SECRETARIAT FOLLOW-UP ON INSPECTOR GENERAL FINDINGS AND RECOMMENDATIONS

Attachment 1: Secretariat Response to the Office of the Inspector General Lessons Learned Recommendations, and Status Update as of 22 February 2010

Audit Area	OIG Recommendation	Original Secretariat response and proposed action	Who / by when	Status on 22 February 2010
CCM Conflict of interest	**Recommendation 1 (Significant)** *The Global Fund policy should be extended to address the full range of conflicts of interest that arise at CCM level. The Global Fund should put also in place mechanisms to ensure that the policy is implemented e.g. having a mechanism to confirm that this policy is complied with. This will ensure that the CCM remains independent and objective in undertaking its various roles*	Agreed. *Note: the SRP is the Secretariat's Screening Review Panel.* **General** - CCM screening in recent funding rounds shows that CCMs are on a learning curve for these policies, and their understanding and management of conflict of interest (COI) has improved. - While the Global Fund does not have sufficient resources for continuous in-depth monitoring of CCMs, the regional teams receive frequent input on CCM functioning from partners and their own exposure to CCMs during in-country travel. **Existing mitigation** - When it appears that a CCM is not complying with Global Fund policies on COI for example, the CCM team is called on for focused technical support. - In addition, the CCM team conducts analyses of CCM function on an ongoing basis to inform the development of CCM support plans, including on issues related to COI. - These measures would ensure regular assessment of CCM implementation of guidelines related to conflict of interest at country level. **Proposed additional measures** - The Global Fund's current oversight of CCM COI management, as well as the policies themselves, will be strengthened further. Global Fund policies on COI management are defined by the Board in the CCM Guidelines document. The CCM team is proposing a number of changes to this document to the 2009 September PIC and November Board. These changes will include an extension of the CCM COI policy to apply to all members, and not only Chair or Vice-Chair positions held by a PR, as currently defined. - Furthermore, as part of the architecture review, the	**CCM Manager and SRP** **Dec 2009**	**Status: Ongoing (actions are respectively *completed, ongoing, ongoing*)** **Explanation:** the Secretariat has put forward three lines of action in relation to this recommendation: **Action 1.a – Secretariat to propose strengthened application of *CCM conflict of interest requirements* to the PIC and the Board** **Status: completed.** The Secretariat has presented several suggestions to the Portfolio and Implementation Committee of the Board (paper GF/PIC/01/06, September 2009), two of which are of relevance here: one on monitoring compliance of CCMs with the requirement on conflict of interest throughout the lifetime of grants, and one on expanding the scope of the requirement to the full range of conflicts of interest common to CCMs. The PIC approved a new CCM funding policy which is intended *inter alia* to strengthen CCM oversight, and also endorsed in principle the suggested changes to the guidelines, being brought to the PIC in September. **Action 1.b – Strengthened processes for screening on all requirements (including conflict of interest)** **Status: ongoing.** Within the transition plan for the new architecture overseen by the Global Fund's Deputy Executive Director, a strengthened approach to screening on all CCM requirements is being phased in over Rounds 10, 11, and 12. The revised approach will allow monitoring of CCM compliance with conflict of interest requirements throughout the life of the grant. Notes: a. While we believe that the ideas proposed by the Secretariat for strengthening screening practices are conceptually sound, operational details are not yet fully elaborated, and the development of a simple cost-effective mechanism may prove difficult, especially in a context where Secretariat resources (human and financial) for dedicated monitoring

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		CCM team is proposing that implementation of the COI policy is monitored throughout the life of the grant, and not only at the time of funding requests (during eligibility screening by the Screening Review Panel (SRP)). The OPC has approved in principle this operational change. - In the meantime, the SRP will screen CCMs more rigorously on COI management, searching for documented examples of COI management, as opposed to only paper plans for COI management by CCMs. [[This will be implemented and enforced as follows: Following the Round 9 SRP (completed August 6 2009) a review of Lessons Learned is being conducted, led by CCM, and country proposals teams. The review will explore SRP improvements along three dimensions: Structure, Process, and Practice. Among the structural weaknesses identified in SRP R9, is the language of the requirement on COI, which does not mandate that CCMs demonstrate COI management: they are only required to have a policy in place. The CCM team will work with the OPC/Board to revise this requirement, so that the SRP can demand that CCMs demonstrate COI management in practice and not only on paper. As mentioned above, the requirement may also be expanded beyond Chair and Vice-Chair, and may be monitored throughout the grant lifetime, and not only at the time of funding requests (see additional measures c in response to recommendation 2]]. - In addition, the CCM team is producing a guidance note on COI in 2009, to enhance CCM partner understanding of COI policies. - **CCM monitoring and support:** the CCM is elaborating a plan to involve regional team staff more closely in CCM monitoring and support. - Currently, a process is being initiated to periodically perform a systematic review the minutes of the CCMs, to draw lessons.		and support of 133 CCMs and RCMs may be insufficient. b. For optimal implementation of these improvements, the Board may need to approve a number of changes, in particular relating to the language of the six requirements. This may affect the timeline for operational roll-out. **Action 1.c – Background analysis to inform revised screening approach** **Status: ongoing.** (i) A cross-secretariat meeting was held in November 2009 to identify strengths and weaknesses of CCM screening processes, including assessment of conflict of interest management; (ii) an in-depth study of CCM conflict of interest is being commissioned by the CCM team, and will be completed by mid- to late-2010. Findings of the study will be reflected in the PIC paper on CCM Guidelines review (due before the end of 2010) and in any modifications to the CCM requirement on conflict of interest.
CCM	*Recommendation 2 (High)*	Agreed, with comment on LFA role (below).	CCM	**Status: Ongoing** (actions are respectively *ongoing,*

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	Country Programs should put in place a mechanism to ensure compliance to the 6 eligibility criteria throughout the entire grant cycle and not only at the time of proposal submission. One of the ways to achieve this would be to mandate the LFA to review the operation of the CCM and ensure compliance to grant agreement requirements and CCM guidelines by attending some CCM meetings and quickly flagging CCM operation bottlenecks	**General** The option to involve LFAs in CCM compliance with eligibility requirements has been explored extensively in 2009. While valuable in principle, it met with numerous operational challenges including complexities of defining scope of LFA involvement, limited screening timelines, potential LFA conflicts of interest and large cost implications. **Proposed additional measures** - As part of the architecture review, the CCM Team and Country Proposals team have proposed that CCM requirements are divided into three groups, and that screening is applied differently for each group: a) Compliance with the requirements on proposal development and PR selection processes would continue to be assessed at the time of funding requests as is the current practice b) Compliance with the two requirements on CCM non-government member selection processes, and membership of people living with disease would be assessed periodically, on a biennial basis for example c) Compliance with requirements on oversight and COI management would be monitored throughout the lifetime of grants awarded to the CCM, and non-compliance would trigger CCM technical support as opposed to exclusion from access to funding. - In addition, as mentioned above the Country Programs Cluster has decided that FPMs and the Team Leaders will take a more proactive role in collaboration with in-country partners to regularly monitor as well as support CCMs to play their oversight function. * * * *Note: on February 18, 2010, the Secretariat has*	**Manager** **CP Unit Directors for each Unit** **Dec 2009**	*ongoing,* **and** *started*) **Explanations:** The Secretariat has again put forward three lines of action in relation to this recommendation, one of which is the same as above: **Action 2.a – Strengthened processes for screening on all requirements, (including during the lifetime of the grant)** **Status: ongoing.** See description above (1b). **Action 2.b – increased involvement of regional team staff (Team Leaders, FPMs and POs) in CCM support** **Status: ongoing.** A strengthened Country Programs communication strategy has been elaborated — and is ready for roll-out — which standardizes best practices of CCM engagement by FPMs, and ensures improved communication among actors. The CCM team (in Country Programs) has also instituted periodic meetings with regional teams to enhance collaboration on CCM support. **Action 2.c – Strengthened assessment of compliance with six minimum requirements at Phase II renewal (and at mid-term program review for new architecture)** **Status: Started.** The CCM team has initiated discussions around policy changes to ensure that compliance with CCM requirements is assessed through a country team approach at phase II renewals, and is built into mid-term program reviews

