4</sup>

<b>Audit objectives</b>	<b>Rating</b>	<b>Reference to findings</b>
Accuracy and completeness of OIG identified recoveries reported to the Board	<b>Partially Effective</b>	IV.1 and 2
Accuracy and completeness of non-OIG identified recoveries reported to the Board	<b>Ineffective</b>	IV.1 and 2

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<sup>4</sup> See Annex A for the rating definitions

### III. Executive Summary

This OIG engagement sought to review the accuracy and completeness of the Recoveries Report submitted to the Board for the period ending 31 December 2015.<sup>5</sup>

The Secretariat has reported OIG identified non-compliant expenditure amounting to US\$138 million, cumulatively since the inception of the recoveries process in 2009. Following an analysis of the circumstances of each of these non-compliant amounts, the Secretariat has determined that it was appropriate to seek to recover US\$110 million. This determination is reflected in the Recoveries Report as net downward “management adjustments” amounting to US\$28 million.<sup>6</sup>

In addition, the Recoveries Report included, for the first time, US\$16 million as an outstanding amount to be recovered from non-compliant expenditure identified in the normal course of grant management by the Secretariat.

#### Accuracy and completeness of the Recoveries Report

The Secretariat has taken significant steps to strengthen the recoveries process and to support the Recoveries Committee in discharging its oversight role, including recruiting a full time Senior Recoveries Officer. Consequently, there is significant improvement in the maintenance of data underlying the Recoveries Report submitted to the Board.

However, the variances identified by the OIG between the amounts reported by the Secretariat to the Board and underlying supporting documentation point to weaknesses in the reporting process. In particular, the auditors noted that:

- At the time of the review, the Secretariat had not finalized the process for identifying and reporting non-compliant expenditure identified during normal course of grant management, and making the associated determination regarding recoveries. In the absence of such a process, the OIG was unable to review the completeness of the amounts that were reported to the Board. Where amounts were reported, the OIG noted a variance of 3% (US\$0.5 million) between the reported amount and the underlying records. The OIG concludes that the process for identifying and reporting complete and accurate recoverable amounts in the normal course of grant management is **ineffective**.
- US\$6.8 million of non-compliant expenditure identified in two audit reports published in 2015, but for which the related recoverable amounts had not yet been approved by the Recoveries Committee and Executive Director, were not disclosed in the Secretariat’s Recoveries Report.<sup>7</sup>
- The Recoveries Report only contains the proposed recoverable amounts rather than the total amounts considered to be non-compliant in OIG investigation reports.<sup>8</sup> This resulted in non-compliant expenditure of US\$34 million that was not included in the report submitted to the Board. Although these amounts may not be recoverable because the associated services or goods have been delivered to the grants, their inclusion in the report provides a more accurate and complete overview of the Secretariat’s recovery efforts to the Board. The OIG acknowledges that this has been discussed at the Recoveries Committee. Therefore the Secretariat’s processes for reporting non-compliant expenditure identified by the OIG is rated as **partially effective**.

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<sup>5</sup> Although this review primarily reviewed the Recoveries Report for the period ended 31 December 2015, the OIG performed a limited analysis of the report submitted to the Audit and Finance Committee in May 2016 and noted the same issues as highlighted in this report.

<sup>6</sup> Adjustments made by management to OIG reported figures based on additional considerations, which may include review of additional documents, and retroactive approval of expenditures reported by OIG as ineligible where sound rationales exist.

<sup>7</sup> Country audit reports for Pakistan (OIG report number GF-OIG-15-014 published on 21 September 2015) and South Sudan (OIG report number GF-OIG-15-016 published on 5 October 2015). <http://www.theglobalfund.org/en/oig/reports/>.

<sup>8</sup> OIG investigations reports provide two amounts – the total non-compliant expenditure, and the proposed recovery amount. The non-compliant expenditures represent total amount of funds compromised or put at risk by the lack of compliance with the grant agreement though the related goods or services may have been delivered. The proposed recovery amount relates to the actual financial loss to the grants which can be directly attributed to wrong doing. These include expenses not in line with grant budget, fraud and unsupported expenses.

