

RESULTS WITH INTEGRITY

THE GLOBAL FUND'S RESPONSE TO FRAUD

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EXECUTIVE SUMMARY

- 1 The Global Fund, by very nature of its mandate, works in countries and environments which present high levels of risk – countries where programmatic and oversight capacities are weak, or where financial controls are inadequate, or those commonly defined as “fragile” states.
- 2 Along with its commitment to transparency, the Global Fund has had, from the beginning, an uncompromising attitude toward misuse of funds. This focus on transparency and accountability led to the creation of a structure which includes six layers of programmatic and fiduciary controls.
- 3 The Global Fund has transparently communicated to the world any finding related to irregular expenditures at the country level – publicizing to date US\$ 44 million in fraudulent, unsupported, or ineligible expenditures by Principal and sub-recipients.
- 4 Instances of suspected or confirmed fraud have received a swift and determined response, with programs suspended or terminated in a number of countries, and a relentless pursuit of recovery of misspent funds.
- 5 Finally, in the last two years, the Global Fund has been reinforcing its fraud detection and risk-management processes, with particular attention to the role of Local Fund Agents and fraud-prone activities at the country level.
- 6 Data quality measures are continually being strengthened to ensure the reliability of the reported results.
- 7 The Global Fund continues to evolve and to improve the way it anticipates and mitigates these risks to ensure that its funding continues to reach its intended beneficiaries.

SECTION 1 BACKGROUND

The Global Fund was created in 2002 to save lives. In almost ten years, it has become the major international financier of health programs, funding the detection and treatment of 7.7 million cases of tuberculosis (TB), the distribution of 160 million insecticide-treated nets, and the maintenance of more than half of all those on antiretroviral treatment worldwide, some 3 million people. In addition, Global Fund-supported programs have provided more than 1 million women with treatment to prevent the transmission of HIV from mother to child, distributed 2.7 billion condoms, and provided 31 million episodes of indoor residual spraying to prevent malaria.

Working in partnership with 325 Principal Recipients and more than 3,000 sub-recipients across 145 countries the Global Fund has disbursed more than US\$ 13 billion for lifesaving programs. Global Fund financing has contributed significantly to major successes against the three diseases during the past decade. The number of annual AIDS-related deaths has declined from a peak of 2.1 million in 2004 to an estimated 1.8 million in 2009; HIV incidence has dropped by more than 25 percent in 33 countries since 2001; TB incidence has fallen globally; and the lives of 800,000 children have been saved through malaria prevention (insecticide-treated nets) since 2002.

When the Global Fund was established, it took into account lessons learned from 40 years of development experience to create a system based on country ownership, performance-based funding, transparency and accountability. These four principles were considered the best way to ensure efficiency, results, ownership and sustainability.

The Global Fund, by very nature of its mandate, works in countries and environments which present high levels of risk.

It works in countries where often programmatic and oversight capacities are weak, or where financial controls are inadequate, those commonly defined as “fragile” states.

Along with its commitment to transparency, the Global Fund has had, from the beginning, an uncompromising attitude toward misuse of funds.

This focus on transparency and accountability led to a structure which includes six layers of programmatic and fiduciary controls.

The Global Fund has transparently communicated to the world any finding related to irregular expenditures at the country level – publicizing to date US\$ 44 million in fraudulent, unsupported, or ineligible expenditures by Principal and sub-recipients.

Instances of suspected or confirmed fraud have received a swift and determined response, with programs suspended or terminated in a number of countries, and a relentless pursuit of recovery of misspent funds.

In the last two years, the Global Fund has been reinforcing its fraud detection and risk-management processes, with particular attention to the role of Local Fund Agents and fraud-prone activities at the country level.

The Global Fund continues to evolve and improve the way it anticipates and mitigates risk to ensure that its funding continues to reach its intended beneficiaries.

SECTION 2 THE GLOBAL FUND'S ESTABLISHED FRAUD-PREVENTION POLICIES

Global Fund policies ensure that strong risk management and fraud prevention procedures are enacted every step of the grant life cycle.

The Global Fund operates in countries which sometimes have weak programmatic and oversight capacity or inadequate financial controls. In order to mitigate these realities, the Global Fund's systems and processes institute strict controls over the allocation, management, and oversight of grant funds, with six layers of assurance:

- 1 *Principal Recipient's internal control mechanisms;*
- 2 *Independent in-country verification and oversight mechanism (Local Fund Agents);*
- 3 *Annual external and independent audits of Principal and sub-recipients;*
- 4 *Secretariat monitoring of grant implementation (including imposing additional safeguards where risks are deemed to be high);*
- 5 *Work of the Office of the Inspector General¹, including audits and investigations;*
- 6 *Oversight provided by the Global Fund's governance structures, particularly the Board and its committees.*

Within these six layers, Global Fund policies ensure that strong risk management and fraud prevention procedures are enacted at every step of the grant life cycle (described in Annex 1).

¹ The Office of the Inspector General was established by the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria in July 2005. The Office of the Inspector General operates as an independent unit of the Global Fund, reporting directly to the Board. The Office of the Inspector General provides the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations.

SECTION 3 FRAUD-RELATED ISSUES IN THE GLOBAL FUND GRANT PORTFOLIO

The Global Fund's zero tolerance to fraud (taking determined action to prevent fraud and address it every time it is uncovered) cannot translate into a zero tolerance for risk.