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		replaced the following original paragraph with the paragraph immediately below it:		
		* * *		
		~~The proposed enhanced funding policy, approved by the Board in principle, is likely to facilitate the above mentioned role of the FPMs and Team Leaders, by providing clear and specific information on CCM performance.~~		
		The proposed enhanced funding policy, approved by the Board in principle, will provide clear and specific information on CCM performance thus highlighting CCM weaknesses and informing support efforts by Secretariat staff.		
		[[How this will be communicated to FPMs and be enforced is not yet fully defined. There is agreement among country programs Directors that CCM support by regional team staff (FPMs and POs) during country visits, can be systematized and standardized. Ideas have been proposed, such as the development of a country visit checklist, which would include an item on CCM support. However, before any measures are implemented, consultations must be conducted with regional teams' staff to ensure feasibility and acceptability of planned actions. Preparations are underway by CCM team to ensure coherence of proposed support measures with all other CCM support activities. Once consultations are completed, and a clear action plan is developed, it will be communicated to country programs regional staff through the standard country programs cluster channels (ie. CPDO); and targets, roles and accountable actors will be clear, such that implementation can be monitored.]]		
		- In addition, the Secretariat is currently evaluating measures for LFA to systematically screen (e.g. on an annual basis) certain CCM eligibility criteria. LFA involvement may be piloted in RCC wave 8.		
CCM	*Recommendation 3*	Agreed.	**CCM**	**Status: ongoing (actions are respectively *ongoing, ongoing,***

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	(Significant) *The Global Fund should work towards building on earlier grant proposals as opposed to treating the different grants in isolation. CCMs as part of their oversight role should be encouraged to work towards creating synergies between disease interventions and related grants*	**General** - The measures suggested above will support CCMs to achieve this, and allow the CCM team to monitor progress. For example, the CCM eligibility oversight requirement insists that every CCM should develop and present an oversight plan that should explain how the CCM will oversee its grant portfolio, and should address potential efficiencies and synergies to be achieved across grants and PRs. Similarly, the CCM oversight dashboard and new funding policy aim to strengthen CCM performance on oversight functions. Finally, the greater involvement of regional team staff in CCM support, will promote coordinated and holistic oversight of the CCMs grant portfolio with all of its constituent grants and interventions. - Perhaps more importantly however, individual grant programs should not be structured in isolation, without reference to pre-existing grants and interventions, whether these are financed by the Global Fund or through alternative sources. This is a point that the CCM must address at the stage of proposal development and program design. The Global Fund can give guidance on proposal development through its funding application forms, form guidelines, and through road shows conducted by the Secretariat when new funding rounds are launched. There is also a role for technical partners who support proposal development, in providing guidance on this point.	**Manager** **Dec 2009**	*completed,* and *completed*) **Explanations:** Four actions have been put forward to respond to this recommendation: **Action 3.a – Transition to new architecture** **Status: ongoing.** As the transition plan for rollout of the new grant architecture is implemented, more CCMs will oversee consolidated grants and gain a holistic program-oriented view. Questions have been raised about the capacity of CCMs to deliver on these responsibilities; there is no doubt that strengthened CCM capacity will require additional investment in Secretariat resources (see actions 3.b and 3.c). **Action 3.b – Development of new architecture-related communication materials for CCMs** **Status: ongoing.** As part of the new architecture transition-plan (overseen by the Global Fund's Deputy Executive Director) discussions have been initiated with the CCM Team to develop communication materials targeting CCMs. **Action 3.c — Launch of New CCM Funding Policy** **Status: completed.** The new CCM Funding Policy is now available online for use by CCMs. Under its Expanded funding option, CCMs have access to increased budget amounts to support their oversight role, and performance-based funding principles will be applied to CCM funding to ensure funds are put to best use. Please note that this is a very recent development, with the new policy and indicators only made available in February 2010. No applications have yet been received, but the Secretariat expects (and has budgeted for) 30 CCM applications under the new policy in 2010. **Action 3.d — Launch of New CCM Oversight tool** **Status: completed.** A new support tool summarizes key grant information to support the oversight role of the CCM. This tool is now available for use on the Global Fund's website. It should be

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				noted that for the moment both the new funding policy and the oversight tool have only been launched in English.
CCM	**Recommendation 4 (Significant)** *Assessments of CCM capacity should be undertaken as part of the LFA assessment of grant preparedness. Measures should then be put in place to address capacity gaps identified*	Agreed in principle: there is certainly a need to assess CCM capacities, and respond accordingly. **General** - A formal initial assessment may not be the best way to contribute to capacity development of CCMs however. Rather, enhancing the Secretariat's capacity to be even more active in working with the CCM during the grant's life is the preferred approach that allows CCMs to help develop themselves, in a dynamic of genuine country ownership. - The CCM is a political and intersectorial coordination body tasked with program oversight – not a managerial entity. Its role is mainly a political/institutional one, articulating different (sometimes antagonistic) sectors, aiming to reach consensus in the definition of the proposal, and oversee programs financed by the Fund. **Existing Mitigation** - CCM capacity is in general developed through a process in which the CCM identifies its own weaknesses. In the spirit of country ownership, the Secretariat helps and supports the CCM, but does not interfere or impose strengthening plans (unless the situation is such that it could jeopardize the program). **Proposed additional measures** - A number of CCM team activities will help enhance CCM support and capacity development through this approach: a) The existing CCM self-assessment tool is being revised and strengthened. b) The new CCM funding policy will help monitor CCM performance, allowing the clear identification of CCM performance weaknesses and capacity needs c) CCM minutes are being collected and analyzed	**CCM Manager** **Dec 2009**	**Status: ongoing (actions are respectively *completed*, *ongoing*, and *ongoing*)** **Explanations:** Four actions have been put forward by the Secretariat in response to the Office of the Inspector General's recommendation. In monitoring these actions, the Secretariat is very conscious of the need to avoid a "one-size fits all" approach to CCMs, which are primarily country-owned mechanisms: **Action 4.a — Launch of CCM performance framework** **Status: launch completed.** As part of the CCM funding policy, a new set of CCM performance-indicators is now available. Please see the note under 3c above. **Action 4.b — Strengthening of CCM self-assessment tool** **Status: ongoing.** A CCM self-assessment tool has been revised — modeled after the M&E systems strengthening tool. **Action 4.c — Development of CCM** **Status: ongoing.** A study is being completed to develop a holistic CCM assessment framework that uses all available information on CCMs – including information in CCM meeting-minutes, and qualitative feedback from in-country partners. **Action 4.d – Strengthening of CCM screening practices:** please see actions 2.a and 2.c

