



Audit Report

# Global Fund Recoveries Management Processes

GF-OIG-20-006  
17 March 2020  
Geneva, Switzerland

# What is the Office of the Inspector General?

*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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The Global Fund believes that every dollar counts and has zero tolerance for fraud, corruption and waste that prevent resources from reaching the people who need them. If you suspect irregularities or wrongdoing in the programs financed by the Global Fund, you should report to the OIG using the contact details below. The following are some examples of wrongdoing that you should report: stealing money or medicine, using Global Fund money or other assets for personal use, fake invoicing, staging of fake training events, counterfeiting drugs, irregularities in tender processes, bribery and kickbacks, conflicts of interest, human rights violations...

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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's recoveries process has evolved over the past five years. Notably, an Operational Policy Note on "Recovery of Grant Funds" was issued in April 2017, to better define the procedures to be followed for non-OIG identified non-compliant amounts. A Recoveries Team has been established, and a designated Senior Recoveries Officer appointed in October 2015. The team supports the Recoveries Committee, serving as a liaison between the Committee and Grant Management Country Teams. In addition, a Recoveries Module has been embedded into the Grant Operating System to integrate the recoveries process into everyday grant management processes.

Notwithstanding these improvements, several exceptions exist in the identification and notification of potential recoverable amounts, impacting the accuracy and completeness of the Global Fund's recoveries account. Demand Letters were issued late in all the cases reviewed in the audit (representing US\$2.27 million in recoveries). On average, it took the Country Teams 240 days to issue Demand Letters, versus the required 120-day timeline (with a maximum delay of 405 days observed in one case). In addition, Demand letters were not issued to implementers in 19% of cases reviewed by OIG, amounting to US\$0.67 million. In these cases, there was no other evidence of resolution of the non-compliant expenditure. There is however no indication of financial loss, despite these recoveries being delayed for nearly two years, as the Global Fund still has the opportunity to recover the funds from the implementer.

The above issues, which were identified in OIG's 2016 Audit of the recoveries process, are due in part to Grant Management Country Teams' non-adherence with policies and procedures. The effectiveness of processes and controls to identify, resolve, monitor and report on recoverable amounts is therefore rated as **partially effective**. As such, there is a need for independent monitoring controls across the end-to-end process for recoveries, from notification to monitoring and resolution.

## 1.2. Key Achievements and Good Practices

### **Structures are in place to support the oversight and management of the Recoveries process.**

The Recoveries Committee<sup>1</sup> considers strategies for resolving cases of non-compliant expenditures based on applicable policies, business considerations and the organisation's legal entitlement to recovery, and advises the Executive Director accordingly. The Committee meets regularly, reporting to the Board and its committees every semester. Improvements in the oversight mechanisms have contributed to a decrease of outstanding recoverables as a percentage of gross recoverable amounts, from 54% (US\$69.32 million) in 2015 to 17% (US\$34.73 million) in 2019.

### **Systems to record recoverable amounts have been enhanced by a Recovery Module within the Grant Operating System.**

In June 2019, the Secretariat rolled out a Recovery Module of the Grant Operating System (GOS). Country Teams are now required to enter potential non-compliant amounts into the module, and then update it with all subsequent actions related to the recoveries process, such as management adjustments, amounts which Principal Recipients must repay, and amounts recovered. The Secretariat also has plans in place to enhance the reporting functionality of the Recovery Module during 2020.

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<sup>1</sup> Recoveries Committee consists of Chief Risk Officer (Chair), Chief Financial Officer, Head of Grant Management and Head of Legal and Compliance/General Counsel

### 1.3. Key Issues and Risks

#### **Sub-optimal processes and controls around the identification, notification, monitoring and reporting of non-compliant expenditures.**

The recoveries policy clearly defines the process to be followed by Grant Management Country Teams, from the identification of non-compliant expenditures by the various assurance providers, to monitoring and resolution of the recoverable amounts. Roles and responsibilities are also clearly defined in the policy. Finance Officers are responsible, and Fund Portfolio Managers are accountable for, the end-to-end recovery process. These defined processes have not, however, been followed by Grant Management Country Teams. Demand Letters were issued late in all the cases reviewed in the audit (representing US\$2.27 million in recoveries), in one case up to 405 days late, versus the 120-day requirement. The excessive delay to issue Demand Letters is due, in part, to Country Teams engaging in multiple rounds of discussions and negotiations with implementers on recoverable amounts. While such engagement is a normal and necessary part of resolution, it should not lead to non-compliant amounts being handled outside the institutional recovery process, thus weakening the level of oversight and monitoring expected from the Recoveries Committee.

