



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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Board Information

REPORT OF THE FINANCE AND AUDIT SUB-COMMITTEE REGARDING OIG MATTERS

PURPOSE:

The members of FAC together with invited representatives of other Board Committees (FAC Sub-Committee) considered OIG matters during the first day of the FAC meeting on 19 October 2010. This report provides an update to the Board on OIG matters reviewed by the FAC Sub-Committee and records the deliberations of the FAC Sub-Committee in regard to oversight of OIG matters going forward.

PART 1: INTRODUCTION

1.1 The Sub-Committee met on 19 October 2010 to review OIG reports issued since the last meeting in September 2010, and to consider the progress update from the OIG and an update from the Secretariat on the follow-up of OIG recommendations. As decided at the 14th meeting of the FAC (GF/B21/13) the FAC leadership invited a member of each of the other committees to attend the sessions of the FAC meetings on OIG matters. At the meeting, there were representatives from the PIC (Michele Moloney-Kitts), PSC (Todd Summers), MDC (Shanelle Hall), and Ethics Committee (Marijke Wijnroks).

1.2 Part 2 of this report summarizes the discussion of the OIG Progress Report, the Secretariat response and the conclusions of the FAC. Part 3 outlines the cross-cutting issues identified by the Sub-Committee. Part 4 summarizes other OIG matters.

1.3 It is noted that many of the items discussed are sensitive and may impact the safety of staff and the success of any investigation. Therefore this communication should be treated as sensitive.

PART 2: OIG PROGRESS REPORT

Audits

2.1 The OIG audit plan for 2010 (GF/B20/14) provides for 20 country audits and six Secretariat reviews. The OIG reported on the progress achieved on the 2010 audit plan with six country audits completed and reports published, 16 in progress and two Secretariat reviews completed. More details are set out in the OIG Progress Report (GF/FAC15/02).

2.2 The OIG's presentation to the Sub-Committee included a focus on cross-cutting issues arising in connection with more recent audits, building on those already identified in the September 2009 OIG "Lessons Learned" Report (TGF-OIG-09-002) and those identified in the previous report of the FAC on OIG Matters (GF/B21/13). The Sub-Committee considered the cross-cutting issues identified by the OIG and by members of the Sub-Committee. Part 3 of this report outlines the crosscutting issues identified by the Sub-Committee for further consideration.

2.3 The OIG conducted two Secretariat reviews, the Grant Applications Process and the Oversight of Grant Procurement and Supply Management Arrangements. The Director of Strategy Policy and Evaluation provided an update to the Sub-Committee on the status of implementation of recommendations arising from these reviews. The Sub-Committee was satisfied with the progress made.

Investigations

2.4 The OIG presented a number of large, complex and document intensive investigations that are ongoing, including investigation work in Mali, Mauritania, Cote d'Ivoire, Djibouti, and Nigeria. The OIG also presented his work in relation to the theft of anti-Malarial drugs, the Tropical Disease Foundation in the Philippines, Democratic Republic of Congo (DRC), bed nets, fraud patterns across grants, training for the LFA/Secretariat, modification of the grant agreement, and disbursement when countries are under investigation. Detailed summaries of the current findings and status of these investigations are included in the OIG Progress Report.

2.5 The Sub-Committee noted:

- i. *Mali*: Over the last six months, the OIG Investigations Unit has launched an intensive investigation of allegations and indications of substantial misappropriation of grant resources in the tuberculosis and malaria grant disbursements in Mali. The OIG has identified that approximately US\$ 4.0 million (or 36 percent) in grant expenditures selected for examination has been misappropriated. The highest level of fraud has been found to exist in purported “training events” and related per diem payments, lodging and travel expense claims, and pervasive fraudulent invoicing. The OIG is now conducting a similar investigation of the HIV/AIDS grants, which exceed US\$50 million. Indications exist that similar fraud is present in the invoicing of the sub-recipients. The OIG has worked in close cooperation with the Malian criminal authorities, and the Investigating Judge who was assigned to the matter directly by the President of Mali.
- ii. *Mauritania*: With regard to the grants managed by the Mauritania National AIDS Committee as Principal Recipient (which are currently suspended), after initially acting upon the OIG’s findings in making arrests, and paying restitution to the Global Fund in the amount of approximately US\$1.7 million out of US\$4.1 million, further cooperative efforts have recently ceased. Efforts by the Inspector General through communications with the Government have not resulted in any significant progress. Under the “one-audit” principle applied by UNDP where oversight of UNDP activities is conducted by UN bodies, the OIG was not able to examine approximately 55 percent of the total grant disbursements (approximately US\$ 6.4 million) as these funds were administered by UNDP.

