Recoveries Report for the period ended 31 December 2019

43rd Board Meeting

GF/B43/09
14-15 May 2020, Virtual

Board Information

Purpose of the paper: This report is provided to the Audit & Finance Committee for review pursuant to a decision of the Board at its Thirty-Second meeting (GF/B32/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 31 December 2019, as well as recoverable amounts identified in the due course of grant management operations as of 31 December 2019. The OIG reports independently to the Board on the Secretariat’s progress on matters related to recoveries.
Executive Summary

Introduction and 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.

Key Issues Addressed and Conclusions

i. On-going recovery efforts and recoveries context (OIG recoverables)
During the second half of 2019, the total outstanding OIG recoverable balance, net of written commitments to repay, decreased from US$0.2 million to US$0.1 million. In January 2020, a further US$0.1 million was received, effectively reducing the outstanding recoverable balance, net of written commitments to repay, to zero. Written commitments to repay amount to US$3.0 million. Despite occasional short delays in transferring funds as per a country’s contractual obligations to the Global Fund, repayments are largely on track.

ii. On-going recovery efforts and recoveries context (non-OIG recoverables)
The non-OIG aggregate outstanding balance, net of written commitments to repay, amounted to US$23 million. This amount is distributed amongst 101 grants in 44 countries with a median net after commitments recoverable balance of US$39,393.

iii. Turnaround times for new cases
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 being 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.
Report

I. 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. On-going recovery efforts and recoveries context

OIG Recoverable Amounts

4. 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.

5. With respect to open OIG investigation reports, which are reflected in the amounts in Table 1 below, the Secretariat uses as a starting point the proposed recoverable amount indicated by OIG in the 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 31 December 2019 amounted to US$59.8 million (unchanged for the period ending 31 December 2019).

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

7. During the six-month period ended 31 December 2019, there were no new audit and investigations cases that were presented to Recoveries Committee, explaining why there were no changes between the total non-compliant expenditures and the proposed recoverable amounts identified in OIG investigation reports for the period.
8. As of 31 December 2019, there were two OIG reports relating to: (1) an OIG audit of grants in the Republic of Ghana; and (2) an OIG investigation report of grants in Senegal pending presentation to the Recoveries Committee.

9. The total outstanding recoverable balance, net of written commitments to repay, decreased from US$0.2 to US$0.1 million. In January 2020, a further US$0.1 million was received, effectively reducing the outstanding recoverable balance, net of written commitments to repay, to zero.

10. Written commitments to repay amount to US$3.0 million. Despite occasional short delays in transferring funds as per a country’s contractual obligations to the Global Fund, the repayments are largely on track.

<table>
<thead>
<tr>
<th></th>
<th>Commitment to Repay + Net Outstanding</th>
<th>Commitment to Repay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burkina Faso</td>
<td>2,404,620</td>
<td>2,404,620</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>146,107</td>
<td>146,107</td>
</tr>
<tr>
<td>Mali</td>
<td>453,828</td>
<td>453,828</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,004,555</strong></td>
<td><strong>3,004,555</strong></td>
</tr>
</tbody>
</table>

NB: there is still residual credit risk until such time as the amounts due are fully settled.

11. Graph 1 below illustrates the evolution of the total gross amount deemed recoverable (all cases), the net recoverable outstanding amounts, and the percentage recovered since December 2013.

12. 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 and the Global Fund is seeing considerable benefits as recoverable funds are being returned more quickly than was the case several years ago.

13. 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 be different from those presented in the financial statements due to the accounting method adopted to comply with the requirements of IFRS. For example, 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 the financial statements reporting on losses and recoveries uses the exact 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**

14. The Secretariat has finalized the development and implementation of an automated process to centrally capture and report on confirmed non-compliant expenditures. During the first half of 2019, the majority of the development of the automated process was completed and the Secretariat launched the automated process in the Grant Operating System (GOS) in June-July 2019. The migration of the monitoring of the non-OIG non-compliant expenditures to the Grant Operating System should further reinforce the Secretariat’s ability to use this data as an early warning on potential financial control matters. As the Secretariat has experienced with OIG non-compliant expenditures, early escalation and focus can yield significant results.

15. 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 their review and recommendation in accordance with guidance provided to Country Teams. As of 31 December 2019, the non-OIG aggregate outstanding balance, net of written commitments to repay, amounted to US$23 million. This amount is distributed amongst 101 grants in 44 countries with a median recoverable balance of US$33,393.

