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The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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GF/B21/12
For Information

SECRETARIAT FOLLOW-UP ON INSPECTOR GENERAL FINDINGS AND RECOMMENDATIONS

OUTLINE:

This paper is prepared in response to decision point GF/B20/DP21, “Office of the Inspector General Reports.” The paper was presented to the Finance and Audit Committee at its 14th meeting and is now being presented to the Board for information.

INTRODUCTION

1. Decision point GF/B20/DP21, reproduced below (with numbering and emphasis added), raised questions around (i) the Global Fund's response to the Office of the Inspector General's (OIG) Lessons Learned report and (ii) the overall process through which the Secretariat addresses OIG findings and recommendations:

i. The Board notes the reports of the Office of the Inspector General (OIG), in particular the OIG Report on Lessons Learned (TGF-OIG-09-002), and the Secretariat's response contained in such reports. The Board stresses the need to ensure that the response to the findings and recommendations of the OIG will be prioritized and fed into the overall planning and work of the Global Fund, including grant operations.

ii. The Board notes that the Secretariat is responsible for monitoring and reporting on the progress made in following up on findings and recommendations of OIG reports to the Finance and Audit Committee (FAC). The OIG, in turn, separately provides assurance on the progress made to the FAC. The Board requests that these reports are provided to the Board at its 21st meeting and that the Secretariat also provides a report to the Board describing the process that is followed to address the findings and recommendations of the OIG reports, including (i) a description of the protocols on coordination between the OIG and the Secretariat and (ii) considerations on the roles of implementers, partners, CCMs and LFAs.

In response to this decision, the paper is divided into two sections:

2. Section I describes the process followed by the Secretariat in addressing OIG findings and recommendations, and the improved approach that the Secretariat, in collaboration with the OIG, is currently putting in place.

3. Section II describes the Secretariat's follow-up on the OIG Report on Lessons Learned and, building on the case of Tanzania, describes a country and Secretariat response-process to an OIG audit report.

SECTION I. PROCESS FOLLOWED BY THE SECRETARIAT IN ADDRESSING THE INSPECTOR GENERAL'S FINDINGS AND RECOMMENDATIONS

1. Part 1 describes the context of decision point GF/B20/DP21; Part 2 describes how the Secretariat currently carries out its responsibility for “actioning OIG recommendations”, and the challenges it faces; Part 3 presents ongoing and proposed improvements to the current approach.

PART 1. INSPECTOR GENERAL-RELATED MATTERS AT THE TWENTIETH BOARD MEETING

1.1. It has been a long-standing focus of the Finance and Audit Committee and of the Board itself to ensure that the Secretariat is sufficiently proactive in prioritizing OIG findings and recommendations into its mainstream work, planning, and grant operations.

1.2. Three concerns have been raised in this regard by the Inspector General and the FAC Sub-working group on OIG matters:

- i. An overall low implementation rate of OIG recommendations;
- ii. Concerns around the Secretariat's commitment to improve its processes and approaches in response to OIG findings and recommendations; and
- iii. Weaknesses within the Global Fund model, in particular around the work of LFAs, CCMs, Principal Recipients and sub-Recipients, and the Secretariat itself.

1.3. Recommendation 22 in the Inspector General's report on Lessons Learned addresses the same points by stating:

The responsibility for actioning the [Office of the Inspector General's] recommendations lies 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

1.4. Through decision point GF/B20/DP21 the Board needs to receive assurance that the Secretariat is indeed treating the issues and recommendations identified by the Inspector General with due seriousness, that recommendations are followed up on and implemented, and that the Secretariat's approach is systematic and proactive rather than reactive or *ad hoc*.

PART 2. SECRETARIAT RESPONSE TO OIG FINDINGS AND RECOMMENDATIONS

2.1. While a number of Inspector General findings and recommendations address specific in-country situations, others address the Global Fund model itself. This distinction is important to keep in mind when discussing the Secretariat's capacity to identify and act on risk, ensure implementation of OIG recommendations, and improve its own systems and processes.

OIG recommendations addressing specific in-country situations

2.2. Recommendations addressing in-country situations range from the identification of weaknesses in grant management (e.g. weak procurement capacity at Principal Recipient level) to cases of mismanagement of funds (e.g. non-supported expenditures, fraud, etc). While all such recommendations are important, it is nevertheless pertinent to distinguish between these two types

of situations in reviewing follow-up on recommendations, as some can be implemented in the short-term whereas others may require longer-term action.

Implementation status of country-focused recommendations

2.3. A major comment made by the Inspector General at the Addis Board Meeting concerned the low level of implementation of OIG recommendations. The Inspector General noted that as little as 48 percent of recommendations stemming from six country-audits, as reviewed in the Lessons Learned report (Table 1), had been documented by the Secretariat as fully implemented - bringing into question the Secretariat's oversight of country-level follow-up on OIG matters and the Secretariat's capacity to engage CCMs, PRs, and other partners in the delivery of improved grant-management outcomes:

Table 1: Audit recommendations implementation status - reproduced from the Lessons Learned Report, Sept. 09

Current Status	Indonesia	Zambia	Sierra Leone	Bolivia	Kenya	Total	%
# of recommendations	9	6	15	19	17	66	100%
Implemented	8	5	4	15	0	32	48%
Partially Implemented*	1	0	7	3	7	18	27%
Not Implemented	0	1	4	1	10	16	24%

* *Partially implemented* recommendations are those for which significant implementation work is underway.