Status of recovery efforts for OIG identified non-compliant expenditure as at 31 December 2015<sup>9</sup>

The OIG verified that since 2009, the Secretariat has recovered US\$45.4 million out of the gross recoverable of US\$109 million and written off US\$3.5 million. The “allocation reduction” approach<sup>10</sup> was also used to reduce the recoverable amount by US\$6.3 million. Out of the remaining US\$54 million, the Secretariat has obtained commitments from Principal Recipients to repay US\$ 15 million. However, the auditors noted that:

- 20% (US\$11 million) of the remaining US\$54 million recoveries cases has been outstanding without commitment from countries for over three years. Although these cases are still being actively pursued, their age could affect the recoverability of these amounts, given the constraints in pursuing long outstanding debt.
- The Secretariat continues to explore innovative ways of resolving difficult recovery cases including the replacement of lost assets by implementers and application of the “allocation reduction” approach. Under that approach, upon approval by the Executive Director after the Secretariat considers all other means of recovery have been exhausted, a country’s allocation is reduced by a factor of 2:1. Thus, the country’s allocation is reduced by twice the recoverable amount. This approach was used to resolve three cases in 2015 and adequately disclosed in the Board report. The OIG acknowledges the need to use this approach as a last resort; however, it may adversely affect accountability since the implementers do not reimburse the disallowed amounts and may not have been likely to fully absorb their current allocation.

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<sup>9</sup> The OIG could not analyse the recovery efforts for non-compliant expenditures identified during normal course of grant management because the process was not completed as at the time of the audit.

<sup>10</sup> Under this approach, the Secretariat reduces twice the amount of the recoverable amount from Country’s allocation to resolve difficult cases. This means the country receives less than the initial amount communicated by the Secretariat in the allocation letter.

## IV. Findings and Agreed Management Actions

<b>IV.1</b>	<b>Recoveries Report to the Board not fully compliant with the policy</b>
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The Secretariat has taken significant steps to strengthen the recoveries process and to support the Recoveries Committee in discharging its oversight role, including recruiting a full time Senior Recoveries Officer. Consequently, there has been significant improvement in the maintenance of data underlying the Recoveries Report submitted to the Board.

However, the variances identified by the OIG between the amounts reported by the Secretariat to the Board and underlying supporting documentation point to weaknesses in the reporting process for both OIG and non-OIG identified amounts:

### OIG identified non-compliant expenditures

- ***Incomplete disclosure of non-compliant amount:*** The Recoveries Report to the Board did not disclose the full non-compliant expenditures as follows:
  - The Recoveries Report did not capture all non-compliant expenditures identified in OIG audit reports. Non-compliant expenditures amounting to US\$6.8 million from two OIG audit reports published in 2015, but for which the corresponding recoverable amounts had not yet been approved by the Recoveries Committee and Executive Director, were not disclosed in the Recoveries Report submitted to the Board. Non-compliant expenditures in previous audit reports were included in the Secretariat's Recoveries Report.<sup>11</sup>
  - Since 2014, OIG investigations reports provide two amounts – the total non-compliant expenditure and the proposed recovery amount.<sup>12</sup> The Recoveries Report most often only reflected the proposed recoverable, a minimum amount provided by the OIG based on demonstrable direct economic loss, rather than the total amounts considered to be non-compliant. This means that non-compliant expenditure of US\$34 million was not included in the report submitted to the Board. While the full non-compliant expenditures may not be recoverable because the related services or goods may have been delivered to the grants, it provides a complete overview of recovery efforts to the Board. The OIG acknowledges that this has been discussed at the Recoveries Committee. However, future board reporting should be enhanced to ensure complete disclosure of non-compliant expenditures identified in OIG investigation reports.
- ***Incomplete records underlying some legacy recovery cases:*** The OIG noted that, although the minutes and documentation for the Recoveries Committee have improved since 2015, weaknesses remain with the legacy cases that have resulted in the following differences:
  - A variance of 2% (US\$0.5 million) between management adjustments reported to the Board and the underlying records was noted. Based on these records, US\$27.2 million should have been reported as management adjustment instead of US\$27.7 million reported by the Secretariat.
  - A variance of 4% (US\$2 million) between the amounts reported to the Board for recovered amounts and the underlying records was found. Based on these records, the recovered amount reported to the Board should have been US\$45.4 million instead of US\$47.3 million reported by the Secretariat.

