

OIG PROGRESS REPORT (DECEMBER 2012 – MAY 2013)

Purpose:

This paper updates the Board on the activities of the Office of the Inspector General (OIG).

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

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PREAMBLE: CHANGES IN THE OIG

1. Since the last Board meeting in November 2012, significant changes have occurred with regard to the Office of the Inspector General (OIG). An interim Inspector General took office on 10 December 2012 for an initial period of six months subject to extension until the Board appoints a new Inspector General and due handover takes place. The interim Inspector General focused on the following key deliverables: 1) increase the overall effectiveness of the OIG, 2) ensure the operational management of the OIG, including financial management, 3) risk management, and 4) representation and transition. It was expected that the interim Inspector General would present a time-bound plan of action to respond to key recommendations arising from the Quality Assurance Review of the audit function, institute a peer review of the investigation function, and strengthen the organizational health and morale within the office. What was initially envisaged as just a provision of a “leading hand” turned into a full-fledged hands-on day-to-day management of the Office while commuting from Bonn to Geneva every week for three days in the office. A lot of effort went into reducing tension and building up trust between the OIG and the Secretariat. Based on feedback received, this mission was very successful. Also, significant work was devoted to strengthening the management of the investigation function of the Office. The audit function is very productive as you can see from the list of deliverables mentioned in this report and was running smoothly with limited oversight.
2. The interim Inspector General is proud of the achievements of the OIG during this short period of time, and is ready to hand over a well-functioning office to the incoming Inspector General. Specifically, the Office is on track to achieve the 2013 Audit plan, has developed and is following the Investigations Workplan, and a clear picture now exists on the actual investigations caseload, thanks to a considerable clean-up of the backlog of cases. All recommendations from the audit function Quality Assurance Review have been implemented, a self-assessment of the investigation function has been completed in preparation for an external peer review, and several measures have been taken to improve the operations of the Office, both from the staffing and financial point of view, as described in more detail in this report.
3. The OIG is pleased with positive feedback received from the Secretariat about improved relationship and joint work through solutions.
4. The relationship with the AEC has been very open and collaborative and the interim Inspector General is grateful for the guidance and support received from the AEC since the start of his tenure.

PART 1: OVERALL UPDATE

Efforts in building trust between the Secretariat and the OIG

5. Since the beginning of 2013, a core priority for the interim Inspector General and the OIG as a whole was to increase trust between the Secretariat and to overcome the earlier perception of structural opposition in goals and objectives. A common perception amongst internal stakeholders was that the OIG was jeopardizing the work and the success of the Global Fund.
6. The OIG is an integral part of the Global Fund and through its mandate helps the organization achieving its corporate goals. The OIG and the Secretariat share a common goal to take due care and be accountable for the use of donors’ and tax payers money

invested in the Global Fund and ensuring the maximum impact is achieved to help people in need. As such, both the OIG and the Secretariat need to carry out their work in close partnership and based on mutual trust and respect for each other's operational roles.

7. The OIG has been able to carry out its work plan with the appropriate independence, and in good intelligence with the Secretariat. On occasion, views within the Secretariat have diverged on certain aspect of our work and such comments were duly considered. Our deliverables do, however, reflect the appropriate independence and objectivity expected by the Board from the Office.

Proactive approach by the OIG to prevent misuse of the grant funds and improve program performance

8. In this spirit of partnership, the OIG strives to foster a joint and proactive approach to help the Global Fund prevent the misuse of grant funds and improve program performance. We are keen to share red flags early and provide heads-up information about new findings and upcoming audit and investigation engagements. Bi-weekly information sharing meetings have been held by the OIG with the Head of the Grant Management Division, the Chief Risk Officer and the Head of Communications. During these meetings, we provide information on upcoming reports, findings during on-going audits and investigations, and we discuss possible risk mitigation measures and communications means. At a more operational level, it is planned to hold regular meetings with Regional Managers in order to provide timely information on potential areas of risk in countries under audit or investigation.
9. One of successes of the OIG sharing information timely is the establishment of the OIG-Secretariat working group to combat ACT counterfeiting involving OIG Investigation Team; PSM Hub; Chief Procurement Officer; VPP; Risk Team; and Grant Management Department.
10. The OIG is also engaged in raising awareness of its actual function and clarifying misconceptions within the Secretariat about the OIG and has held open-door sessions for questions and answers.
11. The OIG explored the possibility to relocate to the main BIBC building but contractual arrangements in place make this impractical due to the high costs involved. Nevertheless, the OIG encourages both formal and informal contact between the OIG and the Secretariat employees.

Use of consulting engagements to help the Secretariat with improvements

12. Going forward, the OIG will offer more consulting engagements to the Secretariat, hoping to help with implementing various OIG recommendations and operationalizing the desired changes and improvements. It is not sufficient to issue a certain number of audit reports per year without ensuring that the actual implementation of improvements recommended in those reports takes place in a timely and effective manner. Given the very dynamic nature of business processes at, and the ongoing transformation of, the Secretariat, our 2013 audit plan included more scope for advisory/consulting work for the Secretariat than would usually be the case.
13. In the first semester of 2013, we have carried out advisory work on a) the risk management tools, b) the risk register and c) minimum standards required from Recipients, d) analysis of improvements that should be considered in the Country Coordinating Mechanism and e) Local Fund Agent models, as well as an analysis of

themes requiring management action in f) procurement and supply management and g) public health programs at the country level.

14. We recently completed a consulting engagement in the Democratic Republic of the Congo (under a cost-sharing arrangement with the Secretariat), which allowed us to support the Secretariat in improving risk management of four high-risk and potential high impact PRs. In addition, we seconded two experienced auditors to the Risk Management team for a total of five person months to assist in their work.
15. We are in discussions with colleagues in the Secretariat about the following additional consulting engagements designed to assist the Secretariat: Support to IT systems and budgeting, the Finance Step-Up project, and to the CSO delegation to the Board.

Latest initiatives within the OIG in terms of Office's management

16. As an Office, we are striving to constantly improve ourselves in order to be able to deliver our work faster and add more value to the Global Fund operations. The Audit Unit has implemented all recommendations from the external quality assurance review conducted last year, and expects to be in general conformance with the Institute of Internal Auditors (IIA) Standards by the end of 2013. A self-assessment led by an external expert was conducted for the Investigations Unit, resulting in a series of recommendations for improvement which we are currently implementing
17. The OIG has proposed a set of Key Performance Indicators, performance objectives and metrics to evaluate the work of the Office. The AEC's formal approval of these indicators is pending.
18. We have progressed steadily with recruitment against vacant positions. From 15 positions under recruitment, 12 positions have been advertised so far in 2013 (Investigations and Audit Team Leaders /Auditors - 5), Investigators (1), Analysts (4), IT support (1), Communications specialist (1). Recruitment has been finalized for the following positions: Communications Specialist, Investigations Team Leader, IT support officer, Research analyst audit. The following positions are in interview stage: (3 – Audit Team Leaders/Auditors), and we are shortly administering tests/conducting phone interviews for 5 positions (3 analysts, 1 investigator and 1 IT Auditor).
19. Recognizing the need to have a pool of consultants with different skillsets to address specific temporary needs linked to the current caseload, the OIG is refreshing its roster of consultants by issuing a new Request for Proposals for short-term investigation consultancies.
20. The first months of the year were devoted to enhancing the work of the Investigations Unit. We set up a clear structure of teams and team specialization per investigation theme, strengthened the managerial role of team leaders and allocated analysts in each team. We have a senior analyst as supervisor for quality control and training. We have clarified reporting lines among staff in the Investigations Unit and set forth unified performance objectives. We have progressed with the review of our Investigations Manual and the associated case management processes, which are being gradually rolled out for implementation. A revised allegation intake, screening and assessment process was presented to the last AEC meeting.
21. We examined our editorial techniques and compared our style with other peer organizations (i.e. definitions of wrongdoings and categorization and definition of unsupported or otherwise ineligible expenses), and we adopted a new glossary of terms for our reports and harmonized definitions between audit and investigation functions.

22. The Office has followed up on IT infrastructure audit and Security Reviews conducted last year, and is in process of implementing the recommendations for improvement. In terms of IT audit, the vast majority of recommendations are already implemented or partially implemented, and in terms of Security, the Office has rolled out a clean desk policy and is planning to enhance the Office's physical security.
23. We have constantly improved our in-house computer forensic¹ capacity in order to reduce our reliance on expensive external firms. The OIG strives to keep up to date with international standards in this rapidly evolving field and we use state of the art forensic tools and methodologies. Our forensic acquisition and analysis resources allow us to extract evidence from most electronic devices, efficiently process large amount of data in a limited time frame and allow for easy access to extracted data for review by teams of analysts using specialized software.
24. We have upgraded our in-house analytical capacity by acquiring a number of IT tools which will help to perform the following functions relevant to the work of the OIG: (i) standardize and automate many of the audit stages including risk assessment, scheduling, planning, execution, reviewing, reporting, committee reporting and storage, (ii) understand and visualizing the dynamics of the movement of Global Fund and other provider pharmaceuticals across international boundaries, (iii) conduct diligence checks in house with shorter turn-around times, (iv) index and query large sets of electronic data obtained during the scanning of documents in the field, (v) conduct free text searches across document holdings.
25. We have reviewed and discussed the last Staff Engagement Survey results for the OIG, which is considered very seriously by management, and we believe that initiatives already implemented this year such as regular team meetings, open door of management, sharing of information within the Office, improved cooperation with the Secretariat, corporate training initiatives, staff professional development plans, application of an on-going performance feedback system and review of workload and remuneration elements. We expect these measures, as well as management leading by example in striving to demonstrate exemplary performance and conduct, will bring more positive results at the next survey. We are proud of our record to date and the positive momentum that has been achieved, but we are aware that improving staff morale and working environment requires continued effort and cannot be completed in a short period of time.