2.4. As of February 2010 (i.e. six months after the Lessons Learned report was issued) the implementation-rate of these 66 recommendations stands at 73 percent - a clear improvement over the September 2009 rate. The updated table now stands as follows:

Table 2: Audit recommendations in the Lessons Learned Report - updated implementation status Feb. 2010

Current Status	Indonesia	Zambia	Sierra Leone	Bolivia	Kenya	Total	%
# of recommendations	9	6	15	19	17	66	100%
Implemented	9	6	8	19	6	48	73%
Partially Implemented	0	0	7	0	10	17	26%
Not Implemented	0	0	0	0	1	1	2%

* *Partially implemented* recommendations are those for which significant implementation work is underway.

2.5. By the beginning of February 2010, however, seven new reports with a total of 357 recommendations had been issued by the OIG (Table 3):

Table 3: breakdown of 357 recommendations made by the Inspector General

Title of Audit Report	Total
Report on the Review of Principal Recipient audit arrangements	37
Report on Lessons Learned from the country audits and reviews undertaken	22
Procurement, supply Chain Management, and Service Delivery of Global Fund's Grants to the Government of India	72
Review of LFA Tendering Process	17
Review of suspension and termination Processes	36
Audit Report on Global Fund Grants to Tanzania	66
Country Audit of Round 5 Global Fund Grants to Zimbabwe	107
Grand Total	357

2.6. Of these recommendations, 76 were aimed at the Secretariat and are discussed in Table 5 below. Of the remaining 281 OIG recommendations (aimed at country-level actors), 126 (45 percent) have been fully implemented, with another 42 percent on track to being met within the agreed timeframe:

Table 4: Implementation status of OIG recommendations made in country-reports (total: 281)

Audit Report	OIG report on India (Sept. 09)	Follow-up report on Uganda (Sept. 09)	Tanzania Audit (June 09)	Zimbabwe Audit (March 09)	Total	%
# of recommendations	72	36	66	107	281	100%
Fully implemented	28	12	16	70	126	45%
Partially implemented*	43	17	39	20	119	42%
Not Implemented	1	7	11	0	19	7%
Not Applicable	0	0	0	17	17	6%

* *Partially implemented* recommendations are those for which significant implementation work is underway.

Secretariat and country actors involved in OIG-related follow-up

2.7. The role of Principal Recipients, Country Coordinating Mechanisms, Local Fund Agents, and country-level partners, is key to translating OIG findings and recommendations into actions and impact. We present these below, starting with the Secretariat-OIG interactions in relation to country-level audits.

2.8. Working with the Office of the Inspector General is an integral part of the Secretariat's wider work on risk management. Local Fund Agents and Fund Portfolio Managers are under the obligation to refer to the Office of the Inspector General any case or suspicion of high-risk situations - including financial mismanagement or potential fraud and corruption. Several audits and investigations conducted by the OIG in the last two years were launched following such referrals.

2.9. The low implementation-rate of OIG recommendations, while real in a number of cases, should not be misread for Secretariat acceptance of unmitigated risk. Where OIG recommendations have touched upon immediate risk for Global Fund resources (as was the case recently in the Philippines, Mauritania, or Mali) the Secretariat has put in place immediate and comprehensive measures to safeguard its assets and protect patients' access to treatment. In addition, the Executive Director and the Inspector General informed the Chair and Vice-chair of the Board of the situation and actions taken as requested by the Board. This demonstrates that the Secretariat's rate of delivery against OIG recommendations is in direct relation to the nature of the threat identified: adequate when the situation to be addressed poses an immediate threat to funding and programs, but not satisfactory when longer-term but nevertheless critical improvements are at stake.

2.10. The Principal Recipient, often the 'auditee', is responsible for developing and implementing the action-plan addressing the OIG's recommendations, with the Country Coordinating Mechanism's and Fund Portfolio Manager's support and oversight. The Fund Portfolio Manager will in particular track and document implementation progress (through a tracking sheet maintained by the Country Programs Support Team, and soon through a system provided by the OIG), indicating the status of each recommendation. Based on information received from the Secretariat, the OIG auditor will in turn follow up on the findings of the audit report to determine whether the problems identified have been resolved.

2.11. Having oversight of Global Fund-funded programs, Country Coordinating Mechanisms are called upon to play a key role in supporting response and action to OIG reports - including coordination and facilitation of a broad and inclusive response, consistency with the interests of country stakeholders, and adequate communication and planning. While the Secretariat recognizes

it has not sufficiently focused on CCMs' OIG-related role, important improvements are underway to reinforce the Country Coordinating Mechanisms' oversight and convening role (some of which are detailed in Table 7) - which will contribute to better CCM supervision of country-level follow-up and implementation of OIG recommendations.

2.12. Multilateral, bilateral, and other Partners, including those within and outside of the CCM, are key actors in a country's response to OIG findings and recommendations, serving as a technical reference in the country's effort to establish a work-plan, helping secure Technical Assistance to help implementers fulfill their commitments, and providing support to the Global Fund's Fund Portfolio Managers in getting a more refined understanding of contexts and situations. The Global Fund's move to a new grant-making architecture, including periodic reviews conducted on the basis of the entire Global Fund financed activities, and aligned to countries' review cycles, will contribute to increase the involvement and accountability of partners.