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		for additional information on CCM performance and capacities d) Regional team staff is being engaged more in CCM monitoring and support. e) A coordinated approach using all of the above measures (a to d) is being defined by the CCM team, to ensure that support of CCM capacity development is evidence-informed and strategic.		
PR Compliance with Grant agreement clauses	**Recommendation 5 (High)** *The* Global Fund *should institute measures where compliance of the PR with grant conditions and applicable country laws is closely monitored and sanctions imposed for continued failure to meet conditions. This will ensure that the conditions put in place to safeguard the* Global Fund *assets are operational and therefore reduce the risks that* Global Fund *money is exposed to*	**General** We recognize that at times some conditions and Grant Agreement terms have not been complied with, as detailed in the OIG report. **Existing Mitigation** In general, the assessments and procedures put in place by the Global Fund (assessments, verifications, etc.) allow the Secretariat to monitor and act on the vast majority of non-compliance events by Principal Recipients. But again, we agree that some important gaps remain. **Proposed additional Measures** - Some teams have begun briefing PRs in more detail and more explicitly than in the past on all of the reporting and compliance requirements they are committing to by signing the grant agreement. This may be a useful practice for all teams to adopt. The Cluster Director will be exploring the generalization of this practice by the end of 2009 as part of work on the Country Programs Action Plan. - It is also important for the Country Programs Cluster to work to systematically determine whether the PR is in a position to fulfill all of the grant agreement requirements. This will be taken in the same exercise mentioned above, before end 2009. - An area in need of improvement is the timely submission of, and follow-up on, audit reports. We are about to submit to the OIG a full response to the Audit of Principal Recipient audit arrangements	**CP – Cluster Director and Unit Directors for all Units** **Dec 2009**	**Status: not started** **Explanations:** The Secretariat has not paid sufficient attention to this recommendation. In particular, the generalization of PR-briefings on their reporting and compliance requirements has not sufficiently happened in 2009. However, the Secretariat also feels that the recommendation for a *"close monitoring" of Principal Recipient compliance with all grant conditions and all applicable laws* would not be feasible, or would require a disproportionate investment of resources. The Secretariat already has in place a number of measures to monitor the most important provisions of the Grant Agreement (e.g. LFA verifications, DQA audits, PQR reporting, etc.), and sanctions for some specific instances of non-compliance (e.g. withheld disbursements when the PQR reporting is not complied with); it is likely that in the future sanctions will remain highly contextual. b. The annual audits of the Principal Recipient are a key grant condition. Following the Secretariat's response to the Inspector General's "Audit of country-level audit-arrangements", the Secretariat (and in particular Finance and Country Programs) has performed an inventory of missing audit reports covering the past 2 years, is following up to obtain and act upon missing reports, and is in the process of finalizing a new policy on country-level audits, to be rolled out before the end of May 2010. The policy provides that all audit reports be systematically shared with the Country Team, and especially Program Finance, to ensure a coherent response is made to issues raised by the audits.

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		report, in which we outline a new and improved approach to this issue within Country Programs and the Secretariat		**Proposed additional actions**: [The Secretariat will put together a Working Group (chiefly composed of Country Programs, Finance, SPE, and Legal representatives) to address issues raised by recommendations 5, 6, and 7, and provide a detailed way forward on each by the end of May 2010]. <u>In relation to recommendation 5, the Working Group will look at the compliance of Principal Recipients with applicable grant terms and conditions and applicable laws – including (i) measures to ensure that PRs are properly aware of their responsibilities (with each grant agreement obligation explained at the time of signing) and (ii) systematic reminders and enforcement on a number of particular priority areas.</u>
Tax exempt ions	**Recommendation 6 (High)** *The conditions in grant agreements relating to additionality and payment of taxes may not be within the authority of the PR to enforce. PRs should report to the Global Fund cases where they have failed to comply with these conditions and the Global Fund Secretariat need to assess what measures can be put in place to dialogue with governments in order to ensure that they are enforced.*	**General** - Tax exemptions are negotiated with all PRs and exceptions are mutually-agreed upon. For example, a non-governmental Sub-Recipient may procure goods in small quantities where it would not to be cost-effective to have the PR centrally procure these goods. - In cases where the PR cannot obtain tax exemption, the Secretariat verifies the measures that have been put in place. - The Secretariat is also in negotiation with a number of countries to secure VAT exemptions (or zero rating) for LFA services. This measure reduces the Secretariat's costs. **Proposed additional Measures** - The Secretariat will continue negotiating possible alternative solutions to tax exemption with local authorities whenever relevant. - In addition, Country Programs will explore systematizing sending an official communication by the Global Fund, to relevant government authorities in order to pursue the granting of the tax exemption status.	**CP Team Leaders and Unit Directors** **June 2010**	**1. Additionality —** See response to recommendation 7. **2. Taxes** **Status: not started** **Explanation:** The Secretariat has not paid sufficient attention to this part of the recommendation, and is for the moment continuing to rely on country-by-country negotiations. It should be noted however that the Board, after considering tax exemptions for procurement as a condition of the grant, decided at its 4th meeting to only "encourage" national authorities to provide such exemption: "The Fund strongly encourages the relevant national authorities in recipient countries to exempt from duties and taxes all products financed by Global Fund grants and procured by NGOs or any other Principal Recipient or sub-recipient." This change in approach has weakened the Principal Recipient and Secretariat's negotiation position on the issue of tax exemptions. **Proposed additional actions**: [The Secretariat will put together a Working Group (chiefly composed of Country Programs, Finance, SPE, and Legal representatives) to address issues

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				raised by recommendations 5, 6, and 7, and provide a detailed way forward on each by the end of May 2010]. <u>In relation to recommendation 6, the Working Group will look at a more systematized Secretariat approach to the issue of tax exemptions.</u>

	Recommendation 7 (Significant) *While additionality is one of Global Fund's core principles, its compliance cannot be easily verified since there are no mechanisms at country level to measure it. The* Global Fund *should revisit the application of this principle at country level and define what it will accept as evidence of its application. Otherwise this principle will remain irrelevant and not operational at country level.*	**General** We recognize that the Secretariat has yet to define a way to assess the additionality of Global Fund grants. At the moment this is done through a series of actions including conversations between the Regional Team and the Principal Recipient, and information from partners and Ministries of Finance.
		
		Proposed additional Measures - Clarity around additionality of funding is one of the priorities that Country Programs has set itself in the recent (July 2, 2009) 2009-2010 Action Plan, which reads: "*Agree on common approach, procedures, and documentation, across all Regional teams, for the following: (…) 7. Clarity on additionality of funds for each country/disease*" - The Country Programs Cluster Director will work with the SPE Cluster Director to define roles and responsibilities in leading the development of an evaluation methodology and framework.
			CP — Unit Directors
			
			Dec 2009
				Status: started
				
				Explanation: The Secretariat is currently finalizing a paper on additionality of funding. The paper looks mostly at country-level trends by analyzing the evolution of the ratio
				
				[Government budget for the disease]/[Government budget + Global Fund budget for the disease] x 100
				
				The paper, however, does not address the issue of countries' compliance with the Global Fund's principle of additionality.
				
