



Audit Report

# Grant Oversight in Focused portfolios

GF-OIG-18-022  
26 November 2018  
Geneva, Switzerland

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*The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.*

*Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.*

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Office of the Inspector General  
Global Fund  
Global Health Campus  
Chemin du Pommier 40 – CH 1218  
Geneva, Switzerland

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### Audit Report

OIG audits look at systems and processes, both at the Global Fund and in country, to identify the risks that could compromise the organization mission to end the three epidemics. The OIG generally audits three main areas: risk management, governance and oversight. Overall, the objective of the audit is to improve the effectiveness of the Global Fund to ensure that it has the greatest impact using the funds with which it is entrusted.

### Advisory Report

OIG advisory reports aim to further the Global Fund mission and objectives through value-added engagements, using the professional skills of the OIG auditors and investigators. The Global Fund Board, committees or Secretariat may request a specific OIG advisory engagement at any time. The report can be published at the discretion of the Inspector General in consultation with the stakeholder who made the request.

### Investigations Report

OIG investigations examine either allegations received of actual wrongdoing or follow up on intelligence of fraud or abuse that could compromise the Global Fund mission to end the three epidemics. The OIG conducts administrative, not criminal, investigations. Its findings are based on facts and related analysis, which may include drawing reasonable inferences based upon established facts.

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# 1. Executive Summary

## 1.1. Opinion

The Global Fund has taken several measures to differentiate the way it provides funds and performs oversight of grants in various countries. These include the creation of portfolio categories (a group of countries) within its grant management division which take account of the size of country allocations and disease burden, adapting staff resources to the country context. A major strategic initiative, Differentiation for Impact, was undertaken in 2016 to enhance portfolio differentiation. It sought to organize Grant Management processes, controls, systems and Country Teams according to a differentiated model to achieve maximum impact against the three diseases.

Through the project, the Secretariat reallocated staff from smaller portfolios with low disease burdens, referred to as Focused portfolios, to Core and High Impact portfolios. Certain grant management processes such as reporting requirements, risk assessments and assurance arrangements were also refined to reduce the administrative burden on internal and external resources and increase efficiencies in oversight of smaller portfolios. These changes are appropriate for the levels of investment, disease burden and assurance cost. However, despite the progress made, grant management processes and procedures in Focused portfolios remain largely the same as for Core and High Impact. This is due to gaps in defining organizational strategic priorities for Focused portfolios. The Country Teams do not consistently leverage the flexibilities created by the differentiated processes due to a number of competing initiatives and strategic priorities which apply to Focused portfolios. Inefficiencies also remain in areas such as the high number of grants, implementers and performance indicators, which reduce the ability to realize the efficiencies envisaged under the Differentiation for Impact project. This has led to Focused portfolios having disproportionately high program management costs at the country level and operational costs at the Secretariat level, relative to the size of the investment, disease burden and risk.

Overall, efficiencies under the current Global Fund operating model have been limited in the context of Focused countries. The Secretariat is considering alternative approaches in managing portfolios with relatively small allocation and disease burden. **Significant improvement** is needed in defining organizational priorities for efficient oversight of Focused Portfolios while the effectiveness of the differentiated processes is rated **as partially effective**.

## 1.2. Key Achievements and Good Practices

**Resources reallocated in line with investment levels and disease burden.** The Secretariat has reassigned resources from smaller to Core and High Impact portfolios in line with disease burden and allocation. For instance, program officers and other functional specialists were reallocated from Focused to High Impact portfolios to drive impact and improve efficiency.

**Some grant management processes have been streamlined to support oversight of Focused portfolios.** The Secretariat has differentiated some key grant management processes in line with portfolio categories. For example, the average number of reporting periods for Focused portfolios is half that of Core and High Impact portfolios.

The Secretariat has also revised a number of risk assessment and assurance requirements for Focused portfolios. For example, the Risk Department no longer performs risk assessments for them, the Local Fund Agent is not expected to perform verification of expenditures, and programmatic evaluations are undertaken only once during the life of the grant. These have generally reduced the number of reviews and increased flexibilities for smaller portfolios.

**The Secretariat is continuously improving its differentiation efforts:** The Secretariat identified specific challenges as a result of the differentiation exercise and, as part of a broader review in 2017, a consulting firm assessed the potential options for oversight of smaller portfolios. The

review was completed in March 2018 and various options to enhance how the organization performs grant management for Focused portfolios are currently being evaluated by the Secretariat.

In May 2018, the Secretariat reviewed the 2016 portfolio categorization in line with changes in the level of investment under the current funding cycle and country context. The Secretariat is expected to further reallocate resources in line with these changes by the end of 2018.

