Global Fund Grant Making Processes
Follow-up Review

The Global Fund

Office of the Inspector General

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1. Executive Summary

1.1. Opinion

Grant making processes are critical to the achievement of the Global Fund's strategic objectives and mission. They translate funding requests into disbursement-ready grants for Board approval and signature. Prior to approval, the funding request is assessed for technical and strategic soundness taking into account the country's epidemiological needs, funding amounts, performance ratings and grant risk assessments by an independent Technical Review Panel and Grant Approvals Committee. The OIG conducted a follow up audit of grant making processes as part of its 2017 annual audit plan due to significant deficiencies identified in a 2015 audit of the same processes (GF-OIG-16-003).

The Secretariat has addressed many of the issues and risks identified in the 2015 OIG audit and revised the processes and systems to support the achievement of the Global Fund's 2017 – 2022 strategic initiatives. However, some improvements are needed to implement and operationalize new initiatives approved by the Board to make access to funding and grant making processes more efficient and effective. The design of the grant making processes, systems and tools is therefore rated as **partially effective.**

1.2. Key achievements

The Secretariat has enhanced the processes and tools underlying funding applications, review and approval and has made significant efforts to increase the efficiency of the grant making process. This includes differentiating and simplifying the grant application process and the associated risk management decisions:

- *Differentiation and simplification:* The grant application, review and approval processes have been differentiated in line with the country context and funds allocated to the country. Cross-functional teams at the Secretariat, including the Technical Review Panel and Grant Approval Committee, discuss the basis and criteria for the differentiation extensively. Relevant Operational Policy Notes have been updated to reflect the changes. Documents required for grant making have also been simplified and reduced from the previous 22 identified in the OIG audit to ten. The Secretariat has also enhanced the existing tools and templates to support grant making in line with the risks identified in the previous audit.

- *Risk management:* The Risk Department has clearly defined the involvement of risk management in grant making processes and formalized this in a revised Risk Management Operational Policy Note. In addition, an Integrated Risk Management Tool has been designed to support Country Teams in the risk assessment process throughout the grant management lifecycle. The Secretariat expects to implement the tool in the Grant Operating System by September 2017. In the interim, Country Teams will use existing tools such as the Capacity Assessment Tool until the Integrated Risk Management Tool is operational. In this regard, the existing Capacity Assessment Tool, which is a key tool to assess, the risk and capacity of an implementer as part of grant making, has been improved to address the deficiencies raised in the 2015 OIG audit.

1.3. Key challenges

Despite better processes and tools, there are still challenges with the **underlying systems** to support grant making. The Secretariat identified system enhancements as a key action to mitigate delays in grant making under the previous funding cycle. However, the implementation of the enhancements is delayed and may negatively affect the timeliness of grant making in the 2017-2019 funding cycle.

The Secretariat launched a project called 'Accelerated Integration Management' in September 2015 to integrate all of the 22 grant management standalone IT systems into one grant operating system with improved functionality. The project has achieved early success since its inception including the alignment of grant application data to grant making, migration of key grant data from legacy systems to the integrated system and creation of reporting templates. The access to funding module containing functionality to record country allocations, program split and process funding requests from countries has also been implemented. However, there have been delays in implementation of the functions to support grant making. These modules are still under active development and most of them are expected to be released in May 2017. This will be concomitant with 41% (93/228) of the start of grant making activities related to country/disease components, which does not leave sufficient room for additional project delays or the operationalization of systems. The Secretariat and the project team have attributed the delays in the modules to challenges experienced around data quality, compatibility for data migration and ongoing changing business requirements. In this context, the Secretariat rightly decided to address these challenges before the system is implemented.

Operational processes and change management activities for catalytic investments[1] and co-financing in the 2017-2019 funding cycle are still ongoing. The Board approved the sustainability, transition and co-financing policy in April 2016 and catalytic investments, which represents essential funding for programs that are not accounted for in country allocations in November 2016. These policies aim to support the achievement of the Global Fund's 2017 - 2022 strategic objectives and Global Partner Plans. However, not all the operational aspects of these concepts have been defined by the Secretariat. These include developing policies, procedures and appropriate guidance for multi country grants and strategic initiatives under catalytic investments. The short timelines between the approval by the Board and the expected first set of funding requests (20 March 2017), potentially reduced the country's ability to meet the matching fund requirements, which are new and significantly complex. The Secretariat made significant efforts in a short timeframe to develop application materials and guidance for countries but the short timelines have not allowed for sufficient change management interventions such as training and follow up country dialogue processes. Similarly, an Operational Policy Note on Co-financing was approved in March 2017, which means related change management activities are yet to be performed.

The above challenges are complicated by the **volume of funding requests received in March 2017 for the first review period**. On 20 March 2017, the Global Fund received 93 out of the 228 expected funding requests. This represents approximately US$5 billion or 47% of the Global Fund's allocation over 2017 – 2019. The volume of funding requests was almost two and half times more than any number of requests received in the 2014 – 2016 funding cycle (93 compared to 39 excluding iterations and regional applications). In line with the flexibility incorporated in the funding model, the countries, together with the Global Fund, decided when the funding requests should be submitted. The funding requests could have been better prioritized in line with the expected end date of the existing grants of those countries. For instance, 13 of the funding requests received in March 2017 have existing grants until 2018 and 2019. On the other hand, 55 country/disease components expiring in 2017 did not plan to submit their applications in the first review period (20 March 2017).