2.13. The Secretariat relies on Local Fund Agent information and intelligence to monitor the adequacy of actions put in place in response to the Inspector General's recommendations, as well as levels of implementation against the agreed work-plan. The Secretariat has been investing in increased LFA capacity in this regard, including through training sessions dedicated to the OIG.

2.14. It should be noted that LFAs in a majority of countries have been able to identify issues similar in nature to those picked up by the OIG, such as weak implementing capacity or systems, unclear data and reporting or gaps in management.

2.15. When the Secretariat's experience or the Inspector General's audit shows that LFAs *do not* perform their in-country verification role to the required standards, the Secretariat has the prerogative to replace LFAs. In 2010 alone, LFAs have been changed in five countries, with several more replacements under consideration.

Recommendations addressed to the Secretariat

2.16. Eight years after the creation of the Global Fund, the Secretariat accepts that it has not done all it could have done to systematically tackle issues related to its grant-management processes. The Office of the Inspector General, with its increased, intense scrutiny and tight documentation of findings and recommendations, regularly draws attention to long-standing systemic issues that the Secretariat, caught in a constant fire-fighting mode, has not been able to adequately address.

2.17. An additional challenge lies in the Global Fund's need to prioritize long-term actions, i.e. balance scarce resources and depth/breadth of action. Two examples in the Lessons Learned Report illustrate this point:

- i. The monitoring of Principal Recipient compliance with all grant conditions and applicable laws would no doubt help to ensure orderly grant implementation. In the current set-up of the Secretariat, however, such monitoring would be difficult to achieve as it may divert country-level resources from program work and risk altering the Global Fund model. It is therefore a question of prioritizing those key grant conditions for which non-compliance poses the greatest risk, and regularly reviewing this prioritization;
- ii. Issues related to tax exemptions and the verification of additionality of funding are key to the Global Fund's management of grants, but cannot be easily resolved at the level of the Secretariat or the Principal Recipient. The Secretariat is setting up a Working Group to look at these questions in more depth and clearly articulate what the Secretariat believes can

be done in these areas - possibly for an ultimate Board decision (see GF/B21/12 Attachment 1).

2.18 Three OIG reports focusing on the Secretariat, all dated September 2009, have made a total of 76 recommendations; Table 7 (Section II) summarizes the status of 22 recommendations made under the Lessons Learned Report. As detailed in the table below, the current percentage of recommendations fully implemented stands at 14 percent, with an additional 78 percent on track to being completed within the next three to six months (i.e. in several cases outside of the agreed timeframe):

Table 5: Implementation status of OIG recommendations targeting the Secretariat (total: 76)

Audit Report	Review of PR audit arrangements (Sept. 09)	Lessons Learned (Sept. 09)	Review of Local Fund Agent Tendering (Sept. 09)	Total	%
# of recommendations	37	22	17	76	100%
Fully implemented	2	0	9	11	14%
Partially implemented*	35	17	7	59	78%
Not Implemented	0	4	0	4	5%
Not Applicable	0	1	1	2	3%

* *Partially implemented* recommendations are those for which significant implementation work is underway.

2.19 In a number of areas, the Secretariat and the Board were already well aware of deficiencies and weaknesses in key functions of the grant model, including CCM oversight of implementation, sub-optimal use of technical assistance, variable quality of LFA services, variable quality of PR and SR reporting, challenges with the Global Fund model of total reliance on the Principal Recipient for oversight of Sub-Recipients, etc. Improvements in these areas are a continuing and key element of both the Board and the Secretariat's workplans.

2.20 While it is fundamental that the Secretariat now delivers on OIG findings and recommendations, a wider challenge is to ensure that (i) the Secretariat adequately communicates to the Board, the committees, and the Global Fund's stakeholders the work that the Secretariat is doing to improve key functions and systems and (ii) the Secretariat takes the lead in defining those areas where improvements are needed - rather than letting the schedule of improvements be exclusively driven by the outcomes of audits; this would include the identification and anticipation of issues, better strategic planning, and better delivery. These are areas in which the Secretariat is ready to deliver.

PART 3. MOVING FORWARD: IMPROVING THE SECRETARIAT'S IMPLEMENTATION OF OIG RECOMMENDATIONS AND FINDINGS

3.1. As a follow-up to the Twentieth Board meeting, and given the challenges described above, the Global Fund's Office of the Executive Director is now assuming direct responsibility for transforming the way in which the Secretariat prioritizes and carries forward OIG recommendations and findings, and more generally organizes itself to identify strategic gaps in its grant operations and implement improvements:

- i. Three cross-Secretariat taskforces are in the process of being set up to work on improved processes for disbursements and signing, and on a more systematic approach to prioritizing and implementing OIG recommendations;

- ii. The roll-out of two Protocols between the Secretariat and the Office of the Inspector General is imminent (March 2010); and
- iii. A reinforced Country Team Approach is being rolled out, aiming to ensure that OIG-related work is carried out as a Global Fund-wide responsibility.