A risk appetite framework was also recently approved by the Global Fund Board. Once operationalized, it should further drive efficiencies in grant oversight in Focused portfolios.

### 1.3. Key Issues and Risks

**Limitation in differentiation across the grant cycle:** As indicated above, several processes and systems have been streamlined since 2016. However, despite the reduction in some of the grant management requirements for Focused portfolios, the overall grant management operating model has not significantly changed: processes and controls across the funding cycle remain unsimplified for the Secretariat and implementers.

Due to the unique challenges faced by Focused Portfolios, each stage of the grant cycle possesses different risks. Access to funding and grant making are the most important processes for ensuring that the right interventions are selected. There are opportunities to further simplify these processes for Focused portfolios with tailored guidance and Global Fund engagement on targeted investments aligned to the needs of portfolios with smaller allocations. Equally, there is scope to further tailor the frequency of processes and levels of controls for Focused portfolios in subsequent stages. Grant implementation, grant revisions and assurance could all be significantly tailored.

**Potential inefficiencies in grant oversight for Focused portfolios.** Secretariat efforts to differentiate across the three portfolio categories have mostly aimed at developing and implementing processes at the Secretariat level; processes at grant implementation level have not been differentiated. For example, there are still a relatively high number of individual, low value grants in the Focused portfolio. These represent 11.6%<sup>1</sup> of the Global Fund's total allocation and 6.4%<sup>1</sup> of the composite disease burden, yet account for 32%<sup>2</sup> of the number of grants managed by the Secretariat. This is due to limited consolidation of smaller-value grants in countries across the Asia, Eastern Europe and Latin America region.

Each grant requires a certain amount of management and operating costs at the country and Secretariat level; the higher the number of grants, the higher the associated costs to the organization. There has been an increase in the proportion of funds spent on program management costs for Focused portfolios from 15% to 20%. This is mainly due to country allocations reducing between funding cycles for focused portfolios, with a subsequent reduction in the amount of in-country financial resources available for service delivery. At the Secretariat level, Focused portfolios currently account for 20%<sup>3</sup> of grant management staff operational expenditure despite their 6.4% share of the disease burden. In comparison, High Impact portfolios account for 45%<sup>3</sup> of operating costs for a 74% composite share of the disease burden.

**Defined flexibilities not leveraged by Country Teams:** Some of the reduced processes and controls are not being consistently utilized by Country Teams on the Focused portfolios, mainly due to the absence of effective change management and mechanisms to support adherence to the revised guidance on differentiation. For instance, Focused portfolios have on average nine grant performance indicators (with 33% having more than ten indicators), instead of the maximum eight recommended by the Secretariat. This increases the workload of Country Teams in monitoring grant performance. The performance frameworks proposed by Country Teams are reviewed by the regional

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<sup>1</sup> 2014 – 2016 allocation cycle. Focused portfolios represent 6% of the 2017 – 2019 allocation cycle

<sup>2</sup> Grant end status report 14 May 2018

<sup>3</sup> Calculated using the average Country Team salary and the number of Full Time Resources per portfolio category

managers and the Grants Approval Committee, but the differentiation requirements are not being adhered to.

## 1.4. Rating

<b>Objective 1: Adequacy of the differentiated grant management processes for Focused portfolios</b>
The Secretariat has taken several steps in streamlining grant management processes for Focused portfolios. This is appropriate due to the limited investment and relative cost of assurance and oversight for such portfolios. However, the overall grant management operating model has not significantly changed. There are significant opportunities to further tailor processes and reduce the administrative burden on Country Teams.
<b>Objective 2: Effectiveness of processes, procedures and systems to support grant oversight in Focused portfolios in line with the Secretariat's defined expectations</b>
The Secretariat designed a differentiated framework and guidelines for grant management across all portfolios. However, this has not been consistently leveraged by Country Teams due to limited change management activities.
<b>Objective 3: Efficiency of the processes, procedures and systems to support grant oversight in Focused portfolios</b>
Grant Management resources were reallocated from Focused portfolios to Core and High Impact. However, the management of Focused portfolios has largely remained the same as for Core and High Impact. This has led to a misalignment between reduced resources and the number of strategic priorities for Focused portfolios, with inefficiencies at Secretariat and program implementation level.

## 1.5. Summary of Agreed Management Actions

The Secretariat will conduct a review of the current model and approach for focused portfolios and develop options to drive further impact and efficiency in the operating model. This will take into account considerations of risk, cost/benefit, impact and efficiency and include development of options for:

- streamlining the focused countries portfolio and operations, relevant processes and procedures;
- exploring opportunities and modalities for joint investments with development financing institutions;
- leveraging opportunities for investment modalities focusing on results.