Reducing the burden of the three diseases entails working in countries with severe governance challenges and carries inherent risk.

Despite the broad range of verifications and controls described above, misuse of funds at times does occur within the Global Fund grant portfolio. As of February 2011, the Global Fund is currently seeking restitution of some US\$ 44 million in fraudulent, unsupported, or ineligible expenditures. The table below shows a breakdown of these amounts.

The Inspector General uses the following definitions:

Fraud: money or property sought to be obtained for personal financial gain through deceptive or false means; **Unsupported expenditures:** expenditures of grant funds made for which supporting documentation is lacking, insufficient or illegitimate; **Ineligible expenditures:** Includes authorized/unauthorized expenditure that has no relevance to the project, and unjustified salary increase/bonus/benefits that do not confirm with project agreement. Does not include unauthorized expenditure that has project/program relevance.

Of the total amount misused (all categories), 63 percent related to grants in just four countries: Djibouti, Mali, Mauritania and Zambia. In response, the Global Fund has taken immediate and context-specific actions. Relevant grants in Mali, Mauritania, and Zambia were suspended in December 2010, September 2009 and August 2009, respectively². Disbursements, expenditures and activities have been frozen until further notice, and only lifesaving treatment has been allowed to continue.

In Mali, one malaria grant was terminated and two TB grants were suspended in late 2010. A further suspension of an HIV grant was announced in February 2011.

Djibouti, Mauritania and Mali, (among other countries³), have been placed on the Global Fund's list of "Additional Safeguards" countries, allowing for increased direct scrutiny of activities at the Principal Recipient and sub-recipient levels.

As already mentioned, the Global Fund has demanded repayments of US\$ 44 million, of which US\$ 4.5 million has already been recovered.

Evidence has been provided to local authorities in Mali, Mauritania and Zambia in support of criminal investigations into these matters⁴.

COUNTRY	FRAUD (US\$)	UNSUPPORTED (US\$)	INELIGIBLE (US\$)	UNACCOUNTED INCOME/DRUGS	OTHER (US\$)	TOTAL (US\$)
CAMBODIA	-	222,706	-	1,362,466	-	1,585,172
CAMEROON	33,455	2,199,530	3,370,322	-	-	5,603,307
CONGO (DEMOCRATIC REPUBLIC)	-	1,110,107	933,586	-	-	2,043,693
DJIBOUTI	145,893	4,262,288	857,827	-	-	5,266,008
HAITI	-	519,326	1,253,869	704,730	-	2,477,925
MALI	4,074,444	1,034,935	-	-	122,106	5,231,485
MAURITANIA	6,755,000	-	-	-	-	6,755,000
PHILIPPINES	-	-	2,021,280	-	-	2,021,280
RWANDA	-	-	-	-	-	-
TANZANIA	-	-	-	819,000	-	819,000
UGANDA	-	-	-	-	1,600,000	1,600,000
ZAMBIA	13,000	5,808,446	4,998,389	-	-	10,819,835
TOTAL (US\$)	11,021,792	15,157,338	13,435,273	2,886,196	1,722,106	44,222,705

² The Global Fund has also suspended or frozen grants in Ukraine, Uganda, Chad and the Philippines.

³ Papua New Guinea and Côte d'Ivoire were also added to the list because of weak financial management systems making them vulnerable to misuse.

⁴ More than 20 arrests have been made by authorities in Mali, Mauritania and Zambia, including of senior officials.

SECTION 4 AN AGENDA FOR ACTION: IMPROVING FRAUD DETECTION AND PREVENTION

In light of fraud levels identified by the Inspector General in a number of countries, the Global Fund is reinforcing its mechanisms for the identification and mitigation of risk within its portfolio.

SYSTEMATIC RISK ASSESSMENT

The Global Fund has been, as part of a series of internal reforms, re-evaluating the role and functions of the Local Fund Agents⁵, incorporating the findings and recommendations coming out of the Inspector General's review.

The following actions are being taken to ensure that the Global Fund and its Local Fund Agents take a more rigorous and systematic approach to risk management and fraud prevention.

The risk assessments ensure that the Local Fund Agent's work in each country is shaped by the specific risks in the implementation environment.

- 1 The Local Fund Agent scope of work has been revised to further strengthen their focus on fraud risks and actual fraud. They will also increase their work around the assessment of the fiduciary controls of the Principal Recipients as part of the assessments which are one step of the grant signing process, whether for new (Round 10) grants or for the Phase 2 of existing grants⁶.
- 2 Local Fund Agents conduct annual country and Principal Recipient risk assessments. The key output of the risk assessment is a *Principal Recipient Priority Risks Management Plan*, summarizing the main risks (including fraud risks) in the portfolio and the recommended actions required by the Global Fund, Principal Recipients, Country Coordinating Mechanisms and other partners to manage the key risks and prevent fraud. The risk assessments ensure that the Local Fund Agent's work in each country is shaped by the specific risks in the implementation environment. Risk assessments for the countries that are now included in the Global Fund's new "Country Team Approach" will be completed by June 2011.
- 3 The Global Fund is requesting Local Fund Agents to perform more in-depth monitoring of high-risk activities. This includes assessing sub-recipients' capacities and controls; spot checks at service delivery points; closer review of training plans and related expenditures; review of pharmaceutical procurement and tendering processes; and conducting forensic audits.
- 4 The Global Fund, in collaboration with the Office of the Inspector General, has organized training events for Local Fund Agent experts that reviewed best practice in identifying fraud and assessed program activities that are prone to fraud. Further events are planned in 2011.