Establishment of a Taskforce on OIG-related follow-up

3.2. Under the supervision of a Committee composed of Cluster Directors and the Deputy Executive Director, the Secretariat is in the process of setting up 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 agreed on, the following represent some of the focus areas:

- 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 partners and countries.
- ii. Improving follow-up on OIG recommendations:
 - Taking stock 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.
 - Interactions with the OIG around its validation and assurance role on progress-reports received, e.g. by providing the Inspector General with advance notice of status-reports.
- iii. Developing a Secretariat approach to identify and address strategic gaps in its grant-making model:
 - Taking stock of long-standing strategic issues affecting grant operations¹;
 - 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;

¹ This refers to issues identified by the OIG or by the Secretariat itself. Examples could include: quality of key Secretariat deliverables; ensuring that contracting arrangements are in place between PRs and SRs; transparency and coherence of overheads, management fees, and HQ fees; transparency and coherence of salaries and salary-schemes supported through Global Fund grants; clarity on assets/inventories at grant-level; Compliance with requirements on OSDV, PQR, and EFR; etc.

- Coordinating regular reporting to FAC Sub-committee on progress in addressing OIG findings and recommendations.

Protocols between the Secretariat and the Office of the Inspector General

3.3. To guide the Secretariat's interaction with the OIG, two protocols have been developed and agreed on by the Secretariat and the OIG, which will be rolled out in early March 2010. These protocols reflect best practices as well as lessons learned over the past two years and will continue to evolve based on experience during implementation. Both Protocols are appended to this paper as GF/B21/12 Attachments 1 and 2.

3.4. The Protocol on audits clarifies the working relationships between the OIG, the Secretariat of the Global Fund and relevant actors at country level. The protocol applies to OIG audits, reviews, and other assurance-work at the Secretariat or grant portfolio level. The protocol clarifies roles and responsibilities, discusses audit plans and types of audits, and provides a step-by-step description of the audit itself.

3.5. The table below summarizes the main steps of the process followed for audits - please refer to the Protocol of more detailed information:

Table 6: OIG audit steps (as described in the attached Protocol on Audits)

Stage	Steps	Timeline	Brief description
Planning	OIG sends an audit notification letter to the PR	Four weeks before start of the audit	In consultation with the Secretariat, the letter will cover the audit scope and timeframe.
	Audit planning	Before start of the audit	In consultation with the Secretariat, OIG determines risk areas, resources, deliverables, and prepares the audit plan.
	Entrance meeting between OIG and the <i>auditee</i>	Right before the audit	The meeting aims at confirming the audit scope, plan, and timetable, as well as confirming base information.
Execution	Performance of the audit	Over several days to several weeks	Auditor review information, interviews personnel, undertakes site visits, identifies and documents problems, discusses findings with the auditee and (when it is not the auditee) the Secretariat.
Reporting	Preliminary findings	After end of fieldwork (one full day prior to debrief with auditee)	For country audits, audit team provides the Secretariat with a summary of preliminary audit findings. Secretariat has one day to provide the auditor with comments on the power point presentation.
	Exit meeting between the auditor and the auditee	At the conclusion of fieldwork	In the presence of Secretariat representatives, discussion of findings and supporting facts, with an opportunity for the auditee to provide clarifications and factual corrections.
	Sharing draft report with the Secretariat	Within 5 weeks (approx) of audit completion	The OIG will (i) provide the draft report to the Secretariat with adequate time to provide feedback (usually 10 days), and (ii) review and integrate comments provided by the Secretariat.
	Releasing draft report	Within six weeks of completion of audit	A formal report detailing the results of the audit will be presented to the auditee for written comments.
	Country response to the draft audit report	Usually 3 weeks - or as agreed between the OIG and the auditee on a case-by-case basis	The response includes factual corrections, a response to the audit report and recommendations (annexed to the audit report), and a proposed Action Plan The Fund Portfolio Manager will provide support to the <i>process</i> of response by the country (ensuring that the country understands its duty to reply and to invest effort in providing a quality reply) but not the <i>content</i> of the reply
	Secretariat response to the draft audit report	As agreed with the OIG	Once the country has responded, the Secretariat will provide a separate response (including a high-level Management Response addressing the key overarching, strategic issues) and an Action Plan based on the proposed Action Plan prepared by the country.
	Final OIG Report	Upon receipt of the auditee/ Secretariat response	The final report includes the action plan (annex) and is posted on the OIG's public internet site within 3 working days after it is made available to the Board (with exceptions)
	Follow up	Follow up of audit report	

3.6. The Protocol for the Coordination of Allegations and Investigations outlines the coordinated approach that the Secretariat and the OIG adopt in cases where (i) allegations are received (or issues uncovered) by either the Office of the Inspector General or the Secretariat that relate to programs in country or to operations of the Secretariat; or (ii) the OIG has made recommendations to the Secretariat following or during an investigation.

Reinforcing the Country Team Approach

3.7. In its effort to improve its implementation of OIG recommendations, ensure shared responsibility and cross-Secretariat work in response to the OIG, and address some of the weaknesses within its own model, the Secretariat is undertaking to strengthen the Country Team Approach.

3.8. The Country Team Approach, originally set up to improve the effectiveness of the grant negotiations process, brings together all Secretariat actors involved in grant-operations to promote a culture of team work and accountability across Clusters and Units. The approach allows complex issues involving legal, financial, programmatic, procurement, and risk management aspects to be addressed holistically by a team of staff from all relevant Units of the Secretariat.

3.9. The Secretariat will, before the end of June 2010, develop terms of reference and detailed work-plans for the country teams, including a clear definition of roles and work processes in relation to the OIG. The approach will aim at making all team members equally accountable in relation to grant-management outcomes.