In addition, 25% (US\$0.13 million) of non-compliant transactions identified through OIG case closure memorandums and 17% (US\$0.54) of the cases identified from the Secretariat's assurance provider reports were not formally raised through issuance of Demand Letters to Principal Recipients. In consequence, these cases were not subject to the institutional recoveries process, impacting the completeness of the recoveries account.

### 1.4. Rating

**Objective 1:** Effectiveness of processes and controls to identify, resolve, monitor and report on amounts recoverable

**Rating:** Partially Effective

### 1.5. Summary of Agreed Management Actions

The Secretariat will review the recoveries process and define additional controls as necessary, to identify, monitor and report all potential non-compliant amounts. This exercise will include:

- Potential recoverable transactions from all sources being formally tracked and subjected to the recoveries process.
- Demand letters prepared within the timeframe prescribed by policy, with controls to identify and follow-up non-compliance.
- Development of an operational reporting mechanism to enhance end-to-end visibility of potential and confirmed recoverable amounts, including aging and policy requirements for optimal Secretariat oversight including Recoveries Committee.

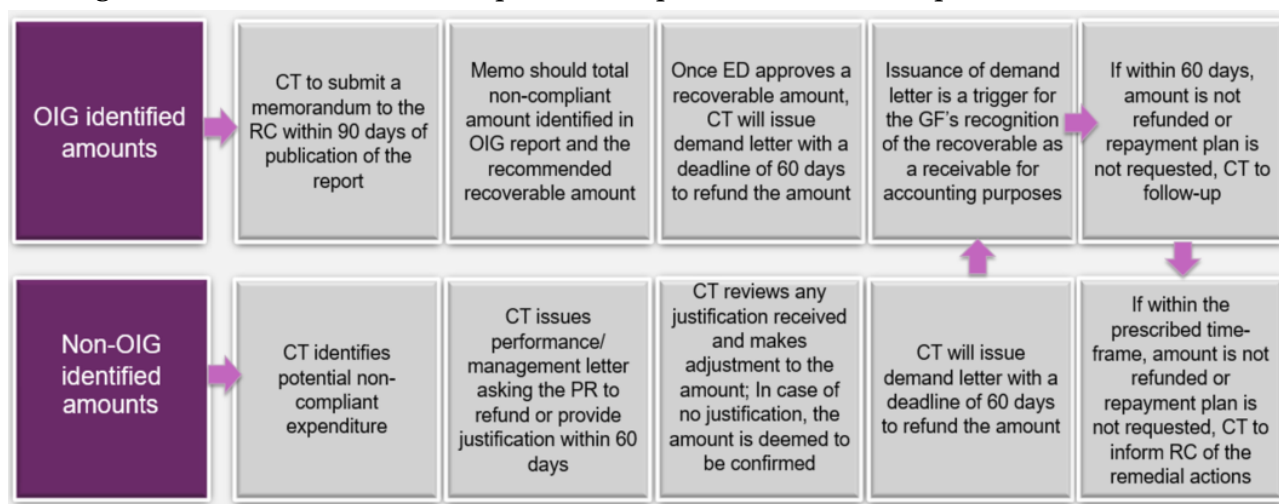
## 2. Background and Context

### Introduction

The Global Fund makes grants to support the implementation of public health programs in over 100 countries. In some environments, these funds are subject to significant risk, given the institutional weaknesses and low capacity of the entities involved. The Global Fund recognizes fraud and fiduciary related risks as moderate in the Organizational Risk Register, and as something which the Secretariat has a significant ability to influence. The recoveries process is meant to ensure that any misused funds are returned to the programs or to the Global Fund.