				It is important to remember that the principle of additionality did not, when introduced in Round 5, carry the expectation that it would be monitored closely – rather, it was meant to ensure that the Global Fund has the legal right to terminate a grant agreement in cases of blatant abuse. Indeed, close monitoring of the principle of additionality has often proved impossible or extremely difficult in contexts of weak data and/or access to data, especially when Principal Recipients do not happen to be the owners of *additionality* data. It would be important in this context to understand what the Board exactly means by additionality, how it would like it implemented and monitored, and whether such monitoring should take place at grant level.
				
				Proposed additional actions: [The Secretariat will put together a Working Group (chiefly composed of Country Programs, Finance, SPE, and Legal representatives) to address issues raised by recommendations 5, 6, and 7, and provide a detailed way forward on each by the end of May 2010.] <u>In relation to recommendation 7, the Working Group will aim to:</u>
				    – Clarify what the Global Fund means (and should mean) by "additionality";
				    – Clarify how the Secretariat proposes to measure,

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				implement, monitor, and enforce the principle of additionality — including consequences on non-compliance; − Discuss the resource requirements related to a systematic approach to additionality; − Address the absence or limited reliability of *additionality data* in certain contexts – e.g. civil society Principal Recipient; − Develop an approach to more effectively communicating on additionality with CCMs and PRs.
Compliance with CPs	*Recommendation 8 (High)* *Country Programs should strengthen the process through which conditions precedent are complied with. This will strengthen the control environment within which disbursements are made and ensure that* Global Fund *grants are safeguarded. Areas that need to be considered are:* *(a) What measures are in place to ensure that CPs are met before disbursement is effected;* *(b) Who checks and clears the fulfillment of a CP;* *(c) When can CPs be waived;* *(d) What controls are in place to ensure that once CPs are waived, other mitigating factors are put in place to address the initial risks identified; and* *(e) Who would authorize the waiving of a CP.*	We agree with the recommendation. **Proposed additional Measures** An OPN on Conditions Precedent has been in the works for over two years, and could be finalized shortly. It addresses the points raised in the report.	CP – Cluster Director June 2010	**Status: Started** **Explanations:** An Operational Policy Note clarifying the definitions and processes around conditions has been discussed on a number of occasions at the Operational Policy Committee, but has to date not been adopted by the Secretariat. As a result, the management of Conditions Precedent – and in particular their postponement, waiving, and consequences of failure to meet the conditions – suffers from a certain lack of clarity. Pending the finalization of the OPN, the document on "Disbursement Roles and Responsibilities" provides guidance on the process for waiving and postponing conditions during the disbursement process. **Proposed additional actions**: The revised OPN on conditions will be brought back to the Operational Policy Committee and adopted by the Secretariat before the end of June 2010. Prior to its discussion at the OPC, the OPN will be reviewed to ensure it covers the full breadth of the OIG's recommendation. It is worth mentioning that the disbursement process is the subject of a planned Inspector General audit in 2010, which will be paying special attention to the issue of conditions precedent – a central part of the Secretariat's set of grant management tools.

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Procurement and logistics management of pharmaceutical products	***Recommendation 9 (High)*** *The Global Fund should increase its procurement oversight over the procurement and supply management process after the approval of the PSM plan. This can be done either by the LFA or an independent evaluator to ensure proper utilization of guidelines and funds. This can include procurement audits to determine that proper procurement processes have been followed and that value for money is obtained. LFAs should be required to report on procurement and logistics management as part of the Phase 2 process.*	**Proposed additional Measures** - The revision of the Progress Update and Disbursement Request (PU/DR) template (both the PR and LFA reporting sections) is currently underway. In the revised form the PR will be asked to: 1) state whether there are any risks of drug stock-outs; 2) state whether there are any forthcoming drug expiry issues; and 3) Comment on any issues related to the procurement and supply management of health and non-health products.	**Secretariat PU/DR revision working group** **May 2010**	**Status: started** **Explanations**: Some of the "proposed additional measures" included in the Secretariat's original response (column on the left) are underway, while others have not yet started: 1. The new Progress Update and Disbursement Request form is ready to be rolled out, and includes a number of improvements (both for Principal Recipients and Local Fund Agents) in relation to procurement oversight. The roll-out will take place before the end of May 2010. 2. The LFA's Phase 2 reporting tools and guidelines have been updated but not yet rolled out, as the Secretariat is conducting an in-depth review to ensure a smooth transition to the new architecture's *periodic reviews,* and to strike the right balance between increased scrutiny and feasible workload at the Secretariat. 3. The Secretariat's original response provided that:
		- The LFA will verify the PR's explanations and provide analysis on any PSM issues to the Global Fund. Moreover, in a new section in the PU/DR the LFA is asked to state and describe any management issues relating to Pharmaceutical and Health Products Management. Therefore, with the revised PU/DR reporting template, both the PR and LFA will be required to provide detailed information and analysis on procurement issues on a periodic basis. - The LFA reporting tools and guidelines for the Phase 2 process will be revised in 2009 to review the scope and compliance of the existing LFA focus on procurement and logistics management	**CP – LFA Manager**	The Country Programs Cluster is considering making annual audits include a review of procurement activities. However, this would only address the procurement aspect of pharmaceutical management.
		- The Country Programs Cluster is considering making annual audits include a review of procurement activities. However, this would only address the procurement aspect of pharmaceutical management.	**CP Cluster Director** **Dec 2009**	This response may have been misleading. Since financial audits of Principal Recipient have always included a test of procurement processes, the Secretariat should have written that it will ensure that audit-TORs (currently under review following the Office of the Inspector General's recommendations around PR Financial audit arrangements) capture the review of procurement in a systematic way. With relevant TORs, the financial audit should adequately cover the procurement and management of health products – attending the year-end stock count, management of expiry dates, levels of waste or theft, verification of controls over the ordering, receipt, and storage of health products, etc. The TORs will be finalized before the end of June 2010.
		- A comprehensive review of how health products have been procured during Phase 1 should be part of the Phase 2 evaluation. The Procurement Team in the SPE Cluster is currently working on this, and should be able to present early results before the end of 2009.	**SPE — PMU Manger** **May 2010**	

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		- The Country Profiles currently under development will help assess any improvements made on the overall systems used for the management of health products. (Expected completion and roll-out: May 2010).		It should be noted that for significant procurements of health products, the Secretariat can also (with its current policies) request specific procurement audits which look in more detail at the selection of suppliers, value-for -money aspects, and other aspects it deems relevant.

4. A more detailed and systematic review of how health products have been procured during Phase 1 will be implemented from April 2010 as part of the Phase 2 evaluation. In addition, the requirement to submit a Phase 2 PSM Plan as part of the review documents has now been introduced.