SECTION II: RESPONSE TO OIG REPORT ON LESSONS LEARNED FROM COUNTRY AUDITS

1. The Inspector General's Report on Lessons Learned² (September 2009) is a synthesis of findings of country-audits undertaken between 2006 and 2009, which aims to:

- i. address causes of common critical issues with a view to strengthen the grant making process both at the Secretariat and country level, and ensure that the risk that these issues will recur is mitigated; and
- ii. review the status of implementation of audit recommendations of country audits executed prior to 2008 to determine the adequacy and timeliness of actions taken in response to reported audit findings.

2. A full update on the implementation status of each recommendation (as of February 2010) is provided in GF/B21/12 Attachment 1 and summarized in Part 1 below. Following discussions between the Secretariat, the Inspector General, and the Chair and Vice-Chair of the Finance and Audit Committee, Part 2 presents an example of best practices in the Secretariat and country's response to an OIG audit: the case of Tanzania.

² Report on Lessons Learned from the country audits and reviews undertaken, Office of the Inspector General, Report No TGF-OIG-09-002, 3 September 2009, p.7

PART 1. SUMMARY OF ACTIONS TAKEN IN RESPONSE TO THE INSPECTOR GENERAL'S LESSONS LEARNED REPORT

1.1. Table 7 provides a summary of the implementation status of recommendations from the Lessons Learned report. In line with Section I of this paper, the Secretariat candidly acknowledges that insufficient action has been taken against a number of these recommendations, which will require more attention than they have received so far. The proposed approach outlined above (Section I, Part 3) will help the Secretariat systematize its approach and improve its delivery before the end of 2010.

- 1.2. The implementation of the 22 Lessons Learned recommendations³ stands as follows:
- Implementation work has not started: 4 recommendations
 - Implementation has started, but is not at an advanced stage: 5 recommendations
 - "Ongoing" (or advanced implementation) stage: 12 recommendations
 - Not Applicable: 1 recommendation

Table 7: Implementation status (Feb. 2010) of OIG recommendations made in the Lessons Learned report (total: 22)

Summary of OIG Recommendations	Status (Feb. 2010)
Rec. 1 (Significant) The Global Fund should address the full range of conflicts of interest that arise at CCM level.	Ongoing <ul style="list-style-type: none"> - The revision of the CCM Guidelines, approved by the PIC, include a reinforcement of COI requirements; from Round 10 onward, these requirements will be monitored throughout the life of the grant; - An in-depth study of CCMs' COI will be completed by mid- to late-2010;
Rec. 2 (High) CCM compliance with six eligibility criteria should be ensured throughout the entire grant cycle	Ongoing <ul style="list-style-type: none"> - A strengthened Country Programs communication strategy (standardizing best practices of CCM engagement by FPMs) is ready for roll-out; - Discussions have started to ensure assessment of compliance with the six requirements at Phase II renewal (or mid-term program reviews);
Rec. 3 (Significant) The Global Fund and CCMs should work towards building on earlier grant proposals (as opposed to treating the different grants in isolation)	Ongoing <ul style="list-style-type: none"> - Under the new grant architecture, CCMs will oversee consolidated grants and gain a holistic program-oriented view; - The new CCM Funding Policy supports an increased CCM oversight role; - The Secretariat is now rolling out a new tool summarizing key grant information to support the oversight role of the CCM;
Rec. 4 (Significant) LFAs should play a role in assessing CCM capacity	Ongoing <ul style="list-style-type: none"> - A new set of performance-indicators is part of the new CCM funding policy. - A CCM self-assessment tool has been rolled-out; - A new CCM assessment framework is under study;
Rec. 5 (High) The Global Fund should monitor PR compliance with grant conditions and applicable country laws	Not started <ul style="list-style-type: none"> - The Secretariat has not paid sufficient attention to this recommendation, and PR-briefings on their reporting and compliance requirements are yet to be generalized; - Recognizing that close monitoring of compliance with <u>all</u> grant conditions and applicable law is unfeasible, there is a need for the Secretariat to review which key conditions it is or should be monitoring; - The Secretariat will put together a Working Group to address recommendations 5, 6, and 7;

³ These recommendations are part of the 76 recommendations addressed by the OIG to the Secretariat - see table 5.