The OIG has been in dialogue with the UNDP’s Office of Audit and Investigations (OAI) concerning the OIG’s loss calculations and repayment of the remaining amounts by UNDP (or UNDP’s sub-recipients). UNDP’s OAI had originally conducted its own audit of these grants and had identified an approximate \$900,000 loss. The OIG has shared its preliminary report (which OAI agrees is more comprehensive-as it is based on a 100 percent analysis of disbursements) and evidence with OAI in the spirit of cooperation. After its review of the OIG report, and further efforts on its behalf, the OAI has recently indicated to OIG that its loss figures have increased, but have yet to produce a final figure to OIG.

In connection with the tuberculosis and malaria grants, the OIG has analyzed approximately US\$3.5 million of the grant proceeds of a total of approximately \$9.9 million. Of this amount, the OIG has identified a loss of approximately US\$2.65 million. As the Mauritania criminal investigation is ongoing, the OIG has not sought to conduct interviews in country, and will refrain from issuing its final report until the completion of the criminal probe, or until such time as it is safe to do so without interfering in any resulting prosecution.

- iii. *Cote d’Ivoire*: Preliminary indications are that systematic fraud pervades at least one grant program in Cote d’Ivoire. The OIG has begun investigations but is severely under-resourced to address all of these allegations.

- iv. *Djibouti*: In April and May 2010 the OIG carried out an audit and preliminary investigation of Global Fund grants to the Republic of Djibouti. The OIG audit and preliminary investigation reviewed 84 percent of the disbursements and established that approximately US\$5,266,000 (or approximately 30 percent of the grant proceeds examined) was either lost, unaccounted for, or was unable to be established to have been used towards grant purposes. The matter has been referred to the national investigative and prosecutorial authorities in country for follow-up.
- v. *Nigeria*: Following an OIG audit that identified a series of “red flags” of fraud in grant disbursements to Nigeria, the OIG commenced an investigation of the Principal and Sub-Recipients, and associated vendors and suppliers. While the investigation continues to be on going, the OIG has confirmed irregularities identified by the OIG auditors.
- vi. *Theft of anti-malarials*: Several referrals have been made to the OIG concerning allegations and identified instances of organized thefts of anti-malarial drugs in several different countries in Africa and their subsequent sale in commercial markets. Investigating these schemes will entail a massive undertaking by the OIG. The OIG is actively seeking to engage with partner donors similarly affected (USAID) and national law enforcement authorities to undertake a coordinated investigation and response.
- vii. *Tropical Disease Foundation (Philippines)*: In an audit completed in February 2010, the OIG Audit Unit completed a highly critical audit of the Principal Recipient in the Philippines, The Tropical Disease Foundation (TDF). The TDF, while initially cooperating with the audit and signing off on key audit calculations, ceased cooperating towards the audit’s end. The OIG is actively working with the Secretariat in addressing these issues, and reaching a sound and unified strategy to deal with the issue. The OIG has made clear, however, that the full amount of US\$3.7 million should be returned to the Global Fund without delay, and the Organization should stand firm on this issue even if it requires proceeding to arbitration
- viii. *Democratic Republic of Congo (DRC)*: Pending criminal trials are due to take place in London in early 2011, with the Inspector General as witness. The OIG will continue to provide support to the UK and Danish police as required.
- ix. *Bed nets*: The OIG has received numerous referrals, complaints and allegations of impropriety regarding the procurement, delivery and distribution (and lack thereof) of significant quantities of long lasting insecticidal nets (LLINs) in many countries in Africa and Asia. The OIG has assigned two investigators to these matters, and has consulted with experts from the US Centre for Disease Control on the need to strengthen monitoring of the efficacy of the nets that are being purchased with Global Fund grant funds.