The Secretariat has formed a coordination group to monitor the ongoing system enhancement and development of key policies, procedures, guidance, tools and templates for grant making to inform use of alternative solutions where necessary. The coordination group has estimated that 15 and 51 disease components may need an additional six and three months respectively to prepare funding requests for review and approval. This estimation is based on data from the previous funding cycle and ongoing process and system enhancements. The Secretariat is proactively considering mitigating actions through the country dialogue process, which include grant extensions to avoid treatment

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[1] This represents funding for programs, activities and strategic investments that are not accounted for in country allocations but are considered essential to achieve the aims of the Global Fund's 2017-2022 Strategy and Global Partner Plans.

disruptions when grant making is delayed. However its ability to scale up programmatic interventions is limited during such extensions.

1.4. Rating

> **Objective 1**. The revised grant-making structures and processes have been adequately designed in response to the risks and issues identified in the previous audit. However delays in the implementation of the Grant Operating System to support grant making present a moderate risk to the achievement of the objective and is therefore partially effective.
>
> **Objective 2**. Some grant making processes have been adequately designed to address the new themes in the Global Fund Strategy and major changes in the 2017 – 2019 funding cycle. However, key elements and internal controls to support and operationalize grant making are yet to be defined. As a result, there is a moderate risk to the achievement of the objective and partially effective.

1.5. Summary of Agreed Management Actions

The Global Fund Secretariat has plans to address the risks identified by the OIG through the following Agreed Management Actions:

- Develop a three-year plan for the implementation of key grant management business process and system improvements. This will ensure such enhancements are started and completed on time.
- Liaise with the Board to ensure that policy decisions are aligned to the three year plan
- Finalize development of the governance and management processes for the strategic initiatives.
- Develop and implement procedures and guidance for multi-country grants and processes and controls for the review and approval of strategic investments under catalytic investments.
- Continue change management activities and reinforce principles for the new components of the grant making in the 2017-2019 funding cycle with Country Teams in Grant Management and implementers in country
- Update the grant-making sign-off form to address the internal controls issues identified.

2. Background

Grant making relates to the processes that translate funding requests reviewed and assessed by the Technical Review Panel and Grant Approvals Committee into disbursement-ready grants for Board approval and signature. This process is critical to the achievement of the Global Fund's strategic objectives and mission because it triggers the actual disbursement of funds that are necessary to implement the country programs. As part of the grant making process, the Global Fund works with a Principal Recipient and a Country Coordinating Mechanism to:

- identify capacity gaps and risks related to grant implementation and mitigation measures;
- review and agree implementation arrangements and plans; and
- develop and negotiate key grant documents, including the performance framework, a detailed budget and a list of health products.

In 2015, the OIG audit of Global Fund's grant making processes (GF–OIG–16–003) concluded that the processes, systems, structures and related risk management activities required significant improvements, including the following four key issues:

- Slow transformation of allocated funds into grants and disbursements to countries: There was an imbalance between efficiency and quality during grant making, resulting in delays in grant signature and disbursement. In addition, flexibility in submission of country funding requests led to slow transformation of allocations into grants and increased workload when multiple applications were received in the same review period. Grants were also not signed and disbursed within the expected timelines after Board approval.

- Challenges in implementing critical components of the funding model: The Secretariat experienced challenges in operationalizing key components of the funding model. These included

  (i)   incentive funding to reward ambitious, high-quality expressions of full demand that go beyond the indicative funding and/or to leverage financing at the country level;
  (ii)   counterpart financing and willingness to pay, which required countries to commit domestic public resources to directly support the programs funded by the Global Fund; and
  (iii)   HIV/TB joint programming, which required countries with high burden of TB and HIV co-infection to submit a single funding request that presents integrated and joint programming of the two diseases.

  The slow operationalization of these concepts affected the ability to achieve their intended objectives.

- Risk management processes within grant making: Secretariat processes and tools were found to be inadequate in supporting Country Teams to identify and mitigate strategic risks. Risk management under the grant-making process was a standalone process that was not integrated with other risk-related Secretariat processes already in place. This led to ineffective and inefficient processes to identify and mitigate risk during grant making

- Cumbersome processes, heavy documentation and inadequate systems created inefficiencies: There was limited differentiation in the grant making processes. The Secretariat followed a one-size fits all approach to grant making across the grant portfolio from the Technical Review Panel assessment to Board Approval. The process required significant documentation to be prepared by countries, and reviewed and approved by the Secretariat. In addition, the information systems and tools supporting the grant making process were found inadequate and ineffective.
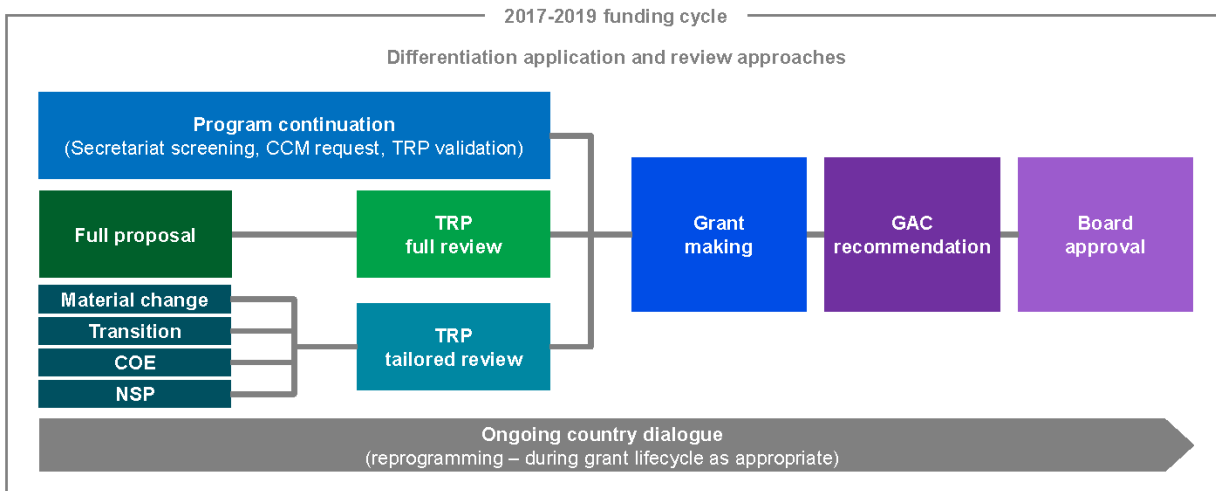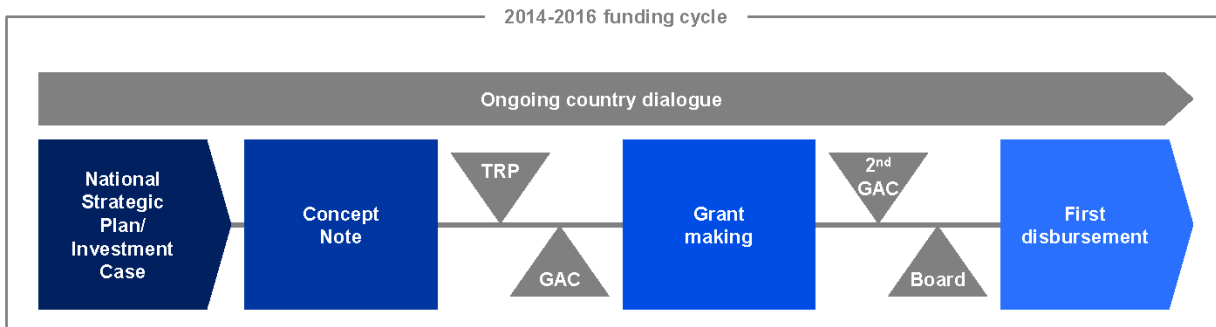
What has changed since the 2015 OIG report?

