



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

COMPREHENSIVE ACCOUNT OF THE REPORTS RELATED TO THE CREDIT SUISSE ACCOUNT

Introduction by the Chair of the Board of The Global Fund to Fight AIDS, Tuberculosis and Malaria

At its 15th Board meeting in April 2007, the Board requested the Interim Inspector General to prepare a Comprehensive Account of the content of four documents:

- a report issued by the Office of the Inspector General pertaining to the use of a Global Fund bank account (“the OIG Report”);
- the management response to the OIG Report (“the Management Response”);
- the Board-commissioned independent analysis of these two documents (“the ORNA Report”); and
- the Board-commissioned independent review of the OIG, including the effectiveness of the function of the OIG and the performance of the former Inspector General (“the Deloitte Report”).

The intention of the Board in commissioning the Comprehensive Account is that it will be released publicly to satisfy the Global Fund’s commitment to transparency. The document that follows is the Comprehensive Account prepared by the Interim Inspector General in response to the Board’s request, key aspects of which are summarized as follows:

As part of its commitment to transparency and accountability, the Global Fund established in December 2005 an Office of the Inspector General (“OIG”). During 2006, the Inspector General delivered in total five reports. One of these reports had as its subject the use of a Global Fund bank account with Credit Suisse in Geneva. (*paragraph 2*)

This bank account is operated by the Secretariat for expenses that are not processed within the remit of the Administrative Service Agreement with the World Health Organization under which administrative expenses of the Global Fund are generally processed and paid. The account is governed by bank account procedures established by the Board in June 2004 and is used to pay for office rent and other expenses that altogether make up less than 0.1% of the Global Fund’s total expenditure. (*pp.3-6*)

The OIG Report regarding the use of the Credit Suisse account was delivered to the Global Fund’s Executive Director, the Board’s Chair and Vice-Chair and the Chair of its Finance and Audit Committee in August 2006. The report questioned the legitimacy of some payments from the bank account and whether all payments had been made in accordance with WHO and Global Fund policies and procedures. It proposed 18 recommendations regarding the administration and use of the Credit Suisse account. (*pp.7, 12 – 72*)

The Global Fund Secretariat submitted separately a detailed Management Response to the OIG Report in January 2007. In its response, the management expressed its agreement with many of the Inspector General’s general recommendations for strengthening oversight, and clarified that some of these recommendations had already been or would be acted on.

However, the management expressed concern that many of the findings throughout the OIG Report and many statements in the executive summary of the Report were inaccurate or presented in a manner that could be potentially ambiguous.

The Management Response maintained that all transactions of the Credit Suisse account complied with the Global Fund’s bank account procedures, and that those procedures

explicitly provided for specified transactions to be processed other than through WHO. (pp.7, 17 – 72)

Following the submission of the OIG Report and the Management Response that expressed disagreement with elements of the OIG Report, the Board in February 2007 requested the Interim Inspector General to commission an independent review of the OIG report. This review was conducted by ORNA Corporate Integrity AG (“the ORNA Report”). (p.8)

Separately, in November 2006, the Board commissioned an independent review of the Office of the Inspector General, and of issues raised by both the Inspector General and Secretariat management regarding the functioning of their mutual interaction. This review was carried out by Deloitte and Touche LLP (“the Deloitte Report”). (p. 9)

The ORNA Report states that no fraud or misappropriation of funds had been revealed and that several of the transactions from the Credit Suisse account regarding which the OIG Report had raised concern were adequately addressed by the information provided by the Secretariat, for example regarding hospitality, gifts and transportation. The ORNA Report concluded that these payments were appropriate and reasonable, and further concluded that the management’s response to the OIG’s recommendations was appropriate. (pp.73 – 79)

The Deloitte Report on the OIG has not been described in detail in this Comprehensive Account as it contains personnel-related information which under WHO rules must remain confidential. In its recommendations, the Deloitte Report urged:

- a more precise definition of the OIG’s remit;
- a clear separation between the four main responsibilities the OIG is charged with (namely internal audit, inspection, counter-fraud and fraud investigation);
- the OIG to set up clear rules of engagement and working protocols; and
- the OIG to prioritize its work according to a risk-based plan, where the oversight of grant-related matters (which make up 95% of the Global Fund’s expenditure) would take prominence.

The Deloitte Report also recommended that OIG’s audit processes should be reviewed and redefined to ensure the highest technical quality, including rigorous processes for gathering, recording and evaluating evidence, verification of factual accuracy, and quality control of its reports and other deliverables. (pp.80 – 97)

The Global Fund Board is in the process of putting in place measures to address the recommendations of the Deloitte Report and to recruit a new Inspector General. The former Inspector General resigned effective 30 January 2007. In the interim, the Director of the WHO Office of Internal Oversight, Kenneth Langford, has been acting as Interim Inspector General since 8 February 2007.

With the publication of this Comprehensive Account of the documents pertaining to the OIG Report on the Credit Suisse account, I am satisfied that the process is now complete. I would like to see the lessons learned from this experience reflected in the current work to recruit an Inspector General and to ensure a smooth and effective working relationship between the OIG, the Secretariat and the Board so that the OIG can fully carry out its mandate and optimally serve the organization in the future.

New York, 11 June, 2007

Rajat Gupta
Chair of the Board
The Global Fund to Fight AIDS, Tuberculosis and Malaria



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Office of the Inspector General

**COMPREHENSIVE ACCOUNT OF THE REPORTS RELATED TO
THE CREDIT SUISSE ACCOUNT**

31 May 2007

**COMPREHENSIVE ACCOUNT OF THE REPORTS RELATED TO
THE CREDIT SUISSE ACCOUNT**

31 May 2007

Prepared by:

Mr Eelco Szabó

Table of Contents

	<u>Page</u>
A. Introduction	1
B. Background	1
C. The Reports	4
C.1 OIG Audit Report	4
C.2 Management's Comments on the OIG Report	5
Management of the Crédit Suisse Account	6
Delegation of Authority	8
Agreement with WHO for Exceptions	9
Credit Card Transactions	10
Petty Cash Transactions	12
Ex-Gratia Payments	14
Additional Expenses and "Benefits"	15
Advances to Staff Members	16
Relocation Services	17
Receipt of Funds	18
Internal Controls	19
C.3 Independent Review of the Report on the Crédit Suisse Account Transactions	20
C.4 Independent Review of the Office of the Inspector General	22
<u>Annexes:</u>	
I. Procedures for the Operation of the Global Fund Bank Accounts	28
II. Decision Point GF/B15/DP21	30
III. Activity in Crédit Suisse Account	31
IV. Guidelines Governing the Use of the Global Fund Credit Cards	32
V. Decision Point GF/SB1/DP6	34
VI. Charter, Office of Inspector General	35

A. Introduction

1. The Global Fund to Fight AIDS, Tuberculosis and Malaria ("the Global Fund" or "the Fund") was established in 2002 to attract, manage and disburse large amounts of additional financing to support locally-driven strategies to combat the three pandemics. By the end of January 2007, the Global Fund approved a total of US\$ 7 billion to over 450 grants in 136 countries. Of that amount, US\$ 3.3 billion has been disbursed to public and private recipients in 130 countries. A total of US\$ 9.8 billion has been pledged and/or donated through 2008 to the Global Fund.

2. In view of the considerable amounts involved in the Global Fund's programmes and operations, transparency and accountability were among the important principles upon which the Fund was founded and that guide all of its operations. Accordingly, the Global Fund continuously aims to ensure transparency and accountability in its programmes and operations. As part of this commitment, the Global Fund established the Office of the Inspector General (OIG) and, in the course of its existence, has commissioned independent experts to advise the Fund on enhancing the accountability and transparency of its operations. These efforts have resulted in several reports, and the findings and conclusions of four of these reports relating to the Fund's administrative operations are described below. The present comprehensive account of these reports testifies to the Global Fund's continuing efforts to ensure the integrity and effectiveness of its programmes and operations, and serves to assist in identifying approaches to further guide the Fund's endeavors in these areas.

B. Background

3. The Global Fund is an independent foundation organized and operating under the laws of Switzerland. While the Global Fund is a separate legal entity from the World Health Organization (WHO), under an Administrative Services Agreement (ASA) between the two entities, WHO provides administrative services to the Global Fund and employs staff to carry out the programmes of the Global Fund (known collectively as the "Fund Secretariat").

4. All of the Global Fund's grant-making transactions are conducted through its Trust Account at the World Bank ("Trustee"). At the relevant times, almost all of the Fund's

administrative expenses were paid through WHO in accordance with the ASA. Only those few operating expenses that were not processed by WHO were paid through the Global Fund's bank account with Crédit Suisse in Geneva ("Crédit Suisse Account" or "the Account"), which was set up in late 2002. The Account comprises several sub-accounts in Swiss Francs and United States dollars. One of these sub-accounts was solely for the purpose of holding the foundation capital of CHF 50 000 in accordance with the legal requirements under which the Global Fund was established as a Swiss foundation. The other sub-accounts were used to pay for the aforementioned limited number of goods and services that were not acquired via WHO and to receive contributions towards operating expenses and minor receipts.