⁵ The Global Fund does not have a country-level presence outside of its offices in Geneva, Switzerland. Instead, it hires independent organizations based in each country to oversee, verify and report on grant performance. These are referred to as "Local Fund Agents".

⁶ When grants are approved by the Global Fund Board, only the amount of the budget for the first two years of the five-year grant period is committed. At the end of the first two years, each grant undergoes a thorough evaluation referred to as "Phase 2" in order to determine whether or not the remaining three years of the grant will be approved for funding.

STRENGTHENING RISK MANAGEMENT AND FIDUCIARY CONTROLS IN NIGERIA

Because the Global Fund works exclusively through country-based structures, one of the greatest challenges facing the Global Fund is that of translating its *zero tolerance to fraud* into practical approaches at the Principal and sub-recipient levels.

The Global Fund's country team for Nigeria has recently conducted a two-day orientation and risk management workshop in Abuja for staff of Principal Recipients, sub-recipients, and relevant partners. The objectives of the workshop were to help participants identify key risks in Global Fund-related programs, develop preventive risk management measures, strengthen fiduciary controls, and develop effective *accountability frameworks* for programs in Nigeria.

Accountability frameworks summarize how implementers go about complying with Global Fund requirements and how they achieve quality, value for money, and sustainable impact. They also describe how implementers work to prevent misuse of Global Fund grant funds and ensure the implementation of Secretariat, Local Fund Agent, and Inspector General recommendations.

The outcome of the workshop was a *risk management plan* addressing cross-cutting risks per program and functional area – namely HIV, malaria, TB, finance, monitoring and evaluation, and procurement and supply management. The plan will now be monitored by the Country Coordinating Mechanism, the Global Fund, and the Local Fund Agent. The Global Fund may also approve the “reprogramming” of grant funds for the purpose of strengthening fiduciary control systems; Principal Recipients' financial management and accounting, pharmaceutical and non-medical procurement processes; sub-recipient management and monitoring; and management of high-risk activities involving cash transactions.

In the coming months, the Global Fund will be exploring the replication of such workshops across other countries in the portfolio.

PARTNERSHIP WITH UNITED NATIONS AGENCIES

The Global Fund has been relying on United Nations (UN) agencies (chiefly the United Nations Development Programme (UNDP) but also the United Nations Children's Fund (UNICEF) and the United Nations Office of Project Services (UNOPS) to manage grants in some of the portfolio's high-risk, low-capacity countries. As Principal Recipient in currently 29 countries, UNDP plays a particularly essential role in helping the Global Fund implement grants in countries facing the most difficult circumstances, including complex emergencies, difficult political transitions, poor governance, fragile states, and/or severe capacity constraints. In these cases, The Global Fund requests UNDP to step in as an interim Principal Recipient when it has determined that no national entity is able to do the job or that the risk involved is too high. The partnership with UNDP is an important aspect of the Global Fund's risk management efforts in countries facing exceptional challenges and the highest levels of risk.

Under a policy adopted by the UNDP/UNFPA/UNOPS Executive Board, access to internal audits is currently limited to member states and not to “institutional partners” such as the Global Fund. Similar legislation exists for other UN agencies as well. Given the importance of the partnership, in the last few years the Global Fund has sought improved access to UNDP's internal audit reports and enhanced collaboration on investigations.

At its mid-June meeting, the Executive Board of UNDP/UNFPA/UNOPS will now consider a proposal by the leadership of the three organizations to grant the Global Fund and other large institutional donors rights of access to audits equivalent to those of member states. The proposal takes into account the “single audit principle” enshrined in the UN's financial rules and regulations and in UN General Assembly resolutions.

Once such access is granted, the Global Fund and UNDP will engage in detailed discussions to explore ways to further improve the collaboration and coordination between the Global Fund's Office of the Inspector General and UNDP's Office of Audit and Investigation to provide the Global Fund Board with sufficient assurances regarding the use of Global Fund resources by UNDP.

APPROACH TO HIGH-RISK ACTIVITIES

In addition to the country-focused risk-assessment and diagnostic audits already described in this document, the Global Fund is taking targeted action in a series of expenditure categories prone to particular risk.

Activities involving cash transfers for training events – including per diems, travel, meals and expense payments – pose a high risk of misuse. In December 2010 the Global Fund, in consultation with partners and implementers, requested Principal Recipients around the world to submit detailed annual training plans. Training activities which do not comply with approved training plans will no longer be eligible for Global Fund funding. Additionally, Local Fund Agent verifications and scrutiny of training activities have been enhanced to include, inter alia, spot-checks and routine verifications of participant lists.

FOLLOW-UP ON THE INSPECTOR GENERAL'S FINDINGS AND RECOMMENDATIONS

In 2011, as in previous years, the Secretariat will continue its systematic follow-up on the Inspector General's findings and recommendations, ensuring that appropriate changes are brought to country-level structures and procedures as a response to audits and investigations. As of March 2011, the Secretariat was following up on 16 Inspector General audit reports with a total of 685 recommendations.

Please refer to Annex 2 for additional information on the validation exercise covering ten of these audits.

