Recoveries Report for the period ended 30 June 2020

44th Board Meeting

GF/B44/14
11-12 November 2020, Virtual

Board Information

Purpose of the paper: This report is provided to the Board for review pursuant to a decision of the Board at its forty-fourth meeting (GF/B44/DP04) and contains background information and an updated table regarding the status of non-compliant expenditures identified by the Office of the Inspector General (“OIG”) as of 30 June 2020, as well as recoverable amounts identified in the due course of grant management operations as of 30 June 2020. The OIG reports independently to the Board on the Secretariat’s progress on matters related to recoveries.
Executive Summary

Context
The Global Fund maintains a zero-tolerance approach to fraud and corruption. Where irregularities or misuse have materialized, swift and appropriate action is taken to address the underlying weaknesses and seek recoveries as appropriate. This paper provides a report on the current status of, and trends within, recoveries.

Questions this paper addresses

a) What is the current state of recoveries for OIG recoverables?
b) What is the current state of recoveries for non-OIG recoverables?
c) What is the turnaround time for cases?

Conclusions

a) During the first half of 2020, the total outstanding OIG recoverable balance, net of written commitments to repay, increased from US$0.1 million to US$0.45 million (NB: in July 2020, a further US$0.45 million was received, effectively reducing the outstanding balance to zero). This is particularly noteworthy given the increased challenges COVID-19 creates for countries needing to reimburse the Global Fund.
b) The non-OIG aggregate outstanding balance, net of written commitments to repay, amounted to US$17.7 million. This amount is distributed amongst 88 grants in 39 countries, with a median net after commitments recoverable balance of US$20,257.
c) Turnaround times for new cases continue to improve compared to ‘legacy’ cases, i.e., pre-2014. Of the 3 open OIG cases, only one case pre-dates 2014. The improvement with respect to legacy cases reflects the more rigorous approach to recoveries referred to in previous reports, with the Global Fund seeing considerable benefits: recoverable funds are returned more quickly than was the case pre-2015.

Input Sought

There are no specific actions required for Secretariat, OIG, Board or Committees emanating from this report.
I. Background

01 Introduction

1. The Global Fund is fully committed to the principles of transparency and accountability. To fulfill this commitment, the Global Fund works, through its risk management and assurance processes, to expose irregularities and misuse of resources. Key measures are dedicated towards prevention, but where irregularities or misuse have materialized, action is taken to address the underlying weaknesses and seek recoveries as appropriate.

2. The Global Fund maintains a zero-tolerance approach to fraud and corruption and aims to take swift and appropriate action when cases of misuse of funds are identified. The Global Fund will continue to ensure that all identified irregularities are communicated responsibly and in a timely manner to the Board and to other stakeholders.

3. Reports on amounts identified as compromised by various compliance issues and on the Secretariat’s efforts to seek refunds from recipients should be read in full awareness of the context and broad environment within which the Global Fund operates. Specifically, the Global Fund works in countries where governance, programmatic and oversight capacities are often weak, which carries inherent financial and programmatic risks.

II. Discussion

01 On-going recovery efforts and recoveries context

Summary

During the first half of 2020, the total outstanding OIG recoverable balance, net of written commitments to repay, increased from US$0.1 million to US$0.45 million. In context, US$0.45 million represents 0.1% of the aggregate recoverable amount since the inception of the recoveries process. This good result is due to an increase in resolution of recoveries cases and is particularly noteworthy for the period under review, given the increased challenges faced by many countries to reimburse the Global Fund (ref. COVID-19).

Of note, in July 2020, a further US$0.45 million was received, effectively reducing the outstanding recoverable balance, net of written commitments to repay, to zero.

Turnarounds for new cases continue to improve, compared to ‘legacy’ (pre-2014) cases. Of the four open OIG cases, only one pre-dates 2014. The improvement with respect to legacy cases reflects the more rigorous approach to recoveries referred to in previous reports, with the Global Fund seeing considerable benefits: recoverable funds are returned more quickly than was the case pre-2014.