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<sup>11</sup> Country audit reports for Pakistan (OIG report number GF-OIG-15-014 published on 21 September 2015) and South Sudan (OIG report number GF-OIG-15-016 published on 5 October 2015). <http://www.theglobalfund.org/en/oig/reports/>.

<sup>12</sup> The non-compliant expenditures represent total amount of funds compromised or put at risk by the lack of compliance with the grant agreement though the related goods or services may have been delivered. The recovery amount relates to the actual financial loss to the grants which can be directly attributed to wrong doing. These include expenses not in line with grant budget, fraud and unsupported expenses.

## Non-OIG identified non-compliant expenditures

The OIG reviewed the recoveries process in 2013 and the Secretariat committed to develop policies and procedures to guide the recoveries process for both OIG and non-OIG identified non-compliant expenditures. While the Secretariat has defined processes for reporting OIG identified recoveries, similar processes, were yet to be finalized and implemented for identifying and reporting non-compliant expenditure arising from the normal course of grant management at the time of the audit. In the absence of a defined process and supporting documentation, the OIG is unable to verify the completeness of such amounts.

Where amounts were reported, the OIG noted a lack of clarity for Country Teams in reporting amounts identified by other assurance providers. This has led to inconsistent levels of evidence to support amounts across different Country Teams, resulting in differences between the reported amounts and the underlying supporting documentation of 3% (US\$0.5 million). Following this audit, the Secretariat has finalized the process, and the development of the automated system to aid identification and reporting of such amounts is ongoing.

### **Agreed management action 1:**

The Secretariat will:

- train the relevant operational teams on the process for identifying and reporting non-OIG recoveries to ensure consistent application, and will establish measures to regularly review the guidance issued to Country Teams to incorporate lessons learned; and
- ensure that the automation of the non-OIG recoveries process is included in the Accelerated Integration Management (Project AIM) systems plans.

**Owner:** Chief Risk Officer

**Due date:** 30 June 2017

### **Agreed management action 2:**

The Secretariat will:

- refine its guidance on the timeframes in which Country Teams are expected to present a case to the Recoveries Committee following the publication of OIG Audit and Investigation Reports and will establish measures to monitor and follow-up on compliance with such timeframes; and
- ensure timely disclosure in Recoveries Reports of non-compliant amounts identified in OIG investigation reports.

**Owner:** Chief Risk Officer

**Due date:** 30 April 2017

<b>IV.2</b>	<b>Status of recovery efforts</b>
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The total OIG identified non-compliant expenditure reported by the Secretariat as at 31 December 2015 was US\$138 million. Management adjustments made to the non-compliant expenditure totaling US\$28 million reduced the gross recoverable amount<sup>13</sup> to US\$110 million. The Secretariat reported US\$16 million for the first time as an outstanding amount to be recovered from non-compliant expenditure identified in the normal course of grant management.

Despite this, the OIG noted a number of areas for improvement to further strengthen the Secretariat’s recovery efforts:

Recoverability

The amount of gross OIG identified recoverable amount verified is US\$109 million as at 31 December 2015. An ageing analysis of the OIG-identified recoverable from 2009 to 2015 is reflected in the following table:

Table 2. Analysis of recoverable amounts from 2009 to 2015, all amounts in US\$ thousands.