Summary of OIG Recommendations	Status (Feb. 2010)
<p>Rec. 6 (High) The Secretariat should improve enforcement of (i) additionality and (ii) tax exemptions</p>	<p>Not started</p> <ul style="list-style-type: none"> - The Secretariat has not paid sufficient attention to this recommendation; - The Secretariat will review the Board-established policies in this regard and consider to what extent these issues can be addressed at the Secretariat or country level. In particular, it is important to bear in mind that the Board's decision to reduce tax exemption from a requirement of funding to a request impedes the Secretariat's ability to achieve a tax exemption in all cases; - The Secretariat will put together a Working Group to address recommendations 5, 6, and 7;
<p>Rec. 7 (Significant) The Global Fund should better define what it accepts as evidence of "additionality".</p>	<p>Started</p> <ul style="list-style-type: none"> - The Secretariat has started very preliminary work on this question; - Again, it is important to bear in mind the broader strategic and policy implications that the definition of "additionality" would carry, and the extent of the Board's willingness to use such a definition and monitoring of compliance as a condition of continued funding; - The Secretariat will put together a Working Group to address recommendations 5, 6, and 7;
<p>Rec. 8 (High) The Secretariat should strengthen processes around compliance with conditions precedent.</p>	<p>Started</p> <ul style="list-style-type: none"> - The Secretariat's Operational Policy Committee has to date failed to adopt a clear policy on Conditions Precedent - The OPN is now scheduled for adoption before the end of June 2010;
<p>Rec. 9 (High) The Global Fund should increase its oversight over procurement and supply management after the approval of the PSM plan.</p>	<p>Started</p> <ul style="list-style-type: none"> - The new Progress Update and Disbursement Request form, and the LFA Phase 2 reporting tools (both to be rolled out in 2010) include a number of improvements in relation to procurement oversight; - New terms of reference will allow financial audits to adequately cover the procurement and management of health products (June 2010); - The ongoing roll-out of Country Profiles will help assess PSM systems' strengths and weaknesses at country level; - Oversight of specific types of procurement is already a function of the Secretariat's oversight (e.g. enhanced LFA review of high value tenders for bed nets in Round 8); - VPP is proving useful in helping countries to overcome grant procurement challenges; - It is expected that the newly established Capacity Building Service mechanism facilitated by the Secretariat will help countries to access expert technical assistance and allow the Secretariat more insight into grant procurement issues; - The OIG's audit of oversight of grant procurement will also help the Secretariat in its continued review and prioritization of grant procurement;
<p>Rec. 10 (High) The Global Fund should ensure that PRs have adequate drug forecasting capacity.</p>	<p>Ongoing</p> <ul style="list-style-type: none"> - Voluntary Pooled Procurement services offer PRs capacity building opportunities in this area; - The Secretariat is in the process of seeking PIC guidance on its approach to stock-outs (PIC meeting, 2-3 March 2010);
<p>Rec. 11 (High) LFAs should periodically advise on the reasonableness of purchased drug quantities.</p>	<p>Ongoing</p> <ul style="list-style-type: none"> - The Secretariat is reinforcing the PRs' stock-level reporting through specific indicators in the Performance Framework; - The new PU/DR template asks PRs and LFAs to comment on drug quantities, forecasting, and expiry dates;

Summary of OIG Recommendations	Status (Feb. 2010)
Rec. 12 (Requires attention) To prevent stock-outs and overstocks, the Secretariat should allow recipients to move drugs across countries.	N/A <ul style="list-style-type: none"> - The Secretariat considers that this recommendation is not implementable in the current context;
Rec. 13 (Significant) Global Fund should guide PRs on contracting and managing procurement agents.	Ongoing <ul style="list-style-type: none"> - The VPP service now offers the use of a procurement agent, and assistance to PRs to build their PSM capacity;
Rec. 14 (High) LFAs should more systematically comment on the appropriateness of storage facilities	Ongoing <ul style="list-style-type: none"> - 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;
Rec. 15 (Significant) The Global Fund should develop a policy to guide the payment of salaries and allowances by PRs and SRs at country level	Started <ul style="list-style-type: none"> - The overall approach to the payment of salaries has been approved, but the roll-out of the policy has not yet taken place. - The policy will progressively come into effect at the time of grant negotiations and renewals;
Rec. 16 (Significant) To identify relevant risks, the Secretariat should improve the tools used by the LFA to assess the PR's financial management systems	Ongoing <ul style="list-style-type: none"> - The Financial Management Systems tool was updated in December 2009, and enables a more risk-based approach; - The LFA's review of financial management capacities and systems has been strengthened in the LFA and PR sections of the PU/DR tools; - The LFA guidelines for annual audits of financial statements are being comprehensively updated, for launch by April 2010;
Rec. 17 (High) (a) The Secretariat should strengthen its M&E policy (b) LFA teams should involve public health specialists (c) The policy on disbursements to poor-performing grants should be clarified	Ongoing <ul style="list-style-type: none"> - Work in relation to (a) is underway; - In relation to (b), LFA teams now have the obligation to bring this expertise on board; - The Secretariat recognizes insufficient compliance with the OPN on the Grant Rating Methodology (point c);
Rec. 18 (Significant) (a) Secretariat should develop guidelines on <i>pass through PRs</i> (b) LFA should undertake SR assessments when a ministry is the SR of an NGO	Not started <ul style="list-style-type: none"> - The Secretariat has recently put in place a general policy of assessing SRs that have significant responsibility for implementation (this is always the case for grants managed under Additional Safeguards Policy); - However, 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; - The updated LFA section of the PR assessment tool requires LFAs to assess that "Pass-Through PRs" have adequate systems for the 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;
Rec. 19 (High) Secretariat should require LFAs to assess "material" SRs	Not started <ul style="list-style-type: none"> - The OPC has not yet discussed SR assessments (and will do so in one of its meetings before June 2010); - In specific cases, however, the Secretariat is already asking LFAs to conduct additional SR assessments - see above;