5. In June 2004, the Monitoring, Evaluation, Finance and Audit Committee of the Global Fund's Board (MEFA)¹ adopted Procedures for the Operation of Global Fund Bank Accounts (**Annex I**), which provides guidelines for the use of the Crédit Suisse Account. According to these Procedures, the purpose of the Crédit Suisse Account included making "payments for valid expenses of the Fund in any of the following circumstances:

- Where the Fund needs to acquire goods or services with an urgency that is not met by WHO purchasing and payment processing cycle;
- Where the Fund needs to acquire goods or services that cannot be acquired via WHO or which can be acquired by the Fund on more advantageous terms than via WHO;
- Where a necessary expense of the Fund is not catered for by WHO practices;
- Where a reimbursable advance payment is necessary to meet a need of the Fund or to alleviate difficulties for new staff pending payment by WHO."

6. In July 2005, the Global Fund's Board of Directors ("the Board") approved the terms of reference and establishment of the OIG. The OIG was established to provide the Global Fund with independent and objective oversight in order to ensure the integrity and effectiveness of its programmes and operations. OIG operates as an independent unit and

¹ The MEFA was later known and referred to as the Finance & Audit Committee ("FAC").

reports directly to the Board. It became operational in December 2005. In addition, OIG is responsible for oversight of activities of the Fund Secretariat under the oversight of WHO.

7. On 7 August 2006, OIG submitted an audit report to the Global Fund's Executive Director regarding the use of the Crédit Suisse Account. By memorandum of 9 January 2007, the Global Fund's Secretariat provided its comments on OIG's audit report.

8. In its First Special Meeting held on 8 and 9 February 2007, the Board, *inter alia*, requested that the Inspector General *ad interim* "conduct an independent analysis of the remaining issues raised by [OIG's] report and the Secretariat response." ORNA Corporate Integrity AG was retained for this purpose and it submitted its Independent Review of the Report on the Crédit Suisse Bank Account Transactions at the Global Fund on 24 April 2007.

9. The Board oversees the operations of OIG. As part of that responsibility, at the end of 2006, the Board had commissioned an independent review on OIG's performance to date, how and where OIG might better meet the needs of its stakeholders, and issues that had been raised both by OIG and the Secretariat regarding their cooperation. On 16 February 2007, Deloitte & Touche LLP submitted its Review of the Office of the Inspector General.

10. During the Fifteenth Board Meeting on 26 April 2007, the Board requested the Inspector General *ad interim*² to prepare a comprehensive account of the findings and recommendations of the Deloitte Report, the OIG Report, the Secretariat's Response and the ORNA Report (**Annex II**). The remainder of this report provides the full account of the four reports. OIG's audit report and the Secretariat's comments thereon are presented together.

11. This comprehensive account reflects the contents of the four reports as prepared by the different authors at the time and does not necessarily represent the current views or position of the Inspector General *ad interim*, or the Global Fund Board.

² The resignation of the first incumbent of the position of Inspector General had become effective at the end of January 2007.

C. The Reports

C.1 OIG Audit Report

C.2 Management's Comments on the OIG Report

OIG Audit Report - General

12. On 7 August 2006, OIG submitted an audit report to the Executive Director, Global Fund setting out its findings and recommendations regarding the administration and use of the Crédit Suisse Account. The confidential audit report was also provided to the Chair and Vice Chair of the Board, the Chair of the FAC and the Chief Financial Officer. The audit report was part of OIG's planned audit activities for 2006.

13. Several objectives were underlying OIG's audit of the Crédit Suisse Account. First, OIG wished to assess whether the policies, procedures and processes (including the internal control mechanisms) in place for the Crédit Suisse Account were adequate. Second, OIG ventured to assess whether the payments made from the Crédit Suisse Account fell within the existing policies and procedures and were appropriately made. Finally, OIG wished to determine whether receipts into the account were properly monitored and reported to the FAC, as well as whether the reporting to the FAC relating to the transactions to and from the Account was adequate for the FAC's oversight role.

14. OIG's audit report examined transactions from the Crédit Suisse Account from 1 January 2004 to 31 March 2006 (**Annex III**). OIG identified 10% of the total number of transactions for its examination. The examined transactions covered approximately 35% of the total value of the activities of the Account, excluding several large transactions such as the payment of office rent.

15. In assessing the transactions made from the Crédit Suisse Account, OIG considered several potential risks, which, in its view, could result in case such transactions were found not to be in full compliance with the relevant policies and procedures. According to OIG, funds entrusted to the Global Fund ought to be adequately controlled to ensure continuing donor confidence. To safeguard donors' confidence, expenses should also be necessary and proportionate. Furthermore, the Fund's financial position could be exposed if the payments

made did not comply with the pertinent policies and procedures. OIG also considered that if Global Fund staff were to receive benefits or payments outside WHO Rules and Regulations, this could set an undesirable precedent and lead to a perception of inequality, which could affect staff morale and performance. Finally, OIG believed that if the Board had not approved receipt or use of funds on the Account this could have a negative impact on the Global Fund's special status.

16. The findings, conclusions and recommendations in the OIG audit report were divided into several sections, which are described further below. On the basis of these findings, OIG made 18 recommendations regarding the administration and use of the Crédit Suisse account.

Management's Comments on the OIG Report - General

17. In a memorandum dated 9 January 2007, the Global Fund's Management provided its comments on the OIG audit report regarding the Crédit Suisse Account transactions. The memorandum was divided into three parts: (a) overall comments on the OIG report; (b) comments on the report's executive summary; and (c) comments on the findings, conclusions and recommendations.

18. Management first recalled that 95% of the Global Fund's expenditure is made up of grants and that almost all of its operating expenses are paid through WHO, including the employment of all of Global Fund's staff. Only those operating expenses that are not processed by WHO are paid through the Crédit Suisse Account, making up less than 0.1% of the Global Fund's expenditure. Management noted that since 2005 the Global Fund had leased its own office premises the payments for which account for the majority of the amount paid from the Crédit Suisse Account. Apart from lease expenses, payments from the Crédit Suisse Account have consistently remained at 0.05% of the Global Fund's total expenditure.

19. Management believed that the transactions from the Crédit Suisse Account and the reports on those as periodically transmitted to the FAC complied with the terms of the Global Fund Bank Account Procedures. Management pointed to what it saw as a potential conflict between the status of the Fund Secretariat as WHO employees and the management of the Global Fund's own resources, such as the funds in the Crédit Suisse

Account, in the best interest of the Global Fund. According to Management, this potential for conflicting interests ought to be fully considered when assessing payments made, ostensibly in the Global Fund's interest, from the Account pursuant to the Global Fund Bank Account Procedures. It was reiterated that all payments made from the Account complied with those Procedures.

20. Management ended its introductory remarks by stressing the need for a complete contextual background in assessing the conclusions and recommendations contained in the OIG audit report.

21. In the next section of Management's memorandum, it provided comments on the OIG audit report's executive summary. As a general matter, it was observed that many of OIG's statements in the executive summary were incomplete or were presented in such a manner that they could be potentially ambiguous, and therefore unnecessarily pose a risk to the Global Fund's reputation. Management also commented on individual statements from OIG's executive summary. Those comments are largely repeated in the next section of Management's memorandum addressing specific OIG findings, conclusions and recommendations, and will be reflected below. To the extent that a comment on the audit report's executive summary was not repeated in the substantive part of the report, this account will reflect it in the relevant section below.

Management of the Crédit Suisse Account

OIG Report

22. OIG first examined the management and internal oversight of the Crédit Suisse Account. The MEFA approved procedures for the operation of the Account provided that the Secretariat would present to MEFA (now FAC) a "summary of transactions" on the Account for each half-year (**Annex I, Section 7**). OIG reviewed several reports that had been submitted to the FAC and found that these reports reflected a listing of categories of payments made. OIG questioned whether such half-yearly reports to FAC were sufficiently detailed for it to exercise its oversight mandate. OIG also found that it would have been helpful for FAC to have had received a report setting out the reasons for the increase of payments from the Account over the years. Such an analysis would have assisted FAC's evaluation of the existing policies and procedures. OIG also referred to the draft guidelines

intended to supplement the existing procedures for the use of the Account. As an aside, OIG observed that payments from the Crédit Suisse Account were often made after the liabilities had already been incurred, which posed challenges to the internal control mechanisms in place.

23. On the basis of the findings set out above, OIG made two recommendations. OIG suggested that the Chief Finance Officer, in consultation with the FAC, develop a reporting format providing more details of the type of payments made from the Crédit Suisse Account and reasons as to why the payments could not be made through WHO. In its second recommendation, OIG proposed circumstances to be taken into account when developing guidelines for the use of the Account, including the present needs of the Secretariat, WHO Rules, the authority of the Executive Director and the desired type and level of expenditures.

Management's Comments

24. With respect to OIG's recommendation that the Secretariat develop a reporting format for transactions from the Crédit Suisse Account, which would disclose more details regarding those transactions, Management pointed out that in September 2006, when it provided the FAC with a list of all payments from the Account for the first six months of 2006, OIG had observed that such a list was too detailed. Management took exception to the implication in the recommendation that reporting regarding the Crédit Suisse Account had not been sufficiently transparent. It was also pointed out that the Secretariat is working with WHO to determine which payments, if any, then being made from the Account could be entrusted to WHO for payment.

25. Management agreed with OIG's recommendation regarding the procedures and guidelines to be developed for the use of the Crédit Suisse Account and indicated that action in this respect was already well advanced. In September 2006, the FAC had finalized policies that the Secretariat had drafted. The FAC had considered that a Board decision on those policies would be taken once the Board has decided on the future administrative arrangements of the Global Fund. In the meantime, the Secretariat would discuss the draft policies with WHO, for the FAC to make a considered decision as to whether to present the policies for the Board's consideration.