Fraud patterns across grants

2.6 Strong patterns of similarities of fraud have emerged, especially in regions. Prevalent across Africa are double dipping claims, as is budget padding and a lack of proper and genuine support for travel and events. Procurement fraud is prevalent in East Asian programs, including steered contracts to favored bidders.

Training of Secretariat/LFA staff

2.7 The OIG is preparing a presentation for the LFAs, and also for the Secretariat, on common red flags of fraud in Global Fund grant projects, to alert LFAs and Secretariat officials to these fraudulent schemes and allow for earlier detection.

Modifications of the Grant Agreement

2.8 The OIG has identified a series of significant weaknesses and deficiencies in the standard Grant Agreement that pose risks to the Global Fund, its staff and resources, and the effectiveness of the OIG. The OIG has presented these areas of weakness to the Legal Office.

Disbursement Pressures and Investigations

2.9 To address the balance between the need for OIG to complete timely and comprehensive investigations free of undue influence and impediments, and the Secretariat's need for information to inform further disbursement decisions, the OIG and the Secretariat are working towards a revision of the Protocol on handling investigations. To date the Secretariat has not been willing to link further disbursement decisions with lack of cooperation with investigations by country partners. The OIG has requested that the Secretariat include a requirement of cooperation with the OIG as a condition precedent for further grant disbursements.

2.10 The FAC expressed their satisfaction with the progress report of the OIG and noted that the issues raised in the report are very important and require urgent follow-up by the FAC, the Secretariat and the Board.

General OIG Administrative Update

2.11 The OIG has experienced difficulties in recruiting suitably qualified staff and cited the level of remuneration available under the Global Fund's Human Resource policies as a constraint. The Inspector General stressed a need for a compensation comparability study between the Global Fund and its principal competitors for suitable staff in OIG with the specialized skill set required the World Bank and the European Union's Anti-Fraud Office (OLAF). The Chair of the FAC agreed to facilitate taking this issue forward in dialogue with the OIG and the Secretariat.

2.12 It was noted that an increasing volume of labor-intensive work, particularly on the investigations would lead to an overrun of the OIG budget for 2010 or the need to postpone significant investigations where possibly substantial financial losses may be sustained due to fraud, misappropriation or other financial abuse. The Inspector General indicated that the office currently had 43 cases unaddressed, and many others under-staffed.

2.13 The OIG noted two other areas it considered serious, and were seriously affecting its work and posing risks to staff and audits and investigations:

- i. First, the continuing issue of UNDP's lack of allowing OIG access to its audit reports, UNDP staff, and documents in cases where UNDP is a Principal Recipient of Global Fund grant programs. The case of Mauritania was highlighted, and the OIG described how UNDP's refusal to provide access to relevant materials and witnesses was seriously impeding its work, stalling the investigation, and impacting grant management decisions. The OIG noted that approximately US\$6.4 million of grant funds with likely fraud patterns could not be examined by the OIG because of UNDP's denial of access. The OIG noted that the lack of cooperation was unacceptable, and this was not in accordance with sound transparency practices

and principles that should be embraced by all international organizations who serve as stewards of public funds.

- ii. Secondly, the OIG noted the lack of privileges and immunities afforded Global Fund staff, and how such a circumstance places all Global Fund staff at serious risk when performing duties and responsibilities in country. The issue of tying privileges and immunities to grant disbursement agreements was discussed, and the Legal Officer described briefly how this was not possible. She agreed to provide a formal legal opinion to the Secretariat, the OIG and the Board on this issue.

Secretariat's Response on OIG Matters

2.14 The Secretariat presented the Sub-Committee with an update on OIG Matters (GF/FAC15/03) which covered the status of implementation of OIG recommendations, an update on cross cutting issues raised in the previous FAC report to the Board on OIG Matters (GF/B21/13), and a number of issues related to the Secretariat-OIG interactions. The Sub-Committee noted:

