



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twenty-Third Board Meeting
Geneva, Switzerland, 11-12 May 2011

GF/B23/6

Attachment 1

COMMUNICATION OF LOSSES AND RECOVERIES ARISING FROM OIG AUDITS AND INVESTIGATIONS

OUTLINE: This document provides the Board with a proposed decision regarding the presentation of losses arising from OIG Audits and Investigations for the purpose of information and communication.

The paper was presented to FAC at its May 9th 2011 meeting and revised thereafter to reflect the agreement between the FAC Chair, the Global Fund Secretariat and the OIG.

The Board is asked to consider the proposed approach outlined in this document and to approve the proposed decision.

PART 1: BACKGROUND

1.1 The Global Fund is one of the most transparent organizations in the world. However, with a transparent approach comes the risk that information is taken out of context leading to significant damage to the reputation of the Global Fund. This reputational damage has the potential to significantly undermine confidence in the Global Fund which can ultimately lead to the Global Fund becoming unable to meet the needs of the people it serves. Therefore, the challenge for the Global Fund is to maintain and improve the current innovative approach to transparency while ensuring that communication is consistent, clear and leaves little room for misinterpretation.

1.2 In this context and building on this approach the FAC at its 16th meeting requested the Global Fund Secretariat and the Office of the Inspector General (OIG) to work together to provide a recommendation for an appropriate methodology which could be used to communicate losses arising from OIG work and subsequent recoveries to the FAC, Board and the public (including media). This paper provides that recommendation, along with defining a format for presentation of figures and a clear methodology for determining the losses reported and recoveries (the proposed format of presentation of losses for communication purposes is included as Annex 1 to this paper).

PART 2: COMMUNICATIONS STRATEGY FOR THE RELEASE OF THE “LOSSES & RECOVERIES REPORT”

2.1 The Global Fund will be communicating the following:

- i. Countries/entities which have been audited and investigated
- ii. A figure (in US Dollars) of funds misused which will be categorized as either Fraud, Unsupported, Ineligible or Other
- iii. A figure on the amount of funds recovered or where there is a commitment to repay, along with comments and actions in light of this misuse.

2.2 The Losses & Recoveries Report will be an important tool in information sharing and communication of the Global Fund in its role as a global leader in transparency. To communicate the table in a constructive and positive way, the following factors are critical: accuracy, honesty, clarity, context and predictability.

It is important to note that the Losses & Recoveries Report is not a tool for providing assurance to the Board or other stakeholders. For this the Global Fund has other, more appropriate and comprehensive mechanisms and processes like the reporting of the OIG to the Board and its committees guided by its respective policies.

2.3 The Global Fund will use these elements to:

- reaffirm the Global Fund's reputation of transparency;
- educate the public on the complex nature of financing and implementing development assistance and its inherent risks; and
- reassure the public (and stakeholders) that fraud and misuse of funding in the Global Fund-supported programs are being detected, recoveries sought, and the entities which misused the funds are dealt with firmly.

2.4 The Report will be presented as a joint paper prepared by the OIG and the Global Fund Secretariat, and will include an introduction providing the background and context of the Global Funds commitment to transparency and accountability, a clear explanation of the different categories in the table and brief but detailed notes of context for each country and entity, explaining the nature of the problems found and the action taken by the Global Fund in each case.

2.5 In addition, the report shall contain details of reportable events to the Board, which will be used to provide information on events which compromised grant funds and assets but were beyond the control of the grant implementers.

2.6 The table will fully disclose the absolute amount of losses and recoveries but will not include any denominator. The purpose of including a denominator would have been to communicate and monitor the scale of misuse. However, there are a number of technical factors (see Part 4) that make it extremely difficult to present a single indicator that allows an accurate and easily understandable numerical representation of the scale of misuse. However, stakeholders who are interested in having further details can be briefed by both the Global Fund Secretariat and the OIG on further details and specific findings to ensure that full transparency is guaranteed and the appropriate contextual information is communicated. This will enable the interested stakeholder to obtain a greater understanding of the issue in line with our approach to transparency, while reducing the risk of misleading information being released to the public.

2.6 It should be made clear in the Report (through the use of colors or bold type, for example) what constitutes additional numbers to the previous report, and there should be a brief comment on the nature of findings over the past six months. The Report will be updated and presented before each Board meeting, which also allows the Board and Committees to discuss update findings when deemed necessary.

2.7 A Questions and Answers document will be prepared for each release of the Report and shared with partners and supporters of the Global Fund. The Report will be released through appropriate media events and a statement on the Global Fund's web site.

PART 3: METHODOLOGY FOR COMMUNICATING FIGURES ON LOSSES AND RECOVERY

3.1 In order to successfully pursue the recovery of losses arising from OIG work, the Global Fund Secretariat will need to be provided with a complete and detailed analysis of the loss identified. The successful identification and pursuit of recoveries can be a sensitive issue requiring high level discussions in country. In addition, if not well managed, it can have long term damage to the relationship between the Global Fund and in-country partners, potentially leading to disruption of program implementation.