DRUG DIVERSION

The Global Fund Secretariat and the Office of the Inspector General are at the forefront of the international response to drug theft, working with law enforcement, sister agencies, and drug manufacturers to investigate claims of theft of medicines⁷. The Global Fund hosted a meeting of concerned stakeholders⁸ in Geneva on 17 February 2011. The meeting was a first step in agreeing on an action plan to combat the theft and illegal diversion of medicines, a plan which includes such steps as information sharing among partner agencies, joint strengthening of procurement and distribution capacity in developing countries and the application of stringent security measures around drug storage and transport.

Based on information gained from both reported cases and ongoing investigations, a portion of these thefts appear to be well organized, raising the need for concerted action. Long-term solutions to the issue lie in partnering with countries to build secure and sustainable supply chains so that products reach the intended end-users. The Global Fund, in coordination with other donors, United Nations agencies, grant implementers, drug manufacturers and law enforcement agencies, has embarked on implementing immediate and long-term measures, summarized below, to address the problem of drug theft:

- Taking strong and swift action in response to drug theft, including grant termination, freezing cash disbursements, demanding the return of all misused funds and launching investigations to bring the perpetrators to justice;
- Prioritizing work in countries where there is an important risk of drug theft or where theft has occurred. This includes in-depth assessments of the source and magnitude of the problem and the adequacy of mitigation measures taken so far, and implementing additional actions tailored to the identified risks;

⁷ It is important to remember that the Global Fund deals with thousands of pharmacists, doctors and nurses around the world who work to ensure that the free or affordable drugs provided through Global Fund grants end up with the patients they were intended for.

⁸ The following participated in the meeting: the UN Secretary-General Special Envoy for Malaria, the World Health Organization (WHO), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United States Agency for International Development (USAID), the President's Malaria Initiative (PMI) and OIG, the United States government and the President's Emergency Plan for AIDS Relief (PEPFAR), UNITAID, the GAVI Alliance, the Stop TB Partnership, Roll Back Malaria, ALMA and UNICEF.

MITIGATING THE RISK OF DRUG DIVERSION IN MALAWI

Drug diversion has been reported as an issue by several donors in southern Africa, and more recently in relation to artemisinin-based combination therapies (ACTs) in Malawi's central medical stores system. In late 2010 and early 2011, in close collaboration with national stakeholders, technical agencies, and main donors, the Global Fund took a number of decisions aimed at mitigating drug-theft risks while ensuring the uninterrupted supply of health products to end-users.

Bypassing Central Medical Stores. Until structures are considered secure, pharmaceuticals and other health products purchased with Global Fund finances will not pass through the Malawi Central Medical Stores (CMS), but will reach end-users through alternative supply systems. For products that were already within the CMS, a number of additional safeguard measures were put in place to ensure proper management and minimize the risk of diversion.

Capacity Building. The Ministry of Health has developed plans to strengthen CMS structures through an independent supply chain agent in charge of customs clearance, inventory management, quality control testing, warehouse management, and distribution. The supply chain agent is also responsible for building the capacity of CMS staff and for the transfer of skills.

Governance. Finally, in an effort to reinforce CMS' governance, the government of Malawi has recently appointed a Board of Trustees for the newly formed Central Medical Store Trust, which is an independent entity in charge of managing the stores. Once functional, the trust will ensure the effective management of the CMS.

Future Global Fund disbursements will depend on progress towards the implementation of the Ministry's plans, including the refurbishment of storage space.

- In countries with systemic issues, work with national authorities and country partners to implement short- and medium-term measures to reduce the risk of drug theft while building country-level accountability to strengthen health systems in the longer term;
- Providing support to strengthen national capacity for procurement and supply management systems, including national drug regulatory authorities;
- Finally, the Global Fund-hosted Affordable Medicines Facility-malaria (AMFm) has a potential side benefit of reducing incentives for drug theft within each of the eight malaria-endemic countries in which it is being piloted. It can do so by reducing or eliminating price differences across sectors (public versus private) and reducing incentives for cross-sector price arbitrage *within* each country. The AMFm also has the potential to reduce incentives for ACT theft between countries, but only if it is implemented in all malaria-endemic countries.

OTHER HIGH-RISK AREAS

A senior-level working group within the Global Fund Secretariat is currently taking stock of a number of operational finance issues and recurring risk trends across the portfolio. Many of these issues are also those flagged in the Inspector General's Lessons Learned Report (March 2011), discussed below. A more detailed operational framework will be provided for dealing with these specific topics.

The Inspector General's findings in Mali, Mauritania and Djibouti have shown that in a limited number of countries, and under specific activities, existing Global Fund systems (described in Section 1) did for an extended period of time not manage to adequately prevent or uncover fraud⁹.

In response to these and other findings, the Secretariat embarked, in early 2010, on a Reform Agenda for a More Effective and Efficient Global Fund¹⁰, large parts of which focus on improving the Global Fund's approach to risk and fraud. Additional measures have recently been added to the reform agenda in order to further reduce risks of misuse of funds.

THE GLOBAL FUND'S REFORM AGENDA

The reform agenda includes four areas directly relevant to fraud prevention: Enhanced effectiveness of Local Fund Agents, strengthened role for Country Coordinating Mechanisms, enhanced attention to quality assurance and accelerated implementation of the Country Team Approach.