- i. 80 percent of OIG recommendations have now been fully or partially implemented.
- ii. The Secretariat provided an update on all of the cross cutting issues raised by the Sub-Committee highlighting the role of the Long Term Improvements Taskforce and the implementation of the Country Team Approach towards addressing many of the issues raised by the Sub-Committee. The taskforce commenced work in March 2010 on key work streams to improve the operations and support to country programs:
 - Redesigned signing and disbursement processes;
 - Improved Country Team Approach;
 - Clear *Standard Operating Procedures* for grant making (gathered in a "Country Team Handbook");
 - A clearer approach to the Secretariat's interaction with the OIG on findings and recommendations;
 - Improved systems and automation; and
 - An improved approach to training.
- iii. The Secretariat highlighted that the Secretariat and OIG have gone a long way, in the last two years, towards establishing and formalizing relations around the conduct of audits and investigations and the Secretariat's follow-up on recommendations and findings. However, with (1) the growing inspector general office, (2) the increase in the number of on-going audits and investigations, (3) the scope of the OIG's terms of reference, and (4) complexities related to running programs in countries under investigation, new issues have emerged which require the OIG and the Secretariat to redefine the relationship, and to find a new equilibrium-point for their interactions, with clear agreements on roles, responsibilities, and boundaries.

Sub-Committee Considerations and Conclusions

2.15 The presentations generated discussions around the following key considerations:

- i. Presentation of figures from OIG and Secretariat: Questions were raised as to how the losses and issues identified by the OIG compared to other organizations, but the OIG indicated that it was not possible to benchmark as other organizations do not disclose this information. It was also noted that the issues identified were not necessarily specific to Global Fund programs but were indicative of long-standing

challenges in these countries, and the manner in which funds were being expended. In this regard, it was noted by the OIG that other bi-laterals and donors likely experience similar losses as a result of the high risk nature of the expenditures and oversight, and not as a result of the Organization, or its structure, itself.

- ii. Budget Padding: The Sub-Committee recognized the issues raised by the OIG in relation to budget padding and the potential that it creates for misuse of funds. It was noted that significant efficiency gains are being identified by the Secretariat. On the other hand, there were some concerns in terms of balancing the need to remove budget padding while ensuring that funds are not reduced in areas which may adversely affect program implementation.
- iii. Sub-recipient Oversight: The Sub-Committee raised questions on whether the LFA role sufficiently covered SR activities and as to whether the PRs were carrying out their roles appropriately in terms of SR management. It was noted that, with the Country Team Approach, the LFA role will be more tailored to address specific risks in the grant including more oversight at SR level on a case by case basis if required. The OIG also offered to help train LFAs to spot the red flags of fraud and fraud patterns it was identifying.
- iv. Partner Support for OIG work: Questions were raised as to the role that in-country partners play in supporting the work of the OIG. It was noted that in-country partners are providing support in terms of assisting with the safety and security of staff. However this is still a concern of the OIG and the Sub-Committee raised questions on the status of privileges and immunities for Secretariat staff and how they could support this issue.

2.16 The FAC continued discussions in an Executive Session and following the session concluded that:

- i. In response to clear signals of tension in the collaboration between the Secretariat and the OIG, the *Sub Committee on OIG matters* proposed (1) focused work on clarification of the roles of TERG, OIG and Secretariat, and (2) a facilitated conversation between Secretariat and OIG to address issues in the collaboration;
- ii. Questions were raised regarding the scope of work of the OIG. The Sub Committee supported the proposal put forward by the PSC Vice-Chair and the FAC leadership to initiate a review that will clarify the roles and responsibilities of the TERG, the OIG and Secretariat, their inter-linkages and the respective governance processes through which guidance and oversight is provided. As part of this exercise it was agreed to also look at models of good practice in other international institutions. The PSC Vice-Chair will lead this work in contact, when appropriate with the leadership of other Committees;
- iii. The aim of the facilitated conversation would be to (i) clarify the tensions, (ii) identify in this context systemic issues in the collaboration and communication that need to be addressed and (iii) to agree on a 'joint agenda for improvement and actions' of the Secretariat and the OIG. The Chair of PIC and the Chair and Vice-Chair of FAC will take on the facilitator's role;
- iv. It is expected that both action points will be finalized before the upcoming Board meeting (November 2010). In case any follow up work is still required after the Board meeting, it would be preferable to refer this work to the regular work processes of Secretariat, OIG, Board and Board Committees; and