Recommendations from this review will be incorporated into an implementation road map to be approved by the project steering committee.

The OIG notes that, given the Secretariat's commitment to develop specific remedial options once a detailed review of the model has been completed, the above Agreed Management Action is only tracking completion of the proposed review. Once the review has been completed, based on its outcome and the resulting options, additional management actions will be considered to track actual remediation of the specific issues highlighted in this report.

## 2. Background and Context

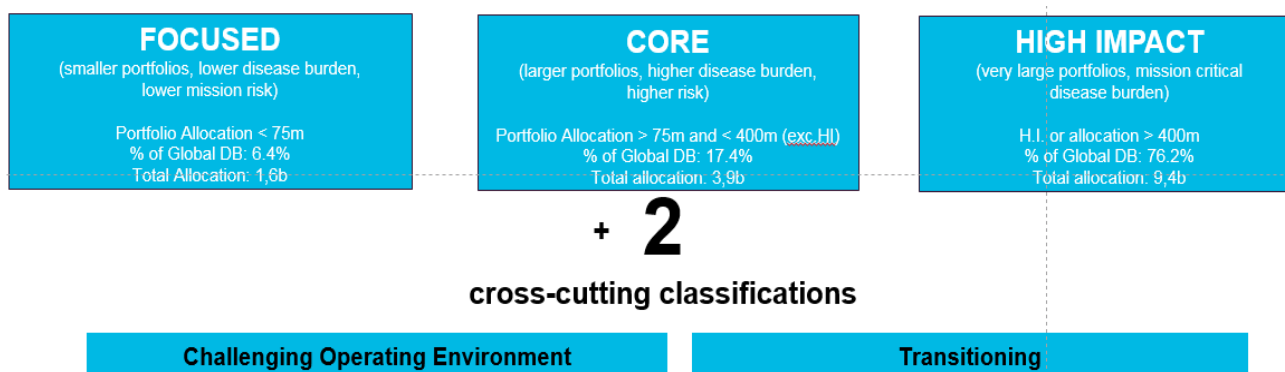
### 2.1. Overall Context

Until 2012, there was limited differentiation in grant management activities and oversight across all countries in the Global Fund portfolio. This meant that countries with relatively small investments and disease burden were subject to similar processes and controls as countries with significant allocations.

Following the High-Level Panel (HLP) recommendations, “Turning the page from Emergency Response to Sustainability” in 2011, the Secretariat invested significant efforts in establishing and continuously improving differentiated structures, controls and processes in line with disease burden and level of investments. In 2012, the Secretariat introduced the Country Team approach for Grant Management for more effective and efficient oversight of the grant portfolio. This led to a matrix management approach, designed to leverage the expertise of Country Team members to reach high-quality outputs and decisions and to quickly resolve bottlenecks and implementation challenges. At the same time, the Grant Management Division was reorganized into regional teams to tailor grant management to regional economic, political, linguistic, and institutional specificities. Countries supported by the Global Fund were split into three “High Impact” departments, and two other departments: “Africa & the Middle East”, and “Asia, Eastern Europe & Latin America and the Caribbean”. This resulted in allocating more human as well as financial resources for assurance and monitoring activities to countries with a higher disease burden.

A major strategic initiative, Differentiation for Impact, was undertaken in 2016 to enhance prior differentiation efforts. The objectives of the project were to organize Grant Management Country Teams according to a differentiated model to achieve maximum impact against the three diseases. The differentiated model resulted in three portfolio categories (High Impact, Core and Focused) based on the disease burden and amount of funds allocated to the various countries, and two crosscutting classifications (Challenging Operating Environments and Transitioning Portfolios).

Figure 1. Framework applied for Differentiation for Impact Project <sup>4</sup>



### 2.2. Focused Portfolios

At the launch of the Differentiation for Impact project, the Executive Grant Management Committee approved 87 Focused portfolios<sup>5</sup>. They are predominantly spread across four geographic regions (Latin America, Eastern Europe, South East Asia, Africa & the Middle East). These portfolios represent approximately 11.6%<sup>6</sup> of the total Global Fund allocation and a 6.4% share of the composite

<sup>4</sup> 2014 – 2016 Allocation Cycle. Focused portfolios represent 6% of the 2017 – 2019 allocation cycle

<sup>5</sup> Executive Grant Management Committee is composed of 7 members whose is responsible for the review and approval of Global Fund operational policies and approaches relevant to supporting grant management. In May 2018, the EGMC reviewed the portfolio categorization based on revised country allocations and disease burdens resulting in some countries moving from Focused to Core portfolios and Core to High Impact portfolios and vice versa.