The Secretariat has revised the grant making processes and tools to support achievement of the Global Fund strategic objectives and in line with the risks identified in the previous audit.

The main changes include the introduction of new components such as catalytic funding and differentiation in the grant application and approval processes:

- Differentiation in grant application and approval processes: The Secretariat has differentiated and simplified the grant application and approval processes in line with the country context and the level of allocated funds. It has revised the underlying Operational Policy Note to clarify the processes and documents required from implementers and Country Teams during grant making. For example:
    - Ten core documents are required for grant making versus the 22 in the last funding cycle.
    - A capacity assessment is no longer required for continuing implementers, which will not implement new interventions.
    - The Grant Approval Committee is limited to one review and approval except for High Impact countries that will undergo two reviews.

- New components in the 2017-2019 funding cycle: Due to the implementation challenges, the incentive-funding concept under the previous cycle has been modified and replaced. The Board approved a new concept, catalytic investments, in November 2016 (a portion of funding for programs, activities and strategic investments that are not accounted for in country allocations but considered as essential to achieve the aims of the Global Fund's 2017-2022 Strategy). Under this, applicants can access additional 'matched' funds from the Global Fund for specific program interventions, multi-country (regionals) and strategic initiatives, which are not supported directly through the country allocation of funds.

    The Global Fund Board also approved a sustainability, transition and co-financing policy in April 2016, which sets out the principles for engaging with countries on long term sustainability of Global Fund supported programs, as well as a framework for ensuring successful transitions from Global Fund financing. This policy combined the counterpart financing and willingness to pay components of the previous funding cycle.

The diagrams below show the differences in grant application, review and approval processes between the previous and current funding cycle[2]:

2014-2016 funding cycle

Ongoing country dialogue

National Strategic Plan/ Investment Case → Concept Note → TRP / GAC → Grant making → 2nd GAC / Board → First disbursement

2017-2019 funding cycle

Differentiation application and review approaches

Program continuation
(Secretariat screening, CCM request, TRP validation)

Full proposal → TRP full review

Material change
Transition
COE
NSP
→ TRP tailored review

→ Grant making → GAC recommendation → Board approval

Ongoing country dialogue
(reprogramming – during grant lifecycle as appropriate)

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[2] 2014 – 2016 Funding Cycle – The access to funding and grant making process commenced with the countries National Strategic Plan on Health. The Principal Recipient (PR's) and country coordinating mechanism would then develop and submit to the Global Fund a funding request that proposed how the country would use Global Fund allocated funds to conduct program activities in the fight against the three diseases in line with the National Strategic Plan. The funding request is reviewed by an independent Technical Review Panel to assess the soundness of the proposed program activities against the targeted objectives, country context and disease burden. Post the TRP's review, the funding request is assessed by the Grant Approval Committee (GAC) made up of the Global Fund Secretariat and partners. Following the TRP assessment and GAC Recommendations the grant management Country Teams convert the funding request into a proposed grant by performing grant making activities which includes supporting the funding request with detailed implementation arrangements and plans, budgets and the performance of capacity assessment on the PR's. GAC then reviews and approves the grant and subsequently to the Board for final approval. Upon Board approval, the country can access funds through the Global Fund's Annual Funding Decision and Disbursement Process.

2017 – 2019 Funding Cycle – The Global Fund has significantly differentiated the access to funding and grant making process. It has three different application approaches; program continuation, full proposal and tailored review. Each application approach has specific application material. The TRP has differentiated review criteria for each application approach. Following the TRP assessment, grant making activities commence which has also been differentiated depending on the application approach. The grant is then presented to GAC and Board for review and approval.

3. The Audit at a Glance

3.1. Objectives

Given the significance of the issues identified in the 2015 audit and the importance of the grant making process, the OIG conducted a formal follow-up of the changes made by the Secretariat. The objectives of the audit were to assess whether:

1. The revised grant making structures, processes and systems have been adequately designed in response to the risks and issues identified in the previous audit.