- v. The facilitated conversation will address (at least) the following topics:
- a. How to improve joint communication of the OIG and Secretariat to the Board and Board delegations during and after finalizing audits and investigations on findings follow up measures and actions.
 - b. How to establish appropriate joint communication on scope and actual magnitude of fraud and misappropriation that has been identified through the work of the OIG;
 - c. How to manage the increasing workload for Secretariat due to the growing number of OIG recommendations, acknowledging that the current rate of increase will be unsustainable on the longer term;
 - d. How to strike the balance between zero tolerance for fraud versus the need to manage and cope with risk at the country level. In this context it will be important to clarify:
 - what the expectations are regarding the LFA's in terms of (early) identification of risk, misappropriation and fraud; and
 - under what conditions disbursements are allowed to continue when an OIG investigation takes place; and
 - e. How a mutually agreed good practice at country level can be established that contributes to improved communication with country level stakeholders and management of reputational risk for the Global Fund.

Follow-Up Action

2.17 The Secretariat and the OIG will prepare a written update on these matters for the facilitators. The first joint communication was sent on 17 November 2010, and is set out at Annex 1 to this paper.

PART 3: CROSS-CUTTING ISSUES

3.1 The Sub-Committee noted the following cross-cutting issues which should be further considered by the Secretariat:

- i. How best to address fraud patterns across grants considering issues of best practice.
- ii. How to address issues of additionality noting that this is linked closely to the Board strategy.
- iii. Retrieving funds owed by implementers.
- iv. Counterfeit and sub-standard medicine noting that this is a major international problem and will need to be considered by MDC, OIG and the Secretariat.
- v. How to address issues of unresponsiveness by Countries in relation to OIG matters.
- vi. Strengthening the work of the LFA to support prevention and risk mitigation of fraud.
- vii. Consideration of ways to modulate responses to risk based on defined thresholds.
- viii. Consideration of issues arising from the Proposal to grant signing, in particular the grant negotiation process.
- ix. Improving the oversight of Sub Recipients and in particular consideration of the PRs role in this.
- x. The lack of privileges and immunities for Global Fund staff.

Follow-Up Action

3.2 The Sub-Committee will further consider these areas in more detail and will refine the list of crosscutting issues before asking the Secretariat and OIG to report back to the Sub-

Committee at its March 2011 meeting on progress in relation to each of these cross-cutting items.

PART 4: OTHER MATTERS

2010 OIG Budget

4.1 In response to the Sub-Committee's concerns regarding the ability of the OIG to respond to the increasing volume of investigations outstanding in 2010 and at the request of the Sub-Committee, the OIG presented an analysis of its 2010 budget. The budget highlighted a number of investigation priorities and complex fraud cases in which substantial losses were foreseeable, and the related additional budget required for the OIG to advance these investigations in 2010 (GF/FAC15/13). The Sub-Committee decided to recommend to the Board an increase in the budget for the OIG for 2010:

Decision Point: Increase to the 2010 Budget of the Office of the Inspector General

The Board decides to approve an increase of US \$1,923,339 to the 2010 Budget of the Office of the Inspector General bringing the total budget of the Office of the Inspector General for 2010 to \$12,227,621

The increase in the budget for the Office of the Inspector General will be absorbed from within the 2010 Operating Expenses Budget

This decision does not have material budgetary implications in the 2010 Operating Expenses Budget.

4.2 The above decision point was communicated to the Board for electronic vote on 15 November 2010 (GF/B21-EDP27, "Increase to OIG 2010 Operating Budget") and voting closes on 25 November 2010.

2011 Budget and Work plan

4.3 Recognizing the increased volume of work arising from investigations, it was decided that the OIG would resubmit a budget for 2011 for the consideration of FAC prior to the Twenty- Second Board Meeting. Further details regarding this updated budget are described in the Report of the FAC (GF/B22/6).

Values and Integrity Initiative

4.4 A discussion was held on the draft code of conduct for recipients prepared by the OIG.

4.5 While the Sub-Committee generally endorses this draft code, it is noted that the Executive Management Team (EMT) in the Secretariat has not yet discussed this issue and therefore it is recommended that this issue be considered by the Ethics Committee following review by the EMT and prior to submission to the Board.