### The Recoveries Process

The recoveries process is triggered whenever the Global Fund rules that grant expenditures incurred by implementers are non-compliant, as defined by the Budgeting Guidelines. Non-compliant expenditures include but are not limited to: unsupported expenditures; expenditures outside the scope or period of the grant; expenditures compromised by prohibited practices; and other types of non-compliance and mismanagement of grant funds. Recoveries from published OIG audit and investigation reports are referred to as “OIG-identified” amounts. “Non-OIG identified” recoveries typically arise in the normal course of grant management, but also include amounts identified in OIG investigations which did not result in published reports. The recoveries process is illustrated below:



For each country, the Secretariat contracts a Local Fund Agent (LFA) to review Progress Update and Disbursement Request (PUDR) reports received from Principal Recipients (PRs). In addition, Country Teams occasionally mandate an LFA to undertake spot checks on areas of concern. Reports from LFAs and/or other assurance providers (External Auditors, Fiscal Agents or Fiduciary Agents) usually include potential non-compliant expenditures. Country Teams then notify the PRs and ask them to provide documentation or repay the amounts within 60 days. The Country Teams review the additional documentation within 60 days and issue a Demand Letter for unsupported amounts.

### Roles and responsibility along the recovery process

The Recoveries Policy states that Country Teams are responsible for interacting with countries on non-compliant transactions and recoveries. Specifically, the Finance Officer reviews Principal Recipient Progress Reports and External Audit Reports, and identifies the non-compliant amounts to be included in the Demand letter that is signed off by the Fund Portfolio manager.

## 3. The Audit at a Glance

### 3.1. Objectives

The audit sought to provide reasonable assurance on the effectiveness of processes and controls to identify, resolve, monitor and report on recoverable amounts.

### 3.2. Scope and Methodology

The audit sampled 90 grants from 15 countries and 12 investigation case closure memos, to review controls and processes to identify non-compliant expenditures. To review the monitoring, resolution and reporting of recoverable amounts, OIG reviewed 21 cases of allocation reduction, 14 cases of write-offs and 31 cases of management adjustments.

The audit included a review of the processes, procedures and systems relevant to recovery of non-compliant expenditures, through:

- interviews with Global Fund Secretariat staff from relevant divisions and departments;
- review of systems and processes facilitating the recoveries process;
- review of relevant documentation such as operational policy notes, process documents, external audit reports, LFA reports, PUDRs, Country Team memos to the Recoveries Committee, Recovery Committee minutes, Executive Director approvals of adjustments to recoverable amounts, and Recoveries reports to the Audit and Finance Committee and the Board;
- review of the functionality and output of the Recoveries Module of the Global Fund's Grant Operating System (GOS);
- detailed review of non-compliant expenditures identified by the Secretariat and other assurance providers;
- review of the resolution of recovery cases and how these are monitored and reported.

The audit covered Secretariat controls and processes to identify non-compliant expenditures. With respect to identification and recognition of recoverable amounts, the primary focus was on non-OIG recoveries, since OIG recoveries have been covered in prior audits. With respect to subsequent monitoring, resolution and reporting of recoverables, it covered both OIG and non-OIG identified amounts. The audit period was from September 2017 to September 2019.

### 3.3. Progress on Previously Identified Issues

In 2016, the OIG undertook a limited scope review of the [Recoveries Report](#) that the Secretariat presented to the Board of the Global Fund for the semester ending 31 December 2015.

The audit identified significant weaknesses in the process for identifying and reporting complete and accurate recoverable amounts in the normal course of grant management activities (non-OIG identified amounts). In addition, improvements were required to the accuracy and completeness of OIG recoveries reporting to the Board.

The agreed management actions were to:

- a) Train relevant operational teams on the process for identifying and reporting non-OIG recoveries to ensure consistent application. The non-OIG recoveries process would also be part of the Accelerated Integration Management (Project AIM) system's plans.
- b) Refine guidance and monitor timeframes for Country Teams to present cases to the Recovery Committee following the publication of OIG Audit and Investigation Reports.

While actions related to OIG-identified recoverable amounts were addressed, key weaknesses remain for the identification, notification, monitoring and reporting of non-OIG recoverable amounts.

## 4. Findings

### 4.1. Sub-optimal processes and controls around the identification, notification, monitoring and reporting of non-compliant expenditures

#### Identification and notification of recoverable amounts through Demand Letters

Country Teams are supposed to prepare an official notification, in the form of a Performance, Management or Notification Letter, to the Principal Recipient, with details of any expenditures classified as potentially non-compliant. In the letter, the Country Team should give the Principal Recipient 60 days to provide justification for the expenditures, if applicable, or to repay the funds into the program bank account. All unresolved amounts should be subject to the recovery process, and at the end of the 60 days, the Country Team is supposed to issue a formal refund request in the form of a Demand Letter to the Principal Recipient. It is only after the Demand Letter has been issued that a related recoverable is recognized in the Global Fund accounts.