Costs of audits and investigations

26. In the spirit of becoming more efficient, we are taking a close look at the costs of audits and investigations and we have implemented several measures aiming at improving costs while maintaining efficiency, namely: revising the scope and scale of investigations, assessing the performance of outside contractors to achieve better value for money, replacing costly in-house consultants with staff positions to retain knowledge within the organization, building in-house data analysis capacity to avoid having to outsource data processing, applying additional scrutiny to all expenditures. More granular costing of audits and investigations begun in 2013 with the introduction of time sheets.

¹ Computer forensics is who, what, when, and how of electronic evidence. It attempts to reconstruct events, focusing on the computer-based conduct of an individual or group of individuals. An OIG investigation involving computer forensics typically begins by making a bit-by-bit image or copy of the hard drive or electronic media in question, thereby preserving the integrity of the original media. This image of the data includes all of the unused and partially overwritten spaces on the electronic media where important evidence may reside. At the heart of computer forensics is the idea that within the electronic realm of evidence, delete does not really mean delete, it is merely organized differently.

27. Since late Q3 2012, following the external quality assurance review, the Audit Unit has been capturing staff time spent on audits and other activities in timesheet format. The Investigations Unit introduced time sheets in the Case Management System in early February 2013. This will allow us to build up a detailed picture of how much time the unit takes to complete its assurance and consulting activities, and most importantly how much each product costs. We are able to cost each 2013 engagement and analyze the distribution of costs for internal (staff time), external (co-sourced), and other costs incurred. Bearing in mind that the staff costs in Geneva are fixed and high in comparison with other international locations, we can analyze this information and use it to inform future resourcing decisions.
28. A full analysis of audit and investigations costs and time will be prepared for the July 2013 AEC meeting.

Update on OIG's budget and expenditures

29. The OIG has ensured prudent use of funds.
30. Starting from 2013, we established separate cost centers for the OIG front office, Audit Unit and Investigations Unit for better budgeting and budget monitoring.
31. As of end of May 2013, the overall expenditure rate of 25 per cent against the budget is lower than expected due to: 1) addressing the backlog of cases (Investigations); 2) audits started in February and resulted in cost savings over budget due to reduced use of firms; and 3) increased scrutiny is being exercised over all expenditures in order to save money.
32. The Annex B presents expenditures vs budget per cost center and cost category.

Update on implementation of High Level Panel (HLP) recommendations

33. As illustrated in Annex C, the OIG has implemented most of the HLP recommendations relevant to its operations. In the spirit of increased cooperation with the Secretariat in terms of identifying preventive measures to safeguard the Global Fund investments and increase programmatic performance, the OIG and the Secretariat are currently revising the protocols between the OIG and the Secretariat for managing the audit process and for the coordination of allegations and investigations.
34. Mindful that it does not have the capacity to investigate all allegations received, the OIG has rolled out clear prioritization matrixes to determine which allegations are investigated in full, we are also developing a more proactive stance with respect to identified risks and focus our audit and investigations work on proven high risks areas, such as drug theft and counterfeiting, foreign currency exchange risks, and procurement of health products. The OIG keeps a regular contact with the Secretariat focal points on drug theft and counterfeiting, and procurement.
35. The OIG has adjusted the tone and editorial guidelines for its reports. The new reports are shorter and offer a more user-friendly format, containing key facts and findings. Detailed working papers and underlying evidence remains available for review by the Secretariat. The OIG has adopted a new lexicon which avoids making legal determinations and adopted a terminology that is focused on establishing the link between wrongdoings and the relevant provisions in the applicable contractual instruments. We are also redacting the names and titles of individual subjects of investigation. The number of recommendations included in OIG reports has been reduced and recommendations now focus on priority areas.

36. The OIG has taken seriously the timeliness of reporting by setting up clear timelines for report release in the Office's KPIs and staff performance objectives. In order to accelerate the release of reports, the OIG considers dividing reports in segments or thematic parts and releasing them once the due process for these parts has been completed without waiting for the other parts to have completed the due process as well.
37. Ongoing discussions are taking place with the Secretariat regarding improving the process to identify and act upon recoverable amounts.

PART 2: AUDIT AND INVESTIGATIONS PROGRESS UPDATE

2.1. Progress Update – Audit Unit

Focus on the internal audit of the Secretariat, as per 2013 Audit Plan

38. Under the direction of the AEC, the OIG constructed the audit plan for 2013 with the goal of providing an overall assurance statement at the end of the current triennium (2013-2015). The plan ensures that the OIG's assurance function concentrates its work on those critical activities that are likely to have the greatest impact on the internal controls of the Global Fund. To achieve this, the plan is focused largely on reviewing internal Secretariat processes and the work of other assurance providers, and to a lesser extent on reviewing the risk and control environment at country level. This represents a sea-change from the historical emphasis of the Unit, which almost exclusively addressed risk management, control and governance at the grant recipient level. The OIG believes that the new focus will ensure that mission-critical, organization-wide control issues are quickly escalated to senior management for remedial action.

Summary of achievements and recurrent issues from 2012 reports and new audits completed this year

39. The Audit Unit is well on track to complete its 2013 Workplan. Of the 28 engagements approved by the AEC in 2012, six were scheduled for Q1 and eight for Q2. Eight have been completed, while six audits are currently ongoing, scheduled to be completed by the end of June. Two long-term engagements are ongoing. Two reports have been issued (one of which covers three engagements from the plan), with four reports at the final review stage. The planning process for five engagements planned for Q3/Q4 is currently underway. Please see Annex A for details.

Internal Audits

40. Following the adoption of a new OIG Charter by the Board in March 2013, internal assurance findings are now directly reported by the OIG to the AEC and the Executive Director. Below is a summary of the work carried out to date in 2013 to allow the Board to measure the progress against the multi-year audit plan.
41. Review of the Processes Underpinning the Request to the World Bank to Disburse Funds and for Recording Income Received: This review assessed the second phase of the disbursement process, from the time the Secretariat instructs the World Bank to disburse funds to the moment of receipt of those funds by the grant recipient. Our audit focused on processes within the Secretariat while the World Bank conducted its own internal audit. We found that the internal controls reviewed were reasonably effective, no material instances of incorrect disbursements were noted, and that the overall existence and effectiveness of internal controls had improved from 2011 to 2012. However, the controls evaluated needed some improvement including a need to automate key grant commitment

and disbursement processes that were largely manual; ensuring that the authority, roles and responsibilities of staff involved in the process underpinning the disbursement request to the World Bank were clearly documented to enhance segregation of duties; Synchronize or merge databases that capture grant information; update recipient bank information in the Global Fund databases to minimize the risk of misuse. In particular, bank accounts of grants that have been closed should be de-activated in the databases, funds that are allocated to closed grants should be de-committed to allow their reallocation, and an internal and external protocol for reporting irregularities is needed. At the time of the review, the Secretariat had put in place a number of initiatives aimed at strengthening controls in the process underpinning the disbursement request to the World Bank. Some of these were still in progress at the time of the review and were in line with the recommendations made in the report.

In-country Reviews

42. The following in-country review reports have been issued since the last OIG update to the Board. In line with our new approach, we typically have no more than ten recommendations per report. All recommendations put forward in each of the following reports have been accepted by the auditees and are being acted upon.
43. Audit of Global Fund Grants to the Socialist Republic of Viet Nam: This report covered all grants to the only Principal Recipient, the Ministry of Health. The audit confirmed that in general key internal controls to safeguard grant funds were in place, but needed to be strengthened. Procurement and Supply Management activities had scope for improved compliance to quality assurance, planning, and forecasting. The Country Coordinating Mechanism needed to strengthen its oversight role in a number of specific areas, such as the use of field visits and to make provision for a full time Secretariat function. Overall the OIG concluded that some improvements were needed in the management and implementation of Global Fund grants in Viet Nam. The OIG offered nine recommendations to mitigate risks.
44. Audit of Global Fund Grants to the Central African Republic: This report covered the three Global Fund grants to the Central African Republic from Round 7 to Round 9, totaling USD 40.5 million. The audit also included a financial review of the last year (2009) of two Round 4 grants. We concluded that the management and implementation of Global Fund grants in the Central African Republic was not satisfactory. The OIG offered eleven recommendations, of which one had a "Very High" priority, requiring critical action to be taken in the HIV/AIDS program to prioritize life-saving activities, treatment and testing among vulnerable populations.
45. Audit of Global Fund Grants to the Republic of Tajikistan: This audit focused on the four active grants and covered the operations of Project HOPE (as Principal Recipient), a sample of UNDP Sub-recipients, the Country Coordinating Mechanism, the Local Fund Agent and the Global Fund Secretariat. The grants under review totaled USD 94.2 million. Outside of the UNDP grants, which were not included in the scope of the audit, we concluded that major improvements were needed in the management and implementation of Global Fund grants. The OIG offered ten recommendations, of which one was rated "Very High", requiring that urgent action be taken to strengthen cash management at Project HOPE.
46. Joint Control Risk Assessment in the Democratic People's Republic of Korea: In June 2012, the OIG and the Secretariat collaborated on a control risk self-assessment in Uganda. This was repeated in August 2012 in North Korea. The assessment identified risks through discussions with relevant in-country stakeholders, followed by field visits to observe program implementation. The process was concluded with the validation of the observed

risks and the collective exploration of mitigating solutions in a workshop attended by representatives from all in-country stakeholders including the Local Fund Agent.