UNDP

4.6 UNDP addressed the Sub-Committee updating it on the organization's work in relation to the Global Fund. The discussion focused on UNDP progress on building capacity of national entities, transition plans for moving the grants to the national entities, and audit arrangements.

4.7 The Sub-Committee welcomed the update from UNDP that the UNDP Senior Management and Board Members in June made a strong concerted action to allow institutional donors access to Audit reports and that a decision was taken to develop a joint proposal to take this to the UNDP board in September 2011. In the meantime, the Sub-Committee was informed that the interim arrangements will be improved by extending the audit summary as well as UNDP's Office of Audits and Investigations ("OAI") preparing a consolidated summary on OAI findings on Global Fund audits.

4.8 The Sub-Committee noted the OIG comment that continued support from the Member States sitting in the Executive Board of UNDP to continue encouraging UNDP to provide access to Audit reports would be desirable.

Joint Secretariat and OIG Communication on Inspector General Matters

1. Background and purpose

On 26 October 2010, following the October 2010 meeting of the Finance and Audit Committee (FAC), the Chair and Vice-Chair of the FAC and the Chair of the Portfolio and Implementation Committee sent a document to all FAC members titled “Addressing tensions between the OIG and Secretariat”. The document stated that:

“In response to clear signals of tension in the collaboration between the Secretariat and the OIG, the Sub Committee on OIG matters proposed (...) a facilitated conversation between Secretariat and OIG to address issues in the collaboration. (...) The aim of the facilitated conversation would be to (i) clarify the tensions, (ii) identify in this context systemic issues in the collaboration and communication that need to be addressed and (iii) to agree on a ‘joint agenda for improvement and actions’ of the Secretariat and the OIG. The Chair of PIC and the Chair and Vice-Chair of FAC will take on the facilitator’s role. (...)”

The document described the topics to be addressed through the ‘facilitated conversation’:

- i. Improved joint communication to the Board on audits and investigations by the OIG and Secretariat;
- ii. Joint communication on scope and actual magnitude of fraud and misappropriation identified through the work of the OIG;
- iii. Management of the increasing workload for the Secretariat in light of the growing number of OIG recommendations;
- iv. Clarification of the LFA’s role on early identification of risk and fraud, and of conditions under which disbursements can take place when an OIG investigation is ongoing;
- v. Improved communication with country-level stakeholders and management of the reputational risk for the Global Fund.

The present communication, issued jointly by the Global Fund’s Executive Director and the Global Fund’s Inspector General, provides an update on the above request. It also describes how the OIG and the Secretariat are increasingly working together to jointly address high-risk situations at country-level, and outlines plans for further collaboration and cooperation.

2. Addressing “clear signals of tension in the collaboration between the Secretariat and the OIG”

Since the October 2010 FAC meeting, the Secretariat and OIG have considerably reduced tensions, are collaborating to a much greater extent, and have undertaken joint action on a number of issues described in the sections below.

Importantly, the OIG and Secretariat have reached a closer understanding on a number of key points, including their respective roles and particular implementation concerns. More specifically:

- i. The Secretariat has made it clear to the Inspector General that it fully accepts, appreciates and understands the importance of the role of the OIG, and indeed takes very seriously (and acts upon) the OIG’s audit and investigation findings and recommendations. The Secretariat is committed to (i) taking immediate and decisive action when fraud or misappropriation is identified, (ii) collaborate with the OIG in achieving restitution and repayment of losses, including from PRs who have a fiduciary relationship with Sub-Recipients who commit fraud; (iii) intensifying joint work with the OIG to anticipate and prevent the recurrence of known patterns of fraud; (iv) assisting the OIG in identifying those responsible for instances of fraud or abuse; (v) sanctioning individuals and entities found to have committed fraud or abuse; and (vi) developing and applying a series of changes to improve the Global Fund’s efficiency and effectiveness;
- ii. The OIG and the Secretariat are working jointly to review higher-risk expenditure categories across the Global Fund portfolio and to systematically strengthen prevention efforts against fraud;
- iii. The Secretariat and the Inspector General have agreed that it is important that cases of fraud, financial abuse and misappropriation are put in their proper context to ensure a realistic and accurate picture of the overall health of the Global Fund grant programs. Given the large number of countries, and the extreme variations in governance and management capacity across the Global Fund portfolio, the Secretariat and the OIG agree that the OIG’s findings in particular cases should not be used to draw general conclusions across all grant-programs about the Global Fund generally. OIG findings in particular cases should not be interpreted as calling into question the basic principles underlying the work of the Global Fund and its model. The Inspector General supports the actions currently being taken by the Secretariat to deal both with individual issues, addressing fraud and financial abuse, and promoting transparency and accountability. The Inspector General commends the Secretariat’s commitment to seek to strengthen the Global Fund model, in collaboration with the OIG, and to work with PRs that embrace these principles; and
- iv. Many allegations of fraud and financial abuse are being made in connection with Global Fund financed programs, and the OIG’s investigation caseload is heavy and increasing. Based on this increase in workload, the Secretariat agrees with the OIG’s proposed budget increase for 2011; the OIG will correspondingly do what it can to limit the burden that its operations are having on the Secretariat.