26. With respect to OIG's findings and conclusions on the management of the Crédit Suisse Account, Management commented that all payments from the Account were valid expenses of the Global Fund, in that they were incurred in furtherance of the business of the Global Fund, and were reasonable and in compliance with the Global Fund Bank Account Procedures. Accordingly, Management did not consider many of the payments a risk to the Global Fund, as OIG had done. Management also pointed out that the main reason for the increase in the amounts paid from the Account on a yearly basis was the fact that the Global Fund started paying the rent for its office premises from the Account in 2005.

Delegation of Authority

OIG Report

27. OIG next examined the delegation of authority to the Global Fund's Executive Director. This section commenced with an overview of the delegations of authority from the Director General, WHO to the Executive Director, Global Fund pertaining to the Crédit Suisse Account. The MEFA approved procedures on the Crédit Suisse Account determine that a Head of the Team or Director may approve payments from the Account and that the signatories authorized to certify payment instructions to the bank will be nominated by the Executive Director from the Executive Management Team (**Annex I, Sections 4 and 5**). The Executive Director, Global Fund designated his Deputy, two Directors and the Chief Financial Officer as signatories for the Account. OIG described how the Executive Director re-delegated the authority to raise obligations and certify payments to various individuals within the Secretariat. However, OIG questioned how the re-delegation of authority to raise obligations applied to the transactions from the Crédit Suisse Account, which were often processed as expenses after the obligations had been incurred. OIG concluded that the delegation of authority from the Director-General of WHO to the Executive Director of the Global Fund did not cover many of the payments made through the Crédit Suisse Account.

28. On the basis of the above, OIG recommended that the Secretariat finalize procedures for signing authorities, taking into account the internal controls necessary for proper accountability of the payments made from the Crédit Suisse Account.

Management's Comments

29. Management agreed with OIG's recommendation that a procedure on signing authorities ought to be finalized and indicated that it had prepared a draft to this effect and solicited OIG's comments thereon, but received no formal response apart from OIG's observations in the audit report. Management indicated that it would now finalize and implement the signing authorities procedure.

30. In connection with OIG's findings and conclusions on the delegation of authority, Management first pointed out that payments made from the Crédit Suisse Account did not create liabilities against WHO's resources. Accordingly, the WHO rule referred to by OIG to the effect that obligations needed to be raised before creating a liability would not apply to payments effectuated from the Account. In addition, Management indicated that most transactions were processed before any liability had arisen for the Global Fund. In this connection, Management also mentioned that the proposed Guidelines for Activities Paid from Global Fund Bank Accounts set out the approval process for various transactions specifying the controls taking place before the liability would be incurred (and prior to payment).

Agreement with WHO for Exceptions

OIG Report

31. OIG proceeded to examine the issue as to whether the Secretariat could effectuate payments from the Crédit Suisse Account without seeking the agreement from WHO. In this section of the report, OIG indicated that in relation to several payments from the Account, the Secretariat had taken the position that transactions not relating to resources or services of WHO would not have to be preceded by a request to WHO for an exception to its rules. In OIG's view, this position did not fully appreciate the limited nature of the delegation of authority to the Fund. In addition, OIG pointed out that, theoretically, this line of reasoning could be applied to any payment in order to avoid the limitations of WHO Rules. OIG further identified seven transactions from the Crédit Suisse Account it believed to have been outside the purview of WHO Rules.

32. OIG recommended that the Secretariat devise steps for taking appropriate action in connection with the payments it believed to fall outside WHO Rules. OIG further recommended that the Secretariat review the categories of payment made through the Crédit Suisse Account, identify those that require WHO agreement and develop a process, including proper recording that would ensure agreement before liabilities are incurred.

Management's Comments

33. In the context of this issue, Management first turned to the recommendation that appropriate action be taken for seven payments made outside of WHO Rules and repeated that the payments at issue were made from Global Fund resources in compliance with the Global Fund Bank Account Procedures. Management indicated that corrective action to prevent occurrence was being taken. Equally, Management agreed with OIG's recommendation to review payments from the Account and identify those that require agreement from WHO and develop a process that would ensure agreement before liabilities are entered into and indicated that the recommended action had already been initiated.

Credit Card Transactions

OIG Report

34. In the next section of the audit report, OIG reviewed the use of credit cards provided by the Global Fund to several of its staff members. A procedure stating the circumstances under which such a credit card could be used was issued in April 2003. The credit card was intended for "emergency use" on Global Fund business, so that the user would not have to resort to the use of personal credit cards or other personal resources. The costs covered included those allowed under WHO Rules but which could not be processed in time or, in exceptional circumstances, for costs not provided for under WHO Rules but for which prior approval had been obtained from the Executive Director or Chief Operating Officer.

35. In February 2006, the FAC adopted Guidelines Governing the Use of Global Fund Credit Cards ("the Guidelines") (**Annex IV**). Under the Guidelines, the use of credit cards would be restricted to valid expenses of the Fund in any of the following circumstances: (a) where the Fund needs to acquire goods or services with an urgency that cannot be met by WHO's purchasing and payment processing cycle; (b) where the Fund needs to acquire

goods or services that cannot be acquired via WHO or which the Fund can acquire at more advantageous terms than via WHO; and (c) where a necessary expense of the Fund is not catered for by WHO practices.

36. For the credit card transactions reviewed by OIG (up to March 2006), the individual cardholders would directly receive their monthly statements. They would then provide documentation to support the business purpose and submit the package for approval and payment. According to OIG, the level of supporting documentation varied between the different cardholders.

37. OIG reviewed the billings of credit card transactions of three of the four cardholders. The type of expenses for which the credit cards were used varied from user to user. OIG believed that many of the transactions reviewed neither fell within the scope of the applicable WHO Rules nor met the conditions set out in the Guidelines. Specific expenses referred to in OIG's audit report often related to hospitality and similar costs, limousine services, gifts and travel costs.

38. In connection with the use of credit cards, OIG recommended that the FAC develop a policy for Board approval on the type and level of expenses appropriate for hospitality, limousine services, attendance by staff and spouses at working dinners, etc. Such a policy should consider the best practices for public organizations and take into account the character of the Fund. OIG suggested that pending the development of such a policy, WHO Rules would apply.

Management's Comments

39. Management agreed with OIG's recommendation that a policy be developed setting out the type and level of expenses appropriate for hospitality, limousine services, gifts, etc., and referred to its earlier comments that such a policy was being prepared and awaiting Board approval subsequent to pending discussions with WHO.

40. With respect to the individual credit card payments OIG had concluded that most had been related to hospitality and similar costs, limousine services, gifts and travel costs and had questioned their propriety. In its comments, Management indicated that OIG's rendition of the credit card payments was not always accurate. Management provided details

regarding payments to clarify or correct the information presented in OIG's audit report. For example, Management provided clarification from its files for transactions that OIG had categorized as having "no details." Management's comments were generally aimed to demonstrate that the great majority of the credit card payments were valid business expenses for the Fund and that all were in the Fund's best interest.

41. Management also drew attention to the Guidelines Governing the Use of Global Fund Credit Cards that it issued in February 2006, which had been appended to OIG's audit report. Management pointed out that the audit report did not mention that these Guidelines identified, amongst others, the format of and timelines for reporting of credit card use.

Petty Cash Transactions

OIG Report

42. With respect to petty cash disbursements, OIG first observed that from 2005 onwards the account for small value transactions was replenished from the Crédit Suisse Account, whereas before that time it was done through WHO. A staff member from the Administration Section was responsible for the petty cash fund but was not formally designated as its custodian.

43. OIG's review of selected petty cash transactions revealed that, in the absence of a policy or procedure on the purpose of petty cash payments, some Directors used liberal discretion and approved a wide-range of payments. OIG referred to several petty cash transactions related to office catering, including working lunches, transportation costs and other costs, including petrol for a leased vehicle.

44. OIG noted that the Finance Section had recently started carrying out periodic cash counts and observed that small differences were found each month, which were recorded as "difference booked to accounts." OIG further observed that some transactions were approved on the basis of copies of original receipts.

45. OIG emphasized that, regardless of the amount involved, petty cash disbursements should be made only for appropriate activities and applied fairly and equitably. Proper internal controls and a commensurate institutional culture would benefit the Global Fund's image. It was further noted that the petty cash practice as it existed placed a burden on the custodian to make payments against approved requests in the absence of specific rules to be applied in cases where the request was questionable or where the requests varied upon the different sections.

46. Accordingly, OIG recommended that the Chief Finance Officer establish adequate internal controls to ensure that: (a) payments would be made against original receipts; (b) only predefined valid expenses are paid; (c) differences between the cash and recorded amounts would be properly justified and approved; and (d) personal advances to staff members are not made.

Management's Comments

47. Management next turned to OIG's recommendation that the Secretariat establish adequate internal controls for petty cash payments. It indicated that it would develop a more comprehensive procedure for petty cash that would document and enhance the controls already in place. In connection with OIG's recommendation that petty cash payments against photocopies of original receipts ought to be reviewed, Management indicated that a detailed review had been conducted and that it revealed no use of photocopied documents to support petty cash payments.

48. With respect to the "working lunches" referred to in the OIG audit report, Management observed that, for example, in 2005 the costs for thirty multiple participant lunches amounted to no more than US\$ 1 581. It was also pointed out that the cumulative difference between the cash counts and recorded balances since the petty cash inception amounted to a mere CHF 8.