47. Diagnostic Review of Global Fund Grants to the Republic of Azerbaijan: This review covered four active grants with total budget of USD 43.8 million. We observed good practices in grant implementation, which included a steady increase in government funding for the three programs, a comprehensive TB control program in prisons, with a strong DOTS component, and an effective national malaria control program which had made progress towards malaria elimination through active screening. A number of risks were identified, which included a gap in the provision of treatment for multi-drug-resistant and extensively drug-resistant tuberculosis in the general population. The OIG offered eight recommendations to address the risks identified.
48. Diagnostic Review of Global Fund Grants to the Republic of Guatemala: The report covered the four grants that were active at the time of the review, with a total budget of USD 63 million, to the Ministry of Public Health and Social Welfare (MSPAS) and the Humanist Institute for Development Cooperation. The review noted good practices such as collaborative work between civil society and the MSPAS, local hiring and training of human resources and implementation of the Three Ones principles as part of the national response to HIV. A number of risks were identified that could impede the successful outcome of grant programs unless mitigated. We noted that there were limitations in the government procedures and policies that had an operational impact on grant implementation. The OIG offered nine recommendations to mitigate these risks.
49. Audit of Global Fund Grants to the Republic of the Congo: This audit covered five grants to the Republic of the Congo, totaling USD 82.2 million. We concluded that the management and implementation of Global Fund grants in the Republic of the Congo was not satisfactory. The OIG offered 11 recommendations, of which two were rated “Very High”, requiring that urgent action be taken to ensure that the 2013-17 national malaria strategic plan incorporate measures to maximize impact, and to ensure better coordination between key stakeholders on medicines purchases.
50. Diagnostic Review of Global Fund Grants to the Kingdom of Thailand: This review focused on six active single-stream funding grants whose budgets totaled USD 116 million. We noted good practices, including the roll-out of nationally-funded HIV treatment that was fully integrated in the national health care system and innovative and creative community-led HIV prevention programs among key affected populations. A number of risks were identified that could impede the achievement of grant-funded program objectives unless mitigated, including the efficiency and sustainability of grant-funded support for HIV and first-line tuberculosis treatment of migrants and uninsured populations.
51. Audit of Global Fund Grants to the Republic of India: This audit focused on five implementers, the Country Coordinating Mechanism, the Local Fund Agent and the Global Fund Secretariat. The grants under review totaled USD 834 million. The audit pointed out weaknesses in the quality of services under the MDR-TB program, particularly non-adherence to treatment guidelines, and to inconsistencies between the Global Fund’s quality assurance policy for health products and national drug policies. The Global Fund Secretariat is exploring opportunities for harmonizing these. Government implementers did not maintain updated ledgers, which resulted in a failure to link expenditures to the financial reports provided to the Global Fund and external auditors. The Principal Recipient’s financial statements were qualified by its external auditor due to material advances to suppliers not being correctly recorded. The Global Fund Secretariat has entered into dialog with the Principal Recipients and the Comptroller and Auditor General of India to address the audit qualifications. The report identified ineligible expenses

totaling USD 1,139 million. The Secretariat should ensure that variances are resolved and books of account updated.

52. Audit of Global Fund Grants to the Republic of Zimbabwe: The Principal Recipient in Zimbabwe is the United Nations Development Programme. The audit focused on the four active grants and a sample of Sub- and Sub-sub-recipients of grants totaling USD 355 million. An audit of UNDP by its Office of Audit and Investigations took place concurrently with the OIG review. We found that significant steps had been taken to improve the overall control environment following the previous OIG audit in Zimbabwe in 2008. The Global Fund Secretariat was proactive in managing the grants and had commissioned risk-based analyses by the Local Fund Agent to strengthen portfolio management. Sustainability of the programs, however, was a key concern due to critical funding gaps with the most urgent being the potential shortages in antiretroviral therapy by 2014. The quality of service delivery remained a concern, and data and reporting systems were not sufficiently reliable to yield accurate and precise information. The laboratory department of the Ministry of Health and Child Welfare needs strengthening to support service delivery. There were fundamental weaknesses in supply chain management with poor control over distribution and stock management resulting in expiry of reagents and medicines. Long-expired medicines had not been disposed of. A number of actions have already been taken to address the risks that emerged from the audit findings. These include working with partners such as the United States President's Emergency Plan for AIDS Relief, the National Aids Council, Research Triangle International and the World Health Organization.
53. Upcoming in-country reviews: This year's audit plan includes two in-country reviews, the audit of the grants to Pakistan postponed from 2012 and an audit of a multi-country grant portfolio. In addition, three countries will be selected for financial and procurement audits to test the risk models used by the Secretariat and the OIG in risk ranking grant portfolios.

Assurance Validation

54. Two engagements on assurance validation are currently underway, focusing on external audit of grant recipients and the Technical Evaluation Reference Group, respectively. For more details, see the section on "Engagements Currently Under Way" below.

Consulting Engagements

55. Themes Requiring Management Action related to Local Fund Agents: This report synthesizes the findings and recommendations from individual in-country reviews undertaken in 2012. A number of recurring issues pertaining to LFAs were noted, including inconsistent quality of services and the inconsistent application of a risk-based approach in LFA work. The issues noted in this report mean the LFA model continues to pose an identifiable risk to the Global Fund with respect to assurance at the country level, partly due to limitations in their current mandate and budget. We are encouraged by the changes within LFA management at the Secretariat, many of these changes have yet to be implemented, and come at a time when there are also fewer resources for Local Fund Agents. The report makes a number of recommendations, the most substantial of which is that we believe that the Secretariat should seriously consider a complete bottom-up re-design of how assurance over the use of grant funds should be provided at country level. As the risk assessment evolves, the Secretariat will gain experience with various risk mitigation actors and processes, which will inform a progressive building of assurance provision not limited to the current LFA model.
56. Themes Requiring Management Action related to Country Coordinating Mechanisms: This report identifies a number of recurring issues pertaining to CCMs identified in 2012

in-country reviews, including insufficient oversight over grant programs, incompletely managed conflict of interest, incompletely transparent PR selection processes, and insufficient communication between the CCM and PRs. Given these findings, the Global Fund cannot generally rely on CCMs as assurance providers at the country level. We are encouraged by the changes within Grant Management Support, which will focus more on compliance with eligibility requirements and minimum standards, while the Country Teams retain ownership of the relationship with the CCM.

57. Status Update on the Development and Implementation of Risk Management Tools: This consulting engagement carried out at the request of the Audit and Ethics Committee focused on the status of development and implementation of the main operational risk management tool (“QUART”) that had been rolled out for grant managers to use, as well as the status of development and implementation of the corporate risk register and the minimum standards for grant management at the Global Fund Secretariat. As of 28 February 2013, QUARTs had been completed by country teams for all of the targeted 19 ‘High Impact’ countries. Eighty-six (72%) of the completed QUARTs had been presented to the Operational Risk Committee for review and approval. According to the roll out plan, implementation of the QUART for all qualifying grants will be complete by the end of 2013. The review also noted that a set of minimum standards that CCMs and grant implementers should meet prior to beginning implementation was developed in 2012. The minimum standards had been incorporated in a new ‘Implementer Assessment Tool’, a standardized tool to be used by the Secretariat, supported by Local Fund Agents, to assess the capacity of implementers prior to grant signing. At the time of the review, the Global Fund’s Risk Unit had started the process of updating the corporate risk register by coordinating the documentation of risks and mitigation actions at the departmental and divisional levels. The process was completed in early April 2013 and was presented to the Audit and Ethics Committee in April and to the Finance and Operational Performance Committee in May 2013. The review noted areas for improvement in the implementation of the risk management tools particularly the QUART. Observations included the need to better integrate or merge this tool with other risk-related initiatives and processes in grant management such as the Assurance Framework, the Implementer Assessment Tool and other concurrent work streams in the Grant Management Division. The OIG offered four recommendations to address the gaps noted.

Inspections

58. One inspection is currently underway, focusing on grant closure in four countries. For more details, see the section on “Engagements Currently Under Way” below.

Other

59. Status Report on the Implementation of Recommendations from the McKinsey Analysis of the IT Unit: The Global Fund Secretariat had commissioned a review of the IT unit by McKinsey & Company in April 2012. Our follow-up review established that overall, the IT department had made solid progress in the implementation of the recommendations in the McKinsey report. As at 21 March 2013, out of the ten recommendations, three had been implemented, six were on-going; and one recommendation was no longer relevant. The key recommendations implemented included right sizing of the IT Unit and consolidating IT sourcing. Staff numbers had been reduced to 18, with three of those positions, including the head of the Unit, in the process of being filled at the time of the review. The IT service providers had been consolidated from a total of 35 providers to one main provider. Four of the six on-going recommendations were progressing well and were expected to be completed by the end of 2013. Although work had started on the other two recommendations (the outsourcing of infrastructure to a private cloud provider and the implementation of a two-level IT governance structure), progress in implementation had

slowed down intentionally, in order to allow internal systems to stabilize before progressing further with the implementation of an appropriate governance structure. There was a need for the IT Unit to re-assess the continued appropriateness of the recommendations that had not yet been fully implemented. As the implementation process was not yet complete; the review did not attempt to establish the effectiveness of the IT function post- implementation.