The reform agenda is a comprehensive set of reforms across a broad range of Global Fund systems, instruments, structures and operations all aimed at further increasing the effectiveness and efficiency of the organization. The reform agenda includes four areas directly relevant to fraud prevention:

- Enhanced effectiveness of **Local Fund Agents**: the Global Fund is strengthening the Local Fund Agent scope of work to improve risk management and fraud prevention; enforcing the skill requirements for Local Fund Agent teams; implementing a rigorous and systematic Local Fund Agent performance management system; improving in-country communications (Global Fund, Principal Recipients, Country Coordinating Mechanisms, Local Fund Agent and other partners); leveraging Local Fund Agent expertise to enhance Global Fund policies and processes; and ensuring value-for-money Local Fund Agent services;
- Strengthened role for **Country Coordinating Mechanisms** in grant oversight (including increased transparency and accountability and increased resources) and better management of conflicts of interest for Country Coordinating Mechanism members;

⁹ It should nonetheless be noted that in the case of Mauritania, it is the Local Fund Agent who detected the fraud and informed the Global Fund.

¹⁰ A full outline of which was presented at the 2010 Replenishment meeting in New York and later at the Twenty-second Board Meeting in Sofia in December 2010.

- Enhanced attention to **quality assurance**, through (i) the introduction of a dedicated Quality Unit (April 2011) to ensure consistency of grant-related deliverables, and (ii) through the codification of standard operating procedures capturing best practices in grant management. The first set of standard operating procedures has been finalized, and more than fifty processes will be codified by September 2011;

REFORM AGENDA (CONT.)

- Accelerated implementation of the **Country Team Approach**¹¹, allowing for a better coordination of expertise around grant-management decisions, interactions with recipients, and management of key risks in the programs. With Global Fund staff spending around 150 percent more time on portfolios managed through this new initiative, the Secretariat in mid 2010 moved to reassign 27 staff positions (5 percent of the Secretariat's total workforce) from other units to those involved in country teams. Thirteen country teams were rolled out in October 2010. A further 20 country teams were established in March 2011, with the aim of arriving at country teams for more than 40 countries by June 2011.

In his report on "Lessons Learned from the Inspector General's Country Audits" (March 2011) the Inspector General has identified a series of overarching strategic and operational issues which "would be a good basis for consideration as part of the reform agenda". The description of issues by the Office of the Inspector General is extremely helpful to the Global Fund in addressing needs for improvement at the Secretariat and country levels.

Of particular relevance are the Inspector's General recommendations on "embracing risk management and making it part and parcel of the grant-making process" and on "addressing the risks related to the common high risk areas"; the recommendation to "assess Principal Recipients rigorously and hold them accountable when things go wrong"; that on "strengthening the procurement processes so they always secure value for money"; and recommendations on "considering how Country Coordinating Mechanisms can be made effective in their current form" and on "addressing appropriateness of Local Fund Agent terms of reference and matching the skill set with the terms of reference".

The Inspector General noted that some issues raised are already the subject of Secretariat initiatives – and a large number of recommendations in the Lessons Learned report are indeed currently being implemented by the Secretariat, or in the Secretariat's workplan for implementation over the coming months. On most recommendations, efforts and delivery are being scaled up through the reform agenda.

While some recommendations may require capacity building of Principal Recipients as an intermediate step for lower-capacity implementing countries, and others call for Board-level strategic discussions on the Global Fund's delivery model, the Inspector General's continued involvement alongside the Secretariat, and its input into the reform agenda, will be key to the Global Fund's future success. The Inspector General has suggested that the Secretariat provide a status report on actions relative to these issues the end of September 2011, and the Secretariat will comply with this suggestion.

¹¹ The Country Team brings together the Fund Portfolio Manager and experts from Finance, Legal, Procurement, Monitoring and Evaluation and Partnerships to provide focused support in the resolution of issues and limiting the need for repeated iterations.

NEW RISK-MITIGATION MEASURES

A portion of grant funds will be devoted to assessing and strengthening fiduciary controls in countries.

Based on discussions and consultations with partners over the last few weeks, the Global Fund has announced a number of additional measures aimed at reducing fraud.

During the negotiations of Round 10 grants, the Secretariat will be implementing revised **Principal Recipient internal control policies** (including control over sub-recipients). As a result, a portion of grant funds will be devoted to assessing and strengthening fiduciary controls in countries, instituting special technical assistance programs to support Principal Recipient's with fraud prevention and detection skills, contracting out financial management and procurement functions when the Principal Recipient's capacity is low, and increasing the monitoring of sub-recipients.

The Secretariat is working to improve its **own capacity** in relation to fraud prevention and detection – instituting a Global Fund “SWAT team” to deal with identified misuse (this is part of the current restructuring of the Country Programs cluster) and implementing a Global Fund-wide training program for fraud mitigation and detection for staff, Country Coordinating Mechanisms, and Principal and sub-recipients. The Board also decided, in December 2010, to reinforce the Office of the Inspector General by adding a number of investigators and significantly increasing its budget for 2011.

With the aim of building on the above reforms, the Board's comprehensive reform working group (CRWG) was established at the twenty-second Board meeting in Sofia. Since that time, the CRWG has conducted background research and a series of stakeholder consultations to identify activities that the Board may wish to consider for inclusion in the reform agenda. In addition, the CRWG commissioned McKinsey & Company to conduct further research and supplemental analysis on five selected areas of reform, including fiduciary control and risk management. This work led to recommendations for a number of measures aimed at further strengthening the Global Fund's fiduciary control and risk management framework. The CRWG held a meeting in Paris in April 2011 to review these recommendations and to agree on a final report that will be presented to the Board at its twenty-third meeting in May 2011.