At the Finance and Audit Committee meeting in October, the Secretariat and the OIG presented two different sets of tables depicting percentages of fraud in Global Fund grants. These two sets of tables created some confusion.

Moving forward, the Secretariat and the Inspector General have agreed that the presentation of such tables adds little value to (i) discussions on the nature and extent of fraud in the Global Fund programs, and to (ii) actions put in place by the Global Fund to mitigate, prevent, and anticipate on such situations. This latter point is most critical in addressing fraud and corruption: the OIG is the first to state that *fraud it is identifying is not unique to Global Fund grant programs*; such problems are likely to affect all donors who support and make similar expenditures. The OIG and the Secretariat believe that the Global Fund, in the way it addresses risk and fraud, can be a leader amongst international organizations - presenting situations with full transparency, taking full responsibility for circumstances on the ground, and putting in place measures to adequately address fraud and financial abuse.

The Secretariat, true to its commitment to transparency, will ensure that its country pages¹ reference OIG findings for each country; references will be agreed to with the OIG and will include (i) the nature and extent of the fraud/misuse/unsupported costs identified, and (ii) the status of actions taken in response to these findings.

3. Secretariat's overall Action Plan for work on high-risk situations

Recent discussions between the Secretariat and the OIG have focused on the establishment of a Secretariat Action Plan to address fraud and corruption. The Plan will include, *inter alia*:

- i. A strategy to support national authorities' follow-up of OIG findings;
- ii. Systematic assessment of high-risk activities as identified by the OIG, LFAs, or the Secretariat - e.g. activities involving cash transfers (see below), procurement, payroll, and other activities;
- iii. Further strengthening of the LFAs' role as it relates to the identification of fraud and corruption;
- iv. A number of immediate measures, tailored to specific situations, which Principal Recipients and Local Fund Agents can be asked to implement to reduce further risk of loss; and
- v. Development of a capacity within the Secretariat for a 'rapid response' to IG findings (this is part of the ongoing restructuring of the Country Programs Cluster).

3.1. Addressing fraud in activities involving cash transfers

Based on OIG findings in a number of countries, it has become clear that activities involving cash transfers for training events and associated costs, including per diems, travel, meal and expense payments, are in many cases posing a high risk of misuse. The Secretariat, with strong support from the OIG, is taking immediate action in relation to these high-risk activities.

Across the Global Fund portfolio:

- i. Principal Recipients (PRs) will be asked to submit a yearly *Training Program* through the LFA for Secretariat approval, starting with all trainings for the 2011 calendar year (submission by January 15, 2011);
- ii. The Global Fund will only accept to fund training which is included in the Training Program, accompanied by a specific plan/justification, dates, and attendance lists;
- iii. The compliance of each training with the overall program will be reviewed by the LFA and will require CCM approval;
- iv. The Global Fund will strengthen oversight by ensuring that attendants provide proof of identity, PRs and LFAs conduct regular and frequent spot checks of training activities, and cash transactions are avoided whenever possible;

¹ <http://portfolio.theglobalfund.org/>

- v. Training activities will have to be approved in advance, and a number of conditions (firm proof of the event, proof of an individual's attendance, and related expenses) must be met prior to honoring expense vouchers. PRs will be required to reimburse the Global Fund if these conditions are not met and/or if it cannot be demonstrated by credible proof that the expense was properly incurred;
- vi. The Secretariat and OIG have also agreed to develop guidance to Country Teams and LFAs regarding specific 'red flags' (potential high-risk situations) to look for in assessing training programs in approved Round 10 applications (see joint training below); and
- vii. The Secretariat will draft a note to the TRP highlighting the need for greater scrutiny of (and risks associated with) Round 11 applications containing significant investments in training.