2. Grant making processes are adequately designed to address the new themes in the Global Fund Strategy and major changes in the 2017 – 2019 funding cycle.

The audit reviewed the progress made in implementing the agreed management actions from the 2015 audit. In addition, the audit covered the relevant structures, processes, systems and tools supporting grant making.

3.2. Scope and Methodology

This audit included:

- a review of all relevant policies and processes related to grant making;
- Interviews with 30 staff members from various Global Fund divisions and departments, including Country Teams;
- a detailed analysis of grant data from grant management systems for the 2014 – 2016 funding cycle to assess changes since the OIG audit in 2015 and grant making documents from a sample of 10 grants which were signed post the 2015 audit.;
- analysis of data for the 2017 – 2019 funding cycle prepared by the Access to Funding team at the Secretariat;
- a walkthrough of access to funding and grant making processes and systems; and
- Observation of Grant Approval committee meetings.

The revised processes, systems and structures are yet to be fully implemented under the 2017-19 funding cycle. The audit therefore focused on the design of the processes, systems and structures, and not operational effectiveness.

3.3. Progress on Previously Identified Issues

The OIG audited the Secretariat's Grant- Making Processes in 2015 (GF-OIG-16-003) focusing on internal controls, risk management and governance processes. The risks identified in the previous audit have been addressed, except for the systems enhancement. Implementation of the systems enhancement have been delayed and may affect the ability to sign grants on time.

Previous relevant OIG audit work

GF-OIG-16-003, The Global Fund's Grant-Making Processes

4. Findings

4.1. Significant improvement in processes and tools to support grant making

The Secretariat has made several enhancements in the processes and tools underlying grant application, review and approval in line with the risks identified in the 2015 audit. This includes differentiation and simplification of required documents, and improvements in the risk management and governance processes.

Differentiation: The Secretariat has incorporated differentiation in the grant application, review and approval processes in the 2017-2019 funding cycle. For instance:

- There are now three different types of grant applications based on the country context and level of allocated funding. These include[3] :

    i. Full application review[4], which primarily applies to High Impact countries along with other countries that were not reviewed by the Technical Review Panel in the last allocation period (2014 – 2016). This is expected to cover 27 countries.
    ii. Program continuation[5], covers countries with a short implementation period and those with demonstrated performance and no expected material changes in the disease context. This represents 62 high impact, core and focused countries[6] applications expected in the funding cycle.
    iii. Tailored applications[7] for four streams, including countries where material change in the program is limited to defined interventions. The Secretariat has identified 52 countries for tailored application under the 2017-2019 funding cycle.

    The basis of the classification and review criteria were approved by the Strategy Committee in October 2016.   The Secretariat has communicated the application approaches to each country with the flexibilities for countries to change their application approach and default to a more extensive review if desired.

- Capacity assessment of implementer: The Secretariat has updated their operational policy note to clarify how grant implementers will be assessed in line with the differentiated grant making process. In the 2017 – 2019 funding cycle, implementers will only be assessed using the Capacity Assessment Tool if the implementer has not previously managed Global Fund's grant or the proposed activities to be executed by the implementer have significantly changed since the last capacity assessment was performed.

- Grants Approval Committee: The Grants Approval Committee reviewed grants twice during the previous funding cycle. In the revised grant making process, the Secretariat has clearly defined criteria under which grants will be reviewed and approved by the Committee, which is consistent with the differentiated grant making processes. Most grants will go through one Grants Approval Committee's review with the exception of High Impact countries, which will go through two reviews and approval after the Technical Review Panel assessment.

Simplification of documents required for grant making: An average of 22 documents were required for grant making under the previous cycle. This created inefficiencies for Country Teams and

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[3] Secretariat's data as of 21 March 2017.
[4] Full request and review approach is aimed at comprehensive overall review of a country's investment approach and strategic priorities.
[5] Identified country components may access the allocation through a streamlined process for program continuation, which should significantly reduce the level of effort by the applicant, the Secretariat and the TRP during the access to funding stage.
[6] The Global Fund has classified the countries in which it finances programs into three overall portfolio categories: focused (Smaller portfolios, lower disease burden, lower mission risk), core (Larger portfolios, higher disease burden, higher risk) and high impact (Very large portfolio, mission critical disease burden).
[7] Tailored request and review approach is aimed at better accommodating for specific objective(s) and the applicant type(s) and includes countries identified as challenging operating environments, countries receiving transition funding etc.

implementers and limited the ability of the Grant Approval Committee to adequately review all the documents. In response, the Secretariat has revised their Operational Policy Note that requires that only 10 core documents are needed for grant making in the 2017-2019 funding cycle.

Existing tools and templates to support grant making: Grant making tools and templates have been improved to address the defects identified in the previous audit report. For example, the formula errors in the budget template have been resolved. The InfoPath based Capacity Assessment Tool can be used offline and has enhanced the "save" functionalities built into it.

Risk management processes during grant making: In the autumn of 2016, the Secretariat released a revised Operational Policy Note for Risk Management across the Grant Management Life Cycle. The risk management activities required during grant making have been clearly defined. Risk officers have been assigned to support Country Teams throughout the grant application and approval processes. The Risk Officers will perform an independent validation of the risk assessment and mitigation measures proposed by Country Teams for High Impact and Core. The Chief Risk Officer is also a member of GAC to ensure that concerns from a risk management perspective are adequately considered during the grant making review and approval process.

The multiple risk management tools have been harmonized into the Integrated Risk Management Tool, which is expected to be rolled out by the last quarter of 2017. The existing risk management tools including the Capacity Assessment Tool will be used during grant making until the Integrated Risk Management Tool is fully functional.