Summary of OIG Recommendations	Status (Feb. 2010)
<p>Rec. 20 (High) (a) LFA TORs should reflect risks identified at country level. (b) LFAs should not change proposed staff without Global Fund approval. (c) The Secretariat should be mindful of LFA conflict of interest.</p>	<p>Ongoing</p> <ul style="list-style-type: none"> - The Secretariat continues to adapt the LFA's role - recent adaptations are listed in the full table in GF/B21/12 Attachment 1; - LFA tools (e.g. Round 9 assessment tool and updated PU/DR) are putting an increased emphasis on risk management; - 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;
<p>Rec. 21 (High) (a) Secretariat should put more emphasis on identification of risks in country (b) FPMs should more actively identify areas for remedial action</p>	<p>Ongoing</p> <ul style="list-style-type: none"> - In 2009, a country-risk management model was developed in line with the Global Fund's risk management framework; - A risk-register at Secretariat-level captures top risks and required action, with regular reporting to the EMT and Board Committees; - 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;
<p>Rec. 22 (High) The Secretariat should develop a process to manage and follow up on audit recommendations</p>	<p>Started</p> <ul style="list-style-type: none"> - As outlined in Section I of this paper, the Secretariat is currently discussing the setting up a taskforce. Please see detail above, or under Recommendation 22 in GF/B21/12 Attachment 1.

PART 2: SECRETARIAT RESPONSE TO THE TANZANIA AUDIT REPORT

2.1. In discussions of Decision Point GF/B20/DP21 between the Secretariat, the Inspector General, and the Chair and Vice-Chair of the Finance and Audit Committee, it was agreed that as part of its response to the Board decision, the Global Fund would describe a response process to a specific Inspector General country-audit.

2.2. The process followed in response to the Tanzania audit was selected based on the view, shared by the Office of the Inspector General and the Secretariat, that it represents an example of best practice in the joint country-Secretariat response to OIG recommendations. The close working relationship that the Regional Team - Team Leader, Fund Portfolio Manager, Program Officer - maintained with the OIG, on the one hand, and with country structures on the other, were key to the successful response. Additionally, a number of key principles were followed by the Secretariat for a quick and comprehensive turnaround, including:

i. Active engagement of the CCM. Involvement of the CCM from the outset is critical to driving commitment at the governance level. CCMs are responsible for actively holding the PRs and other auditees accountable, and for establishing an information and feedback mechanism through which implementers respond to findings and outline their proposed follow-up actions on recommendations. The Tanzania National Coordinating Mechanism's (TCNM's) proactive approach included regular meetings at which Principal Recipients were held accountable, presenting periodic progress reports covering actions taken, and receiving comments or guidance from the CCM. The active role of the CCM Chair (who is also the Permanent Secretary in the Prime Minister's Office) helped ensure high levels of commitment by key parties within the CCM, fostering a strong buy-in, timely decision making and effective follow-up.

ii. Active engagement of in-country partners at the governance and program implementation levels ensured that the momentum was not lost. A number of bilateral and

multilateral partners⁴, most of them members of the TNCM, provided continuous support, with the USG - to take one example - stepping in to provide funding for technical assistance after the OIG report was issued. The Ministry of Health and Social Welfare (MOHSW) helped ensure follow-up through its national programs for the three diseases.

iii. Follow up and coordination of feedback. The Tanzania AIDS Commission (TACAIDS) and the TNCM Secretariat ensured coordination and consolidation of inputs from various Principal Recipients and lead sub-recipients.

iv. Enhanced LFA role. The LFA took on additional responsibilities to confirm satisfactory implementation progress.

v. Secretariat follow-up. The Secretariat's oversight over completeness, timeliness, and adequate follow-up enhanced the speed and quality of responses to recommendations, as did the close working relationship between the Secretariat, LFA, TNCM, PRs, SRs, and other stakeholders.

Background

2.3 Tanzania's programs against the three diseases have been supported through 12 Global Fund grants totaling US\$ 800 million. Programs have shown impressive scale-up of antiretroviral therapy treatment (from 23,951 patients enrolled in 2005 to over 180,000 in 2009), 8.5 million people treated for malaria, over four million bed nets distributed, more than 2,500 people on DOTS treatment and 4,800 HIV patients screened for tuberculosis.

2.4 Two grants were audited by the Inspector General in Tanzania in January and February 2009. The objectives of the audit were to:

- i. Provide assurance that the procurement and supply management, service delivery, and financial management of Global Fund-supported programs for HIV/AIDS, HIV/TB, and malaria, were undertaken efficiently and effectively;
- ii. Ensure that adequate controls exist to account for Global Fund grant resources; and
- iii. Ensure that effective program oversight of Global Fund grants was in place, both within Tanzania and at the Global Fund Secretariat.

2.5 Following a response to the OIG's first draft audit report by the Secretariat and the Tanzania National Coordination Mechanism (TNCM), the OIG issued its final audit report on 10 June 2009.

Response Process: overview of key OIG recommendations and achievement

2.6 Procurement and Supply Management Systems. Since 60 percent of Global Fund money to Tanzania is channeled to PSM activities, the OIG recommendations were targeted at the two entities that oversee procurement and management of the supply chain – the Medical Stores Department (MSD) and the Ministry of Health and Social Welfare (MOHSW). Recommendations touched upon excessive delays in procurement due to lack of capacity, poor planning and coordination, risks of overstocks and stock-outs due to poor projections, a dysfunctional IT system and bureaucratic approval processes. In response, the Secretariat has undertaken the following:

- i. With support from USAID, the Government of Tanzania hired a consulting firm to help build capacity at the procurement management unit of the MOHSW, including training and facilitation of procurement activities;

⁴ Including USAID (PEPFAR/PMI/CDC), Clinton Foundation (CHAI) and the World bank

- ii. The Medical Stores Department is also at an advanced stage of procuring an alternative IT system to replace the failing Orion computer system;
- iii. Storage capacity is being enhanced: warehouses at Moshi and Iringa have been expanded, while construction in Mwanza, Mbeya, Tabora, Mwtara, and Dodoma has started.
- iv. Round 8 has specific conditions precedent aimed at focusing attention on improved PSM systems, and encouraging the PR to develop a comprehensive plan of action to strengthen supply chain management, enhance storage and distribution, instill better forecasting and quantification practices, and ensure inventory control and stock management.