	Gross Recoverable (a)	Amount Written off (b)	Allocation reduction (c)	Amount recovered (d)	Outstanding Balance (e) = (a-b-c-d)	Commitment to pay (f)	Outstanding without commitment (g) = (e-f)
Cases from 2009 to 2012	67,868	3,393	4,737	40,760	18,978	7,628	11,350
Cases post 2012	41,308	96	1,583	4,687	34,942	7,164	27,778
<b>Total verified by OIG</b>	<b>109,176</b>	<b>3,489</b>	<b>6,320</b>	<b>45,447</b>	<b>53,920</b>	<b>14,792</b>	<b>39,128</b>
Total reported by Secretariat	110,213	3,489	6,320	47,318	53,086	14,863	
<b>Variance</b>	<b>1,037</b>	<b>-</b>	<b>-</b>	<b>1,871</b>	<b>834</b>	<b>71</b>	

The variance of US\$1 million (1%) between the gross recoverable amount reported by the Secretariat and the sum verified by the OIG is due to errors relating to legacy cases. The variance is not considered material. The Secretariat has received commitments to repay US\$15 million (28%) of the outstanding amount of US\$54 million as at December 2015. Since the last report to the Board, the Secretariat has entered into an agreement relating to US\$10.7 million from a Principal Recipient with the most significant recoverable amount. However, despite this, 20% (US\$11 million) of the recoveries cases have been outstanding for over three years without any commitment for repayment. Although the Global Fund is entitled to seek refunds under the terms of the signed grant agreement and is actively pursuing these outstanding cases, their age could affect the recoverability of these amounts.

Refund mechanism

In the past, the Secretariat did not have clear guidance on the management of refunds from non-compliant expenditure identified by the OIG. This resulted in some instances where the refunds were deposited in implementers’ bank accounts. For example, the OIG noted four instances amounting to US\$0.7 million where such refunds were made to implementers’ bank accounts. This raises the risk of the funds being utilized without the Secretariat’s permission in cases where the related grants have ended. The OIG acknowledges that these relate to legacy cases and the guidelines have subsequently been clarified to ensure such refunds are made to the Secretariat’s bank account.

Allocation reduction approach may not provide sufficient disincentives

The OIG noted that the Secretariat continues to explore innovative ways to resolve long-outstanding recovery efforts including the replacement of lost assets by the implementers and the application of an “allocation reduction” approach. This is when the Secretariat reduces the country’s allocation by

<sup>13</sup> This relates to the amount to be recovered after management adjustment.

double the recoverable amount to resolve difficult cases. The Secretariat used the “allocation reduction” approach for the first time in 2015 to resolve cases from 2011-13 in three countries for a total recoverable amount of US\$6.3 million (four countries as at April 2016, totaling US\$6.99 million). These cases were approved by the Executive Director and adequately highlighted in the Recoveries Report submitted to the Board. The Secretariat justified taking this approach as the cases had been outstanding for a long time with little or no possibility of repayment by the respective countries and despite significant recoveries effort by country teams and senior management. The OIG acknowledges the Secretariat’s stated rationale for using this approach as a last resort. However, this approach can adversely affect the accountability of implementers as no actual refund is made by the implementers for the disallowed amounts. In addition, when the countries are not fully absorbing their allocated amounts, this approach is less effective because the reduction has little actual impact for the implementer. Thus, the allocation reduction is more similar to write-off than an actual recovery.

#### Recoveries cases closed without supporting documentation

As at 31 December 2015, the Secretariat has closed a total of US\$41 million from OIG-identified recoverable sums. This means that the Secretariat has recovered all outstanding amounts or the implementers have replaced the lost assets from those cases. However, the Secretariat could not provide evidence of repayment or write-off of losses in three cases amounting to US\$0.6 million. The OIG acknowledges that these amounts relate to legacy cases and maintenance of records underlying recoveries has improved since the recruitment of the Senior Recoveries Officer.