5. In December 2009, the OPC fully endorsed the implementation of Country Profiles to help assess strengths and weaknesses applying to the overall systems used for the management of health products at country level. The roll-out of this new tool is in progress, and a first workshop targeting 15 countries is planned for March 2010 in collaboration with WHO, MSH and other technical partners. |
| Drug forecasting | **Recommendation 10 (High)** *The Global Fund should ensure that as part of its capacity building drives, PRs get the requisite training in forecasting drug requirements. This can be undertaken in conjunction with other technical partners in the regions.* | **Proposed additional Measures** - The Secretariat is in the process of drafting a paper to the PIC and the 20th meeting of the Board on *preventing stock-out and treatment disruptions*. The paper will be reviewed by the EMT in Aug 2009. - We propose to wait for the paper and its proposed way forward, as this would directly and comprehensively address this recommendation. . | **CP Director** **SPE** | **Status: ongoing**

Explanations: The Secretariat is addressing this recommendation in two ways:

1. After a first discussion at the PIC in 2009, the Committee – at its March 2010 meeting – is set to again review the Secretariat's approach and progress in relation to preventing stock-outs. The PIC will in particular be called to guide the Secretariat on the best "partnership approach" to address the issue of stock-outs. Among the points for discussion will be the possible creation of a Risk Predictive Model (with support from the MIT-Zaragoza Group), continued work with WHO and the Clinton Health Access Initiative (CHAI), and consultations with the Coordinated Procurement Planning Initiative (CPP), Stop TB, and Roll Back Malaria.

2. As part of the Voluntary Pooled Procurement (VPP) services, PRs can now be supported by a procurement agent and provided with necessary assistance to build their capacity in this area. The Secretariat has produced a guidance note on this |

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				issue for PRs not using the VPP but interested in the assistance.
	Recommendation 11 (High) *The procurement specialist and health specialists that form part of the LFA team should periodically advise on the reasonableness of purchased drug quantities.*	**Proposed additional Measures** - The above-mentioned paper discusses the monitoring the risks of stock-outs by routinely adding an indicator on stock levels in all Performance Frameworks (to be monitored through disbursement requests). - As mentioned above, the PU/DR template is going through a thorough review and the final version for field testing is ready. At the request of Country Programs, the template now includes a section for describing potential risks of stock-out for key health products and any forthcoming drug expiry issues.	**CP (see above)** **May 2010**	**Status: ongoing** **Explanations:** 1. As part of the Secretariat work on preventing stock-outs (paper to be submitted to the PIC for its 2 March meeting – see above), the Secretariat is reinforcing the Principal Recipient's reporting on stock-levels through specific indicators in the Performance Framework. In addition, the CCM dashboard (now rolled out) includes a section to directly monitor stock-levels for key pharmaceutical products. 2. The new PU/DR template, due for release before May 2010, asks the Principal Recipient and the LFA to comment on drug quantities, forecasting, and expiry dates.
	Recommendation 12 (Requires attention) *Country Programs should consider devising a mechanism where countries within regions are able to share information and seek solutions to stock outs (actual or imminent) and expired drugs since in some cases, drugs that are about to expire in one country are in short supply in a neighboring country.*	**General** - This recommendation in some cases would contradict the interagency guidelines for drug donations (WHO document) and raises serious quality assurance issues: *"After arrival in the recipient country, all donated drugs should have a remaining shelf life of at least one year."* It would also run the risk of interrupting the supplier-users liability chain. - The Secretariat has been approached on several occasions regarding this issue, and has for the moment taken the position that transfers of drugs were not permissible. **Proposed additional Measures** - The VPP would ensure that countries get staggered deliveries, for example on a quarterly basis. If only few countries sign up to the VPP, then this measure would of course not be relevant.	**VPP/PHP M Manager**	**Status: the Secretariat considers that this recommendation is not implementable in the current context** **Explanation:** Following further discussions on this recommendation, the Secretariat considers that the recommended approach would in some cases contradict WHO guidelines and run the risk of affecting drug quality assurance and interrupting the supplier-users liability chain. In the few cases where the Secretariat was consulted by PRs on this issue, the Secretariat has recommended the transfer of drugs only if conducted in full accordance with the WHO guidelines for drug donations.
		- As mentioned, the paper currently under EMT review addresses a number of ways to deal with	**CP Office of the**	

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		stock-outs.	**Directors** **Dec. 2009**	
	Recommendation 13 (Significant) *The* Global Fund *should develop policy to guide PRs on the contracting and management of procurement agents. As is the case where countries cannot find a suitable PR and a UN agency is asked to assist for a limited time, agents should also be used for an agreed time so that PRs are encouraged to build their own capacity*	**Proposed additional Measures** - The VPP service will address this issue by offering the use of a procurement agent and the necessary assistance to build capacity (CBS). However, since a number of PRs use procurement agents and may not opt to join the VPP, we believe that some guidance on the contracting of a PA (and suppliers) would be useful. The Procurement Unit will be working on this issue and will share an approach before the end of 2009. - The Procurement Unit will also revive work on a list of standard contract clauses for PRs to consider and/or build upon (without any requirement to actually use them) when contracting procurement agents. *Proposed completion: end of 2009.*	**VPP/PHPM manager** **Dec 2009**	**Status: Ongoing** **Explanations:** 1. The VPP service now offers the use of a procurement agent, and assistance to PRs to build their PSM capacity. The approach to this, and more general guidance to PRs on contracting Procurement Agents, has been issued by the Secretariat at the end of 2009. 2. While the Secretariat's original response mentioned upcoming work on "a list of standard contract clauses for PRs to consider when contracting procurement agents", this work has not taken place.
	Recommendation 14 (High) *The appropriateness of storage facilities is part of the LFA assessment. LFAs do not usually highlight this as a serious capacity issue that needs addressing and should do so where appropriate in future. This aspect usually would need to be addressed in conjunction with Governments and other donors. Linkages therefore with other stake holders need to be built by the CCM to address identified storage related issues.*	**Existing mitigation** - The LFA PR Assessment tools and templates include specific questions on storage facilities which the LFA has to address in its assessment. - The Pharmaceutical and Health Products Management (PHPM) assessment tool which guides the LFA's assessment of the PR has a specific section (F), which includes 12 questions on receipt and storage. LFAs are, therefore, requested to assess storage facilities as part of the PHPM assessment. - The revised QA Policy makes reference to the Interagency Guidelines titled "Model QA for procurement agencies" that includes a module on "receipt and storage of purchase products" and "Guidelines for good storage practices". **Proposed additional Measures** Moving forward, the PHPM Team has indicated it would reject any LFA Report not including an adequate assessment of the storage facilities; it will	**PHPM Manager**	**Status: Ongoing** **Explanations:** The Pharmaceutical Management Unit has conducted a workshop in December 2009 dedicated to LFA PSM experts, where the importance of good storage practices was specifically discussed within the broader need to ensure adequate capacity at country level to manage pharmaceuticals according to international standards. The Secretariat submits that this workshop in many ways addresses the OIG recommendation, though without addressing the "additional measures" proposed in our original response, and on which progress has not been made.