The non-OIG aggregate outstanding balance, net of written commitments to repay, amounted to US$17.7 million. This amount is distributed amongst 88 grants in 39 countries, with a median net after commitments recoverable balance of US$20,257.
4. Table 1 presents detailed country-by-country data for OIG-reported open cases as of 30 June 2020.

5. Table 2 presents a summary of recoverable amounts identified in the course of grant management as of 30 June 2020.

6. Table 3 details OIG audit and investigation reports where supporting documentation at the time of the reports’ issue was deemed insufficient to arrive at final recoverable amounts, and where follow-up work is ongoing to determine these.

**OIG Recoverable Amounts**

7. When the OIG publishes audit or investigation reports that include the identification of non-compliant expenditures, the Secretariat identifies an appropriate amount to recover, taking into account the Global Fund’s legal right to recover, Global Fund policies and procedures, the financial loss to the program, relevant business and political implications, and the specific facts of the case, and engages in a process to seek recovery of such amount. All OIG recoverable amounts are approved by the Executive Director, upon the recommendation of the Recoveries Committee.

8. With respect to open OIG investigation reports, which are reflected in the amounts in Table 1, the Secretariat uses as a starting point the proposed recoverable amount indicated by the OIG in its investigation reports, rather than the total non-compliant amount, given that the total non-compliant amount includes amounts that may not be recoverable because, for example, the associated services or goods have been delivered to the grants. The historical difference between total non-compliant expenditures and the proposed recoverable amounts identified in OIG investigation reports from March 2009 through 30 June 2020 amounted to US$61.2 million (an increase of US$1.4 million for the period ending 30 June 2020).

9. As OIG audit reports typically do not include a proposed recoverable amount; the Secretariat, with input from the OIG, determines the appropriate recoverable amount based on the content of the OIG audit report. This recoverable amount is then presented for Recoveries Committee review and subsequent recommendation to the Executive Director for approval.

10. During the six-month period ended 30 June 2020, one new investigation case was presented to Recoveries Committee, which explains an increase of US$1.4 million between total non-compliant expenditures and the proposed recoverable amounts identified in OIG investigation reports for the period.

11. As of 30 June 2020, there were three OIG reports relating to: (1) an OIG audit of grants in the Democratic Republic of Congo implemented by Populations Services International (ref. Table 3); (2) an OIG investigation report of grants in Sierra Leone (proposed recoverable amount of US $0.9 million); and (3) an OIG investigation report of salary fraud and abuse affecting Global Fund grants (proposed recoverable amount of US$0.2 million), as well as kickbacks and other unauthorized uses of funds pending presentation to the Recoveries Committee.

12. The total outstanding recoverable balance, net of written commitments to repay, increased from US$0.1 million to US$0.45 million. Of note, in July 2020, a further US$0.45 million was received, effectively reducing the outstanding recoverable balance, net of written commitments to repay, to zero.
13. Written commitments to repay amount to US$1.6 million. Despite occasional short delays in transferring funds as per a country’s contractual obligations to the Global Fund, repayments are largely on track.

<table>
<thead>
<tr>
<th>Commitment to Repay + Net Outstanding</th>
<th>Commitment to Repay</th>
<th>Net Recoverable Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burkina Faso</td>
<td>1,202,197</td>
<td>1,202,197</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>146,107</td>
<td>146,107</td>
</tr>
<tr>
<td>Mali</td>
<td>226,886</td>
<td>226,886</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,575,190</strong></td>
<td><strong>1,575,190</strong></td>
</tr>
</tbody>
</table>

Nonetheless, it should be noted that residual credit risk remains until amounts due are fully settled.

14. Graph 1 below illustrates the evolution of the total gross amount deemed recoverable (all cases), the net recoverable outstanding amounts, and the percentage recovered for the previous six and a half years.

15. Turnaround times for new cases continue to improve, compared to ‘legacy’ cases, i.e., pre-2014. The improvement with respect to legacy cases reflects the more rigorous approach to recoveries referred to in previous reports; the Global Fund is seeing considerable benefits as recoverable funds are returned more quickly than was the case pre-2014.