## V. Table of Agreed Actions

No.	Category	Agreed Action	Target date and owner
1	Recoveries Report to the Board not fully compliant with the policy	<p>The Secretariat will:</p> <ul style="list-style-type: none"> <li>• train the relevant operational teams on the process for identifying and reporting non-OIG recoveries to ensure consistent application, and will establish measures to regularly review the guidance issued to Country Teams to incorporate lessons learned; and</li> <li>• ensure that the automation of the non-OIG recoveries process is included in the Accelerated Integration Management (Project AIM) systems plans.</li> </ul>	<p>Chief Risk Officer</p> <p>30 June 2017</p>
2	Recoveries Report to the Board not fully compliant with the policy	<p>The Secretariat will:</p> <ul style="list-style-type: none"> <li>• refine its guidance on the timeframes in which Country Teams are expected to present a case to the Recoveries Committee following the publication of OIG Audit and Investigation Reports and will establish measures to monitor and follow-up on compliance with such timeframes; and</li> <li>• ensure timely disclosure in Recoveries Reports of non-compliant amounts identified in OIG investigation reports</li> </ul>	<p>Chief Risk Officer</p> <p>30 April 2017</p>

## Annex A: General Audit Rating Classification

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

## Annex B: Methodology

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

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

Limited scope audits cover a specific topics with a particular focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls. The scope of an OIG limited scope audit is different to a full audit as its scope is more specific and narrow, and is deliberately tailored to cover certain identified risks and controls. Audits test and evaluate supervisory and control systems to determine whether the identified risk is managed appropriately.

If a limited scope audit reveals multiple, material weaknesses in governance, risk management and internal controls, a more extensive audit or investigation may be conducted.

# Annex C: Board Decision GF/B32/DP04 on the Communication on Status of Recoveries

## Communication on Status of Recoveries

*Approved by the Board on 20 November 2014*

1. As outlined in GF/B23/DP24 and reiterated in GF/B23/DP28, the Board continues to work with a full commitment to transparency and to endeavor to uphold the independence of the Office of the Inspector General (the “OIG”) within the Global Fund. In order to further promote this independence, the Board decides to supersede GF/B23/DP28 in its entirety with this decision point (GF/B32/DP04).
2. The Board recognizes the need to have clear, consistent and contextualized information regarding the status of recoveries related to non-compliant expenditures identified within grant programs financed by Global Fund resources.
3. With respect to non-compliant expenditures identified from OIG audits and investigations, the Board requests the Global Fund Secretariat to prepare a Recoveries Report (the “Report”) for the periods ending 30 June and 31 December of each year. The Report will detail, among other items:
  - a) the amounts reported by the OIG as being non-compliant and/or as constituting financial loss;
  - b) the amounts deemed recoverable by the Secretariat based on the OIG’s findings, including an explanation of the method and process employed for the determination of such amounts; and
  - c) progress on outstanding recovery actions, including a description of the context within which recovery-related processes are being handled by the Secretariat and any lessons learned.
4. The Board requests the AEC to:
  - a) review the Report;
  - b) engage with the Finance and Operational Performance Committee (the “FOPC”) on matters within the FOPC’s mandate that relate to the process of developing and updating the Report; and
  - c) present any recommended amendments to this decision point to the Board for approval.
5. Following the review of the Report by the AEC, the Secretariat shall submit the Report to the Board.
6. Furthermore, the Board directs the Secretariat to develop, for AEC approval, a methodology and format for future reporting within the Report, which describes measures taken with respect to recoverable amounts identified in the due course of grant management operations.

The Board requests the OIG to report independently on the Secretariat’s progress on matters related to recoveries as part of the OIG’s Report to the Board or as otherwise determined by the AEC.

## Annex D: Message from the Executive Director

The Global Fund pays special attention to safeguarding investments with the goal of making every dollar count. We have zero tolerance for corruption or fraud. If any misspent funds are identified, the Global Fund pursues recoveries, so that no donor money is lost to fraud or ineligible expenses. Additionally, swift action is taken to address underlying weaknesses so that countries can prevent future risks.