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		also ensure, together with FPMs, that any issues affecting storage facilities are treated as a high priority. [[For now this will not be implemented through an OPN but through an improved procedure (systematic attention to the issue) by the PHPM team. Based on future results, the Secretariat will consider alternative measures if this proves to be insufficient.]]	**Ongoing, starting immediately**	
Salaries and allowances paid out of Global Fund grants	**Recommendation 15 (Significant)** *The* Global Fund *should develop a policy to guide the payment of salaries and allowances by PRs and SRs at country level*	**Existing mitigation** - In January 2009, the Operational Policy Committee approved an approach document on Coordination of Salaries and Compensation. It aims to make the PSC endorsed approach to salaries and compensation operational. - According to the adopted approach, countries should provide evidence on how the salary levels proposed by the grant are harmonized nationally or based on an interagency framework. **Proposed additional Measures** - The roll-out of the policy will take place at the time of grant renewal reviews and through negotiations of new grants. It is therefore staggered and – taking into account the 2+3 years current grant lifecycle — will be fully in place, for all grants, in a maximum of three years.	**CP – Office of the Directors** **Dec 2012**	**Status: Started** **Explanations**: While the overall approach to the payment of salaries has been approved (see column on the left), and while changes in the Global Fund's approach to salaries have recently taken place in a number of countries, the roll-out of the policy has not yet taken place. The policy is likely to come into full effect at the time of *grant renewals* (Phase 2 process) and *grant negotiations* – starting with Round 10 – with an inclusion of salary-specific guidance in the Round 10 Proposal Form and Guidelines. Detailed budget guidelines (to be finalized in March 2010) for PRs, LFAs and the Country Teams, now reflect this policy.
Financial Management Systems	**Recommendation 16 (Significant)** *Since the* Global Fund *fiduciary arrangements require the LFA to assess and monitor the adequacy of the PR's financial management systems, the Secretariat should review the adequacy of the PR assessment and verification of implementation tools*	**General** As part of the Country Team approach for grant negotiations, there is already significant interaction between the Secretariat's Program Finance team, regional teams and the LFA in generating further in-depth information and analysis on top of the LFA PR FPM assessment and specific to the implementation context and perceived risks for each grant. **Existing mitigation** Given the LFA's central role in alerting the Global Fund on key issues/risks that may impact grant		**Status: ongoing** **Explanations:** 1. The PR assessment tools and guidelines were comprehensively updated in December 2009, and the updated tool will be used for Round 9 assessments. The Financial Management Systems (FMS) tool now includes an increased focus on PR audit plans and arrangements, in line with OIG recommendations. The updated package includes a new M&E Checklist and Budget Review Checklist. The new assessment format enables a more risk-based approach for the LFA and the

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	currently in use so that the LFAs are required to undertake more depth reviews with the aim of identifying risks	performance, the Global Fund has improved the way in which it is (i) ensuring that LFAs have the required financial expert skills; (ii) evaluating the performance of LFAs through the newly developed LFA Performance Evaluation Tool and through in-country evaluations and case studies; and (iii) providing LFAs with guidelines and training		Secretariat's Country Team in setting the scope of the LFA's assessment.

2. The LFA and PR sections of the PU/DR tools have been strengthened, in particular around the LFA's review of Principal Recipient financial management capacities and systems. The new tool will be piloted in early 2010 with a comprehensive roll-out planned in the second half of 2010.

3. The LFA guidelines for annual audits of financial statements are being comprehensively updated, for launch by April 2010.

4. The LFA performance rating tool (PET) was launched in January 2009 after 18 months of development and testing. Through the PET, the Secretariat rates key LFA deliverables against defined quality criteria, and provides structured performance-feedback to the LFA. The PET tool will be upgraded by May 2010 to facilitate easier use of the tool by Secretariat teams and help ensure that PET becomes a normal part of the Secretariat's work in 2010.

5. In-country evaluations and case-studies of LFAs were launched by the Secretariat in June 2009 to evaluate LFA methodologies, quality assurance, resourcing, and in-country communications in specific countries or across similar implementation environments (e.g., SWAPs, high-risk countries, poor performing grants, etc). The aim is to strengthen the quality and relevance of the LFA terms of reference and to identify best practice approaches. Three evaluations were completed in 2009. A further 15 evaluations and case-studies are scheduled for 2010.

6. The Secretariat will implement formal mid-term performance evaluation of LFAs by June 2010. The evaluations, informed by PET, in-country evaluations, feedback from Secretariat teams, and OIG reports, will be carried between months 18 and 24 of the LFA's contract.

7. The Secretariat has recently changed the LFA in five countries due to poor performance. It is expected that more countries will undergo LFA re-tendering by mid-2011, |

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				particularly in response to the outcome of the LFA's mid-term evaluations.
		Proposed additional Measures A number of measures are underway to ensure the improvement and depth of LFA reviews: - As discussed above, the LFA and PR sections of the PU/DR tools are being strengthened, including references to the PRs Financial Management Systems (FMS). - The FMS component of the PR assessment tool was comprehensively updated in December 2007. It will be reviewed again in preparation for Round 9. - The reporting tools and guidelines for the LFA Phase 2 process are planned for revision in 2009.	**CP – Local Fund Agent Manger** **Dec. 2009**	
Monitoring and Evaluation	*Recommendation 17 (High)* *(a) In order to ensure that performance based funding is effective in* Global Fund *grants, Country Programs should work with the Monitoring and Evaluation team to strengthen the policy on monitoring and evaluation and its operationalization. PRs should have approved M&E plans that cover as a minimum:* • *Defined responsibility for monitoring at PR, SR and PI level;* • *Well defined indicators and targets;* • *Methods of data collection for*	**General** (a) — M&E plans are a prerequisite to signing grant with the Global Fund. In exceptional cases this requirement is included as a condition precedent before second disbursement. Work is continuously being done in cooperation with partners to improve the quality of these M&E plans. - Country Programs and the M&E team constantly work together in the Country Team to ensure that PRs have M&E plans that will allow them to effectively carry out monitoring and evaluation activities. - This work is guided by Global Fund M&E Plan Guidelines which describe the minimum requirements for M&E plans. - Among others aspects, these requirements include well defined indicators and targets, a description of data collection, analysis and reporting systems, data quality assurance mechanisms and M&E budgets. The M&E Plan Guidelines are available in the Operational Policy e-Manual.	**CP Director** **Mar. 2010** **SPE – PIE Manager** **Apr 2010**	**Status: Ongoing** **Explanation:** Points under a) and b) are either partially or fully completed; when they are only partially completed, work is solidly underway. Regarding point c), two comments can be made: 1. Guidelines relating to funding decisions and to the grant-performance rating methodology have been rolled out and used in regional trainings of PRs and LFAs. The finalization of a Performance Based Funding manual encompassing all existing Performance Based Funding policies has been delayed, but should take place during the year 2010. 2. The Secretariat recognizes that work needs to pick up on ensuring better compliance with the OPN on the Grant Rating Methodology. Two mechanisms have already been put in place to mitigate risks associated with large disbursements for poorly performing grant: i. When two successive disbursements are outside the range recommended by the rating methodology, the second disbursement has to be validated by senior management;