Ex-Gratia Payments

OIG Report

49. In connection with ex gratia payments,³ OIG noted that seven WHO staff members assigned to the Global Fund were paid US\$ 5 000 as compensation for their loss of back pay due to the delays in the reclassification of their posts. OIG's audit also identified three other ex gratia payments made to staff members and a sub-contractor. According to OIG, these payments did not comply with the procedures as set out in WHO Rules on ex gratia payments. OIG also observed that no prior agreement from WHO was obtained and questioned whether the Executive Director had the delegated authority to effectuate ex gratia payments. OIG also questioned the necessity for the payments at issue.

50. OIG recommended that the Human Resources Manager (a) clarify WHO's position on lump sum payments; and (b) would be accountable to ensure that future payments relating to staff entitlements comply with the relevant rules. It was further recommended that the Chief Financial Officer should ensure that all future ex gratia payments comply with the applicable rules, are disclosed in the financial statements and notified to the auditors.

Management's Comments

51. Management then addressed OIG's recommendation that the Secretariat, in consultation with WHO, addresses the issue of ex gratia payments to staff members. It pointed out that the circumstances leading to payments to eight staff members were unique and not likely to recur and that it would consult with WHO in the unlikely event that such a need would arise. Management also indicated that it would propose to the FAC a procedure for approval of ex-gratia payments.

52. With respect to the payments referred to in the report, Management observed that they were settlements rather than ex-gratia payments. Those payments were made in the early years of the Fund's operations in order to avoid a potentially greater cost and were reasonable and in the Global Fund's best interest. Several staff members suffered a loss as

³ OIG defined an "ex gratia" payment as a payment made without the giver recognizing any liability or legal obligation. Although OIG did not rule out the possibility of such payments, it proposed that strict criteria and a transparent process be applied before granting them.

a result of a delay occurring at the Global Fund and the settlement paid in compensation was far less than the actual loss. Management recognized that in the future it would consult with WHO in similar situations. Management explained that the other payments mentioned in the audit report were settlements made in the Global Fund's best interest.

Additional Expenses and "Benefits"

OIG Report

53. In the course of its audit, OIG found several other payments made to or on behalf of staff members for which OIG did not find a justification and/or which did not comply with WHO Rules in OIG's view. In 2004, a relocation company in Geneva was paid more than CHF 3 000 for a housing study. In December 2005, a payment of approximately CHF 9 000 was effectuated for the benefit of a staff member's external training. According to OIG, this payment exceeded the limit of US\$ 5 000 for such training, which had been adopted in a policy effective November 2005. A business class air ticket between the United States and Geneva had been purchased. OIG believed that this ticket was purchased for the benefit of an intern, who would not normally receive a travel allowance. The Fund donated US\$ 25 000 to an organization, which promoted a concert organized to raise awareness about HIV/AIDS. A staff member whose appointment was accelerated received two return plane tickets to her place of recruitment and two months rent on her flat. Other costs mentioned in the audit report relate to catering, including during staff retreats, and other miscellaneous costs.

54. OIG concluded that these payments fell outside the scope of WHO Rules and encouraged the Secretariat to either adopt policies to establish the level of benefits deemed appropriate for the Global Fund or to follow the relevant WHO Rules. Accordingly, OIG's recommendation in this connection was for the Secretariat to propose a clear policy to the Board on the authority of the Secretariat to make donations.

Management's Comments

55. OIG had recommended that a policy be developed for donations made by the Global Fund. According to Management, this recommendation was related to a payment made to an organization that organized a concert in Norway. That concert gave valuable global

exposure to the Global Fund. Accordingly, the transaction had the characteristic of an exchange of value rather than a donation and Management questioned the need for a policy on donations.

56. With respect to the housing study mentioned in OIG's report, Management explained that it was commissioned by a then Chair of the Board to assess the most cost effective solution for a housing issue facing the Global Fund. Management further explained that the airline ticket paid to an "intern" was made to a highly qualified consultant who offered pro bono services to the Global Fund and who, for administrative purposes, was retained as an intern.

Advances to Staff Members

OIG Report

57. OIG next examined advances paid by the Secretariat to new staff members to accommodate time delays incurred in the processing of their salaries through WHO. New staff members would have to request such advance payments. They would also have to undertake to reimburse the amount to the Crédit Suisse Account "at the earliest date possible." OIG expressed its concerns over the possibilities to ensure recovery of the advance payments and observed that WHO recovers such advances through its payroll system. OIG also reported that it was informed that several advances would likely have to be written off.

58. OIG recommended that the Secretariat ensure that outstanding advances are either promptly repaid or appropriately recommended for write-off in unique circumstances. It also recommended that the Secretariat seek WHO's comments on exceptional hardship cases and write-offs.

Management's Comments

59. Management agreed with OIG's recommendations that outstanding advances to staff members are either promptly repaid or, in unique circumstances, appropriately handled as a write-off and that WHO's views are solicited for difficult cases and write-offs. With the exception of two amounts, all advances were repaid. Efforts continued to recover one of

the exceptions, while the other pertained to a staff member who passed away after long sick leave. Arrangements made with WHO in February 2006 will also greatly reduce the need for advances to staff members.

Relocation Services

OIG Report

60. The next issue addressed in the audit report was a contract between the Global Fund and a Geneva relocation service entered into in December 2003. The contract covered housing assistance, schools search and departure services for staff members. OIG indicated that it was unable to find authority or Board approval for such expenses. While the contract expired in December 2005, according to OIG, the services continued to be used at the time of the audit. The audit review indicated that approximately US\$ 120 000 was paid for relocation services during 2005.

61. The Global Fund had requested the approval from WHO to exceptionally pay such relocation services to its staff members, but WHO had pointed out that the Fund's Executive Director did not have the authority to decide on and implement financial and staffing policies without WHO's agreement if no equivalent policy existed within WHO. OIG noted that the draft Guidelines for the Crédit Suisse Account proposed that relocation services would be offered for staff members recruited outside the area and on a contract of eleven months or more.

62. OIG recommended that the Secretariat: (1) review the needs for home search and departure benefits; (2) seek WHO's approval if the services are to be continued; (3) seek Board approval for additional staff entitlements; (4) ensure that any future contract for such services complies with the financial rules; and (5) justify the needs for the service and propose whether a contract should be tendered for the services (if approved by WHO). It further recommended that the Chief Financial Officer ensure that all future payments are made in compliance with the terms of the contracts.

Management's Comments

63. In connection with OIG's recommendations regarding the relocation services as offered to Global Fund staff members, Management noted that WHO had indicated that it was unable to make an exception to its rules facilitating such benefits. Accordingly, the relocation services had been suspended. Management observed that the relocation services enabled staff members to more quickly and fully focus on their duties for the Global Fund and was therefore cost effective for the Global Fund.

Receipt of Funds

OIG Report

64. OIG then turned its attention to the receipt of funds on the Crédit Suisse Account. According to established procedures, financial contributions to the Global Fund would be received directly into the Trust Fund (held by the World Bank) or the United Nations Foundation. Funds required for the operation of the Crédit Suisse Account would be transferred from the Trust Fund, as needed. Early in the Account's existence, some small contributions had been received directly from various sources. More recently, OIG observed several larger direct contributions deposited directly into the Crédit Suisse Account. Some of these contributions were used for specifically identified activities, which may have been requested by the donors.

65. The audit report emphasized the need for strict internal controls for the receipt of donations as often such donations are not planned, stem from unknown sources and are made out for an unknown amount. OIG observed that no policies or procedures explicitly addressed the issue of extra-budgetary activities financed through special contributions.

66. OIG recommended that after the FAC reviews extra-budgetary contributions and decides on an appropriate policy to recommend to the Board, the Secretariat propose procedures based on the Board's decision (including proper budgetary process, accounting, and donor reporting, if appropriate). It also recommended that the Secretariat inform donors who send contributions to the Crédit Suisse Account of the proper account for remittances.

Management's Comments

67. Management then turned to the issue of receipts of funds into the Crédit Suisse Account and indicated that the Fourteenth Board Meeting had requested the FAC to develop a policy on targeted financial contributions. The Secretariat would fully support that process and implement the resulting Board decisions. OIG had also recommended that donors who had sent contributions to the Account would be informed of the proper account. Management pointed out that the Procedures for the Operation of the Global Fund Bank Accounts states that the Account can also be used "to receive remittances that are not the subject of a contribution agreement with the Trustee" (**Annex I, Section 2b**). Management also indicated that the Secretariat promptly transferred large value contributions from the Account to the Trustee. These contributions could not be paid to the Trustee directly.

68. Management pointed out that it had raised with the FAC (in the March 2006 FAC Meeting) the growth in contributions towards operating expenses, ultimately leading to the Board's recommendation to develop a policy for targeted contributions. During the same meeting, the Secretariat had also explained that all of the contributions received in support of operating expenses were for activities within the approved budget.

Internal Controls

OIG Report

69. The final topic addressed in OIG's audit report related to the proposed strengthening of internal control mechanisms for the transactions made from the Crédit Suisse Account. OIG repeated some of its findings from the audit review. It concluded that the use of the Crédit Suisse Account increased during the examined period and questioned whether many transactions were within the scope of the relevant rules. While OIG acknowledged that the monetary amount involved in the transactions processed through the Account was perhaps not material, it believed that enhanced internal controls and a clear policy on permissible payments would alleviate possible donor sensitivities and enhance the Global Fund's image. OIG encouraged Global Fund Management to take the lead in these efforts.

70. OIG recommended that the Secretariat initiate a review of the existing internal controls, taking into account the findings of the audit report, including the recommendations for policies and procedures, and develop an action plan to strengthen the accountability framework.