The Office of the Inspector General (OIG) is an integral and important part of risk management and controls, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund.

In addition to its strong commitment to recoveries, the Secretariat is also committed to seeing that all identified misuses of funds are communicated to the Board and other stakeholders responsibly and in a timely manner.

The Office of the Inspector General's audit report on recoveries recognizes the progress the Secretariat has made to strengthen the recoveries process. The report also highlights the challenges that have persisted. The reports notes that there has been significant focus and effort within the Secretariat to track, resolve and report recoveries.

The Global Fund Secretariat has taken notable steps to strengthen the recoveries process. In the last 12 months, we have registered considerable improvement in the formalization and implementation of recoveries processes, as well as enhancing record-keeping and disclosure. For the first time, the Secretariat is now tracking and reporting on non-OIG recoverables - amounts identified through normal grant management procedures outside of OIG audits and investigations. As of October 2015, the Secretariat employs a full-time Senior Recoveries Officer, who diligently follows up on data collection and on reporting of recoveries matters.

The reporting of non-OIG recoverables has taken longer than expected. Recognizing that the automated process that was initially envisioned had been delayed, earlier this year the Recoveries Committee advised the Secretariat to use manual tracking, reporting and recovery of non-compliant expenditures identified in the normal course of grant management. Grant Management and the Recoveries Committee have paid close attention to this approach in the first two quarters of this year. The Secretariat intends to provide formal trainings to relevant operational teams to achieve consistent application of the guidance.

The first-ever reporting of non-OIG recoverables indicates an aggregate net outstanding amount of about US\$16 million across all portfolios. This amount is expected to decline as such cases and amounts are given increased attention under the newly-defined process. The audit report rated non-OIG recoverable reporting as "ineffective," reflecting the fact that no policy was formally in place at the time of the audit.

In 2015, the Secretariat also employed a two-for-one penalty as an option of last resort for resolving certain recoveries cases, as discussed with the Board and its committees. In this approach, a country's allocation is reduced by twice the amount of the outstanding recoverable amount. Additionally, in 2016 the Global Fund signed a settlement agreement with the Principal Recipient with the greatest balance of outstanding recoverables. This resolved some cases and took steps toward the resolving the rest.

As acknowledged in the audit report, the processes to ensure accuracy and completeness of reporting of OIG identified non-compliant expenditures have greatly improved. In this report, the OIG was

able to verify 99 percent of the gross recoverable amount reported by the Secretariat (US\$109 million out of US\$110 million) and 96 percent of the amount the Secretariat reported as recovered (US\$45.4 million out of US\$47.3 million) through supporting documentation. As noted in the report, gaps in documentation were from legacy cases.

In the report, the OIG notes that including the full non-compliant amounts, and not just the proposed recoverable amounts identified in the OIG Investigation reports, will provide greater context for reporting of recoveries to the Board. The Secretariat will also create a process to ensure Country Teams promptly report on published OIG reports to the Recoveries Committee to enhance timely disclosure in Secretariat reporting. The OIG-recoverables rating of “partially effective,” in this report is in large part driven by the historical realities of the length of time it has taken for the processes and reporting to get to where they are today.

Overall, as a result of the improved processes and a keener focus on recoveries across the Secretariat, we have seen a material decrease in OIG recoverables. Net recoverables after commitments decreased from US\$49 million as of December 2014 to US\$38 million as of December 2015. That momentum has continued into 2016 with a further decrease to US\$34 million as of April 2016, meaning that 69 percent of the amounts deemed recoverable have been resolved.

The Secretariat’s energetic and focused approach to safeguarding investments extends to many aspects of managing grants and acting responsibly with the intent of ultimately creating the greatest possible impact for people affected by HIV, TB and malaria. We are fully committed to continually evolving and improving our approach to recoveries, as this report demonstrates. With a Senior Recoveries Officer in place, and with significant progress underway, we are confident that we can further improve the recoveries process.