16. Recoverable amounts are recorded in the Global Fund’s financial statements in accordance with International Financial Reporting Standards (IFRS). The net recoverable amounts in this report may differ from those presented in the financial statements due to the accounting method adopted to comply with IFRS requirements. For example, the OIG may release a report that is promptly reflected in this report, but converting the findings into a demand letter (which is then booked in the financial statements) may not take place until after the reporting period, and may also reflect adjustments based on recommendations by the Recoveries Committee and approval by the Executive Director. It should be noted that financial statements reporting on losses and recoveries uses the same underlying data as that presented within the tables below, and that a formal reconciliation process is implemented and validated through the Recoveries Committee.
Non-OIG Recoverable Amounts

17. Non-OIG recoverable amount data is collected each quarter from Country Teams and offers a snapshot of a rolling total. In the event that they are not resolved within specified timeframes, these instances are reported to the Recoveries Committee for review and recommendation, in accordance with guidance provided to Country Teams.

As of 30 June 2020, the non-OIG aggregate outstanding balance, net of written commitments to repay, amounted to US$17.7 million. This amount is distributed amongst 88 grants in 39 countries, with a median net after commitments recoverable balance of US$20,257.

18. Of this US$17.7 million, five Principal Recipients account for 59% of the total net outstanding amount due, as follows:

   a) Cameroon – MOH  US$863,984
   b) Chad - FOSAP  US$1,017,245
   c) Guinea - CNLS  US$4,713,042
   d) Mozambique – MOH  US$1,229,550
   e) Nigeria – NACA  US$2,639,828

19. Graph 2 below illustrates the evolution of the total gross amount deemed recoverable (all cases), the sum of all open commitments to repay and the net recoverable outstanding (represents the total amount still to be recovered), and the net recoverable outstanding amounts for the previous six and a half years.

2:1 Allocation Reduction

20. The first half of 2020 saw one further application of the so-called “2-for-1 allocation reduction” method to resolve particularly difficult cases, where all reasonable recovery approaches have failed to produce results. Allocation reductions represent a means available to the Secretariat of resolving such cases. Upon approval by the Executive Director, the country’s allocation is reduced by a factor of 2:1, being two units of allocation reduction for every one unit of recoverable amount.
21. The allocation reduction approach is only applied as a last resort. It produces a negative impact on the country’s available budget to fight the three diseases. Additionally, the misused funds with respect to which the reduction is applied are not actually recovered. As a result, there may be less accountability and ‘consequence’ for an implementer who misspent funds.

22. As it is important that there is adequate visibility for cases where the 2-for-1 allocation reduction was applied, the one case that occurred during this period is described in the following paragraphs.

23. With respect to Guatemala, the recoverable amount of US$50,505 in grant GTM-M-MSPAS arose from procurement irregularities identified by a number of audit reports. At the time, the Country Team requested the Principal Recipient, the Ministry of Public Health and Social Assistance (MSPAS), to provide justification or supporting documentation for this recoverable amount; however, MSPAS was unable to provide such justification or supporting documentation. The Country Team proposed that the repayment for the remaining amount of US$50,505 in relation to the procurement of motorcycles be made through a reduction of Guatemala’s 2017-2019 allocation in the amount of US$101,010, or twice the amount outstanding. The Country Team was of the opinion that the proposed reduction would not have a major adverse effect on the malaria program, noting that the reduction can be applied to pivotal costs which are likely to be covered by national funding, such as the procurement of LLINs, therefore sending a strong signal to MSPAS without putting patient lives at risk.

Post Script (Significant events occurring or expected after 30 June 2020)

24. In July, the Government of the Senegal transferred EUR409,334 to the Global Fund in relation to a previously open OIG case.
### Annexes