60. Secondments of Audit Staff to the Secretariat: We seconded a staff member to the Risk Management Unit for two months in Q1 of 2013 to support the quality review of the “QUART” tools prepared by Country Teams before they were presented to the Operational Risk Committee. He also supported the Risk Management Unit in the review of other risk management tools including the “Risk Proxy Tool” and the “Implementer Assessment Tool”. The secondment provided an opportunity for the Audit Unit to better understand the Risk Unit’s work and advise in the application of the new Risk Management tools and processes.
61. A second staff member was seconded to the Risk Management department for a period of three months in Q1-Q2. He supported the Chief Risk Officer in coordinating the consolidation of the new Global Fund risk register and the assessment of the control environment. The outputs from this secondment were a corporate risk register and a report on the internal control environment, which were presented to the Management Executive Committee as well as the Audit and Ethics, Strategy, Investment and Impact and Finance Operational Performance committees of the Board.
62. Secondments of Secretariat Staff to the OIG: The secondment of staff between the OIG and the Secretariat happens both ways, with a Senior Fund Portfolio Manager being seconded to the OIG as Senior Advisor to the Interim Inspector General.

Engagements Currently Under Way

63. External Audit of Grant Recipients: The Audit Unit has recently conducted a review of the effectiveness of external audit assurance and the extent to which the Global Fund can place reliance on this assurance in managing grants. The scope of the review focused on a sample of external audits completed between 2011 and 2013 in each Grant Management region and considered timeliness, quality and consistency of external audit assurance. The report is currently being finalized with Secretariat input.
64. Integrating Specialists in Country Teams: The Audit Unit has recently concluded a review to assess whether the Country Team model of integrating of specialists into the Grant Management Division was effectively implemented. The audit examined roles and responsibilities, and management processes supporting this integration, with a particular focus on process simplification and the differentiation of roles and processes by risk. The report is currently being finalized with Secretariat input.
65. Quantification and Forecasting of Medicines Purchased with Global Fund Support: The objective of this review is to evaluate the sufficiency and adequacy of the quantification and forecasting arrangements in place for antiretroviral medicines used to facilitate the effective implementation of Global Fund-supported programs. The scope of this review includes quantification-related efforts at the Global Fund Secretariat and in six high-impact countries in Africa. The review will evaluate the appropriateness of processes in place at the Global Fund and country levels to maintain reliable, well-organized and well-managed quantification and forecasting arrangements to prevent stock-outs or expiry. We will conduct six country missions to assess the quantification and forecasting arrangements and its implications for the management of grants.

66. Quality Control Arrangements for Health Products Purchased with Global Fund Support: The objective of this review is to evaluate the challenges impeding quality control and the arrangements put in place to safeguard quality control over health products. The review includes assessing availability of Quality Control Standard Operational Procedures, collaboration and engagement of the National Medicine Regulation Authorities in quality control activities, compliance with Global Fund and national quality assurance requirements, arrangements related to supply management and quality-assured laboratories to perform testing, and the arrangements in place at the Global Fund Secretariat to reinforce grant requirements related to quality control of health products.
67. Themes Requiring Management Action related to Public Health Program Implementation: This document synthesizes good practices and recurrent findings on program implementation, monitoring and evaluation from the in-country reviews carried out by the OIG in 2012. Recurrent findings identified included inadequate prioritization of interventions for key and vulnerable populations, gaps in and non-adherence to implementation guidelines, interruptions to service delivery, service quality issues, weaknesses in laboratory quality assurance mechanisms and poor data quality. We recommend that the Global Fund Secretariat take measures to define how grant management teams support the strengthening of the weaknesses identified during grant-making and grant renewal. We also recommend that the Secretariat regularly assess the compliance with national and international guidelines of services implemented in recipient countries using Global Fund support.
68. Themes Requiring Management Action related to Procurement and Supply Management: This report synthesizes the findings and recommendations pertaining to PSM from individual in-country reviews undertaken in 2012. The report identifies a number of recurring weaknesses pertaining to PSM, including quantification and forecasting, tendering, stock management of health commodities, distribution processes, and coordination among PSM stakeholders. Despite some good practices in place, the issues noted in this report mean that major improvements are needed at the country level to be able to rely on PSM arrangements. The issues noted in this report also signal that additional focus needs to be placed by the organization on local procurement processes conducted by Principal and Sub-recipients.
69. Policies and Procedures relating to Performance-based Funding: Two separate reviews are currently underway relating to performance-based funding at the Global Fund. The first is the validation of the TERG as an assurance provider. This review is assessing the extent to which terms of reference and processes are in place to ensure the TERG's independence and objectivity, and to ensure quality control over evaluations. Within our three-year Audit plan, this relates to developing a combined assurance statement that articulates which assurance provider is best suited for each function and how we can avoid duplication. The second review examines the adequacy and effectiveness of controls employed by the Global Fund to ensure an effective and efficient performance measurement system. The audit will examine the processes for grant performance measurement, including proposal development and the performance framework, data quality assurance mechanisms, PUDR assessments, country team pre-assessments and grant renewals.
70. Audit of the Processes Underpinning Grant Closure: The Audit Unit has recently concluded a review of the adequacy and effectiveness of, as well as compliance with, the policies and procedures in place to ensure that grants are wound down effectively, efficiently, ethically and in a timely manner. The scope of the review focused on a sample of grants in closure between 2011 and 2012 in each Grant Management region, and analyzed the timeliness of closure of grants as well as compliance with laid down grant closure processes.

71. Following the completion of audit work in the Secretariat, the Audit Unit carried out inspection field visits to four countries (Cameroon, Ghana, Nigeria and Zambia). These were selected on the basis of the number of grants outstanding for closure and the cash balances held in country at grant-end. The inspections examined whether PRs continued to incur expenses and make commitments against cash balances beyond what had been approved by the Secretariat after the grant end date, and whether funds unspent at grant-end had been returned to the Global Fund for use elsewhere.
72. Recoverables: This objective of this review is to evaluate the effectiveness of processes and controls in place to recover funds that were not spent in line with the grant agreement. The review involves an assessment of the status of the recovery efforts, i.e., proposed amounts for recovery, amounts actually recovered, amounts deemed to be unrecoverable, amounts written-off, and amounts deemed recoverable but still outstanding. We will assess compliance with laid down Global Fund policies and procedures relating to identified losses.
73. Payroll and Benefits Processes at the Global Fund Secretariat: The objective of this review is to validate the controls in place related to payroll and benefits in the Human Resources department of the Global Fund and to establish whether they are functioning effectively. We will take this opportunity to follow up on HR-related recommendations from past OIG reports and similar assessments of HR.
74. Strategic Communications at the Global Fund: The objective of this review is to give assurance on the efficiency and effectiveness of the Global Fund's communication strategy, programs and activities. Specifically, the communications audit will assess the alignment of communications to the organization's overall mission and strategy; how well the organization is communicating internally and externally; and the efficiency and effectiveness of communication vehicles and media used.
75. As detailed earlier in this report, we are in discussions with colleagues in the Secretariat about the following additional consulting engagements designed to assist the Secretariat: Support to IT budgeting, the Finance Step-Up project, and to the CSO delegation to the Board.

Upcoming reports

76. The following reports will be released prior to the Twenty-Ninth Board meeting or shortly thereafter:
 - Themes Requiring Management Action related to Procurement and Supply Management
 - Themes Requiring Management Action related to Public Health
 - Country Team Approach – Embedding Specialists
 - Grant closure
 - Follow-up on post-ASA recommendations
 - Assurance at country level – Use of External Audit
 - Summary of internal audit, advisory and consulting engagements

2.2. Progress Update - Investigations Unit

Current caseload and upcoming reports

77. As mentioned above, the first few months of this year were devoted to establish a clear picture of the actual caseload of the Unit and prioritize actions to be taken on outstanding matters. This was done through 1) revisiting the categorization of cases in the Case

Management System, 2) closing cases with no investigative merit; and 3) re-assessing cases that were previously assigned to investigators but could not be attended to due to either turnover of investigators or lack of human resources. A total number of cases closed since January 2013 is 104, compared with 37 the previous year. The current caseload is as follows: 56 active cases, of which 13 under investigation, 30 under assessment, 2 under monitoring with national authorities, and 11 are in report-writing stage. We also have 21 cases awaiting allocation to an investigator or being on hold due to the current workload. In 2012, the number of active cases was 142² (see the last OIG report to the Board).