Governance mechanism: Following the 2015 audit, the Secretariat has made efforts to improve the governance processes around grant approvals:

- The quality of the documentation presented to Grants Approval Committee has been enhanced with a clear and summarized cover note on the grants for approval and concerns and clarifications raised by the Technical Review Panel and the Country Team. Also included is a table clearly reconciling the amount of funds to be approved;
- Key decisions and changes made during grant approvals are adequately documented; and
- A "Pre GAC" meeting, which is an internal Secretariat meeting to ensure that grants are ready to be reviewed by Grants Approval Committee, has been streamlined to add value to the review process.
- The Secretariat has initiated process to revise the Committee's terms of reference in line with changes in the current funding cycle.

The above improvements in the design of the processes and tools are expected to improve efficiency and effectiveness of access to funding and grant making. The Secretariat has also performed adequate change management activities to support the improvements to processes, which was a concern highlighted in the previous OIG report.

Agreed Management Action

No agreed management action required

4.2. Limitations in the underlying systems to support grant making may cause delays in signing grants on time.

The OIG audit of Grant Making Processes in 2015 noted that they were cumbersome, had limited differentiation and were not supported by adequate systems, which created inefficiencies and led to grant making delays. The Key Performance Indicator (KPI)[8] related to Access to Funding and Grant Making for the 2014 – 2016 funding cycle have not improved. The timeliness of grant signing have not improved partly due to capacity constraints in the countries and gaps in the Secretariat's internal processes Only 54% of grants met the Secretariat's access to Funding and Grant Making KPI during the previous funding cycle, compared to a target of 75%. On average, it took 10.7 months for the first disbursement under the grant from the funding application submission date. Specific to the Secretariat internal processes, it took 4.5 months for grant making activities versus a target of three months and six weeks between Board approval and grant signing which was envisaged to take 3 weeks. The Global Fund has changed the access to funding KPI from a strategic KPI to an implementation KPI in line with the 2017 – 2022 strategy.

The Access to Funding business unit and Grant Management Division identified two main remedial actions – differentiation in processes and improvement in systems - to address the delays in grant making during the 2017 -2019 funding cycle. As noted in finding 4.1, the Secretariat has substantially completed differentiating key processes with ongoing change management activities. However, there have been delays in roll out of the Grant Operating System to support the grant making processes.

Accelerated Integration Management (AIM) Project and Grant Operating Systems: The Secretariat launched the AIM project in September 2015 to enhance grant management systems. This is expected to fundamentally change the way grant management activities are executed from the allocation of funds to grant closures. The project has achieved early success since the inception including alignment of grant application data to grant making, migration of key grant data and pre-population of reporting templates. However, there are delays in the development of the 'access to funding' and 'grant making' components of the new System:

- The implementation of the 'access to funding' module, which caters for the allocation, program split and funding request processes was delayed by three months and only implemented in March 2017. The delays are attributed to challenges experienced by the project team in cleansing data from the existing grant management systems, data migration to the new grant operating system and changing business requirements. These challenges also resulted in some functionalities that were in the original scope of the access to funding module being reprioritized and pushed out to later releases in the project, including Document Management, Global Partner Portal for program split and funding request submission, TRP and GAC related functionalities. The executive management of the project, which includes members of the Management Executive Committee at the Global Fund, rightly decided to address the data migration challenges before the system is implemented.

- The project team is currently developing the 'grant making' module and most of them are expected to be implemented in May 2017. This is when about 41% (93/228) of country/disease components or 47% of 2017-19 funding allocation are expected to commence grant-making activities and system support will be needed. If the project experiences further delays, there is a risk that key functionalities such as the system generated performance framework, health product and detailed budget templates will not be finalized on time to support effective grant making and approval. In addition, the Financial Dashboard and Calculator functionality, which is used to calculate the available amounts under the grants, is scheduled for implementation in September 2017 and the team intends to use the offline module until the system is fully functional. Even if implementation happens as scheduled, there will be limited timelines between systems implementation and grant making activities

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[8] Measure of the time from final funding request submission to first disbursement

to enable the Secretariat to properly manage the required system and supporting business process changes.

As a mitigation measure, the Secretariat has instituted a coordinating group to monitor the development of supporting processes and systems for grant making. Where necessary the Group will deploy alternative solutions for processes and systems that may not be ready. This will include the use of new off-line templates or the old processes, tools and systems while the Secretariat develops and implements the new ones. The OIG considers the design of this mitigation measure adequate however, the effectiveness can only be assessed after grant making is complete.

As the Secretariat identified the enhancements to systems as key action to address grant-making delays experienced in the 2014 – 2016 funding cycle, challenges in finalization of the systems enhancements and integration may affect its ability to sign grants on time to support program implementation.

Agreed Management Action 1: The Secretariat will develop a three-year plan for the implementation of key grant management business process and system improvements. This will ensure such enhancements are started and completed on time. The plan will include the key processes, systems, responsible parties and timelines.

Owner: Head of Grant Management Division

Due date: 31 December 2017

4.3 Operational and change management processes for catalytic investments and co-financing for grant making are still under development. This affects effective implementation and achievement of their related objectives.

The Global Fund Board approved certain components and policies to support the achievement of related objectives. These include catalytic investments, and sustainability, transition and co-financing policy. However, some of the operational aspects such as procedures, guidance and change management activities are currently being developed. These represent approximately, US$ 5 billion or 47% of the Global Fund's allocation over the 2017 – 2019 funding cycle.

a. Catalytic investments

In November 2016, the Global Fund Board approved US$ 800 million as catalytic investments for the 2017-2019 funding cycle. This represents funding for programs, activities and strategic investments that are not accounted for in country allocations but are considered essential to achieve the aims of the Global Fund's 2017-2022 Strategy and Global Partner Plans. This amount comprises of the following components:

- US$ 172 million in strategic initiatives that are not funded through country allocations.
- US$ 272 million for critical multi-country approaches referred to as regional grants; and
- US$ 356 million in matching funds[9] to incentivize the programming of country allocations for priority areas (including, but not limited to, key populations under HIV, finding missing TB cases and data systems under resilient and sustainable systems for health);

Policies and processes for strategic initiatives are yet to be developed: Policy and processes to operationalize the strategic initiatives are still in the early stages of being developed by the Secretariat. This includes governance, oversight and management mechanisms for the utilization of funding available for Strategic Initiatives. The Secretariat has developed guidelines for the Emergency Fund component, which accounts for 12% of resources under the strategic initiatives. The Secretariat presented an update on the initial concepts to operationalize the strategic initiatives to the Board's Strategy Committee on 20 March 2017 and the Grant Approval Committee on 11 April 2017. The processes are expected to be approved by the Grant Approval Committee in May 2017.