<sup>6</sup> 2014 – 2016 allocation cycle. Focused portfolios represent 6% of the 2017 – 2019 allocation cycle.

disease burden. They share the potential to maximize impact through simplified processes and efficient usage of internal resources, for instance investments on technical and strategic issues such as key populations, and sustainability and transition.

Following the completion of the Differentiation for Impact project, Program Officers as well as technical specialists supporting Fund Portfolio Managers were reallocated from Focused to Core and High Impact. Certain elements of grant management processes were simplified. For example, reporting frequency for focused portfolios has been reduced from semiannual to annual and Local Fund Agents are no longer required to review the reported programmatic achievements and expenditure.



## 3. The Audit at a Glance

### 3.1. Objectives

The overall objective of the audit is to provide reasonable assurance to the Board on the adequacy, effectiveness and efficiency of grant oversight processes in Focused portfolios.

Specifically, the OIG assessed:

- the adequacy of the differentiated grant management processes for Focused portfolios;
- the effectiveness of processes, procedures and systems to support grant oversight in Focused portfolios in line with the Secretariat's defined expectations;
- the efficiency of the processes, procedures and systems to support grant oversight in Focused portfolios.

### 3.2. Scope and Methodology

This audit included a review of the internal processes, procedures and systems at the Global Fund Secretariat, through:

- interviews with Global Fund Secretariat staff from relevant department and divisions;
- reviews of relevant documents and information, including applicable guidelines, operational procedures, controls and systems;
- analysis of changes in grant oversight for Focused portfolios after differentiation;
- reviews of resource allocation and alignment with the new requirements for Focused portfolios.

Ten Focused country portfolios were selected for Secretariat-based desk review. Four of these countries were selected for in-country visits to provide a more detailed review and to validate the desk review findings. In selecting our sample, we considered Focused portfolios across different geographic locations: South East Asia, Latin America, Eastern European, Middle East and North Africa. Country allocations. Countries in transition and with challenging operating environments were included in the sample selection.

#### *Scope exclusions*

This audit did not cover the following:

- The adequacy and effectiveness of grant management in regional and multi-country grants that are classified as Focused portfolios. This will be covered under a separate OIG audit of regional and multi-country grants during 2018.
- The adequacy and effectiveness of grant management in High Risk Environments and Transition Management processes for applicable Focused portfolios. These were covered under separate OIG audits in 2015 and 2018, respectively.

## 4. Findings

### 4.1. Limited differentiation applied to funding application and grant management processes specific to Focused portfolios

**The Secretariat has taken several steps to differentiate grant management processes for Focused portfolios. This is appropriate due to the limited investment and relative cost of assurance and oversight for such portfolios. However, processes could be further tailored to reduce the administrative burden on Country Teams.**

Due to the unique challenges faced by Focused Portfolios, each stage of the grant cycle poses different risks. In terms of allocation and grant value, disease burden and country context, the funding application and grant making stages remain the most important processes to ensure that the right interventions are selected. However, subsequent stages such as grant implementation, grant revisions and assurance could be significantly tailored for Focused portfolios, generating efficiencies.

**Access to Funding and Grant Making Processes:** The Secretariat has differentiated and simplified its funding application processes in line with the country context. As noted in the [OIG Follow Up Audit of Grant Making Processes](#), this has simplified the process and created flexibilities in the scope and depth of the independent review of funding requests from countries. There are now three different types of grant applications based on the country context and level of allocated funding. These are full application review<sup>7</sup>, program continuation review<sup>8</sup> and tailored applications<sup>9</sup> for four different funding requests including Material Change, Transition and Challenging Operating Environment and National Strategic Plan. The Secretariat predefined and communicated the application approach to each country. However, the criteria used to determine the type of funding request a country is required to submit are not directly linked to whether the country is a Focused, Core or High Impact portfolio. Although most Focused portfolios are grouped in either Program Continuation or Tailored Review application modalities, they follow the same review and approval process as a High Impact or Core country in the same application category, despite significant differences in the level of investments. Most of the tools and templates to support the funding application and grant making processes have not been tailored for Focused portfolios. These include Secretariat screening requirements, the Performance Framework, Grant Budgets and the Grant Making Sign Off form. In anticipation of the next allocation cycle, there are opportunities to further refine the access to funding process specifically for Focused portfolios with tailored guidance and targeted investments by Global Fund in line with the disease profile of the countries.