In specific high-risk countries (based on OIG or Secretariat information):

- The Global Fund is preparing to freeze all cash-payments linked to training (including per diems) for a period of 60 days. This action is planned to begin in late November.
- During these 60 days, the Global Fund will ask each country to develop and submit a *Training Program* and to put in place required systems and verifications to be assessed by the LFA and approved by the Global Fund.

3.2. Joint training for LFAs

Following a number of OIG reports on country-level situations, the Secretariat and OIG agree that LFAs are not sufficiently focused on the identification of fraud risks and actual fraud in Global Fund-financed programs. In response, the Secretariat in partnership with the Office of the Inspector General, is reviewing, clarifying and updating the LFA's role, guidance manual, training, and scope of work to reinforce the LFA role in providing oversight and addressing fraud and financial abuse risks.

Changes that have been implemented immediately in response to IG findings include, *inter alia*:

- i. The OIG is contributing to on-going LFA training on Global Fund requirements, including in relation to fraud. The OIG is focusing the training on best-practice approaches to fraud identification;
- ii. The LFAs scope of work is being revised to include these duties as a priority, and LFAs will be required to support OIG investigations in a number of countries. This collaboration will help demonstrate how LFA work can be adapted to better identify fraud risks and actual fraud;
- iii. As part of OIG-Secretariat cooperation protocols, confirmation will be made that LFAs are required to report to the OIG and Secretariat '*red flags*' related to fraud, which LFAs come across as part of their normal verification work. Some of these referrals trigger OIG investigations;
- iv. In October 2010 the Secretariat rolled-out a new LFA tool ('Country and PR Risk Assessment') to help develop a risk-management plan for critical risks at country-level. The framework includes a specific assessment of fraud and corruption risks; and
- v. In early 2011, the Secretariat will publish the updated LFA Manual, as a comprehensive resource for LFAs. The OIG is contributing sections on fraud and risk management.

4. Joint work on specific cases

The FAC has raised a point on the conditions under which “disbursements are allowed to continue when an OIG investigation takes place”. More generally, the question of Secretariat/OIG relations and interactions around *programs under OIG scrutiny* may require further clarifications.

The Secretariat and the OIG both believe that no protocol can cover the entire variety of situations that may arise; and that only open and constant communication will create an environment in which solid grant-management decision can be made in high-risk situations where there is a credible suspicion or evidence of fraud.

Several recent examples illustrate how the Secretariat and OIG’s commitment to work jointly is translated into reality.

- i. In Papua New Guinea, repeated failures by the LFA have created a situation requiring urgent resolution. The Inspector General provided advice to the Secretariat on the situation itself, which in turn led the Secretariat, within 48 hours, to enact a number of decisions on the termination of the LFA’s contract with the Global Fund, new rules for local procurement, and safeguards in relation to activities carried out by one Principal Recipient. These decisions were then checked with the Inspector General for feedback, and only implemented once both the Secretariat and the OIG were comfortable with the way forward;
- ii. In a number of other examples, the Secretariat continues to move to the Inspector General information on suspected fraud or misappropriation - and to work with the OIG on follow-up.
- iii. The Secretariat understands that disclosure of information on on-going investigations can interfere with and impede the investigation, the central purpose of which is to identify losses, seek recoveries, and identify individuals responsible for the misconduct. Investigations in large grant programs often take substantial amounts of time because of the large volume of transactions, associated records, and often the lack of organization by the PRs. The Secretariat and the OIG are working together to support the needs and requirements of all parties involved in investigations, and to facilitate prompt completion of the work, while also taking into account the sensitivities and requirements of such investigations.