Management's Comments

71. OIG's final recommendation suggested that the Secretariat initiate a review of the internal control environment taking the findings of its audit report into consideration. Management drew attention to its actions in this connection as described in its comments. It also suggested that the clarifications and information provided in its comments be taken into consideration and reiterated that all its actions were in accordance with the governing Global Fund policies and procedures, even though some may not have complied with WHO Rules.

72. Management advised that, as a matter of best practice, during 2007 it would initiate a review of the Fund's internal control environment for the purpose of voluntary compliance with requirements introduced in Switzerland for corporations, although not mandatory for foundations.

C.3 Independent Review of the Report on the Crédit Suisse Account Transactions

73. During the First Special Board Meeting held on 8 and 9 February 2007, the Board considered OIG's audit report and the Secretariat's comments thereon. The Board requested the *ad interim* Inspector General "to conduct an independent analysis of the remaining issues raised by the Inspector General's report and the Secretariat response, and advise the Board whether further action is required" (Decision Point GF/SB1/DP6: Crédit Suisse Account, **Annex V**). The Swiss firm, ORNA Corporate Integrity AG ("ORNA"), was commissioned to analyze the Crédit Suisse Account. It also considered OIG's audit report and Management's comments thereon.

74. At the outset, ORNA observed that at the relevant times the Global Fund was a growing organization that was adjusting to changing requirements and that issues that may have been raised with the operation of the Crédit Suisse Account should be seen against

that background. ORNA also indicated that although certain applicable procedures and internal controls may not always have been strictly observed, its analysis did not reveal any fraud or misappropriation.

75. ORNA explained that several of the transactions from the Crédit Suisse Account in connection with which OIG had raised issues were adequately addressed by the information provided in the Secretariat's comments. For example, ORNA found that the Secretariat's comments regarding several transactions for hospitality, gifts and transportation revealed that they were appropriately and reasonably made. As a general matter, ORNA observed that OIG's report had occasionally used single occurrences as a basis for conclusions of a general nature. ORNA saw no basis for the suggestion that the Global Fund Management could have done more in terms of taking the lead in efforts to promote internal controls and accountability.

76. ORNA approvingly acknowledged the Secretariat's reactions to several of OIG's recommendations. ORNA agreed with OIG's criticisms on the use of the Fund's credit cards and appreciated the Secretariat's complete cancellation of the credit card use. On 9 February 2007, the Board issued stringent procedural requirements for the use of the Global Fund Account (**Annex V**). ORNA carefully analyzed the transactions from the Account since the adoption of these requirements. It only found two minor payments that deviated from this procedure and did not find that any cause for concern.

77. In sum, ORNA found that the Secretariat had given appropriate attention where OIG's recommendations warranted such action. However, it believed that the structure and usage of the Crédit Suisse Account must be carefully reviewed. The Account's major purpose at the time of ORNA's review was to pay the rent for the Fund's office premises. ORNA believed it was possible that such rent payments be made through WHO. ORNA suggested that the Secretariat define the precise purposes of maintaining a separate bank account. With that information, the Board should decide on the necessity of the separate bank account and, in the event it is deemed necessary, precisely define the account's structure and for what purposes it should be used.

78. In the context of a housing allowance paid, ORNA suggested that, in the future, the Secretariat secure proper documentation of actual disbursements. Particularly, where agreements define a maximum allowance for costs. ORNA also recommended that the lease

costs for the Global Funds office premises, office infrastructure costs and other office costs be reviewed in the near future through a separate audit.

79. ORNA noted that from time to time funds are transferred from the Crédit Suisse Account to the World Bank (the Trustee), although the actual amount is often reduced by expenses prior to transfer. Notwithstanding the Secretariat's assurances that the funds on the Account are properly handled, ORNA warned that such practices may raise the impression that donations are intermingled with expenses. An ideal system in ORNA's view would be that donations are clearly separated from bank accounts used to pay expenses. Accordingly, ORNA recommended that such risks are carefully considered and that a system be developed which would improve the segregation of donations and expenses.

C.4 Independent Review of the Office of the Inspector General

80. As mentioned above, the Global Fund Board approved the establishment of the OIG in July 2005 and OIG became operational in December 2005. In accordance with the Charter of OIG (**Annex VI**), OIG reports to the Global Fund Board, which in turn oversees the functioning of the OIG. Approximately one year after the OIG had commenced its operations the Board commissioned an outside review of the Global Fund's Office of the Inspector General. Deloitte and Touche LLP, London ("Deloitte") carried out that review.

81. The Deloitte review was divided in three parts. First, Deloitte provided an overview of OIG's performance to date. Second, Deloitte explored how and where OIG might better meet the needs of its stakeholders. Third, Deloitte considered issues that had been raised both by OIG and the Secretariat regarding their cooperation. Finally, Deloitte made several recommendations for further actions intended to strengthen the Global Fund's assurance agreements. Each section will be reflected below. Considering that the first and second part of Deloitte's review are so closely interconnected, this account will address them together. In this connection, it is noted that this account will mainly focus on Deloitte's suggestions for improvements, as they reflect Deloitte's findings regarding OIG's performance up to the date of its review.

OIG's Performance and Possibilities for Improvements

82. Deloitte observed that OIG has a highly challenging mandate as defined in its Charter and terms of reference, which include a combination of the different functions of internal audit, inspection, counter-fraud and fraud investigations. These different functions have differing purposes and require different processes, skills and "rules of engagement" with their stakeholders. According to Deloitte, OIG's mandate as defined in the Charter and terms of reference may be open to different interpretations, which may result in uncertainty about OIG's role and expectations on its output and operating procedures. Deloitte believed that a more precise definition of OIG's remit would alleviate such concerns.

83. In addition, Deloitte pointed out that the Global Fund's operations are inherently challenging and it referred to the complexity of the relationships between the Global Fund Board, Secretariat and WHO as well as other components in the Global Fund's programme structures, which both pose the challenges of OIG's work. Given the complex relationships involved in the Global Fund's activities and the differing perspectives of different participants, Deloitte found it important that the requirements of all stakeholders, particularly donor governments and other donors, are fully understood and the respective roles of executive management, OIG and other review agencies are clearly defined.

84. Deloitte observed that agreed rules of engagement and detailed working protocols form an essential component of the quality framework for any constructive review or oversight function, such as OIG. Deloitte encouraged the further development, between OIG and management, of such working protocols, which would also allow for differences in operational requirements for the different elements of OIG's role: internal audit, inspection, counter-fraud and fraud investigation. Deloitte believed that the development of such working protocols would not undermine the independence of the function or restrict its access. Another factor related to OIG's wide-ranging functions is the need for prioritizing its efforts. Deloitte noted that there had been discussions between OIG and the FAC regarding an agreed work plan for 2006, but found that the priorities could be described in greater detail.

85. Given the scale, complexity and risk profile of the Global Fund's programmes Deloitte would expect that OIG's highest priority would be to provide assurance over the Fund's grants and support for investigations in the case of fraud and abuse in the recipient

organizations. Maintaining stakeholder confidence in the Global Fund's control of its management costs and administrative expenditure was also important in Deloitte's view. However, Deloitte pointed out that these expenses only represented a small proportion of the Global Fund's total spending and it would be expected to represent a limited proportion of its risk. Accordingly, Deloitte suggested the development of a detailed and agreed upon risk-based plan for the provision of independent assurance over the Global Fund's management of its risks. In view of the Global Fund's continuing expansion and development, such a plan should be commensurate with the current stage of the Global Fund's risk management, as well as advising and assisting in this development.

86. Deloitte observed that in accordance with OIG's Charter its reporting line is to the Global Fund's Board as a whole, except for the oversight of the activities of the Fund Secretariat, and not to any of its committees.⁴ In Deloitte's opinion, this reporting arrangement is not likely to prove effective in providing a clear channel for communication and oversight to ensure that the review process operates effectively and management responds appropriately to issues. Deloitte believed that a re-assessment and clear definition is needed of the relationships between OIG, the Board, Secretariat and WHO. In the absence of such a clear definition, OIG's functions may be the subject of uncertainty and mistrust, undermining its ability to provide effective oversight and assurance. In any event, considering the complexity of the relationships between OIG, the Global Fund Board, Secretariat and WHO, Deloitte emphasized the importance of fostering effective working relationships for optimally discharging the demanding role assigned to OIG.

87. Deloitte identified two factors that should be considered in ensuring the effective discharge of internal audit and inspectorate functions. The "technical" factor involved carrying out the work in accordance with professional standards and covered issues such as using appropriate methods, obtaining sufficient evidence, corroborating facts and carrying out proper supervision and quality control of the work. Deloitte suggested that OIG continue to strive for these results and to take a rigorous approach to gathering and evaluating evidence as well as developing a sound process for confirming the factual accuracy of reports.

⁴ Deloitte noted that a key strength of OIG was the high degree of independence with which it had been set up.

88. Deloitte called the other factor the "service quality." This factor was about meeting the needs of stakeholders and covered issues such as delivering an agreed product, following an agreed process and communicating results effectively. According to Deloitte, it may be reasonably expected from an organ charged with audit and investigating responsibilities that it serves the needs of its stakeholders and make a positive contribution to the management of the organization, in terms of adding value and improving the organization's operations. Deloitte understood that OIG recognized the importance of these considerations. However, based on its review, Deloitte was not able to ascertain whether the OIG function was meeting the needs of its stakeholders, particularly representatives of donor and recipient countries and members of the Board.