78. The number of allegations received through the whistleblower hotline is 31, and the number of referrals from the Secretariat is 5, bringing a total of new allegations received this year to 36. After the screening process, 15 of these allegations will be further assessed for investigative merit. The OIG, in cooperation with the Communications Department of the Secretariat, is revising the current features of “Reporting fraud” link on the Global Fund website, and considers ways to enhance the whistle-blower hotline. Also, a revision of the current Whistleblower policy is underway in collaboration with the Secretariat to ensure proper coordination when handling and referring allegations for action between the OIG and the Secretariat.
79. Both Audit and Investigations Units engaged in a joint effort to release the “Themes Requiring Management Action related to Procurement and Supply Management (PSM)” – as described above in the Progress Update from the Audit Unit. This document includes findings from both audit and investigation work and identifies key challenges faced by the Global Fund-financed grants in the area of PSM.
80. In 2012, the Investigations Unit published six reports. As of end of May 2013, the following investigations reports have been released either to the Board or, for comments, to the investigation subjects or to the Secretariat:
 - Georgia
 - Papua New Guinea (RAM)
 - Kyrgyzstan
 - Madagascar
 - Cambodia

And the following reports are imminent to be released either to the Board or to the investigation subjects or to the Secretariat:

- Nigeria
- Mali
- Burkina Faso
- Kazakhstan (5 parts)
- Papua New Guinea (NDOH)
- Bangladesh (1 part)
- Update from the Joint Inter-Agency Task Force

² Previously, the number of active cases also included cases/allegations categorized as “awaiting allocation” while an assessment of their investigative merit was not completed.

Revision of the scope and scale of investigations

81. One of the reasons for a long time span between the onset of the investigation and the publication of the final report was the very large scope of the investigative work, often going beyond the original allegations as red flags were discovered during the course of the investigation. In the past, with the aim of exhaustively identify wrongdoing and being able to provide a “clean bill of health” to subjects following the conclusion of the investigation, the scope of an investigation could quickly become difficult to manage. We have revisited the strategic goals of the investigative work to move from exhaustively identifying and quantifying fraud and misuse in a given portfolio to discrete investigation and fact finding to ascertain whether an allegation received is valid and be able to reach a conclusion and report on the matter in a timely fashion. Additional investigative work may of course derive from this and such reports should not be deemed exhaustive regarding potential issues affecting the concerned entity.
82. Despite the considerable effort in cleaning the backlog of cases within the Investigations Unit, we are currently facing a second backlog of the actual number of active cases the Unit has to deal with. More work needs to be done going forward to change the way allegations and investigations are handled, and the existing draft Investigations Manual that we are currently updating and is being rolled out gradually will provide more tailored guidance to investigators and should improve compliance and consistency in investigation methods.
83. Another key element we have worked on is the presentation and content of our reports, with a view to ensure consistency with our governance documents, the Board policies applicable to recoveries and losses determinations and the High Level Panel report recommendations.
84. The OIG has developed a standardized practice of supporting assertions contained in our investigative reports by creating a corresponding “Evidence and Supporting Document Index”. This index directs the reader to the precise source of evidentiary support for each substantive point raised in a report, ensuring the validity of all assertions and providing ease of reference. Often, this index will be accompanied by an organized verification binder of evidence (hard copy or electronic) so that all substantive evidence relied on in our reports is preserved. The index and binders of evidence can be made available for review by the Secretariat upon request.
85. We have rolled out two key documents reflecting this new approach: 1) a revised lexicon to describe the wrongdoings we prove through investigations, and 2) a list of categories to label various expenses identified as problematic, common between Audit and Investigation Units.
86. Lexicon: The aim is to ensure consistency amongst reports regarding the terms we use, and the required evidence to prove each instance of wrongdoing. It is also to avoid using legalistic language related to general concepts of criminal law but rather clearly identify contractual provisions on which the findings are based.
87. Lastly, to ensure the Global Fund speaks with one voice, investigations and audit reports will strive to identify all amounts compromised by various wrongdoings, and provide additional contextual information to be able to assess actual loss if applicable, but the determination of a recoverable amount remains with Legal Counsel, in accordance with the relevant Board decision, for further action by the Secretariat’s Recovery Committee.
88. Categories of expenses: As the Board has instructed the Legal & Compliance Unit and OIG to report on losses and recoverables identified, and the High Level Panel has urged us to

clearly separate the expenses by the various types of wrongdoing to which they pertain, we will ensure future reports use a defined set of labels, common across audits and investigations.

Pro-active approach in investigations

89. Although investigations are rather reactive in nature, and the current resources within the Investigations Unit are barely sufficient to cope with the current workload, the OIG is considering adding pro-active elements to the Investigations Workplan in terms of looking into issues that appear the most risky ones based on the current analysis of trends.
90. In October 2011, the OIG Investigation Unit conducted an investigation focusing on a PR's practice of conducting foreign currency exchange transactions between 2005 and 2009 on its country's parallel currency market in order to exchange Global Fund grant funds disbursed to them in US dollars for the local currency. The OIG investigation revealed that the PR in question exposed the Global Fund to the risk that its grant funds would be delivered to prohibited parties and used for illicit purposes, a loss of grant funds, and the unjust enrichment of the PR from diverting some of the exchange proceeds.
91. As a result of the OIG investigation, the Global Fund Secretariat agreed to include revised legal provisions in the Standard Terms and Conditions of the Grant Agreement applicable for Global Fund Principal Recipients prohibiting the use of parallel market foreign exchange (FOREX) and further strengthening its anti-money laundering requirements.
92. The OIG will be conducting a number of proactive verification exercises throughout the 3rd and 4th quarters of 2013 to ascertain the level of adherence by Global Fund Principal Recipients of the revised Standard Terms and Conditions.
93. Pro-active approach is also being applied through timely heads-up communication with the Secretariat on red flags identified in the course of investigations. This is notably being piloted through the work done on the JIATF, as described below.

Update on the Investigations Unit's self-assessment

94. The Unit's self-assessment, completed in May, identifies several reasons for delays with the investigative work in the past, besides the delays imposed by the due investigation process described in detail in the November 2012 OIG report to the Board. A Unit-wide reflection on the self-assessment results is currently taking place, as well as efforts to address the shortcomings identified. It is planned to conduct a peer-review of the Investigations Unit in the 4th quarter of the year, under the leadership of the new Inspector General and once the Unit has had some time to address the key weaknesses identified in the self-assessment.

Joint Inter-Agency Task Force on Drug Theft, Diversion and Counterfeiting

95. OIG's previous report to the Board covering April-October 2012 provided an overview of the Investigation Unit's collaborative and multi-agency approach towards addressing the problems of theft, diversion and counterfeiting of pharmaceutical products. The past 7 months have seen a significant scale-up of activities of this work, primarily as a result of the efforts of the Joint Inter-Agency Task Force (JIATF). Whilst OIG Investigators have been working closely with Special Agents from The United States Agency for International Development Inspector General (USAID-IG) on these issues since 2011, a decision was taken in 2012 to formalize the relationship into a JIATF and to extend membership to the United Nations Development Program (UNDP) Office of Audit and Investigations (OAI). Comprising these three core members, the JIATF core focus is the theft, diversion and

counterfeiting of Global Fund and USAID-funded anti-malarial medicines throughout sub-Saharan Africa and South East Asia, and throughout 2013 the JIATF will conduct a number of joint missions comprising all 3 member agencies. Close working relationships with Interpol, The World Health Organization (WHO) and The United Nations Office on Drugs and Crime (UNODC), together with a number of national level anti-corruption, law enforcement and drug regulatory authorities, have also been established by the JIATF.

96. The JIATF has a number of strategic objectives, Firstly, its ongoing in-country activities are enabling a more accurate picture to be developed concerning the scope and scale of the problem of theft, diversion and counterfeiting of Global Fund and USAID-funded ACTs. Information derived from these activities is being systematically analyzed by JIATF Analysts, enabling proactive, intelligence-led investigations to be conducted, a number of which are ongoing at this time. OIG's efforts in respect of its proactive engagement with national authorities are also directly supporting this work (for further details see section on MOUs below).
97. Safeguarding public health and addressing the crime of counterfeit medicines is also a major strategic objective of the JIATF and its close working relationship with WHO and Interpol ensures that information it receives relating to counterfeit ACTs is transmitted to the appropriate bodies, including national level drug regulatory bodies. OIG plans to further collaborate with Interpol in respect of providing training to national level authorities on this important issue.
98. Finally, the work of the JIATF is serving to assist in guiding Global Fund policy in respect of enhancing the integrity of supply chain management, mitigating risks, and improving anti-theft and anti-counterfeiting measures. In early 2013, The OIG and Global Fund Secretariat formally convened a Working Group to address the issues of theft, diversion and counterfeiting of pharmaceutical commodities. A strong working relationship has been developed between the two parties with the aim to further develop a joined-up and comprehensive approach, and in July 2013, The Global Fund will host a major event at its headquarters in Geneva where the Secretariat, the JIATF, and other key stakeholders including all of the major ACT manufacturers, will convene to discuss developing a comprehensive strategy to address these issues.
99. The OIG attaches particular importance to this special initiative and has established a separate budget line in the Investigations Unit's budget to fund JIATF activities (note, this line will appear in the budget as of May 2013). Cost-sharing agreements have been reached with UNDP OAI and the Secretariat.