Application materials and guidance notes for multi-country approaches still pending: At the time of the OIG audit, operationalization of this component, which includes application materials and guidance notes, had not been developed. The Secretariat expects to complete this by the end of June before the first multi-country grants are scheduled to submit their funding requests.

Change management activities for matching funds underway: After the Board approval in November 2016, the Secretariat identified 38 countries and priority activities eligible for matching funds. This component requires significant consultations at the country level to ensure that countries include innovative and ambitious activities in their funding requests for Technical Review Panel's (TRP) review. The short timelines between the approval by the Board and the expected first set of funding requests (20 March 2017), potentially reduces the country's ability to meet the matching fund requirements which are new and significantly complex. For example, matching fund requires ambitious and innovative programming approaches driven by evidence. These include strategic priorities such as scale-up of evidence-informed HIV programs for key populations, removing human rights barriers to access to HIV services and reducing HIV incidence amongst adolescent girls

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[9] A number of countries have been chosen by the Global Fund to access a predetermined amount of money in catalytic investment matching funds. Under this component, the Global Fund will match funding for ambitious and innovative programming approaches driven by evidence and captured in countries funding requests, in order to maximize impact in specific strategic priority areas.

and young women. Such interventions are complex, require significant time to research, and develop programmatic approaches to achieve the strategic priorities. The OIG recognizes that the Secretariat was able to identify countries requiring matching fund and developed the required guidance material in a short time between Board approval of catalytic investments and finalization of allocation letters. However, there is still much work to be done around change management through the country dialogue process and trainings with Principal Recipients, Country Coordinating Mechanisms and Grant Management Country Teams.

The catalytic investments involve relatively a small amount compared to the funds earmarked for the country. However, similar to challenges experienced with incentive funding in the previous funding cycle, the complex application requirements could affect the country's ability to access matching fund and achievement of its the intended objectives.

In this context, the OIG noted that seven out of the 13 eligible countries for the first review period submitted applications for matching funds on 20 March 2017. This is partly due to lack of time to prepare substantiated requests and interventions to access matching funds. The Secretariat anticipates that these countries will submit their matching funds requests either during grant making or during grant implementation. This complicates the access to funding and grant making processes as the Technical Review Panel will need to additionally and separately review these requests after the initial funding request.

b. Sustainability, Transition and Co-financing:

In April 2016, the Board approved the policy to support the 2017 – 2022 strategic objectives committing the Global Fund to "support sustainable responses for epidemic control and successful transitions." The Board approved policy for Sustainability, Transition and Co-financing requires that countries progressively increase their domestic financing in health. The Secretariat has undertaken many initiatives since April 2016 to support implementation of the policy. These include:
- The implementation of "Transition Readiness Assessment" tools to assist country teams in transition assessments.
- Development and implementation of internal and external guidance on STC and related issues in January 2017.
- Specific languages on STC requirements incorporated in countries' allocation letters.

However, the Operational Policy Note for the Co-financing component was delayed. It was finalized on 31 March 2017 (approximately a year after Board's approval of the policy). The new Operational Policy Note addresses some of the issues identified in the previous audit such as having clearly defined activities to be supported under domestic financing.

Countries could lose a defined threshold of their allocation or eligibility of their co-financing incentive, if they fail to demonstrate that their willingness to pay commitments in the 2014-2016 cycle have been met. The Secretariat is yet to define the controls to enforce this requirement for the new funding cycle. The complexity of the co-financing requirements and related application warrants further change management activities within the Secretariat and in country stakeholders to ensure successful implementation of the Operational Policy Note and related domestic investment Key Performance Indicator of the Global Fund.

The challenges related to catalytic investments and co-financing, as well as the delays in the underlying systems (see finding number 4.2), are further complicated by the volume of applications received in the first review period. The Secretariat received 93 applications out of 228 expected funding requests in March 2017 although not all the supporting processes and systems were fully ready.[10] The volume of applications expected in each review period under the 2017-2019 funding cycle represents a significant increase compared to the previous cycle. This is despite the reduction

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[10] Post the completion of this audit, the Technical Review Panel reviewed 91 funding requests and recommended USD 4.68 billion to proceed with grant making processes.

of headcount in permanent and temporary positions reducing from 40 to 27 between the two funding cycles. The OIG estimated that an average of 46 country/disease components will be processed in each review period for the 2017-2019 funding cycle compared to 25 components (excluding funding request iterations and regional applications) processed in the previous cycle. The 93 funding requests received in March 2017 was the highest volume of applications received in a single review period under the funding model. This is compared to 39 in the previous funding cycle excluding funding request iterations and regional applications.

Whilst differentiation has been incorporated in the application processes (for example 73 out of 93 components in the first review period, or 78%, are categorized as Program Continuation and estimated to be a lighter process), it also represents a fundamental change in grant application, review and approval processes. Therefore, sufficient time needs to be built into the process to allow the changes to be operational and ensure that the efficiencies of differentiated processes are realized.