The Country Team responsibilities matrix assigns the responsibility to Finance Officers for following up on reimbursement and/or justification for all ineligible expenditures reported in audit reports and LFA reviews. Fund Portfolio Managers are accountable for the initiation, monitoring and resolution of the recovery process.

#### **Delay in notification of non-compliant expenditures**

In all of the cases reviewed, amounting to US\$2.27 million, there was a significant delay in the issuance of Demand Letters to the Principal Recipient. On average, it took the Country Teams 240 days to issue Demand Letters versus the required 120-day timeline. In one case with a delay of 333 days, the Country Team only engaged in additional validation procedures one year after the identification of the non-compliant expenditure. In the cases with longest delays, Country Teams sought additional LFA validation or to first negotiate repayment before issuing Demand Letters. This is contrary to the requirements set out in the recoveries policy and means that at any point in time, the Global Fund recoveries account is understated. It is however noted that the Global Fund can still initiate the recovery process even though delayed and therefore has not suffered a loss.

There are also delays averaging 193 days in issuing Performance Letters notifying Principal Recipients of non-compliant expenditures. As per the operational guidelines, Principle Recipients are to be notified immediately once expenditures are classified as non-compliant. As a result, the total time taken from identification of non-compliant expenditure to notification in a Performance Letter and finally issuance of a Demand Letter is on average 433 days, against a 120-day requirement.

The lack of timeliness in the recoveries process is due, in part, to Country Teams engaging in multiple rounds of discussions and negotiations with implementers on recoverable amounts. While this engagement is a normal and necessary part of the resolution, it should not lead to non-compliant amounts being handled outside the institutional recovery process, thus weakening the level of oversight and monitoring expected from the Recoveries Committee. Given this, there is a need for monitoring or exception controls to ensure that all non-compliant expenditures are identified, and PRs are promptly notified of recoverable amounts.

#### **Failure to initiate recovery process on non-compliant expenditures**

One of the sources for identifying non-compliant expenditures is through case closure memorandums issued by the OIG Investigations unit. In these cases, Demand Letters are required to be sent immediately from the date of issue of the memorandum, as the amount is already confirmed as recoverable. However, in 25% (3 out of 12) of the cases, amounting to US\$0.13 million out of US\$1.02 million, Demand Letters were not issued by the Country Teams despite the memorandums being received from OIG 6 months previously. As a result, none of these cases were subject to the required recovery process.

For non-compliant expenditures identified by various assurance providers, 90 grants were reviewed, of which 24 contained non-compliant expenditures totaling US\$13.02 million. Of these 24 grants,



the Country Teams failed to issue Demand Letters in 17% or 4 cases, amounting to US\$0.54 million. In these cases, the non-compliant expenditures were identified through assurance providers nearly two years previously. In addition, there was no evidence from the Country Teams that a resolution process was underway with the implementer to explain the non-issuance of the Demand Letter.

In these cases, the Recoveries Team and Committee would not have any visibility of these amounts to monitor and provide oversight. For example, two applications for portfolio optimization funding were approved (US\$2.4 million for TB and US\$0.6 million for Malaria), even though the country team should have disclosed all outstanding recoveries. However, as the Demand Letters had not been issued to the PRs, no one outside the Country Team had visibility of the recovery to flag the issue to the Grant Approval Committee.

#### Identification of potential non-compliant amounts in GOS Recoveries Module

In June 2019, the Secretariat rolled out a Recoveries Module on the Grant Operating System (GOS), for the identification, resolution, monitoring and tracking of recoverable amounts. The core functionality of this module is in place, while other aspects, including monitoring and reporting, are expected to be developed in 2020.