2.7 Weaknesses highlighted around financial management include lack of coordination and information sharing, complex disbursement processes leading to delayed implementation, unnecessary exchange rate losses, and the need to strengthen internal controls in grant receipts and expenditures by all grant implementing entities. To address these weaknesses the Secretariat and partners in Tanzania have undertaken the following action:

- i. Coordination and financial reporting capacity for the HIV Program is being strengthened at the Ministry of Finance (Principal Recipient), TACAIDS, and the Local Government (districts). A small program management unit has already been set up at the MOF to ensure improved oversight. Under Round 8, TACAIDS has planned for additional staff including accountants and 21 Regional Coordinator positions to facilitate better management and quality-control at regional and district levels.
- ii. To enhance treasury management, especially to cut down on foreign exchange losses under Round 8, the PR has opened a foreign currency bank account. The account was opened in time for the scheduled start of Round 8. The MOFEA is organizing a forum with SRs, the Bank of Tanzania, and the Controller and Auditor General, to clarify operating procedures for this account.

2.8 Under service delivery, the OIG recommended addressing failures to follow procedures for certifying HIV care facilities, as well as some instances of inappropriate certification. It also recommended increasing clarity around treatment retention for patients on ART, and management of drugs and laboratory reagents. Further, the two main systems for monitoring HIV/AIDS in Tanzania, the CTC2 Database which is managed by the NACP and the Tanzania output monitoring system for non-medical HIV and AIDS interventions (TOMSHA) are not integrated with the national health information management system.

- i. The Secretariat fully agrees that service delivery needs improvement, particularly to support the scale-up of treatment, prevention and care interventions on HIV/AIDS, TB, and malaria. The Round 8 grant supports various stakeholders in both the public and private sectors to strengthen capacity and fill possible gaps when funding from World Bank, Round 4 Malaria, and Round 4 HIV, come to an end. Round 9 will add a health systems strengthening component which is critical to improving quality of service delivery.
- ii. Strengthening of the National HMIS is already underway. Following a patients monitoring system review, agreement was reached to better monitor patients currently under ARV treatment, through improved data collection and analysis. An M&E workshop was conducted in November 2009 to engage and follow up with stakeholders including PEPFAR, UNAIDS, the Clinton Foundation, CDC, and other international and local players. As a result, there is now a framework for the development of a system to accurately monitor and measure the actual number of people on ARV treatment. Stakeholders also agreed to undertake measures to improve the quality of data for PMTCT, opportunistic infections (OI) and voluntary counseling and testing.

iii. With funds drawn from the Round 8 HIV grant, the Government of Tanzania has also taken up installation of Satellite Stations (VSAT) at district-level. This will strengthen M&E and enhance quality and timeliness of data and information. Also underway is an enhanced approach to reporting and tracking funds and health products at all levels, improvement in overall data quality, and integration of Global Fund reporting into the mainstream M&E system.

2.9 Institutional Arrangements, Governance and Oversight. The OIG noted that multiple players are involved in grant oversight in Tanzania with overlapping responsibilities and inadequately defined roles – resulting in gaps in ownership and fulfillment of oversight responsibilities. Improving governance and oversight is pivotal to a stronger healthcare program in Tanzania.

2.10 Large amounts of funding from donors have overwhelmed the complex public health sector bureaucracy, resulting in procurement delays. In response, the Tanzania National Coordinating Mechanism needs to develop a plan to strengthen its oversight role, and the internal audit functions at both MSG and MOHSW need to be enhanced. Given the size and complexity of the grant portfolio in Tanzania, there is scope for making the LFA oversight role more ‘hands on’, and less ad hoc and reactive.

2.11 The Secretariat has worked closely with partners in implementing the following:

- i. Effective national coordination of a multi-sectoral, multi-partner and multi-PR health sector program is vital to successful implementation. A formal basket fund (SWAP) exists in Tanzania with good examples of alignment of program components and coordination among donors. Challenges remain, and the government and partners are committed to strengthening overall governance structures, including at regional, district council, and community levels where they are the weakest. This will facilitate the flow of funds and information, and enhance transparency and accountability. To pilot the governance strengthening program, the World Bank and the Global Fund have funded a roll out in ten districts.
- ii. MOHSW and MSD have also addressed key capacity issues in their respective internal audit functions by hiring 14 internal auditors.
- iii. Extensive work is being undertaken by the Global Fund and partners to strengthen the general health system, including in the area of Procurement and Supply Management. The LFA also continues to undertake assessments aimed at improving oversight, identifying risks, and implementing mitigation strategies. This will strengthen internal control systems and improve the timeliness of reporting at all levels.

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