16. Of this US$23 million, five grants account for 49% of the total net outstanding amount due:
   a) Chad - FOSAP: US$1,017,245
   b) Ghana - MoH: US$2,346,022
   c) Guinea - CNLS: US$4,713,042
   d) Mozambique – World Vision: US$1,027,950
   e) Nigeria – NACA: US$2,177,681

   The main drivers behind the increase of US$10 million during the period were: (1) Guinea – warehouse fire for an amount of US$4.7 million; (2) Sudan for an amount of US$0.9 million; (3) Tanzania for an amount of US$1.7 million; and, (4) Uganda for an amount of US$0.4 million.

17. 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 years.
21. There were minimal write-offs during the period, with the exception of a write-off for EUR25,757 for North Macedonia. Despite repeated attempts by the Global Fund to have the Government of North Macedonia fulfill their commitment to purchase a bio safety cabinet for the infectious disease clinic and thereby extinguish the debt, the purchase and delivery of the bio safety cabinet was not completed.

III. Allocation Reduction

22. The second half of 2019 did not see any further applications 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 exceptionally difficult cases where all means of recovery have been considered exhausted. 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.

23. There are a number of reasons why the allocation reduction approach is only applied as a last resort. For one, there is 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.

IV. Post Script (Significant events occurring or expected after 31 December 2019)


25. At the beginning of January 2020, the Government of Zambia transferred US$900,000 as part of their commitment to repay the Global Fund under the signed Reimbursement Protocol for a Non-OIG non-compliant expenditure.

The OIG recently concluded an audit on the Global Fund recovery process and the primary focus of the audit is on non-OIG recoveries. The audit seeks to provide reasonable assurance on the effectiveness of processes and controls to identify, resolve, monitor and report on recoverable amounts. The findings of the audit highlight delays in converting non-complaint expenditures into recoverable amounts. However, the OIG audit did not identify actual losses as a result of the noted control weaknesses due to the additional compensating control as part of the grant closure processes. The Secretariat has initiated a process and systems improvements for recoveries in June 2019 (before the start of the Audit) and the planned enhancements will integrate the new audit findings to improve the overall effectiveness of the process.
# Annexes

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

<table>
<thead>
<tr>
<th>Row Labels</th>
<th>Sum of Expenditures compromised by prohibited practices (USD eq)</th>
<th>Sum of Unsupported expenditures (USD eq)</th>
<th>Sum of Expenditures incurred outside of the scope or period of the grant (USD eq)</th>
<th>Sum of Uncategorised Expenditures (USD eq)</th>
<th>Sum of Management Adjustments (USD eq)</th>
<th>Sum of Gross Recoverable Amount (USD eq)</th>
<th>Sum of Written off (USD eq)</th>
<th>Sum of Allocation reduction (USD eq)</th>
<th>Sum of Recovered (USD eq)</th>
<th>Sum of Net Amount still to repay (USD eq)</th>
<th>Sum of Commitment to repay (USD eq)</th>
<th>Sum of Net After Commitments (USD eq)</th>
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<tbody>
<tr>
<td>CT Bankina Faso</td>
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<td>2,404,520</td>
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<td>CT Central African Republic</td>
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<td>895,995</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>715,482</td>
<td>146,137</td>
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<td>CT Malawi</td>
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<td>-</td>
<td>1,981,377</td>
<td>821,377</td>
<td>-</td>
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<td>45,925</td>
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<td>TOTAL</td>
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<td>20,981,576</td>
<td>15,464</td>
<td>11,861,460</td>
<td>715,482</td>
<td>169,138</td>
<td>8,663,140</td>
<td>3,905,526</td>
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<td>1,408</td>
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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>New Malaria</th>
<th>New Expended</th>
<th>New Subvention</th>
<th>New Estimated</th>
<th>New Subvention</th>
<th>New Malaria</th>
<th>New Expended</th>
<th>New Subvention</th>
<th>New Estimated</th>
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<th>New Subvention</th>
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<td>10,000</td>
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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

<table>
<thead>
<tr>
<th>Row Labels</th>
<th>Surcharged Expenditures by post-2002 policies (USD)</th>
<th>Sum of Expenditures incurred outside of the grant (USD)</th>
<th>Sum of Expenditures not otherwise classified or management of grant funds (USD)</th>
<th>Sum of Uncategorised Expenditures (USD)</th>
<th>Sum of Management Adjustments (USD)</th>
<th>Cumulative Recoveries (USD)</th>
<th>Cumulative Grants (USD)</th>
<th>Cumulative Net Amount (USD)</th>
<th>Cumulative Amount Outstanding (USD)</th>
<th>Cumulative Net Amount in Grant (USD)</th>
<th>Cumulative Amount in Grant (USD)</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
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</table>
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.