Country Teams are supposed to capture all potentially non-compliant expenditures as reported by assurance providers into the Recoveries Module. In addition, key updates and relevant adjustments to the identified non-compliant expenditures are also meant to be captured, based on the resolution process with Principal Recipients. The following exceptions were identified during the audit, related to this process:

- 15% (4 of 26 cases) of potential non-compliant cases arising out of PU/DR validation, amounting to US\$1.04 million, were not entered into the system.
- 33% of cases (4 of 12) of non-compliant transactions identified through OIG Case Closure Memorandums, amounting to US\$0.38 million, were not entered in the Recoveries Module.
- 23% (6 of 26 cases) amounting to US\$1.45 million were not validated by the Country Team and consequently, subsequent steps related to notification of these to Principal Recipients were not updated.
- A non-compliant expenditure was incorrectly entered in the system and not validated by the Regional Finance Manager, resulting in an understatement of the recoverable amounts by US\$0.91 million.
- A Demand Letter was issued amounting to US\$0.16 million but not entered correctly in the Recoveries module, and was not included in the Recoveries report for 31-Dec-2019 to AFC.

While these recoveries were appropriately resolved, the exceptions produce an incomplete status of the ineligible amounts identified by various assurance providers, impacting monitoring and reporting of recoveries.

The exceptions are partly due to weaknesses in the present design of the Recoveries Module in GOS, which does not have the functionality to automatically display all potentially non-compliant expenditures. It requires the Country Team to select the particular grant for updating the module with non-compliant expenditure already validated in other modules. The Secretariat identified these design gaps prior to the commencement of the audit and plans are in place to remediate the issue.

For non-compliant expenditure identified through OIG Case Closure Memorandums, Country Teams are required to manually enter these in the Recoveries module. Additional validation steps that Country Teams and Regional Finance Managers need to perform on a quarterly basis for ineligibles to be updated appropriately in the Recoveries module are not being fully performed.

#### Monitoring and reporting on recoveries

Country Teams are required to provide the Recoveries Committee with an update bi-annually if the Principal Recipient has either not repaid or agreed to a repayment plan for the recoverable amount. This is to ensure that Country Teams actively monitor and pursue recoverable amounts. As at 30 June 2019, 8 out of 23 (35%) cases, amounting to US\$6.48 million, had not been formally presented

to the Recoveries Committee, despite the six-month period having elapsed and these cases being in default of the repayment deadline by 11 months.

This monitoring requirement is in place to ensure that resolutions are reached in accordance with the policies and governance processes. For example, the mode of recovery in one OIG-related case was negotiated with the PR by the Grant Management Division prior to formally consulting and obtaining agreement from the Recoveries Committee. In this case, the agreement was to apply a 2:1 allocation reduction against grant savings from the 2014 – 2016 allocation period. The settlement of US\$3.7m represented a 23% change to the approved grant amount signed for the 2014 - 2016 period and had a significant programmatic impact on funded programs. There was no documentary evidence available for discussion and mitigating actions for the programmatic implication of the Recoveries Committee decision in this case.

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### **Agreed Management Action 1:**

The Secretariat will review the recoveries process and define additional controls as necessary, to identify, monitor and report all potential non-compliant amounts. This exercise will include:

- Potential recoverable transactions from all sources being formally tracked and subjected to the recoveries process.
- Demand letters prepared within the timeframe prescribed by policy, with controls to identify and follow-up non-compliance.
- Development of an operational reporting mechanism to enhance end-to-end visibility of potential and confirmed recoverable amounts, including aging and policy requirements for optimal Secretariat oversight including Recoveries Committee.

Due Date: 31 December 2020

Owner: Chair, Recoveries Committee and Senior Recoveries Officer

## 5. Table of Agreed Actions

Agreed Management Action	Target date	Owner
<p>The Secretariat will review the recoveries process and define additional controls as necessary, to identify, monitor and report all potential non-compliant amounts. This exercise will include:</p> <ul style="list-style-type: none"> <li>• Potential recoverable transactions from all sources being formally tracked and subjected to the recoveries process.</li> <li>• Demand letters prepared within the timeframe prescribed by policy, with controls to identify and follow-up non-compliance.</li> <li>• Development of an operational reporting mechanism to enhance end-to-end visibility of potential and confirmed recoverable amounts, including aging and policy requirements for optimal Secretariat oversight including Recoveries Committee.</li> </ul>	31 December 2020	Chair, Recoveries Committee and Senior Recoveries Officer

## 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 focus on issues related to the impact of Global Fund investments, procurement and supply chain management, change management, and key financial and fiduciary controls.