**Grant Implementation:** Prior to differentiation, implementers were required to submit bi-annual progress reports. The Secretariat has now reduced this requirement to an annual progress report for Focused portfolios, which has reduced the frequency of reporting and reviews performed by Country Teams. However the progress reporting tool has not been tailored for Focused portfolios and the same number of inputs and level of information is required as for High Impact Countries. As noted in the [OIG Audit of Grant Monitoring Processes](#) at the Global Fund, the progress update template requires 12 worksheets, averaging 461 data points per worksheet, to be populated by the implementer and the Local Fund Agent where relevant.

The annual funding decision process is a critical milestone in evaluating grant performance over the implementation period. This process has been streamlined for Focused portfolios, including automatic disbursements following the approval of the funding decision, to mitigate delays in submitting progress reports and administrative processes. The assurance and verification of programmatic and financial results, and of portfolio risk assessments, are no longer required.

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<sup>7</sup> Full request and review approach is aimed at a comprehensive overall review of a country's investment approach and strategic priorities.

<sup>8</sup> 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.

<sup>9</sup> Tailored request and review approach is aimed at better accommodating specific objective(s) and applicant type(s) and includes countries identified as challenging operating environments, countries receiving transition funding, etc.

However, in line with the organization's performance based funding principles, the volume of documents and assessments required by Fund Portfolio Managers and technical specialists to process an Annual Funding Decision remain the same for all countries. For example, programmatic results, financial expenditures and cash reconciliations in the annual progress report, despite not being verified, are still required to be analyzed in detail as part of the Annual Funding Decision process for Focused portfolios. There are opportunities to either reduce the frequency of Annual Funding Decisions for Focused portfolios given the amount of investment, individual disbursements and risks, or to reduce the amount of assessments needed to process the decision.

The current funding decision approval framework is differentiated according to disbursement size, not portfolio category. Additional levels of approval are required for defined exception cases even though these deviations can be immaterial in terms of value.

**Grant Revisions:** The Global Fund has defined criteria that trigger approval processes for material budget revisions. Materiality thresholds are defined in terms of percentages of the underlying total budget, approved interventions and cost categories. These percentage thresholds are applicable to all portfolios. Grant budget revisions that are considered "material" under these thresholds require the same process, review and approval for all portfolios, even though the amounts for Focused portfolios can be immaterial in absolute terms. For two out of four countries visited, implementers submitted budget revisions for as little as US\$100 to the Country Team for approval. This was due to the overall value of the grant and budgeted program activity being very low, and therefore the percent threshold for material revisions being easily exceeded.

**Risk assessment and grant assurance:** The Secretariat has revised its risk assessment and a number of the assurance requirements for Focused portfolios. For example:

- the Risk Department does not perform any risk assessments for these portfolios, allowing the team to focus more on Core and High Impact portfolios;
- the Local Fund Agent is not expected to perform verification of financial expenditure;
- programmatic evaluations are undertaken only once during the life of the grant.

The OIG acknowledges the need to differentiate assurance requirements based on the level of investment and risk associated with each portfolio. Nevertheless, there are a number of contradictions regarding the differentiated assurance mechanisms, and misalignment with current grant management processes. These are currently being addressed by the Secretariat. For example:

- The Local Fund Agent ("LFA") performs an analytical review of the annual financial progress report. Despite the reduced scope of work, the LFA is expected to make disbursement recommendations to the Country Team and identify major financial issues. The value and depth of the LFA reviews vary from country to country and the input into the Annual Funding Decision process is not readily identifiable. The program finance team has already begun a review of the scope of the LFA work and related assurance activities to enhance efficiencies for Focused portfolios.
- Annual external audits are currently performed for all countries irrespective of grant size and expenditure. The Secretariat has recently initiated a process to tailor its external audits in light of risk and expected expenditure.

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**Agreed Management Action 1:** The Secretariat will conduct a review of the current model and approach for focused portfolios and develop options to drive further impact and efficiency in the operating model. This will take into account considerations of risk, cost/benefit, impact and efficiency and include development of options for:

- streamlining the focused countries portfolio and operations, relevant processes and procedures;

- exploring opportunities and modalities for joint investments with development financing institutions;
- leveraging opportunities for investment modalities focusing on results.

Recommendations from this review will be incorporated into an implementation road map to be approved by the project steering committee.

Owner: Mark Edington, Head Grant Management Division

Due date: 31 December 2019

## 4.2. Unclear requirements and weak change management limit the effectiveness of some differentiated processes

**The Secretariat designed a differentiated framework and guidelines for grant management across all portfolios, with all key decisions and changes approved by the Executive Grant Management Committee (EGMC). However, weak implementation and a lack of robust change management have led to inconsistent application across the Focused portfolios.**

The Differentiation for Impact Project represented a fundamental shift in the way grant management was to be conducted for Focused portfolios. As the changes were reasonably complex, the Secretariat held information sessions to update the various Secretariat teams on the main changes. Formal guidelines were also published on the Global Fund intranet to aid teams in implementing the differentiated processes.