89. Having compared the level of OIG's resources to its outputs up to the time of the review, Deloitte considered that in the future OIG might be expected to bolster its output. In this connection, Deloitte suggested that the proposed budget for 2007 be carefully considered. Deloitte also suggested that the OIG team consider further strengthening its experience roster in the area of advanced corporate governance practices as well as financial services industry processes and controls.

Issues Raised by OIG and Management

90. Both OIG and the Secretariat management had raised issues pertaining to their cooperation, as well as the role and remit of OIG's function, its reporting lines and methods of operation. Many of these issues were addressed above and Deloitte's suggested improvements will be reflected below. The remaining issues raised by OIG and the Secretariat's management pertained primarily to the relationship between them. While Deloitte may have considered these issues, it is suggested that their observations in this connection fall outside the purpose and scope of this account. Assuming there are any outstanding issues between OIG and the Secretariat's management, these would be best resolved internally so as to foster the continuing development of a constructive relationship.

Recommendations

91. In the section on recommendations, Deloitte suggested further actions to strengthen the Global Fund's assurance arrangements. First, Deloitte recommended that the Global Fund Board obtain further advice to assist it in clarifying OIG's role and mandate and

document an overall assurance framework for the Global Fund. This framework should clearly separate the activities needed in relation to: (a) providing assurance and challenge over the Global Fund's programmes; (b) providing assurance and challenge over the internal controls within the Fund; and (c) counter-fraud and investigation work (both internal and external). It should identify all of the Global Fund's stakeholders requiring assurance, the nature of the assurance required, and how this assurance is delivered. All assurance sources should be covered including management's own monitoring and the work of external auditors and other reviewers, as well as OIG's role.

92. Deloitte stated that the development of the framework should be based on a robust and structured risk assessment that is owned by management and is refreshed and updated regularly in the light of the Global Fund's projected growth and other changes in its operational environment. Deloitte recognized that such a risk assessment was being developed.

93. According to Deloitte, once such a framework is completed it should form the basis for a structured analysis of the Fund's options for obtaining the resources to deliver its assurance, counter-fraud and investigation requirements. It should be carefully considered whether it is most effective for all these functions to be combined in a single function, as in the current arrangement, or whether the different functions may be more effectively delivered through different means. Deloitte indicated that a number of options exist, which included: (a) a global contract with one or more providers; (b) direct provision by the OIG function; or (c) specific procurement of services as needed. An analysis should be made of the advantages and disadvantages of each option and a rigorous assessment of the costs involved.

94. Deloitte also recommended that OIG's reporting lines be reviewed and clarified to provide clear focus for its reporting. It should be possible to define a reporting structure that would provide clear oversight and accountability for OIG without undermining its independence or limiting the whole Board's access to its findings. Deloitte believed that the most effective arrangement would likely be for OIG to report to a committee of the Board, probably the FAC, with the right of direct access to the Board Chair and other members.

95. As was already referred to above, Deloitte suggested that detailed working protocols be developed for OIG's functions. These would set out the processes for the conduct of

each type of work, enhancing the predictability for all parties. Such protocols should include OIG's coverage and execution of its work. Normal expected timings for each stage of the process should be set out. The protocols should also include provisions to ensure OIG's independence to allow for differences in operational requirements for the different elements of OIG's role, internal audit, inspection, counter-fraud and fraud investigation.

96. Deloitte recommended that OIG's process for planning and prioritization of its coverage should be reviewed and redefined. According to Deloitte, prioritization should be based on an assessment of business risks, consistent with executive management's views where appropriate and agreed to by the Board.

97. Finally, Deloitte recommended that OIG's audit process should be reviewed and redefined to ensure the highest technical quality. This should include rigorous processes for gathering, recording and evaluating relevant evidence, verification of factual accuracy and quality control of deliverables. To the extent that these processes already exist, they might be further developed.

Geneva, 31 May 2007



Kenneth R. Langford
Inspector General a.i.

ANNEX B

Procedures for the Operation of Global Fund Bank Accounts

(Approved by MEFA May 2004)

Background

- 1 The Global Fund maintains a bank account with Credit Suisse, Geneva comprised of sub-accounts denominated in Swiss francs and US dollars. One of these sub-accounts is solely for the purpose of holding the foundation capital of CHF50,000 in accordance with the legal requirements under which the Global Fund was established as a Swiss foundation. The other sub-accounts are used to pay for goods and services that are not acquired via WHO and to receive contributions towards operating expenses (as described further below) and minor receipts.

Procedures

Use of Global Fund bank accounts

2. The bank accounts maintained by the Secretariat are to facilitate the efficient execution of the Fund's activities and are used only for the following purposes:
 - a. To hold the Foundation Capital (CHF50,000) of the fund, in compliance with Swiss regulations.
 - b. To receive remittances that are not the subject of a contribution agreement with the Trustee, such as:
 - i. Contributions towards meeting costs and other support for operating expenses (such as received to date from GTZ and UNAIDS)
 - ii. Payments from staff for personal phone calls and for use of car parking facilities, etc.
 - iii. Minor amounts of general contributions.
 - c. To make payments for valid expenses of the Fund in any of the following circumstances:
 - i. Where the Fund needs to acquire goods or services with an urgency that is not met by the WHO purchasing and payment processing cycle.
 - ii. Where the Fund needs to acquire goods or services that cannot be acquired via WHO or which can be acquired by the Fund on more advantageous terms than via WHO.
 - iii. Where a necessary expense of the Fund is not catered for by WHO practices.
 - iv. Where a reimbursable advance payment is necessary to meet a need of the Fund or to alleviate difficulties for new staff pending payment by WHO.

3. In order to maintain appropriate liquidity in the accounts, the Secretariat requests the Trustee to transfer funds to the accounts from time to time as needed.

Authorization of payments

4. The authorization for each payment is recorded on a Payment Form which is presented to the authorized signatories when signing the payment instruction to the bank. The completed forms are retained within the records of the Fund. A specimen Payment Form is attached at Annex 1.
5. The authorization process is as follows:
 - a. The staff member requesting payment enters the relevant details on the Payment Form, attaches the supporting documentation and signs the form as requestor.
 - b. The head of the team that is requesting payment signs the Payment Form as approver (in the absence of the team head, a Director approves).
 - c. A member of the Finance Team checks the documentation, prepares the payment instruction to the bank and signs the payment form to evidence this.
 - d. Two of the staff members that have been notified to the bank as authorized signatories review the Payment Form, sign the payment instruction to the bank and evidence this by signature on the Payment Form.
 - e. The authorized signatories are nominated by the Executive Director and are drawn from the Executive Management Team.

External audit

6. The bank account records form part of the accounting records of the Global Fund and hence are subject to external audit in the same manner as all accounting records of the Fund.

Oversight by MEFA

7. The Secretariat will present to MEFA a summary of transactions on the accounts for each half-year.

Extract from MEFA report to Eighth Board Meeting (28-29 June 2004):

"The MEFA Committee approved the Secretariat procedures for operation of the Global Fund bank accounts as presented."

(GF/B8/8, Part 11, paragraph 6)



Investing in our future
The Global Fund
 To Fight AIDS, Tuberculosis and Malaria

Fifteenth Board Meeting
 Geneva, 25-27 April 2007

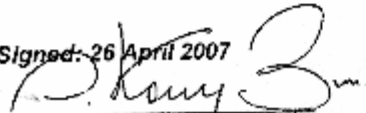
Independent Analysis of Credit Suisse Account

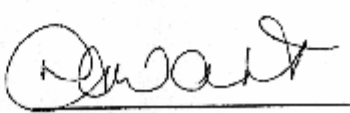
Decision Point GF/B15/DP21:

During the First Special Board Meeting in February 2007, the Board requested that the Inspector General *ad interim* conduct an independent analysis of the remaining issues raised by the Inspector General's Report on the Credit Suisse Bank Account and the Management Response to the OIG Report on the Audit of Credit Suisse Bank Account Transactions, and advise the Board whether further action is required. In addition, the Board requested that Deloitte & Touche complete the draft *Review of the Office of the Inspector General* (the "Deloitte Report"). The Board has received the report of ORNA Corporate Integrity AG, retained by the Inspector General *ad interim* to conduct the requested independent analysis, and the Deloitte Report.

The Board notes with approval the conclusions of the ORNA Report that no fraud or misappropriation of funds occurred. It is satisfied that this report provides the review, analysis and conclusions necessary to bring this matter to a close. The Board requests the Inspector General *ad interim* to prepare a comprehensive account (including, as appropriate, original documents) of the findings and recommendations of the Deloitte Report, the OIG Report, the Management Response, and the ORNA Report. The comprehensive account should be drafted with the expectation that it be released publicly, in consultation with the Chair and Vice Chair of the Board and the Executive Director, not later than May 31, 2007. The Board requests the Secretariat to prepare a response to the recommendations in the ORNA Report and report to the Finance and Audit Committee on its response to, and implementation of, these recommendations.

There are no material budgetary implications for this decision.

Signed: 26 April 2007

 Alexander Konuzin
 Rapporteur


 Dianne Stewart
 Secretariat

Annex III

Transaction ⁶	US \$			CHF Account ⁷			Totals (in \$)		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
	Number	126	134	18	316	407	62	442	541
Receipts	\$1,875	\$1,160	\$38	0	0	\$86	\$1,875	\$1,160	\$124
Payments	\$283	\$557	\$18	\$145	\$1,205	\$505	\$428	\$1,762	\$524
Closing Balance	\$1,207	\$160	\$179	\$84	\$274	\$354	\$1,291	\$434	\$533

Table 1 - Credit Suisse Transactions 1 Jan. 2004 - 30 Mar. 2006

⁶ Receipts, expenditures and closing balance are reported in thousands and Number is actual number of transactions for the year(s).