SECTION 5 STRENGTHENING DATA QUALITY

It is of utmost importance that the reported results of the Global Fund can be relied upon. This section describes the Global Fund's approach to data quality.

Global Fund results are based on data reported from programs the organization supports using their monitoring and evaluation systems. These results, having undergone several internal and external checks at each stage of the grant life cycle, are then compared with results from partner systems before they are released twice per year.

The following **checks on grant results data** are undertaken: (1) Assessment of the monitoring and evaluation capacity of recipient at grant signing (2) Verification of the documentation and source of data for each disbursement (on average twice per year) (3) On-site data verification at the point of service delivery once per year in programs (4) In-depth data quality audits on a sample of grants each year.

MONITORING AND EVALUATION SELF-ASSESSMENTS

Since 2006, more than 85 percent (253) of the disease programs supported by the Global Fund have conducted monitoring and evaluation self-assessments at least once.

Progress Update/Disbursement Request (PU/DR) monitoring and evaluation system strengthening measures are followed up by the Secretariat. Monitoring and evaluation gaps and strengthening measures identified through monitoring and evaluation self-assessments, Local Fund Agent assessments of the Principal Recipient, OSDVs, data quality audits, and Inspector General processes are consolidated by the Global Fund monitoring and evaluation officers, agreed by country teams and communicated by the Fund Portfolio Manager to the Principal Recipient (through management letters). Then, as part of the PU/DR, the Principal Recipient provides updates on progress made on implementation of the recommendations/strengthening measures.

The 2009 review of country-level monitoring and evaluation system capacity indicated that 52 percent of Global Fund-supported programs had submitted national monitoring and evaluation plans. This had increased to about 60 percent by 2010.

The *quality* of monitoring and evaluation plans also improved in 2009-2010, from over 57 percent of submitted monitoring and evaluation plans with major gaps (in outlining monitoring and evaluation capacity-building strategies, in setting data quality assurance mechanisms, in planning for evaluation activities, in monitoring and evaluation budgeting or in defining monitoring and evaluation workplans) in 2009 to 40 percent in 2010. This is an encouraging result achieved through closer follow-up by the Global Fund and through technical partners' support in the development of monitoring and evaluation plans at the country level.

REPORTING RESULTS

In addition, data are processed to identify indicators to be excluded from results reporting at the country level. **Checks with partners' results data** are undertaken twice per year before results are released. Data from different partner systems (including WHO, UNAIDS, PEPFAR, UNICEF) are compared country by country, and overlap and issues of concern identified. If there is a data concern in any country data, either externally when reviewed with partners or internally from a data quality audit with a major data quality issue for an indicator, the results are excluded from the release of Global Fund results. A number of criteria are applied at this stage to exclude country data in Global Fund results, which include minimum financial contribution to the country program, overall performance, and data quality issues.

ON-SITE DATA VERIFICATION

During the lifespan of a grant, the Local Fund Agent is required to conduct annual on-site verification of program data for every grant. These assessments target selected output and process indicators, although some outcome indicators are also included. The implementation of on-site data verification (OSDV) in grants is a management performance indicator with an annual target of 85 percent implementation.

Key findings identified during OSDVs and data quality audits and actionable recommendations are forwarded by the Fund Portfolio Manager to the Principal Recipient by means of management letters. At Phase 2, the Country Coordinating Mechanism comments on the progress made on these recommendations. The updated PU/DR will monitor the implementation of these recommendations on a regular basis and will feed in to the monitoring and evaluation country profiles.

Table 1. OSDV Implementation by Year

YEAR	NO OF ELIGIBLE GRANTS	NO OF OSDVS IMPLEMENTED	MANAGEMENT PERFORMANCE INDICATOR
2008	361	97	27%
2009	403	360	84%
2010	395	365	92%

DATA QUALITY AUDITS

The Data Quality Audit (DQA) tool and methodology was developed by the Global Fund in collaboration with WHO, the Office of the United States Global AIDS Coordinator (OGAC), UNAIDS, MEASURE evaluation and other partners. The data quality audit tool and methodology (1) assesses the ability of monitoring and evaluation systems to collect and report quality data and (2) verifies the accuracy of reported data for key indicators at selected sites. On average, 15 to 20 selected grants undergo a data quality audit every year.

The criteria for grant selection for data quality audits are:

- Selection of countries from the Global Fund's "top 20" countries, defined as those with the highest total approved budgets;
- Selection from the list of high-risk countries generated on a regular basis by the Country Programs cluster;
- Any specific grant proposed by the Country Programs cluster that requires a data quality audit.

Forty-one data quality audits have been conducted from the second half of 2008 through the end of 2010. The audit results by year are given in the table below. Two out of the 41 data quality audits indicated major data quality issues.

Table 2. Data Quality Audit Results:

	2008	2009	2010	TOTAL
NO. OF DATA QUALITY AUDITS CONDUCTED	8	17	16	41
NO. OF DATA QUALITY AUDITS WITH NO DATA QUALITY ISSUES	4	6	4	14
NO. OF DATA QUALITY AUDITS WITH MINOR DATA QUALITY ISSUES	4	11	5	20
NO. OF DATA QUALITY AUDITS WITH MAJOR DATA QUALITY ISSUES	0	0	2	02
NO. OF DATA QUALITY AUDITS CURRENTLY BEING FINALIZED	0	0	5	05

The results of data quality audits and on-site verification are also **systematically fed back into grant management** to improve country monitoring and evaluation systems – these are included in management actions, conditions and are also shared with partners. Any serious monitoring and evaluation issues will also automatically affect the performance rating of the grant, and are specifically addressed at program review.