**Certain differentiated requirements are not being consistently utilized.** A number of processes and grant requirements were differentiated by the Secretariat to reduce workloads and enable effective oversight for Focused portfolios in light of reduced resources. However, these have not been consistently utilized. For instance:

- *Performance Frameworks and number of indicators:* The Secretariat indicated that Focused portfolios should have a maximum of six to eight indicators to ensure grants can be efficiently and effectively monitored. All exceptions are required to be discussed and approved by the Monitoring, Evaluation, Control and Analysis team. However, Country Teams have not consistently followed this guidance. A high number of indicators therefore continue to exist for smaller portfolios: they have an average of nine performance indicators per grant instead of the recommended maximum of eight: 33% (53 out of 159) have more than ten indicators and 40% (21 of 53) have more than 15 indicators. One particular country had as many as 24 indicators, despite a grant value of just US\$3.6 million.
- *Grant budgets:* The Secretariat revised its grant budgeting guidelines in 2017, allowing Focused portfolios to prepare grant budgets using broad categories by intervention and cost groupings, instead of the more granular detailed budgets used by High Impact and Core countries.<sup>10</sup> This was expected to reduce the level of detail provided in grant budgets for smaller allocations and improve efficiency in grant monitoring; however, so far none of the Focused portfolios has used this flexibility. As a result, multiple budgets are still broken down into many programme activities and details, which creates cumbersome grant monitoring and oversight activities, including an increased number of budget revisions as materiality thresholds are triggered on low value activities. The Program Finance team performed a budget analysis for 35 grants (comprising six High Impact, eight Core, four Opt out Core and 17 Focused portfolios) which highlighted that, on average, there are 165 budget line items in the grant budget for Focused grants, with an average grant value of \$6.9 million. In contrast, High Impact portfolios had an average of 136 budget lines with an average grant value of \$53 million. In one particular instance, a US\$6.7 million grant in a Focused country had 915 budget lines.

These exceptions are not identified and addressed during the routine review and approval processes, and Regional Managers and Heads of Departments do not consistently support adherence to requirements. While there will always be exceptions based on the specificities of the grant and risk, there is no systematic approach to review and approve the exceptions.

The above challenges can also be attributed to the gaps in change management processes following the Differentiation for Impact project. The issues around change management for the Differentiation for Impact Project were noted in the [OIG Grant Monitoring Processes Audit](#). The agreed

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<sup>10</sup> Page 15, para 91 of the budgeting guidelines states that “Focused countries, unless instructed otherwise by the Global Fund, are authorized to budget and report using the broad categories by intervention and cost groupings”

management action for improving change management to support the differentiated framework is due on 31 December 2018.

The inherent roles and responsibilities of staff assigned to Focused portfolios changed significantly after the differentiation exercise, but the Country Teams' Responsibility Matrix, which formally defines roles of each member of the Country Team, is yet to be updated and communicated to teams. Coaching and support to impacted Country Teams, specifically Fund Portfolio Managers, has not been provided. Staff working on Focused portfolios have to comply with the same standards and requirements as those working on High Impact countries, even though they are responsible for managing more portfolios and more Principal Recipients.

Prior to differentiation, each Fund Portfolio Manager was supported by a team of specialists in finance, procurement and supply chain, public health and monitoring and evaluation. However, most of the specialists were reallocated to Core and High Impact portfolios following the differentiation efforts. Fund Portfolio Managers are therefore expected to perform all grant management activities (finance, procurement and supply chain, and monitoring and evaluation) previously undertaken by these specialists without skills evaluation and additional training.

Fund Portfolio Managers in Focused portfolios are expected to be the Secretariat's primary reviewers of performance frameworks, budgets and the Local Fund Agent's feedback on external audit reports, without necessarily having the requisite technical expertise. In mitigation, all specialist functions have shared support provided to the Fund Portfolio Managers in Focused portfolios. For example, a Public Health, Monitoring and Evaluation or Health Products Management specialist is allocated to, on average, ten Focused portfolios. The Program finance Team has created a five-person Portfolio Service Team to support Focused portfolios. However, Fund Portfolio Managers are still expected to highlight issues to the support teams. This requires skills evaluation and training of the FPMs to enable them to perform the primary reviews and identify the issues that need attention from the relevant specialists. As technical support for these portfolios has been reduced, there is an opportunity to redefine the roles of the regional managers supporting them, to ensure that adequate review and supervision is provided to Fund Portfolio Managers.