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	reporting; • *Accumulation of data for reporting;* • *Verification of data reported;* • *Comparison of programmatic and financial data; and* • *Site visits to the SRs and PIs.* *(b) The involvement of public health specialists during LFA verification of implementation should be mandatory with LFAs providing comments not only on the quantitative but also qualitative aspects of the results reported by the LFA.* *(c) The policy on disbursements by the* Global Fund *where results have not been met should be strengthened. It should clearly cover when and how exceptions can be made in the light of poor performance.*	- Indicators in grants are primarily defined using the M&E Toolkit which encompasses a wide range of standard indicators selected and agreed upon by technical partners (UNAIDS, RBM-MERG, and STOP TB). - The process of site visits to SRs is generally described in M&E plans. Furthermore, LFAs are responsible for conducting on-site data verifications of reported results for both SRs and PRs as described in the OPN on On-Site Data Verification available in the Operational Policy e-Manual. These OSDVs also provide insights into operationalization of the M&E plan by assessing compliance in reporting with respect to the operational definition of the indicators. **Existing mitigation** (b) — As part of the latest tender for LFAs, it is a requirement that all LFA teams have an M&E specialist as well as specialists in public health. - Furthermore, these LFA have all been recently trained by Global Fund M&E Officers in Global Fund M&E standards, policies and practices using a standard developed curriculum. - The LFA and PR sections of the PU/DR tools are being updated and revised. The new PU/DR draft requires LFA health experts to provide greater inputs on qualitative aspects related to the progress reported by the PR. **Proposed additional Measures** (c) – The SPE Cluster is currently drafting guidelines on PBF, for completion before the end of the year. - We recognize that although the OPN on Grant Rating Methodology clearly describes how the performance based funding mechanism needs to deal with poor performing grants, the OPN has not		ii. One of the KPIs reported to the Board measures the difference between the disbursement rates of well-performing grants and that of poorly performing ones.

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		always been complied with. The Country Programs Cluster will liaise with SPE to ensure full compliance with the OPN. *Expected completion: Q1 of 2010.*		
Pass through PRs	**Recommendation 18 (Significant)** *(a) Country Programs should put in place guidelines about assessments and oversight management of pass through PRs as is the case when Multilateral Organizations are PRs. (b) In cases where a ministry or ministry department is a SR of an NGO, Country Programs should require the LFAs to undertake such SR assessments and also assess how the relationship will be managed. (c) During assessments of "pass through" PRs, LFAs should be required to provide detailed process flow of funds and operations of other in country processes through which* Global Fund *programs are going to be implemented. Extra layers that do not add value in the funding process should be eliminated. Roles and responsibilities of PRs and SRs should be clearly*	**General** - We agree with the need to better assess the added value of pass-through PRs and processes surrounding them. - We also agree that LFA assessments of SRs need to be better tailored to the level of risk or funding, and (thus tailored) need to happen more often than they do at the moment. **Proposed additional Measures** - The Secretariat will continue to review its policies related to SR assessment and oversight, and the OPC will discuss again the issue of LFAs assessments of SRs (and decide whether to bring it back to the Board) in the beginning of 2010. - The Secretariat will work towards ensuring that FPMs and the Country Teams are more proactive in asking LFAs to tailor their assessments to specific situations. This will start with a communication from the Director of Country Programs to Team Leaders and FPMs in the third Quarter of 2009. - Regarding pass-through PRs (recommendation 18.c), the LFA team will be communicating with Regional Teams and LFAs to explore how to take the OIG's recommendation forward. We will have an update on this by November 2009.	**CP – OPC** **CP – Team Leaders** **LFA manager**	**Status: not started (actions are respectively *not started, ongoing,* and *not started*)** **Explanations and further action:** **In relation to point (a):** The guidelines on the assessment and management of pass-through PRs have not yet been put in place. The Secretariat will deliver such guidelines before the end of September 2010. **In relation to (b) and (c):** − The updated LFA section of the PR assessment tool requires the LFA to asses that "Pass-Through PRs" have adequate systems in place for the transparent and efficient flow of funds to SRs. − The OPC has not yet discussed SR assessments (e.g. in cases where SRs manage a material portion of the funds) and will do so in one of its meetings before June 2010.

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	defined and assessed by the LFA for effectiveness. In this way, bottlenecks will be identified and solutions sought before grant signing.			
Slow Program implementation	***Recommendation 19 (High)*** *Country Programs should consider setting criteria to determine SR materiality and require LFAs to assess capacities and monitor their performance e.g. if a SR was responsible for say 30% of program implementation in a particular program, it would be critical that the SR has the necessary capacity to implement program activities. Such an SR would have to be subject to an LFA assessment to determine its capacity to implement. Country Programs should develop more detailed guidelines on SR assessment to guide PRs in assessing SRs in sufficient depth*	**General** - See comments on Recommendation 18, including our general agreement with the need for more work in this area and our commitment to take this issue forward. - In April 2007, the Board recognized that the primary responsibility for SR oversight resides with the PR (decision point GF/B15/DP50). - During implementation, on-going LFA verification through ad-hoc site-visits and structured on-site data verifications help verify the quality of data at service delivery points that is reported by SRs and PRs. Depending on the risk profile of the country/grant the Secretariat can request the LFA to exercise a more prominent oversight role vis-à-vis the SRs. - This is, for instance, applied in all Additional Safeguard countries (including LFA assessment of SRs). **Existing Mitigation** - To ensure that PRs have adequate capacity and systems for SR oversight, the Secretariat updated the standard PR assessment tools in December 2007 to include a more comprehensive and prominent assessment by the LFA of the PR's management and oversight of SRs.	CP	**Status: not started** **Explanation:** 1. As part of the LFA service-planning process for 2010, the Secretariat is reviewing with LFAs the need for – from a risk management perspective – additional SR assessment in each country. As a result, a higher number of LFA assessments of SRs is planned in 2010 compared to 2009. 2. However, as indicated above (recommendation 18) The OPC has not yet discussed SR assessments, and will do so in one of its meetings before June 2010.
Adequacy and quality of the	***Recommendation 20 (High)*** *LFA TORs should reflect the risks identified at country level. In this way, the reviews of the*	**General** - There is significant scope for FPMs and LFAs agreeing to tailor/customize the LFA reviews and ad hoc services, to match the specific grant environment		**Status: Ongoing** **Explanations:** This recommendation can be divided as follows: **20.a: adapting LFA TORs to specific risks**