Nevertheless the Global Fund is **committed to monitoring and evaluation systems investments**, acknowledges that there are issues of data quality in country monitoring and evaluation systems, and continues to identify these for improvements with partners in the programs it supports.

SECTION 6 CONCLUSION

It is essential to ensure that the criminal deeds of a few do not undermine the essential support of the Global Fund to the hundreds of organizations and tens of thousands of dedicated people who utilize our funding with efficiency and effectiveness to achieve results.

The Global Fund was set up as an emergency response to fight HIV/AIDS, malaria, and TB. It was to be a lean mechanism capable of rapidly raising and disbursing additional funding through reliance on country systems and a focus on results. Ten years on, the underlying model and principles of the Global Fund continue to be highly relevant to the delivery of health results, and the organization's assurance framework, under constant improvement, is solid.

Risk, however, will remain an inherent part of the Global Fund's business. As the Global Fund continues to apply its six layers of assurance to grants and programs, and as the identified amounts of fraud and misspent funds increase, the Global Fund will continue to earn the trust of its recipients and donors through the proactive and transparent way in which it learns, grows, and improves.

ANNEXES

ANNEX 1: THE GLOBAL FUND'S ESTABLISHED FRAUD-PREVENTION POLICIES

Global Fund systems and processes include six layers of fiduciary assurance:

- 1 Principal Recipient's internal control mechanisms;
- 2 Independent in-country verification and oversight mechanism (Local Fund Agents);
- 3 Annual external independent audit of Principal and sub-recipients;
- 4 Secretariat monitoring of grant implementation (including imposing additional safeguards where risks are deemed to be high);
- 5 Work of the Office of the Inspector General, including audits and investigations;
- 6 Oversight provided by governance organs – the Board and its committees.

Within these layers, Global Fund policies ensure that strong risk management and fraud prevention procedures are enacted every step of the grant life cycle.

Table 3. Global Fund Grant Life Cycle

BOARD <i>Issues Call for Proposal</i>		
COUNTRY COORDINATING MECHANISM <i>Submits proposal to Global Fund, including nominating Principal Recipient for grant</i>		
TECHNICAL REVIEW PANEL <i>Evaluates proposal and recommends to Board</i>		
BOARD <i>Approves funding for first two years of proposal</i>		
LOCAL FUND AGENT <i>Conducts in-depth assessment of Principal Recipient</i>		
GLOBAL FUND SECRETARIAT	<i>Negotiate grant agreement</i>	PRINCIPAL RECIPIENT
<i>With support of</i> LOCAL FUND AGENT		
PRINCIPAL RECIPIENT <i>Implements grant</i>		
LOCAL FUND AGENT <i>Carries out verification of reporting by Principal Recipient</i>		
GLOBAL FUND SECRETARIAT <i>Receives requests for disbursements and instructs trustee to make payments</i>		
WORLD BANK <i>Gives instructions of grant funds</i>		
OFFICE OF THE INSPECTOR GENERAL <i>Provides additional scrutiny</i>		
GLOBAL FUND SECRETARIAT <i>At end of first two years, conducts in-depth evaluation of program</i>		
BOARD <i>Approves funding for Phase 2 of the grant</i>		

PROPOSALS

Proposals are submitted to the Global Fund by Country Coordinating Mechanisms – entities composed of a range of government, civil society, and private sector representatives; they are evaluated by an independent Technical Review Panel reporting directly to the Global Fund Board.

Proposals are thus developed to address countries' specific situations and priorities, and are funded through an objective and independent process.

GRANT NEGOTIATIONS

Following Board approval, Local Fund Agents¹² conduct in-depth capacity assessment of the Principal Recipients that the Country Coordinating Mechanism has nominated to implement the activities funded by the grant. The assessments concentrate on: fiduciary controls; program management capacity; pharmaceuticals and product managements; monitoring and evaluation systems; and the management of sub-recipients.

The process of grant negotiations (lasting approximately eight to ten months) is led by the Global Fund with support from Local Fund Agents; it includes in-depth reviews of proposed budgets, indicators, and expected results, and careful assessments of processes at Principal Recipient and sub-recipient levels to adequately manage funds and programs.

For countries where governance factors are considered to pose particular risks, the Executive Director can impose a policy of additional safeguards. These countries are subject to extraordinary controls and restrictions, including the Global Fund approving sub-recipients, additional reporting requirements, and, in some cases, a no-cash policy, which prohibits in-advance cash transfers to sub-recipients that pose a particular risk (such as government entities in authoritarian regimes).

GRANT MANAGEMENT

Once a grant has been signed, Local Fund Agents conduct regular (three- or six-monthly) financial and programmatic verifications which inform Secretariat funding decisions, and alert the Secretariat to risks, including, for example, risks related to weak fiduciary controls or unusual spending patterns.

Local Fund Agents are in turn evaluated by the Secretariat on an ongoing basis through a Performance Evaluation Tool, and every two years through a mid-term evaluation; they are strengthened or replaced when performance is sub-standard¹³.