**Table 1: Recoveries Committee OIG cases with outstanding recoverable amounts as of 31 December 2019**

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>OIG Case No.</th>
<th>Total Amount Recoverable</th>
<th>Amount Recovered</th>
<th>Amount Remaining</th>
<th>Recovery %</th>
<th>Commitment Amount</th>
<th>Amount of Commitment Recoverable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Recoverable amounts identified and submitted to the Recoveries Committee in the ordinary course of grant management operations outstanding as of 31 December 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>Unpaid Amount</th>
<th>Unpaid Percentage</th>
<th>Recovery Amount</th>
<th>Recovery Percentage</th>
<th>Recovered Amount</th>
<th>Recovered Percentage</th>
<th>Total Recoverable Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Global Fund 44th Board Meeting
11 12 November 2020, Virtual
Table 2 (continued): Recoverable amounts identified and submitted to the Recoveries Committee in the ordinary course of grant management operations outstanding as of 31 December 2019

| Case (a) | Case (b) | Case (c) | Case (d) | Case (e) | Case (f) | Case (g) | Case (h) | Case (i) | Case (j) | Case (k) | Case (l) | Case (m) | Case (n) | Case (o) | Case (p) | Case (q) | Case (r) | Case (s) | Case (t) | Case (u) | Case (v) | Case (w) | Case (x) | Case (y) | Case (z) |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1        | 2        | 3        | 4        | 5        | 6        | 7        | 8        | 9        | 10       | 11       | 12       | 13       | 14       | 15       | 16       | 17       | 18       | 19       | 20       | 21       | 22       | 23       | 24       | 25       | 26       | 27       | 28       | 29       | 30       |
| 11        | 12       | 13       | 14       | 15       | 16       | 17       | 18       | 19       | 20       | 21       | 22       | 23       | 24       | 25       | 26       | 27       | 28       | 29       | 30       | 31       | 32       | 33       | 34       | 35       | 36       | 37       | 38       | 39       | 40       | 41       |

The Global Fund 44th Board Meeting
11 12 November 2020, Virtual
Page 3/5
Table 3: OIG audit & investigation reports pending for the Recoveries Committee as of 30 June 2020

This table reconciles and provides supporting explanations for amounts reported by the OIG but which require additional work in order to arrive at a final recoverable amount.

<table>
<thead>
<tr>
<th>AUDITS</th>
<th>Country</th>
<th>Report Issue Date</th>
<th>OIG Initial Reported Amount</th>
<th>Reclassified Amount</th>
<th>Current Recoverable Amount</th>
<th>Amount Still Under Review</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRC - PSI</td>
<td>04-May-20</td>
<td>US$ 6,200,000</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>Additional follow-up work currently being undertaken by the Secretariat</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVESTIGATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
</tr>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

Reclassified amount: The amount of expenditures previously identified as non-compliant that have been reclassified as compliant following further review by the Secretariat in conjunction with the LFA and OIG.

Current recoverable amount: The amount of expenditures previously identified as non-compliant that are confirmed as non-compliant following further review by the Secretariat in conjunction with the LFA and OIG.
Notes to tables:

(1) Each OIG report leading to a recoverable amount is counted as a separate case, even if multiple reports apply to the same country.

(2) A written commitment is recognized as such once signed by a competent authority, in practice usually the Ministry of Health with co-signature by the Ministry of Finance.

(3) Adjustments by management include changes to the OIG-reported figures based on additional considerations, which may include review of additional supporting documentation, retroactive approval of expenditures reported by the OIG as non-compliant where sound rationales exist, an evaluation of the Global Fund’s available legal rights and remedies, and amounts identified by the Secretariat as recoverable in addition to the amounts reported by the OIG. Such adjustments are made in consultation with the OIG.

(4) The amount deemed recoverable represents the maximum amount to be recovered based on the deliberations of the Recoveries Committee and the Executive Director and latest information available. The amounts include considerable sums which are subject to further analysis or explanation by the Secretariat and validation by the OIG. Part or all such amounts may be shifted to the management adjustments column following further deliberations of the Recoveries Committee and the Executive Director. For cases not yet fully resolved, the amounts in the ‘written off’, ‘recovered’ and ‘commitment to repay’ columns may not fully represent the amount ultimately recovered, as recovery work is still ongoing on a portion of the amount shown as ‘net deemed recoverable’.

(5) Allocation reductions represent a means of resolving exceptionally difficult cases where all means of recovery have been exhausted. Upon approval by the Executive Director, a country’s allocation may be reduced by a factor of 2:1, being two units of allocation reduction for every one unit of recoverable amount. The amounts in the table represent the recoverable amounts written off as a result of the application of allocation reductions.