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work done by the LFAs	*LFA will be relevant and help identify critical issues, and help inform, as a starting point, further LFA country and grant specific works.* *LFAs should not change proposed staff without the requisite approval by the Global Fund. In cases where staffs are to be replaced, they should be of equal or better experience.* *As far as practical, Country Programs should not contract LFAs to undertake work that results in a conflict of interest. In cases where this cannot be avoided, measures should be instituted to mitigate risks arising from conflict of interest.*	and country level risks. **Existing mitigation** - Under the new LFA work order contracts, LFAs are required to alert the FPM to any staff changes in country and to submit the CV of any proposed new key staff member for prior approval by the FPM. LFAs are required to submit CVs that meet the set qualifications and experience required for the position. - Conflict of Interest (CoI) guidelines and contractual provisions require LFAs to avoid any CoI situations and to alert the Global Fund of any potential or real CoI. Training was provided on this topic to all LFAs in 2008/2009, with plans to renew such training in 2010, at a minimum for newly appointed LFAs. - Since 2006, the LFA Management Team has been coordinating the decisions on each CoI query raised by the LFAs through an internal CoI group (composed of Legal, Program Finance, Corporate Procurement and FPM) and, in complex cases, through the Best Value Group. **Proposed additional Measures** - We view this issue as linked to Recommendation 18 (broadly: adapting LFA work to different grant and risk environments) and will deal with the two along the same timeline to come up with an improved process.		1. The Secretariat, in collaboration with LFAs, continues to adapt the LFA's role to its context and to the Secretariat's evolving policies and requirements. Recent adaptation include the release of the updated PR assessment report template and guidelines for Round 9 (Dec. 2009); publication of new LFA TORs for NSA and AMFm grants (Jan-Feb 2010); revision of the LFA Phase 2 review tool (in progress) including an increased focus on the LFA verification of pharmaceutical management systems; work on the LFA reporting tool to review PR audit reports (to be finalized in March 2010); and rollout of the new Progress Update and Disbursement Request forms. 2. LFA tools are putting an increased emphasis on risk management. Two recently updated tools (Round 9 PR assessment tool and updated PU/DR tool) require LFAs to identify risks in the grant and implementation environment, and to agree with the Secretariat on the scope and depth of their verifications. 3. As part of the Secretariat's Country Team Approach to grant signing, early meetings of the Country Team aim at adapting the LFA's PR Assessment TORs to contextual needs. **20b: Managing potential LFA Conflicts of Interest** (<u>Please note</u> that the two first points below refer to actions taken, or processes in place, before the Office of the Inspector General released its Lessons Learned report.) 1. LFAs have the contractual obligation to avoid conflicts of interest and to alert the Secretariat to any potential conflict situation in a timely manner (self-reporting, as set in the November 2008 guidelines). The review of any potential Conflict of Interest situation is being coordinated by the LFA Management team and includes the COI group, composed of representatives from Legal, Program Finance team, Corporate Procurement team and the relevant FPM. Complex cases are referred for decision to the Best Value Group, composed of the Cluster Directors of CP, Finance and Corporate Services.

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				2. All LFAs attended a training session on conflicts of interest during the LFA training workshops of 2008/09. 3. As part of the LFA mid-term performance evaluation, to be launched in June 2010, the Secretariat will evaluate LFAs on a number of cross-cutting issues, including conflict of interest.
Secretariat oversight Risk identification and mitigation procedure	**Recommendation 21 (High)** (a) *Country Programs should expand the scope of the risk management framework to include identification of likely events in country (i.e. at grant level) that are likely to affect Global Fund Investments. LFAs would be well placed to help identify such risks. The impact of these likely events should be assessed and mitigating measures put in place.* (b) *FPMs should determine the critical success factors at grant level to identify areas that need remedial action in order for the grants to succeed and to guide the level of effort required in oversight and risk management.*	**Existing mitigation** - Country Programs risk management already includes identification of likely events that may affect Global Fund investments, which includes work of the LFA. The LFA's PR Assessment includes identification of risks at grant level. - The Disbursement Decision Making Form (DDMFs) allows FPMs to document ongoing issues which may present risk areas in M&E, Finance, Procurement and other from external factors. - As part of the 2009-2010 Action Plan, Country Programs has rolled out a system of regular management letters to address remedial actions. Through these letters, Country Programs documents recommendations and follow up through LFA reports. , - Countries with a high level of risk are subject to the Additional Safeguard Policy.		**Status: Ongoing** **Explanations:** 1. In 2009, a country-risk management model was developed in line with the Global Fund's risk management framework; a brief including recent action to mitigate risk is updated – for every country – twice a year since early 2009. 2. A risk-register at Secretariat-level captures top risks and required action, with regular reporting to the EMT and Board Committees. **Proposed additional action**: 1. The Secretariat recognizes the need for the country-level risk-management model to address grant-specific risks, and to build more on critical success and risk factors proactively identified by FPMs, LFAs, and Partners. Country Programs is currently working on improving the model, and will have an improved model by the end of June. 2. The Secretariat is in the process of developing an LFA Risk Framework, which aims to ensure that LFA work is better tailored to implementation contexts.
		Proposed additional measures - New forms for the PR and LFA (PU/DRs) are being elaborated to increase further the information available to FPMs for DDMFs (see above).	**CP Cluster Director, , PU/DR review Group**	
		- The Secretariat has a special working group on risk management, developing a matrix to identify risks in a systematic way at country level. The work is ongoing and will lead to further risk mitigating	**CP Cluster Director**	

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		measures being developed, based on the capacity of the country, the nature of grants, and the national geo-political context.		
		- The risk management tool developed by the Director of Country Programs office is used periodically by each geographic unit and remedial actions decided. Overall monitoring is done by the Cluster Director to ensure the timeliness of assessment as well as impact mitigation measures. [Ongoing]	**CP Cluster Director**	

| Process to implement audit recommendations | Recommendation 22 (High) The responsibility for actioning the recommendations lie with the Secretariat. The Secretariat should develop a defined process to manage the receipt of the draft report, processing of Secretariat and country recommendations, development of an action plan and follow up of the implementation of audit recommendations | Agreed. The Secretariat will develop a process for response to OIG reports by Q1 of 2010 – with support from the Operational Risk Officer (joining 1 September 2009). In the meantime Unit Directors, with support from the Country Programs Support Team (Directors' Office) will continue to coordinate responses to audits and recommendations. | CP – Office of the Directors

Mar 2010 | Status: started

Explanation:

a. The Secretariat and the Office of the Inspector General have worked together over the last year on the development of two Protocols – one on audits and one on investigations – defining the process through which the Secretariat and country-level actors receive the OIG's draft report, process recommendations, develop action plans, and follow up on its implementation.

Proposed additional action: the two Protocols will be finalized and adopted before the end of March 2010.

b. The Secretariat, however, still lacks a system through which the implementation of proposed improvements to its operations and processes (including those recommended by the Office of the Inspector General) can be systematically tracked and monitored.

Proposed additional action: Under the overall supervision of a Committee composed of Cluster Directors and the Deputy Executive Director, the Secretariat is currently considering the establishment of a taskforce, drawn widely from the Country Teams, to drive work on OIG-related findings and recommendations. While precise terms of reference have not yet been discussed at Executive Management Team level, the taskforce might eventually focus on some of the following:

i. Organizing and institutionalizing interactions between the Secretariat and the Office of the Inspector General:

−   Better definition of roles and responsibilities within the Secretariat, including focal points and communication-lines;

−   Clear outline of OIG-related interactions and communications, both within the Secretariat and with countries.

ii. Improving follow-up on OIG recommendations:

−   Stock-taking of all OIG recommendations and implementation status;

−   Work-plan and timeline (shared with the OIG and the FAC) for full implementation; |

				– Routine monitoring of the work-plan's implementation, including reports to the Office of the Executive Director.

iii. Developing a Secretariat approach to identify and address strategic gaps in its grant-making model:

– Stock-taking of long-standing strategic issues affecting grant-operations;

– Prioritization, development of a schedule, and monitoring of progress.

iv. Analyzing and addressing shortcomings in the country-level responses to OIG findings and recommendations:

– Stock-taking of best-practices and key bottlenecks in country-level responses to OIG recommendations;

– Outline of needed improvements (e.g. expanded CCM guidelines on addressing OIG findings; development of an LFA risk-management framework; etc.)

– Development of a schedule.

v. Improving ownership and communication:

– Focusing on improving communication with and between all parties concerned in delivering on OIG findings and recommendations (including PRs, CCMs and partners) to ensure ownership, commitment, appropriate assignment of responsibility, leveraging technical assistance;

– Coordinating regular reporting to the FAC and its sub-committee on progress in addressing OIG findings and recommendations.