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**Agreed Management Action:**

Refer to agreed management action number 1

### 4.3. Inefficiencies in grant oversight of Focused portfolios

**The Global Fund’s management of Focused portfolios has largely remained the same as for Core and High Impact portfolios. This has led to a misalignment between reduced resources and the number of strategic priorities for these portfolios, with potential inefficiencies at Secretariat and program implementation level. Efficiencies in the current operating model are limited in the context of smaller allocations and disease burden.**

Recognized that the realization of efficiencies in Focused portfolios was still in its infancy following the Differentiation for Impact project, the Secretariat engaged a consulting firm in 2017 to assess the differentiation in grant management activities and potential options for Country Team models, with a specific attention on Focused portfolios. This exercise, part of a broader Secretariat initiative called Fit for the Future<sup>11</sup>, was completed in March 2018 and various options are currently being evaluated by the Secretariat.

**Need to define Secretariat’s priorities for Focused portfolios to inform oversight arrangement.** Regardless of the size of disease burden or country allocation, various Secretariat initiatives and projects are applied across portfolios, putting an additional burden on staff working on Focused portfolios, even though there has been a reduction in staff allocated to them. For example:

- The Sustainability, Transition and Co-financing Policy impacts many Focused portfolios and creates several new processes and activities in addition to routine grant management. A Focused country that will transition after the 2017–19 allocation cycle will need to perform a Transition Readiness Assessment and prepare a transition work plan in addition to the Funding Request. These activities require active engagement between the Global Fund country team and in-country stakeholders.
- Corporate reporting: The Secretariat has made progress in streamlining certain processes in the Grant Management and Program Finance Divisions. However, there has been limited progress in other corporate processes and reporting requirements which impact Focused portfolios. For instance, Focused portfolios are expected to submit the same reports as High Impact portfolios for corporate key performance indicators. This results in portfolio managers working on internal reporting in the same way as managers of high impact and core countries (who enjoy support from program officers and other technical specialists.)

In the absence of clear priorities and defined, expected outcomes for Focused portfolios, there is limited direction on how they should be managed. This comes in a wider context of multiple competing initiatives and routine grant management activities following a significant reduction in resources and financial allocation. As noted in finding 4.2, this has manifested itself in individual country grants that contain a significant number of interventions and program activities trying to encapsulate the competing initiatives and routine grant management.

#### **Incoherent allocation of grant management resources within Focused portfolios.**

The aim of the Differentiation for Impact project was to allocate resources for Focused portfolios according to the size and complexity of each grant. However, there is limited documentation supporting the methodology (both qualitative and quantitative factors) applied to the final allocation of resources at the time of the Differentiation for Impact Project. As a result, there is currently no clear correlation between the assignment of grant management resources to countries based on either allocation, number of countries, number of active grants, average value of grants or number of Principal Recipients, when considering the 2017–19 allocation cycle. Nine of the 28 Focused

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<sup>11</sup> Fit for the Future is a Secretariat initiative commissioned in 2017 and sponsored by the Chief Operating Officer. Phase 1 of the initiative included a deep dive on key grant management processes including the management of Focused portfolios as well as Supply Chain Management and Strategic Workforce Planning in Grant Management.

portfolio managers are responsible for a maximum of two countries while the remaining nineteen manage between three and eight countries. The numbers of grants and implementers amongst the portfolio managers range from seven active grants with five implementers to one active grant with one implementer. The value of a grant under a Fund Portfolio Manager ranges from US\$1.5 million to US\$28 million. This analysis excludes the additional workload required by the Fund Portfolio Manager for grant making and grants in closure.

In May 2018, following the audit fieldwork, the Secretariat revisited the portfolio categorization performed in 2016 and reclassified countries based on revised country context (Challenging Operating Environments and Countries in Transition), allocation size and disease burden. The revised portfolio categorization was endorsed by the Executive Grant Management Committee. The Secretariat will operationalize the decision, which includes the reallocation of Fund Portfolio managers for Focused portfolios, before the end of 2018.

**Multiple grants, implementers and interventions for smaller portfolios creating inefficiencies:** There has been a significant decrease in allocation from the 2014-16 to the 2017-19 funding cycles for Focused portfolios, however the number of grants and implementers has not fallen accordingly.

*Number of grants:* Focused portfolios represent 32% (117 out of 378) of the total active grants in the Global Fund portfolio, yet represent only 6.4% of the global disease burden and 11.6%<sup>12</sup> of the allocation as of 2017. Portfolios have an average of 1.3 active grants per portfolio, although some have as many as five. The number of active grants in relation to the disease burden is high compared with High Impact countries, where 138 active grants represent 37% of total active grants and account for 76% of the global disease burden and 70% of the allocation.