MOUs signed with peers and national agencies, and outcome of cooperation

100. To date, MOUs have been signed with the following entities:

- UNDP Office of Audit and Investigations (OAI)
- Integrity Vice Presidency of the World Bank Group
- Nigeria Economic and Financial Crime Commission (EFCC)
- Malawi Police Service
- Malawi Financial Intelligence Unit (FIU)
- Malawi Anti-Corruption Bureau (ACB)
- Tanzania Prevention and Combatting Corruption Bureau (PCCB)

Negotiation of MOUs with the following entities is underway:

- UK DFID
- EU OLAF
- WHO
- Malawi Department of Public Prosecutions
- Tanzania Inspector General of Police
- Tanzania Department of Public Prosecutions
- Nigeria National Agency for Food and Drug Administration and Control

101. Building on its work throughout 2012, the OIG has further expanded its focus in relation to proactive engagement with National Anti-Corruption and Law Enforcement Authorities in a number of countries where Global Fund Grant funds are disbursed. The OIG views this initiative as a means of facilitating Country Ownership in its most positive form and it now forms a key component of the Investigation Unit's Workplan. It entails a 4-pronged approach. Firstly, OIG proactively engages with key strategic actors including National Anti-Corruption Bodies, Departments of Public Prosecution, Inspector Generals of Police, Financial Intelligence Units, and Drug Regulatory Agencies. Formal negotiations then commence in order to establish Memorandums of Understanding (MOUs) and following OIG's MOU with Malawi's Anti-Corruption Bureau in November 2012, similar agreements have been signed with Malawi's Inspector General of Police, Malawi's Financial Intelligence Unit and Tanzania's Prevention and Combating of Corruption Bureau. Most, recently, in May 2013, Mr. Ibrahim Lamorde, The Executive Chairman of Nigeria's elite anti-corruption Unit, The Economic and Financial Crimes Commission (EFCC) was invited to Geneva to present a keynote speech focusing on the work of EFCC and fighting corruption in Nigeria, and to take part in a formal MOU signing ceremony with the Inspector General.

102. In furtherance of one of the 'Priorities for OIG Investigations' as outlined in Annex B of the previous Report to the Board, is the third component of OIG's proactive engagement strategy - capacity building initiatives with those Agencies who have entered into MOUs. In May 2013, OIG organized and funded two of Nigeria's EFCC personnel to attend a UK Police training course focusing on intelligence link analysis. Following the training, the EFCC delegation was invited to OIG's headquarters in Geneva to conduct further intelligence analysis exercise. Two laptops and intelligence link analysis software packages were also donated by OIG. An excellent working relationship has been established by the two parties and following the recent exercise, the EFCC has requested that OIG assist with developing its new Intelligence Analysis Unit. Further OIG capacity building initiatives are planned throughout 2013 with a number of additional partners.

103. The final component of OIG's proactive engagement strategy with national authorities is joint investigations and referrals. The OIG views its MOUs with these parties as the start of a long and enduring relationship and will ensure that these agreements will lead to tangible and real results. To date, and in furtherance of its work, the OIG has already received access to bank statements, and the provision of intelligence analysis reports from a number of MOU signatories and the Office anticipates that the level of cooperation and collaboration will continue to grow. 2013 will also see a number of joint investigations in support of The Joint Inter-Agency Task Force (JIATF) focusing on the theft, diversion, and counterfeiting of anti-malarial medicines.

104. The OIG is proud of its achievements in respect of its proactive engagement strategy with national authorities. By helping to support and develop national anti-corruption authorities and other key law enforcement agencies, the OIG is facilitating one of the

Global Fund's key foundational principles – Country Ownership. It also ensures that where instances of fraud and corruption related to Global Fund Grants are identified, the OIG can work collaboratively with its in-country partners to ensure that appropriate actions are taken.

PART 3: ISSUES FOR BOARD'S ATTENTION

"Risk appetite" of the Organization

105. Another recurrent finding from our assurance and consulting work is that the Global Fund has not yet identified how much risk the Global Fund is willing to take to optimize its ability to achieve its objectives (its risk tolerance or "risk appetite"). We should be open with our donors and with the taxpayers that we operate in very risky environments, and that fraud, misuse as well as inefficient use of funds will continue to happen in the future.
106. The current Global Fund strategy of 2012-2016: "Investing for Impact" calls for investing more strategically with a focus on the highest-impact countries, interventions and populations. In many cases, this implies that for the sake of people who need our help, investments will continue to be made in countries or contexts that do not have optimal institutional and physical infrastructure for efficient and effective delivery of programs that we will fund work in difficult, complex and sometimes insecure areas, and that implementers may lack the required human capacity to ensure proper accountability and reporting on the use of funds. In the worst cases, we would fund in business environments that are susceptible to fraud and theft. Given these circumstances, a clearly defined risk appetite is important to provide concrete operational guidance to decision-makers and ensure the right balance between risk mitigation measures and seeking to achieve the Fund's objectives.
107. The risk management policy in the risk management framework is the first step in providing the context in which the Global Fund operates and some guiding principles for risk management. The Management has put in place processes and systems to manage risks (e.g. corporate risk register, grant risks heat map). This allows to identify the most important risks and show how they will be mitigated. Also, an overall index of portfolio risk will be developed as a management tool. These inputs will allow to have a discussion on the risk tolerance of the Organization.

Accountability-related matters

108. The OIG recommended in March 2008 that the Secretariat develop an accountability framework that clarified roles, responsibilities, authorities and accountabilities of various stakeholders within the Global Fund model. In September 2008, the Secretariat made a commitment to the Board's then Finance and Audit Committee to develop an accountability framework. This framework has not been developed despite several recommendations in subsequent reports in 2010 and 2011. In the recently completed review on the Integration of Specialists within the Grant Management Division, one of the key issues raised was the lack of clarity of staff roles and responsibilities. The accountability framework would ensure that decision-making authority rests at the appropriate level and with staff with the appropriate expertise and experience, that the quality of decision-making is regularly reviewed and that decision-makers are held accountable.

Recoveries process

109. The OIG is at present (May/June 2013) undertaking a review to evaluate the effectiveness of processes and controls in place to recover funds that were not spent in line with the grant agreement. The review involves an assessment of the status of the recovery efforts, i.e., proposed amounts for recovery, amounts actually recovered, amounts deemed to be unrecoverable, amounts written-off, and amounts deemed recoverable but still outstanding. We will assess compliance with laid down Global Fund policies and procedures relating to identified losses. We look forward to sharing our findings with the Secretariat and the AEC to assist in defining the amounts to be recovered and enabling their recovery.

Workload of the Country Teams in Grant Management Division

110. One of the themes that has come up recurrently in the internal audits conducted this year is the (perceived) high workload in the Grant Management division. Staff interviewed for our audits on the Country Team, grant closure processes, and on external audit of the PR consistently stated that inadequate resourcing was a leading challenge in their work. This was echoed in the survey we undertook as part of the Country Team audit, with thirty-four per cent of respondents identifying resourcing as the biggest Country Team priority. The resourcing challenge was more evident in “non-High Impact” teams, where staff reported disproportionate workloads since they had to service multiple grant portfolios to the same standard as in High Impact teams, since processes for handling different portfolios had not been adequately differentiated. Many interviewees were concerned that this impacted their ability to provide effective oversight to the grant portfolio and felt strongly that, if not managed, was likely to lead to staff burnout. Determining the extent of under-resourcing was not within the scope of the audits conducted so far this year. This would require further analysis, taking into account factors such as (i) the impact of process simplification, computerization, task differentiation based on risk, etc., on workload, (ii) clearly defined roles and responsibilities for Country Team members in Grant Management, and (iii) a formal workload analysis for both High Impact and non-High Impact staff.

111. It is tempting to try to mitigate risk, and ease our conscience, through increasing layers of paperwork. At some point, however, we need to decide whether this is acceptable and sufficient and does not increase bureaucracy. We need to reduce internal workload to allow the Secretariat staff based in Geneva to be as hands-on as possible in managing the grant portfolio and addressing risk real-time.

112. Pending the results of the review, the OIG would like to bring to the Board’s attention a discussion on a possibility to further simplify the grant management processes by striking a better distinction between the High Impact and non-High Impact portfolios, and by allowing further flexibility in grant management processes for the non-high risk countries.

Privileges and immunities

113. As mentioned in the OIG’s report at the 22nd Board meeting (GF/B22/9), “a lack of privileges and immunities for Global Fund staff working in country that exposes such staff to substantial physical safety risk, a lack of protection from criminal and civil process, and risks associated with travel and working in country (this is a most serious deficiency)”, is a serious concern. Although all Global Fund employees face the risks associated with a lack of privileges and immunities, the OIG staff is particularly exposed due to the nature of their work.

114. At the end of 2011, only 7 countries had signed the Privileges and Immunities Agreement with the Global Fund (GF/B25/3, Revision 1, Annex 7), and as of today, this number has

remained the same. Ten countries will have to sign before the agreement becomes effective in each country.

115. The OIG would like to bring to the Board's attention a discussion on a possibility to look for UN-equivalent protection for the Global Fund staff.

Access to Principal Recipients' bank accounts

116. In the 3rd and 4th Quarters of 2013, the OIG plans to continue its discussion with the Secretariat to explore ways and means to further enhance the Global Fund's capacity to exercise fiduciary oversight. Central to this discussion will be exploring the scope to acquire greater visibility of Global Fund Grant recipient's bank accounts. The Global Fund has already discussed this issue, and a number of electronic solutions have been profiled by the banking community. The OIG views consideration of such solutions as a prudent step, particularly given the challenges the OIG has faced in gaining access to Global Fund grant recipient bank recipients during the course of investigations.