⁷ Transactions were in CHF but amount shown in US\$.

Attachment 2

Guidelines Governing the Use of Global Fund Credit Cards

8 February 2006

Scope

- 1 These guidelines apply to any credit card in respect of which the Global Fund is responsible for charges incurred through its use (a "GF credit card" or "the card").

Permitted Use

- 2 Use of a GF credit card is restricted to payments of the nature permitted by the *Procedures for the Operation of Global Fund Bank Accounts*, specifically: to make payments for valid expenses of the Fund in any of the following circumstances:
 - (a) Where the Fund needs to acquire goods or services with an urgency that is not met by the WHO purchasing and payment processing cycle.
 - (b) Where the Fund needs to acquire goods or services that cannot be acquired via WHO or which can be acquired by the Fund on more advantageous terms than via WHO.
 - (c) Where a necessary expense of the Fund is not catered for by WHO practices.
- 3 Where the Global Fund has issued guidelines governing payments for a specific activity, use of a GF credit card is further governed by such guidelines.
- 4 The card is intended to relieve staff from having to use a personal credit card or other personal resources to fund valid expenses of the Global Fund in exceptional situations. The card may be used only when it is impractical to make payment by bank transfer because of urgency or the requirements of the vendor. Such circumstances may arise in respect of:
 - (a) Goods/services purchased locally while traveling on Global Fund mission (that are not covered by the WHO travel allowances (per diem and incidental allowances))
 - (b) Unforeseen expenses linked to Board/Committee meetings or other external events
 - (c) Expenses of hosting Global Fund business meetings
 - (d) Guarantees for local suppliers who require such pending payment in the normal manner
 - (e) Online purchases that cannot be practically made by bank transfer
- 5 The card should not be used for expenses that are covered by the WHO travel allowances (per diem and incidental allowances). (To do so would result in the Global Fund paying twice for that travel expense).
- 6 The cardholder shall refund to the Global Fund any amounts charged to the card as a result of non-permitted uses.

Permitted Cardholders

- 7 A GF credit card shall be issued only on the written approval of the Executive Director or Deputy Executive Director.
- 8 The limited purposes for which a GF credit card may be used render it useful only to those staff who are likely to be required to pay for substantial expenses of the Global Fund in circumstances where it is impractical to make payment by bank transfer. A GF credit card may be issued only to:
 - (a) The holders of the following posts:

- Executive Director
- Deputy Executive Director
- Head, Board and Donor Relations

(b) Other staff, where deemed necessary by the Executive Director on a case-by-case basis.

Responsibilities of cardholder

- 9 The holder of a GF credit card shall:
- (a) Sign the card immediately on receipt
 - (b) Maintain safekeeping of the card and observe all guidance provided by the card issuer in that regard
 - (c) Use the card only for the permitted uses as described herein
 - (d) Within five days of receipt, transmit to the Global Fund Finance Unit each statement of account and any other communication received from the card issuer together with a duly completed report of use (as per Attachment A) and all supporting documents.
 - (e) Remit to the Global Fund any amounts charged to the card as a result of non-permitted uses within five days of becoming aware of such use or receipt of a statement of account listing such charges, whichever is the earlier.
 - (f) Immediately return the card to Global Fund Finance Unit on cessation of employment or on request from the Executive Director, Chief Financial Officer or their deputies.

Further guidance for travelers

- 10 (a) *May a Global Fund credit card be used for 'normal' travel expenses?*

No, because an obligation is created in the WHO system for each trip and remains until the air fare and per diems are disbursed. Paying for your hotel bills with a GF credit card would not change this – you still have to submit a travel claim which will result in payment to you of the per diem (less any amount advanced to you). If you had used the card for this, then Global Fund would be paying twice – via the card and via the per diem.

- (b) *How should I pay for my normal travel expenses?*

The per diem system is not intended to be a precise reimbursement of actual costs, but rather an allowance to be spent at the discretion of the traveler. Thus, you receive the per diem and pay for your costs as two separate events. Many travelers use their personal credit cards to pay their subsistence costs. By obtaining an advance on per diem allowance, the advance should be in your bank account before you have to settle your (personal) credit card bill. A Travel Advance equal to 80% of the per diems can be obtained simply by ticking the box on the Travel Authorization.



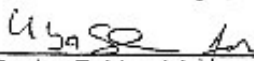
First Special Board Meeting
8-9 February 2007

Decision Point GF/SB1/DP6.: Credit Suisse Account

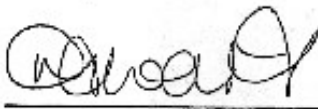
1. The Board has fully considered the Inspector General's report on the Credit Suisse account, the Secretariat's response and the independent review on the performance of the Office of the Inspector General (OIG).
2. The Board instructs the Secretariat to reduce and maintain the funds in the Credit Suisse account at the minimum level necessary to carry out the functions approved by the Board, which are the following:
 - a. holding the foundation's capital, of CHF 50,000, as required by Swiss law;
 - b. paying for fees to the Fund's external auditors;
 - c. receiving private-sector contributions that the Trustee is not able to receive directly, such as proceeds from the Project(RED) campaign, and other miscellaneous receipts, which the Secretariat shall remit immediately upon receipt to the Trustee;
 - d. paying rent and related charges for the Global Fund's premises in Geneva;
 - e. paying the rental allowance for the current Executive Director, until 31 March 2007; and
 - f. paying filing fees in certain jurisdictions for the Global Fund to qualify to receive private, charitable contributions.
3. The Board requests the Director, Internal Oversight Services of the World Health Organization, in his role as the ad-interim Inspector General of the Global Fund to monitor the transactions of the Credit Suisse account on a continual basis.
4. The Board takes note that the Secretariat has voluntarily suspended the use of the credit cards connected with this account since September 2006 and instructs the Secretariat to cancel the credit cards with immediate effect.
5. The Board endorses the recommendations for improvement in controls contained in the report of the Inspector General, notes Secretariat agreement with these recommendations, and directs the Secretariat to complete their implementation as soon as possible.
6. The ad-interim Inspector General and the new Inspector General should follow up on the full implementation of the improvements to the controls and report back to the Board at the Fifteenth Board Meeting (April 2007) and Sixteenth Board Meeting (November 2007), respectively.
7. The Board requests the ad-interim Inspector General, to conduct an independent analysis of the remaining issues raised by the Inspector General's report and the Secretariat response, and advise the Board whether further action is required, not later than the Fifteenth Board Meeting in April 2007.

There are no material budgetary implications for this decision.

Signed: 9 February 2007



 Regina Rabinovich
 Private Foundations



 Dianne Stewart
 Secretariat

THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA
OFFICE OF INSPECTOR GENERAL

Charter

Introduction

1. The Office of Inspector General (OIG) was established to provide The Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) with independent and objective oversight in order to ensure the integrity and effectiveness of programs and operations. The OIG operates as an independent unit and reports directly to the Board of Directors of the Global Fund (the Board). The Inspector General's primary point of contact with the Board will be the Finance and Audit Committee (FAC).
2. The Board approved the establishment of the OIG in July 2005, as recommended by the FAC, and the first Inspector General (IG) began work in December 2005.
3. This Charter defines the functions and responsibilities of the OIG as approved by the Board¹ and serves as the framework for the work to be carried out by the office.

Roles and Responsibilities of the OIG

4. The primary purpose of the OIG is to provide independent and objective oversight and to ensure the integrity, efficiency and effectiveness of the Global Fund's programs and operations, including compliance with established policies and procedures. To this end, the OIG has the following functional areas of responsibility:
 - **Investigations** - The OIG is responsible for investigation of potential fraud, abuse, misappropriation, corruption and mismanagement within the Global Fund and in the programs and operations that it funds. The OIG will retain the authority, independence and flexibility to investigate any and all allegations and abuse as they arise and otherwise respond to events that occur.
 - **Investigation Policy and Procedures**. The OIG will establish procedures for carrying out investigations consistent with international standards and guidelines. All investigations will be carried out with objectivity and under strict confidentiality.
 - **Whistle Blower Hotline**. The OIG will create a system and procedures for the reporting of potential fraud, abuse, and misconduct. The system will include a process to evaluate reports and assess the need for an investigation. The procedures will ensure total confidentiality and assurance that all staff and others who report improprieties, as well as those who are the subject of such reports, are given protection in accordance with policies approved by the Board.

¹ Refer to the Terms of Reference (TOR) approved by the Board in July 2005.

- Internal Control Environment. The OIG is responsible for identifying systemic weaknesses that may provide opportunities for fraud, abuse and mismanagement in the Global Fund's programs, operations and activities and for making recommendations to correct them.
- Training on Fraud Prevention. The OIG will develop and administer a training program (as resources permit), for the prevention and detection of fraud and abuse within the Global Fund programs and operations. The training program will be developed so that it is broadly communicated and can be accessed and utilized worldwide (it may be included on the OIG website).
- **Audits and Inspections** – The OIG will carry out audits and inspections of the Global Fund's activities and transactions including field sites where programs and operations financed by the Global Fund are undertaken. Audits/inspections will be performed in accordance with this Charter and consistent with the *Standards for the Professional Practice of Internal Auditing* and/or the OIG policies, practices and procedures (as appropriate).
 - Internal Management Processes. The OIG will review internal management processes, including the grant application and grant awards and funds disbursement process, to assess the effectiveness of internal controls and of the process.
 - Risk Assessment Model. Audits will be based on a risk assessment model that will give priority to areas of high risk, taking into account the level of internal controls effectively operating to mitigate risk.
 - Economy and Efficiency. The audits will provide independent and objective assessments of the internal control environment and will be designed to add value and improve Global Fund operations and program delivery.