There is the need to prioritize the funding requests from countries due to the ongoing system and process enhancements, and end date of existing grants. For instance, 13 of the funding requests received in March 2017 have existing grants until 2018 and 2019. On the other hand, 55 country grants expiring in 2017 were not submitted in the first review period. The Secretariat's grant making coordination group has estimated that 15 and 51 countries/disease components will need an additional six and three months, respectively to prepare funding requests for review and approval based on data from the previous funding cycle and ongoing processes and system enhancements. This is despite their current grants ending in December 2017.

In this context, the Secretariat could extend the existing grants to mitigate treatment disruption in the event of delays in grant making but it limits the ability to scale up programmatic interventions and for programs to be evaluated against the new elements in countries national health strategies and the Global Fund's 2017 – 2022 strategic objectives.

Agreed Management Action 2:
   (a) In order to reinforce key principles and assist Country Teams to train the principal recipients, the Secretariat will continue to implement change management activities with Grant Management Country teams for the catalytic investment and co-financing requirements.
   (b) The Secretariat will conduct surveys of each review period to seek feedback on areas requiring improvement and where necessary adjust the internal processes to ensure that challenges for access to both allocations and the catalytic funding are timeously addressed. Regular updates on the survey results will be provided to the Strategy Committee.

Owner: Head of Strategy, Investment and Impact Division

Due date: 31 December 2017

Agreed Management Action 3:
   (a) The Secretariat has commenced development of procedures and guidelines for multi-country grants and will operationalize into the access to funding process once finalized.
   (b) In addition processes and controls for the review and approval of strategic investments under catalytic investments is currently under development It will present the revised processes for strategic investments including the governance and oversight controls, required templates, and updated financial systems to the Grant Approval Committee for review and approval.

Owner: Head of Strategy, Investment and Impact Division

Due date: 31 July 2017

Agreed Management Action 4: The Secretariat will communicate to the Board that new Board policies need to comply with timelines defined in the three-year plan to be developed under agreed

management action number 1. This entails that policy decisions, which miss the respective cycle deadline, are incorporated in the following cycle.

Owner: Head of Grant Management Division

Due date: 31 December 2017

4.4   Internal controls underlying grant making are still under development.

The grant application, review and approval processes in the 2017-2019 funding cycle have been differentiated and simplified to ensure efficiency. This requires that relevant controls be incorporated in the processes to prevent misuse and achieve optimal benefits. Two key internal controls are yet to be defined:

- **Capacity Assessment of Implementers:** Under the differentiated grant making process, a capacity assessment of implementers is only required when the implementer is new to the Global Fund or there has been a significant change in the activities performed by the implementer. The Operational Policy Note defines criteria for the performance of a full or tailored capacity assessment of implementers. However, there are limited controls in the grant making and approval process to ensure that the scope of the capacity assessment performed on the implementers is consistent with the requirements in the operational policy. The assessment is a key component of the grant making processes since it allows the Secretariat to identify, prioritize and institute mitigation measures to ensure effective implementation of the grants after signature.

- **Identification of material changes after Technical Review Panel's review**: The TRP reviews grant applications submitted by countries for technical and strategic focus of the interventions before grants can be made by the Secretariat. Material changes during grant making such as program budget, implementation arrangements and use of health products are required to be submitted to the panel for additional reviews before grant approval. However, the related controls to identify material change to funding request and grants post panel's review are yet to be instituted.

The Grant Final Review and Sign off Form, which is approved by the Head of Department before grants are presented to the Grants Approval Committee, is being redesigned by the Secretariat to address these specific control gaps above, and accommodate the redesigned and differentiated grant-making process.

Agreed Management Action 5: The Secretariat will update the grant-making sign-off form to include approval of the following:
- material changes from the TRP reviewed budget and performance framework;
- analysis of implementer capacity assessment; and
- compliance with the co-financing requirements (commitments for the upcoming allocation period and achievement of compliance with their previous commitments.

Owner: Head of Grant Management Division

Due date: 31 July 2017

5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
1. The Secretariat will develop a three-year plan for the implementation of key grant management business process and system improvements. This will ensure such enhancements are started and completed on time. The plan will include the key processes, systems, responsible parties and timelines.	31 December 2017	Head of Grant Management Division
2. (a) In order to reinforce key principles and assist Country Teams to train the principal recipients, the Secretariat will continue to implement change management activities with Grant Management Country teams for the catalytic investment and co-financing requirements. (b) The Secretariat will conduct surveys of each review period to seek feedback on areas requiring improvement and where necessary adjust the internal processes to ensure that challenges for access to allocations and catalytic funding are timeously addressed. Regular updates on the survey results will be provided to the Strategy Committee.	31 December 2017	Head of Strategy, Investment and Impact Division
3. (a) The Secretariat has commenced development of procedures and guidelines for multi-country grants and will operationalize into the access to funding process once finalized. In addition processes and controls for the review and approval of strategic investments under catalytic investments is currently under development It will present the revised processes for strategic investments including the governance and oversight controls, required templates, and updated financial systems to the Grant Approval Committee for review and approval. The Secretariat has commenced development of procedures and guidelines for multi-country grants and will operationalize into the access to funding process once finalized. (b) In addition processes and controls for the review and approval of strategic investments under catalytic investments is currently under development It will present the revised processes for strategic investments including the governance and oversight	31 July 2017	Head of Strategy, Investment and Impact Division

controls, required templates, and updated financial systems to the Grant Approval Committee for review and approval.		
4. The Secretariat will communicate to the Board that new Board policies need to comply with timelines defined in the three-year plan to be developed under agreed management action number 1. This entails that policy decisions, which miss the respective cycle deadline, are incorporated in the following cycle.	31 December 2017	Head of Grant Management Division
5. The Secretariat will update the grant-making sign-off form to include approval of: • material changes from the TRP reviewed budget and performance framework; • analysis of implementer capacity assessment; and • compliance with the co-financing requirements (commitments for the upcoming allocation period and achievement of compliance with their previous commitments.	31 July 2017	Head of Grant Management Division