CONCLUSION: NEXT STEPS FOR THE OIG

117. As per the Terms of Reference of Interim Inspector General, the Board will receive a final written report on the status of duties set out in the Terms of Reference. A comprehensive handover memorandum will be prepared for the incoming Inspector General.
118. The priority for the way forward is to continue addressing the workload of the Investigations Unit and rendering the Unit more pro-active, through (i) better prioritization of cases, (ii) further scoping of the investigations, (iii) specialization of teams, (iv) more external cooperation with peers, the Secretariat and national entities, in order to cover more areas at risk at a greater frequency, and to perform the work faster.
119. We keep focused on conformance with the internal standards for both audit and investigation functions. In this spirit of continued development and increasing performance, we will need to ensure that each OIG staff member completes a minimum of 40 hours of professional development per year, as per the training matrix and development objectives set forward.
120. In order to increase our knowledge of the Secretariat, we will work towards more secondments of staff to and from the Secretariat. This will improve the quality of our recommendations and support provided to the management going forward.
121. Given that the Secretariat is still undergoing change, we will ensure that we start planning our audit and investigations work for 2014 before September 2013.

OIG AUDIT UNIT WORKPLAN AND STATUS UPDATE

Secretariat Division	Name	Audit Planning	Fieldwork	Report Status	Quarter
Finance	Follow-up on IT review	✓	n/a	issued	Q1
Risk Management	Update on Risk Management Tools (QUART)	✓	n/a	issued	Q1
Risk Management	Update on Risk Management Tools (risk register)	✓	n/a	issued	Q1
Risk Management	Update on Risk Management Tools (minimum standards)	✓	✓	issued	Q1
Grant Management	Country Team Approach - Embedding Specialists	✓	✓	finalizing report	Q1
Grant Management	Grant closure	✓	✓	finalizing report	Q1
Grant Management	Assurance at country level – Use of External Audit	✓	✓	finalizing report	Q1
Grant Management	Advising Civil Society delegation to the Board	✓	n/a		Q1-4 Ongoing
Finance	Collaboration with External Auditor	✓	n/a		Q1-4 Ongoing
Finance	Advisory on IT systems	✓	n/a		Q2-4 Ongoing
Finance	Advisory engagements based on CFO request	✓	n/a		Q2-4 Ongoing
Human Resources	Payroll	✓	ongoing		Q2
Human Resources	Benefits	✓	ongoing		Q2
Grant Management	PSM: Quantification and forecasting	✓	ongoing		Q2
Legal and Compliance	Recoverables	✓	ongoing		Q2
Strategy, Investment and Impact	Performance based funding - Performance Measurement at the Global Fund	✓	ongoing		Q2
Grant Management & Finance	Quality Control	✓	ongoing		Q2
Grant Management	Democratic Republic of Congo (advisory)	✓	✓		Q2
External Communications, Events and Public Relations	Strategic Communication	✓	ongoing		Q2 / Q3
Grant Management	Capacity building				Q3
Strategy, Investment and Impact	Quality of Service in Program Delivery				Q3
Finance	Validation of TGF financial data in preparation for EA				Q3
Governance	Cost of governance				Q3
Administration, Information Technology and Purchasing	Key IT controls				Q3
Grant Management	Country audit: Multi-country	✓			Q3 & Q4
Grant Management	Country audit: Pakistan	✓			Q3 & Q4
Grant Management	Country audit: Testing Risk Model	✓			Q3 & Q4
Finance	Grant budgeting				Q4
Human Resources	Follow-up on post-ASA recommendations	✓	n/a		Q4
Other	Joint training on ERM	✓	n/a		Q4

OIG BUDGET AND EXPENDITURES PER COST CENTER AND COST CATEGORY (end May 2013)

Budget Lines	Budget	Actuals	Commitments (Funds obligated)	Balance without commitments	Remaining Balance once commitments spent	% of Budget Spent	% of Budget Remaining once commitments spent	Comments
Staff Numbers	45							
Staff costs	\$9,553,168	\$3,030,569	\$0	\$6,522,599	\$6,522,599	32%	68%	Commitments do not appear here for staffing costs as the latter or not "obligated" 4 additional staff to join by end of Q3. Other recruitments to be finalized by end of Q3.
Professional fees (contractors/firms)	\$7,308,613	\$1,287,975	\$1,210,805	\$6,020,638	\$4,809,833	18%	66%	
Travel costs	\$2,690,917	\$373,278	\$2,527	\$2,317,639	\$2,315,112	14%	86%	
Meetings/Other costs (Retreat, training costs)	\$109,500	\$44,861	\$3,820	\$64,639	\$60,819	41%	59%	
Communications (Publications and translations)	\$130,000	\$4,538	\$0	\$125,462	\$125,462	3%	97%	
Office Infrastructure (IT equipment and software)	\$499,438	\$221,693	\$95,129	\$277,745	\$182,616	44%	37%	
SUBTOTAL	\$20,291,636	\$4,962,914	\$1,312,281	\$15,328,722	\$14,016,441	24%	69%	
Additional (office rent, utilities)	\$816,622	\$388,123	\$395,280	\$428,499	\$33,119	48%	4%	
GRAND TOTAL	\$21,108,258	\$5,351,037	\$1,707,661	\$15,757,221	\$14,049,560	25%	67%	

DETAILED BUDGETS BY COST CENTRE:

FINANCIAL SITUATION - OIG MANAGEMENT - 31 May 2013

Budget Lines for OIG Management - 7210	Budget	Actuals	Commitments (Funds obligated)	Balance without commitments	Remaining Balance once commitments spent	% of Budget Spent	% of Budget Remaining once commitments spent	Comments
Staff costs (5)	\$1,108,576	\$558,406		\$550,170	\$550,170	50.4%	49.6%	overspent due to double incumbency of IG for 3 months+senior advisor cost
Professional fees	\$66,728	\$53,107	\$12,687	\$13,621	\$934	79.6%	1.4%	Recruiters' contract - Extension beyond June covered by Audit and Investigations.
Travel costs	\$105,917	\$43,972	\$928	\$61,945	\$61,017	41.5%	57.6%	IG's travel + training travel
Flights		\$36,462						
Cash cards/Tcs/expenses		\$7,509						
Meetings/Other costs (Retreat, training costs)	\$57,500	\$14,364	\$1,575	\$43,136	\$41,561	25.0%	72.3%	Trainings
Communications (Publications and translations)	\$30,000	\$0		\$30,000	\$30,000	0.0%	100.0%	New OIG leaflets
IT equipment and Software for whole office	\$79,438	\$15,177	\$5,147	\$64,261	\$59,114	19.1%	74.4%	
SUBTOTAL	\$1,448,159	\$685,026	\$20,337	\$763,133	\$742,796	47.3%	51.3%	
Additional (office rent, utilities)	\$816,622	\$388,123	\$395,280	\$428,499	\$33,119	47.5%	4.1%	
TOTAL	\$2,264,781	\$1,073,149	\$415,717	\$1,191,632	\$775,915	47.4%	34.3%	

FINANCIAL SITUATION - AUDIT UNIT - 31 May 2013

Budget Lines for Audit Unit - 7220	Budget	Actuals	Commitments (Funds obligated)	Balance without commitments	Remaining Balance once commitments spent	% of Budget Spent	% of Budget Remaining once commitments spent	Comments
Staff costs (18)	\$4,361,697	\$1,284,449		\$3,077,248	\$3,077,248	29.4%	70.6%	Underspent due to vacant posts (recruitments in progress)
Professional fees (contractors/firms)	\$2,070,000	\$289,113	\$191,362	\$1,780,887	\$1,589,525	14.0%	76.8%	Phase 1 of audit plan only kicked off mid-March
Professional fees (Individual consultants)		\$129,071						
Firms		\$160,042						
Travel costs	\$960,000	\$148,460	\$835	\$811,540	\$810,705	15.5%	84.4%	Same as above
Flights		\$77,778						
Cash cards/Tcs/expenses		\$70,682						
Meetings/Other costs	\$26,000	\$15,221	\$1,701	\$10,779	\$9,078	58.5%	34.9%	Audit Unit Training week in February
Communications (Publications and translations)	\$50,000	\$2,538		\$47,462	\$47,462	5.1%	94.9%	
Office Infrastructure (IT equipment and software)	\$50,000	\$0		\$50,000	\$50,000	0.0%	100.0%	
TOTAL	\$7,517,697	\$1,739,781	\$193,898	\$5,777,916	\$5,584,018	23.1%	74.3%	

FINANCIAL SITUATION - INVESTIGATIONS UNIT - 31 May 2013

Budget Lines for Investigations Unit - 7230	Budget	Actuals	Commitments (Funds obligated)	Balance without commitments	Remaining Balance once commitments spent	% of Budget Spent	% of Budget Remaining once commitments spent	Comments
Staff costs (22)	\$4,082,895	\$1,187,714		\$2,895,181	\$2,895,181	29.1%	70.9%	Underspent due to vacant posts (recruitments in progress)
Professional Fees	\$5,171,885	\$945,755	\$1,006,756	\$4,226,130	\$3,219,374	18.3%	62.2%	Underspent due to back-log of cases currently being addressed and investigations plan being developed
Professional fees (Investigations consultants)	\$1,251,885	\$515,569	\$378,146	\$736,316	\$358,170	41.2%	28.6%	Investigations consultants extended to September (one till Dec)
PF - Forensic accounting firms	\$2,050,000	\$359,728	\$78,161	\$1,690,272	\$1,612,111	17.5%	78.6%	(includes Guilbert/Mazars/FAI/E&Y)
PF - Computer Forensics firms	\$680,000	\$7,640	\$55,785	\$672,360	\$616,575	1.1%	90.7%	Alvarez & Marsal
PF - Other firms and consultants	\$420,000	\$62,817	\$17,322	\$357,183	\$339,861	15.0%	80.9%	
JIAF	\$770,000	\$0	\$477,342	\$770,000	\$292,658	0.0%	38.0%	* JIAF line added in May (and 3 lines above budget adjusted (-20%) to cover these additional costs)
Travel costs:	\$1,625,000	\$180,846	\$764	\$1,444,154	\$1,443,390	11.1%	88.9%	
Flights		\$150,670						
Cash cards/Tcs/expenses		\$30,176						
Meetings/Other costs	\$26,000	\$15,276	\$544	\$10,724	\$10,180	58.8%	39.2%	
Communications (Publications and translations)	\$50,000	\$2,000		\$48,000	\$48,000	4.0%	96.0%	
Office Infrastructure (IT equipment and software)	\$370,000	\$206,516	\$89,582	\$163,484	\$73,502	55.8%	19.9%	This includes BEDAG contracts (IT support) until Mid-June
TOTAL	\$11,325,780	\$2,538,107	\$1,098,046	\$8,787,673	\$7,689,627	22.4%	67.9%	