Independence and Objectivity

5. The IG reports directly to the Board and no other entity or person shall interfere with his/her authority to: (a) determine the scope of the OIG's work; (b) perform the work; and (c) communicate the results of the work.
6. To ensure operational *independence*, only the Board may select, oversee, manage, or remove the Inspector General. The Inspector General has managerial responsibility and control over the human and financial resources of the OIG without impediments to his/her oversight function.
7. The OIG receives a special budget allocation, as approved by the Board.
8. All persons carrying out oversight engagements (including staff, consultants, or individuals under other contractual arrangements) must maintain *independence* and *objectivity* in their work and when drawing conclusions. The OIG will immediately notify the Board of any impairment (whether actual or potential) of its *independence* or *objectivity*, or of any hindrance to the carrying out or completion of an oversight assignment.

Scope of Work

9. The specific tasks and activities will be determined by: (a) the TOR approved by the Board; (b) direction from the Board; and (c) the discretion of the IG to achieve the objectives of the TOR. The OIG will prepare an Annual Plan at year-end, in consultation with the FAC, showing target areas of review and investigation for the upcoming year.

10. The scope of work² for investigations and audits/inspections will include all activities undertaken by: the Global Fund Secretariat, Principal Recipients (*PRs*), Sub-Recipients (*SRs*), Country Coordinating Mechanisms (*CCMs*), and Local Fund Agents (*LFA*s), as well as other organs of the Fund (such as The Technical Review Panel, the Technical Evaluation Review Group, etc.). The scope will be determined by the IG, consistent with the TOR approved by the Board, and will focus on assessing whether:

- The management environment encourages initiatives to prevent fraud, abuse and mismanagement;
- Risks are appropriately identified and managed;
- Financial, managerial and operating information is accurate, reliable and timely for decision-making;
- Actions of staff and other persons (including *PRs*, *SRs*, *CCMs*, and *LFA*s, etc.) are in compliance with applicable policies, standards, procedures, rules, and regulations;
- Interaction and coordination between the various organs of the Global Fund occurs, as needed;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Quality of operations and programs are continually enhanced through the Fund's control processes.

Authority and Accountability

11. The OIG has the authority to:

- Access all books and records maintained by the Global Fund and all books and records relating to grants funded by the Global Fund, whether maintained by *PRs*, *SRs*, *CCMs*, *LFA*s or *LFA* subcontractors, or other organs of the Fund, where permitted under applicable arrangements;
- Seek information it requires from any personnel involved in the Global Fund's projects and require such personnel to cooperate with any request made by the OIG;

² Transactions and activities of *PRs*, *SRs*, *LFA*s, etc. are within the scope of the OIG as permitted under applicable arrangement or agreement.

- Obtain independent professional advice and secure the involvement in its activities of outside persons with relevant experience and expertise, if and when determined necessary;
 - Initiate, carry out and report on any action that it considers necessary to fulfil its responsibilities for the oversight function;
 - Discharge its responsibilities without any hindrance, unnecessary delays, and/or need for prior clearance;
 - Receive direct and prompt access to all staff, records, documents, and premises and to obtain necessary information and explanations, as required;
 - Conduct regular as well as *ad hoc* investigations, audits, inspections, and/or evaluations of Global Fund operations and funded programs and other activities whenever there are reasons to believe that: (a) fraud and abuse may exist; (b) management controls and/or oversight are inadequate; or (c) there is a potential for non-attainment of objectives and/or waste of resources; and
 - Cooperate and coordinate with UN internal oversight services (including the WHO Oversight office), and external auditors, with a view to harmonize and exchange information on oversight policies, procedures, practices, activities, professional standards and implementation of *Best Practices*.
12. The OIG and staff will not:
- Perform any operational duties that fall under the responsibility of other organs of the Global Fund ;
 - Initiate or approve transactions that are external to the OIG; or
 - Direct the activities of any staff member or consultant not employed by the OIG, except to the extent such persons have been appropriately assigned to the OIG teams or to otherwise assist the OIG staff.
13. The IG is accountable to ensure that:
- The OIG operates efficiently and effectively;
 - The OIG services add value and improve the Global Fund's operations;
 - Planning for audit/inspection assignments is either risk-based or on anticipated improvement potential and is consistent with this Charter;
 - Policies, procedures and standards are established for all oversight activities; and
 - Resources for oversight are sufficient, appropriate, and effectively deployed, in consultation with the Board.

11/2/2006

4

14. Sole Authority of the OIG for Oversight Services and Activities. The OIG has sole authority to carry out the oversight services and activities including audit³ and investigations through the responsibilities assigned by this Charter. All requests for such services will be sent to the IG who will assess the needs and priorities and determine if outside services are required.

15. Global Fund management and/or staff members are accountable for:

- Cooperating fully with the OIG and providing support, as required, at all levels;
- Providing timely response to all queries and requests made by the OIG;
- Providing prompt and unrestricted access to all records (paper and electronic), property, and personnel;
- Establishing and maintaining an effective internal control environment;
- Providing a written response to all the OIG reports and recommendations in a timely manner and carrying out implementation, as agreed; and
- Seeking the agreement of the OIG before carrying out activities or securing external services that fall within the OIG mandate.

16. Other Entities Subject to OIG Oversight⁴ will:

- Cooperate fully with the OIG and provide information and support, as required, at all levels;
- Provide prompt and unrestricted access to all records (paper and electronic), property, and personnel; and
- Provide a timely response to all queries and requests made by the OIG.

Reporting

17. The OIG will be responsible for keeping the Board (and the Executive Director, where appropriate) informed fully and currently on the activities carried out by the OIG. The Secretariat may be informed, at the discretion of the OIG, on the status and ongoing results of investigations where that information would help guide responsible management decisions (i.e. decisions on disbursements, possible changes of PR, etc.). The OIG may report specific activities or findings solely to the Board as a whole and not inform a particular committee, where the OIG deems the subject(s) and nature of the matter investigated or other circumstances so require. The OIG will inform the Board and appropriate senior management promptly of:

- Identified breakdowns or significant weaknesses in the Fund's internal control systems;

³ Except for external audit activities expressly delegated to the designated External Auditor.

⁴ Including PRs, SRs, LPAs and other entities stated in paragraphs 10 and 11 of this Charter, as permitted under applicable arrangement.

- Known or suspected cases of a criminal nature involving the Global Fund's funds, property and/or staff members;
- Information with respect to potential damage to the reputation of the Fund that has been discovered, including improprieties or misconduct reported and/or uncovered during an engagement or investigation; and
- Any impairment of *independence* or *objectivity* by the OIG in carrying out engagement(s).

18. At the beginning of each year, the OIG will prepare and submit to the Board an Annual Report that measures actual performance of the OIG against the Annual Plan, and summarizes the operations of the OIG during the preceding year. The report will be copied to the Executive Director and will be made available on the Global Fund's website through the OIG page after review by the Board and the Executive Director. The Annual Report will include information shown at Annex A to this *Charter*.

19. The IG will provide periodic reports regarding particular investigations or audits to the Board or an appropriate committee (normally the FAC and/or the Ethics Committee), with due consideration to confidentiality and other important concerns. The IG will inform the Executive Director of such matters where the IG deems it appropriate to do so. The IG will immediately bring matters to the attention of the Board and/or the Executive Director if and when circumstances so require.

20. Reports of particular investigations and audits will be made available on the website, when appropriate.

Working Relationships and Communication

21. The OIG will foster open communication at all levels and strive to keep managers and staff advised of its work and findings, as appropriate, on a timely basis. All planned audit/inspection assignments will be communicated to management at an early stage to allow for their feedback and consultation on an appropriate date for the engagement. The OIG will make maximum effort to minimize any disruption to the primary work of the unit/section.

22. The OIG will follow the procedures and guidelines established by the OIG, taking into account professional standards, when conducting interviews or discussions with staff, managers, and other persons. All interaction will be done with professionalism, respect, and in good faith.

ANNEX A

OFFICE OF INSPECTOR GENERAL'S ANNUAL REPORT

The Annual Report will include the following:

- A description of the mission, organization, staffing and resources of the Office of Inspector General;
- A quantitative summary of the Office of Inspector General's activities during the period, including: the number of reports received through the hotline and other whistleblower reporting mechanisms; and the number of audits and investigations undertaken, completed and/or pending;
- A description of any investigations of the Global Fund's internal operations and processes, including any description of significant problems, abuses, and deficiencies that were identified, and any recommendations for corrective action that the Office of Inspector General made during the period;
- A description of investigations of the Global Fund's external programs, including any description of significant problems, abuses, and deficiencies that were identified and any recommendations for corrective action that the Office of Inspector General made during the period;
- An identification of any significant recommendation described in a prior Annual Report for which corrective action has not yet been completed;
- A summary of any matters referred to relevant local law enforcement authorities and the outcome of such referrals;
- A description of other developments within the Office of Inspector General during the period including, for example, policy developments and new tools and resources;
- A listing of any entities, businesses, or persons whom the Global Fund has decided not to retain or not to award any grants, contracts, or other business for a stated period as a result of an Inspector General investigation; and
- Any other information that the Inspector General deems appropriate.