Annex A: General Audit Rating Classification

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

Annex B: Methodology

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

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

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

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

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

Annex C: Message from the Executive Director

Programs supported by the Global Fund have saved more than 20 million lives, by effectively preventing and treating HIV, tuberculosis and malaria. Our results, as reported in January 2017, include:

- · More than 700 million mosquito nets to protect families from malaria;
- · More than 16 million courses of treatment for TB;
- · More than 10 million people on antiretroviral therapy for HIV

The impact of these efforts is clear, contributing to a 69 percent fall in mortality rates among children under five, and impressive decreases in the number of people who die from AIDS, TB and malaria. What many thought impossible 15 years ago has now been achieved.

The Office of the Inspector General is a central and important part of providing assurance, conducting independent audits and investigations to complement the active risk management and controls put in place by the Secretariat with oversight by the Board of the Global Fund. We welcome the findings of the Follow-up Review: Grant Making Processes Audit Report which reviews progress on the issues identified in an audit report from February 2016. In the months since the 2016 audit report, Secretariat staff worked to address the challenges identified by the OIG. The audit was conducted while the Secretariat was finalizing the design and change management for some elements of grant making.

The OIG acknowledges significant improvement in processes and tools to support grant making, including:
- Differentiation of the application process into three different application types based on country context and the size of the funding allocation;
- Differentiation of the implementer capacity assessment tool to be required only for new implementers or implementers working in new areas;
- Simplification of requirements (from 22 to 10 documents) and enhanced governance around the Grant Approval Committee (GAC);
- Enhancements in the risk management processes and tools; and
- Sufficient change management to roll-out the associated changes.

The audit identified three main areas for improvement: 1) systems to support grant making; 2) operational and change management processes for catalytic investments and co-financing for grant making; and 3) internal controls to sign-off on grants.

Limitations in underlying systems to support grant making are being addressed through the Accelerated Integration Management (AIM) project that was launched in 2015 which is developing an integrated Grant Operational System (GOS). To make core functionalities available for key business milestones, the Secretariat separated grant making systems development into two releases: the first covers grant creation and core documents and grant confirmation; the second covers the completion of grant making, the review and approval process, grant activation and financial information needed before a first disbursement. The functionality for the first step went live on 16 May 2017, after the completion of the audit, so applicants from the first TRP review window have access to the streamlined systems at the beginning of grant making. The second release is scheduled for July 2017. The Secretariat estimates that a few countries will use GOS to submit documents for a GAC meeting on 27 July. This will allow the system to be used first by a small number of countries, before the majority of implementers submit their grants for GAC review in September, October and November of 2017.

As the OIG notes in the audit, moving from design to implementation with effective change management may sometimes be challenging within the given timelines and requires the Secretariat

to prioritize. In the case of the catalytic investments, the Secretariat prioritized work on the matching funds, which would be needed initially by the applicants submitting applications for the first TRP window in March 2017 and is now working to develop the approach to multi-country funding requests and strategic initiatives. In the case of co-financing, the Secretariat prioritized work to operationalize the co-financing policy during the access to funding prior to developing the Co-Financing OPN, including incorporating tailored language into the allocation letters on previous and future commitments for each country. The work also includes implications of not realizing commitments; revising the core Access to Funding documents to be consistent with the new co-financing requirements; and communicating changes in the co-financing policy through webinars, an e-Learning module and information sessions.

In order to strive to implemented future policies in time, the Secretariat will work with the Board to agree on timing for revised Board policies based on operational realities.

The OIG raised concerns about the volume and timing of funding requests, which are consolidated into the first two TRP review windows of 2017 (respectively 93 and 59 funding requests out of an expected 230). Applicants select the timing of funding requests to the Global Fund. The one exception is for applicants that are eligible for program continuation. This year, the Secretariat asked program continuation countries with applications ending by mid-2018 (73 components) to submit a short program continuation request in the first TRP review window. The first review window was chosen so that applicants would have sufficient time to develop and submit a full or tailored funding request in case the TRP asked them to change the review type. The first TRP review window went well, with a very high success rate – 95 percent. Successful program continuation applicants proceeded directly to grant making once signed off by the TRP. The OIG notes that 55 country grants expiring in 2017 did not submit funding requests in the first TRP review window. However, 90 percent of these are expected for review in the second TRP review window on 23 May 2017, which leaves six months for grant making and signing.

The Secretariat is also taking a proactive approach to helping countries sign grants on time and limit the need for extensions. As the OIG notes, the Secretariat grant making coordination group conducted an analysis in Q1 2017 to identify countries where it might be difficult to complete the access to funding and grant making process by grant end dates if countries took the same amount of time as the last cycle. This information was shared with regional teams so that they could work closely with countries to address the challenges and ensure new grants are signed by the end dates of current grants. In addition, the Secretariat will be proactively tracking progress across the countries on grant making on a monthly basis to identify implementers and country teams that may be experiencing challenges.

Developing internal controls underlying grant making reflects a collaboration between the OIG and the Secretariat. At the beginning of the audit, the Secretariat team asked the OIG to look at controls within the grant making processes to advise the Secretariat on whether the controls were sufficient or needed to be enhanced. Based on the feedback of the OIG, the Secretariat is updating the Grant Final Review and Sign-off Form to strengthen the controls around capacity assessments, material changes after the TRP and also compliance with co-financing requirements.

We look forward to continuing collaboration with the OIG as we work together to strengthen the Global Fund to better deliver its mission.

Respectfully,

Mark Dybul

Executive Director