Work in the Secretariat is coordinated by a Fund Portfolio Manager working with a team of *finance, procurement, legal* and *monitoring* experts to analyze performance and make informed grant management decisions.

Disbursements take place on a pre-agreed schedule – but only if the program is reaching predefined objectives. In line with its performance-based funding principles, in 2010-2011 the Global Fund has disbursed, on average, 88 percent of the amount requested by Principal Recipients¹⁴; in a significant number of cases (18 percent of the total), the Global Fund disbursed half or less of the requested amount – usually because of poor grant performance, low absorption capacity or risk mitigation. In 2010, more than 25 percent of regular disbursements¹⁵ experienced delays longer than a week – usually because critical documents (including audit reports) were not provided by the Principal Recipient, or because of further requests for clarifications.

¹² Local Fund Agents provide independent and objective advice that enables the Global Fund to make quality and timely decisions. There are currently nine Local Fund Agent organizations (including audit and consulting organizations, a non-profit institute and an UN organization) with 131 in-country teams.

¹³ Local Fund Agents have been replaced in 11 countries in the last two years, and a further ten put on performance improvement plans in 2010 (effectively put on notice).

¹⁴ Based on a sample of 989 disbursements with complete data in the system

¹⁵ i.e. 135 disbursements out of 502 "regular" disbursements defined as non-split, non-emergency disbursements with ratings A1, A2 or B1

GRANT MANAGEMENT (CONT.)

Principal Recipients are responsible for the oversight of sub-recipients, and this oversight is scrutinized by the Local Fund Agent and the Secretariat on a systematic basis. In high-risk countries – and in other countries if the Secretariat deems it appropriate – Local Fund Agents see their mandate extended to scrutinizing sub-recipients.

Principal Recipients and sub-recipients are subjected to annual audits conducted by independent national auditing agencies (separate from the Local Fund Agents).

ADDITIONAL SCRUTINY

All grants are subjected to annual on-site data verification exercises, in which sample results reported by Principal Recipients are confirmed through physical checks by the Local Fund Agent.

On the request of the Global Fund, Local Fund Agents undertake additional verification and assessment work throughout the grant lifecycle tailored to the risks in the program, Principal Recipient and country contexts.

Every year, 20 countries are selected by the Secretariat to undergo in-depth data quality audits through which the Global Fund tests country-wide monitoring and reporting systems.

Finally, the Office of the Inspector General (introduced in 2005) undertakes independent audits and investigations. To date, the Inspector General has completed – or is conducting – audits or investigations in 33 of the 145 countries where the Global Fund has grants. The Inspector General executes a number of scheduled audits every year in addition to investigations based on information about possible wrongdoing. In addition, the Inspector General in 2011 has planned a number of “diagnostic audits” (lighter reviews at the country level aimed at establishing whether grant management by the Principal or sub-recipients presents high risks of fraud). Audits and investigations by the Office of the Inspector General are comprehensive and resource-demanding, with teams of up to 30 auditors working for weeks in countries to go through documentation of grants.

Any detection of suspected or confirmed fraud through the mechanisms described above is immediately communicated to the Global Fund’s Inspector General. Additionally, the Inspector General’s whistle-blower policy allows any person observing irregularities to approach the Inspector General’s office anonymously via mail or phone.

ANNEX 2: GLOBAL FUND'S FOLLOW-UP ON OFFICE OF THE INSPECTOR GENERAL'S RECOMMENDATIONS

Starting 14 December 2010 the Office of the Inspector General carried out a validation exercise for all recommendations that were reported by the Secretariat during the Finance and Audit Committee meeting held on 19 September 2010. This high-level review was initiated by the Secretariat to ensure that going forward recommendations that have been agreed with the Office of the Inspector General as fully implemented can be finalized and taken out of the tracking process as Inspector General issues additional recommendations. The Secretariat facilitated meetings across different clusters and provided supporting documents to enable the auditors to make judgement whether actions had been undertaken as planned.

The attached tables provide a summary of the updated implementation status of all Inspector General recommendations.

In addition the Secretariat was also following up on the reports for Tanzania and Uganda programs. These were not reviewed by the Inspector General; nonetheless, the Secretariat would like to report progress and the table below provides the summary.

	FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NO. OF RECOMMENDATIONS
REVIEW OF GRANT APPLICATION PROCESSES	19	8	1	28
REVIEW OF PROCUREMENT AND SUPPLY MANAGEMENT	7	10	-	17
CONGO (DEMOCRATIC REPUBLIC) COUNTRY AUDIT	22	27	1	50
LESSONS LEARNED FROM THE COUNTRY AUDITS	2	19	1	22
PHILIPPINES COUNTRY AUDIT	45	5	6	56
PROCUREMENT AND SUPPLY MANAGEMENT AND SERVICE DELIVERY - INDIA	26	46	-	72
REVIEW OF LOCAL FUND AGENT TENDERING PROCESS	16	-	1	17
REVIEW OF PRINCIPAL RECIPIENT AUDIT ARRANGEMENTS	37	-	-	37
REVIEW OF SUSPENSION AND TERMINATION PROCESSES	15	22	-	37
SIERRA LEONE COUNTRY AUDIT	11	3	1	15
TANZANIA COUNTRY AUDIT	33	26	7	66
UGANDA FOLLOW-UP AUDIT	-	13	2	15
TOTAL	233	199	20	432

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TUBERCULOSIS AND MALARIA**

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