Definitions:

Actuals: amounts spent/work performed so far. Actual figures taken from the BvA reports for each cost centre (and from the common 7120 cost centre for January; Manual reconciliation done to allocate figures to the newly created cost centres)

Commitments include funds obligated/Contracts. Amounts committed but not paid yet/Work not yet performed

Balance without commitments is calculated by sub-tracting the actuals amounts to the budgeted amounts

Balance with commitments is calculated by sub-tracting the actuals and commitments amounts to the budgeted amounts (therefore taking into account the amounts obligated that will be paid once work is performed)

Note on Currency: all figures in USD

Board Approved 2013 Budget for OIG (broken down by cost centre)

Budget Line	2013 in US\$
Staff Numbers	45
Staff costs	\$9,553,168
Professional fees (contractors/firms)	\$7,308,613
Travel costs	\$2,690,917
Meetings/Other costs (Retreat, training costs)	\$109,500
Communications (Publications and translations)	\$130,000
Office Infrastructure (IT equipment and software)	\$499,438
SUBTOTAL	\$20,291,636
Additional (office rent, utilities, IT equipment for whole office)	\$816,622
GRAND TOTAL	\$21,108,258

UPDATE ON IMPLEMENTATION OF HLP RECOMMENDATIONS BY THE OIG

Recommendation	Action taken	Current status	Next steps	Comments
<p>1. Establish protocols and methods of work between the Global Fund Secretariat and the OIG, including to allow the former to receive timely advice, briefings, and copies of reports directly from the OIG, without this being seen as impairment of the OIG’s independence</p>	<p>The following documents are being revised and re-animated in practice: “Protocol between the Office of the Inspector General and the Global Fund Secretariat for managing the audit process”, “Protocol between the Office of the Inspector General and the Global Fund Secretariat for the coordination of allegations and investigations”, and “Principles and practices for the relationship between the Global Fund Secretariat and the Office of the Inspector General”.</p> <p>The OIG hosts bi-weekly heads-up meetings with the Head of Grant Management, Chief Risk Officer and Head of Communications.</p>	<p>Implemented but currently being revised</p>	<p>Finalize the revision of the protocols by end of June and formally roll them out</p>	
<p>2. Focus the 2012 operational plan proposed by the OIG on more recent transactions and emerging risks, and ensure its resources are commensurate with the work plan reviewed by the Audit Committee and approved by the Global Fund’s Board;</p>	<p>The 2013-2016 multiyear Audit plan was developed based on risk assessment with the Secretariat.</p> <p>Starting 2013, an investigations workplan is being developed and includes elements of pro-active work based on risk assessment, i.e. drug theft and counterfeiting, FOREX risks.</p>	<p>Implemented for Audit workplan, work in progress for investigations</p>	<p>Finalize the multiyear investigations workplan</p>	<p>Resource constraints in investigation unit and focus on backlog of cases in the first part of 2013 impede progress with pro-active work in identified risk areas</p>

Recommendation	Action taken	Current status	Next steps	Comments
<p>3. Adopt distinct policies for the release of the different categories of OIG reports, as follows:</p> <p>a. The Global Fund normally should not publish audits of internal business practices within the Secretariat, in line with international best practice;</p> <p>b. The Global Fund should maintain its current posture of publishing all audit reports on its grant portfolio; and</p> <p>c. The Global Fund should continue to publish reports that result from investigations, but should create separate versions of such reports for the Board and Secretariat, law-enforcement officials and the general public; in particular, the Global Fund should take care to make appropriate redactions in public disclosures of information that could complicate efforts to recover assets or monies lost to malfeasance, or could prejudice the prosecution of those involved in schemes to defraud the institution and the implementers of its grants;</p>	<p>The OIG has proposed a new disclosure policy for its reports, to be reviewed by the Board in November 2013.</p> <p>The investigations reports are redacted in order to prevent identifying investigation subjects.</p>	<p>Implemented for redacted reports</p> <p>Work in progress for disclosure policy</p>		

Recommendation	Action taken	Current status	Next steps	Comments
<p>4. Improve the scope of the OIG's audits and the tone and size of its reports, including by creating written products differentiated by need and audience, such as:</p> <p>a. Segmenting financial and programmatic audit findings, and establishing clear prioritization among recommendations;</p> <p>b. Sending Management Letters to PRs and the Global Fund Secretariat to flag major, emerging issues and offer recommended solutions even before audits are finished;</p> <p>c. Shortening the length of the elapsed time from the beginning of an audit engagement to the release of the subsequent report;</p> <p>d. Expanding the use of Diagnostic Reviews, especially in countries the Panel has classified as extreme-risk/extreme-burden.</p> <p>e. Redefining the reporting of "loss" in the OIG's reports to make clear distinctions between losses that result from theft/fraud on the one hand, and recoverable amounts because of undocumented or ineligible expenditures on the other;</p> <p>f. Allowing sufficient time for the Global Fund's Board to study the OIG's reports and management responses by refining the timelines and Board-review process for publishing those reports; The Panel is of the opinion that, in line with international best practice, the Global Fund should not normally publish audits of internal business processes within the Secretariat;</p>	<p>a) New report format has been rolled out. It is shorter in size and includes reader-friendly elements such as notes in margins. The number of recommendations in audit and investigations reports has reduced and the recommendations focus on priority areas.</p> <p>b) Bi-weekly heads-up meetings with Head of Grant Management, Chief Risk Officer and Head of Communications serve the purpose of sharing information on "red flags" identified.</p> <p>c) One of the performance objectives for the Audit Unit is to share the first draft of an Audit report with the Secretariat no more than ten working days after the debrief in-country or with the Secretariat; and to release the final report no later than eight weeks after exit meeting (barring circumstances outside Audit Function's control). Similarly, the Investigations Unit has the following performance objectives: 1) provide heads-up communication to the Secretariat no more than ten working days after the end of the last in-country mission; complete the Investigations report draft within two months of the end of the last in country mission; and to issue the final draft report to the subjects for comments four months after the completion of the last in-country mission (barring circumstances outside Investigation Function's control).</p> <p>d) the new audit plan focuses on business processes and no longer on countries as before.</p> <p>e) work is underway in redefining the "loss" amounts identified in the audit and investigations report. A review of all previously released reports is taking place and "loss" amounts are categorized in line with new definitions.</p> <p>f) the draft revised disclosure policy addresses these issues. A discussion by the Board is to take place in November 2013.</p>	<p>Partially implemented, work in progress</p>		

Recommendation	Action taken	Current status	Next steps	Comments
5. Disclose as part of the OIG's reports all disagreements with management, and incorporate as part of the reports comments from the Global Fund's Board and Secretariat and any audited entities, so readers may see the discussion, analysis and conclusions;		Implemented		
6. Present to the Global Fund's Board, at regular intervals, reports on follow-up to the OIG's recommendations, prepared by the Secretariat and validated by the OIG;	The list of recommendations from audits has been reduced from 1700 to 250 to allow for their better tracking and management. A report on audit and investigation recommendations implementation will be presented to the AEC in July 2013, and on a semi-annual basis thereafter.	Implemented	A report on audit and investigation recommendations implementation status will be presented to the AEC in July 2013, and on a semi-annual basis thereafter	This recommendation is for the Secretariat, with only validation required from the OIG
7. Provide full briefings for the Audit Committee and the Global Fund's Board to make it fully aware of the extent of the audit and investigation activity of the grants program by the OIG and external auditors, and assurances that instances of duplication and overlap are being minimized;	The OIG provides regular updates to the AEC and the Board (semi-annual progress updates) and maintains regular contact with the AEC on work in progress.	Implemented, on-going		

Recommendation	Action taken	Current status	Next steps	Comments
<p>8. Redefine the relationship with the United Nations Development Programme (UNDP) to permit greater accountability to and access by the Global Fund, including by taking the following steps:</p> <p>a. Urging UNDP to establish a secure, electronic portal to allow designated Global Fund staff to review UNDP audit reports from Geneva;</p> <p>b. Developing and signing a detailed Memorandum of Agreement on investigations; and</p> <p>c. Negotiating an agreement with UNDP for access to documents of its Country Offices for the ongoing, routine monitoring of grants, equal in its terms as that between UNDP and the European Commission.</p>	<p>b) The MOU with UNDP OAI has been signed in December 2011 and pro-active coordination of investigative efforts is ongoing.</p>	<p>Implemented as far as the OIG is concerned</p>		