*Number of integrated grants:* Approximately 85% of active grants in the Focused portfolio are for a single disease component i.e. either HIV, TB or malaria specific despite the small allocation. Only 15% are joint or consolidated grants. This trend is expected to continue in the current funding cycle, based on the projected number of funding applications. For instance, only 44% of consolidated programs or HIV and TB joint programs are anticipated amongst the 32 countries that qualify for funding in more than one disease component, compared to 57% and 64% in Core and High Impact countries respectively. Joint programs and integrated grants could result in achieving impact at less cost to implementers and Secretariat.

*Number of implementers:* At least 30% of countries in the South East Asia, Eastern Europe and Latin America regions have an average of 3 different Principal Recipients despite the small value of grants. For example, a country with an allocation of US\$2.4 million for HIV is split between two principal recipients (one government and one civil society organization). The number of implementers is impacted by the application of dual-track financing, which requires both government and non-government Principal Recipients in funding application and grant implementation. While this mechanism has many benefits, it needs to be adapted to the unique context of countries in the light of reduced allocation for Focused portfolios.

The issues above result in high program management costs in country for those portfolios. Although certain fixed costs are necessary to manage any value of grants in country, the impact of decreases in allocation combined with limited changes in the number of grants or implementers has resulted in program management costs in country increasing from an average of 15% to 20% per grant. This is in comparison to 11% for High Impact and 16% for Core portfolios. In the context of Focused portfolios whose allocations have reduced in recent years, high program management costs means there are less financial resources to deliver services to those who need them. In comparison with High Impact and Core portfolios which have a significantly higher allocation and disease burden, there is an opportunity to rationalize the number of grants and implementers for Focused portfolios.

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<sup>12</sup> 2014 – 2016 allocation cycle. Focused portfolios represent 6% of the 2017 – 2019 allocation cycle.



The Secretariat is currently exploring a number of options to reduce the number of grants in the Focused portfolios. These include leveraging off the transition and sustainability work on social contracting to reduce the number of principal recipients under the Global Fund grants.

**High percentage of Global Fund's operational resources remains allocated to Focused portfolios compared to the disease burden:** The Secretariat has gradually reduced operational expenditure for Focused portfolios, though it remains high relative to the disease burden. Focused portfolios represent 20% of direct staff costs of the Grant Management Division despite representing just 6% of the total disease burden. In comparison, High Impact portfolios account for 45% of the Grant Management Division's staff cost, against 74% of the disease burden. At the higher end of the Focused portfolio, a country with an allocation of \$44 million has direct Grant Management staff costs of \$600,000 versus a country on the lowest end with an allocation of \$685,000 and a direct staff cost of \$300,000. This is in addition to the costs the organization incurs on Local Fund Agents and Country Coordinating Mechanisms for these portfolios. The Focused portfolio share of these costs is 22% in comparison to Core of 28% and High Impact of 50%.

Despite significant efforts by the Secretariat to rationalize its operating costs in light of investment levels and expected impact in various countries, there is limited flexibility to do more without rationalizing the operating model due to the associated fixed costs of the current model. This would result in a reduced number of grants, implementers and interventions for smaller portfolios and similarly reduced management costs at the Secretariat and implementers level.

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**Agreed Management Action:**

Refer to agreed management action number 1

## 5. Table of Agreed Actions

<b>Agreed Management Action</b>	<b>Target date</b>	<b>Owner</b>
<p>The Secretariat will conduct a review of the current model and approach for focused portfolios and develop options to drive further impact and efficiency in the operating model. This will take into account considerations of risk, cost/benefit, impact and efficiency and include development of options for:</p> <ul style="list-style-type: none"> <li>• Streamlining the focused countries portfolio and operations, relevant processes and procedures,</li> <li>• Exploring opportunities and modalities for joint investments with development financing institutions, and</li> <li>• Leveraging opportunities for investment modalities focusing on results</li> </ul> <p>Recommendations from this review will be incorporated into an implementation road map to be approved by the project steering committee.</p>	31 December 2019	Mark Edington, Head Grant Management Division

## Annex A: General Audit Rating Classification

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

## 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 work.

The principles and details of the OIG audit approach are described in its Charter, Audit Manual, Code of Conduct and specific terms of reference for each engagement. These documents help our auditors to provide high quality professional work, and to operate efficiently and effectively. They also help safeguard the independence of the OIG auditors and the integrity of their work. The OIG 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 at the Global Fund as well as in country and is used to provide specific assessments of the different areas of the organization 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.