3.2 Figures on misuse of funds and recoveries made are recorded in the Report when:

- (i) The principle of country ownership has been respected by notifying the Country Coordinating Mechanism (CCM) and the entities involved, of the details of the losses claimed, where they have been provided with appropriate time to respond, and this response is incorporated by the OIG in the publicly available reports.
- (ii) The details of losses identified have been submitted to the Global Fund Secretariat and comments have been considered.
- (iii) The Global Fund's Legal Counsel has made a determination that the Global Fund is entitled to make a claim for recovery based on the work of the OIG.
- (iv) These figures have been made public, i.e. the OIG has reported a number either through a specific public report, through the OIG Progress report to the Board which will also be made public, or in an official correspondence from the Inspector General to the Chair of the FAC.

3.3 The Global Fund recognizes a recovery when the entity has:

- (i) Repaid directly to the Global Fund's trustee account
- (ii) Repaid directly to the account of the program
- (iii) Replaced lost, damaged or unaccounted for assets with equivalent assets

3.4 The Global Fund recognizes a commitment to make good the loss, when such a commitment has been received in writing from the entity involved.

3.5 When communicating figures on losses, it is important to respect the country's ownership, and for interested parties and the wider public to understand how the loss arose. Therefore the amount of misuse should be disclosed by both country and entity.

3.6 The report will contain two key pieces of information:

- i. "Table of Losses & Status of Recovery" which would show by country and entity audited/investigated, the losses which are classified as either Fraud / Undocumented / Ineligible / Other, along with the status of recovery of the losses and actions taken.
- ii. The second key piece of information will be used to describe "Reportable Events", where Global Fund financed assets or funds have been compromised through events which are beyond the control of the responsible implementer, such as natural disasters, civil unrest or the actions of regulatory bodies in country.

3.7 Where the OIG and the Global Fund Secretariat disagree on any aspect of the report/table, this should be reported to the FAC for guidance or decision.

3.8 Nothing in this Policy shall restrict or inhibit the ability of the Inspector General to report on losses identified through OIG audits and investigations in individual cases.

PART 4: DENOMINATOR

4.1 As demonstrated by numerous queries from both media and Board members, it is important for the Global Fund to be able to put misuse, including fraud numbers in context. While providing a “denominator” for the amounts found as Ineligible / Fraudulent / Unsupported / Other would be welcome, the challenge for the Global Fund is to find an appropriate denominator which would accurately reflect the scale of the problem in a consistent and coherent way, one which can be tracked over time to see if the scale of the problem is getting bigger or smaller, but which cannot be taken out of context to overstate or understate the extent of the problem.

4.2 The two most obvious options are to use either “Amounts Disbursed to grants within the scope of the audit” or “Sample Amount Reviewed.”

4.3 Amounts disbursed to grants under the scope of the OIG’s country audit (at the time of the audit); this denominator represents the total population of funds under audit, and is an easy and relevant number to communicate and explain. The benefit of this denominator is that it would show trends of losses over time if used consistently. However, the risk with this denominator is that the percentage of losses will be understated, as by reviewing 100% of disbursements, the OIG may find additional losses, although potentially in a lower proportion than from a sample of high risk transactions.

4.4 On the other hand, using the denominator of “Sample Amount Reviewed” could possibly overstate the problem, as sampling is only one part of an auditor’s methodology to provide assurance on the use of funds. In addition, for an audit, sampling may be very much risk based and therefore results will be more negative by sampling predominantly high risk transactions. Further, losses could potentially increase in investigations that follow audits, as investigations are deeper and more thorough exercises. On investigations, loss amounts could be relatively higher if the focus is solely on the allegation of the investigation.

4.5 While a third option may be to present both figures, there is a danger that the most negative of the figures reported could be used to create a misleading and sensationalized image which would overstate the extent of the problem and cause significant damage to the reputation of the Global Fund or (vice versa) the most positive of the figures would be used to down play the seriousness of the problems we are dealing with.

Therefore it is proposed that no denominator will be presented for now. However, in this context it is important to note that: (i) The absolute US Dollar amount of losses identified would always be fully disclosed in the summary table, and therefore the known extent of the problem would continue to be accurately and transparently disclosed. (ii) Appropriate references are made to all reports that provide the full details of all audits and investigations and that are published on the website, (iii) The comprehensiveness of the information that is shared in the Losses & Recoveries Report will increase over time when more countries are audited and more information is accumulated. It should therefore not be excluded that the Global Fund will be able to decide on a credible denominator in the future.

In light of the above and while recognizing the limited time and resources available, the Board requests that the High Level Independent Review Panel consider and provide guidance on the issues surrounding the use of a denominator to serve as a communication tool regarding the scale and evolution of losses in Global Fund supported programs, as part of their interim report.

PART 5: DECISION POINT

5.1 The Board is asked to approve the following decision point:

Decision Point: *Communication of losses and recoveries arising from OIG Audits and Investigations*

{As outlined in GF/B23/DPXX}, the Board reiterates its full commitment to transparency, and to the independence of the Office of the Inspector General within the Global Fund.

The Board recognizes the need to have clear, consistent and contextualized information regarding the status of losses identified from OIG audits and investigations, as well as the status of efforts to recover losses, which can then be made public.

Accordingly, the Board requests the Global Fund Secretariat and the OIG, under the oversight of FAC, to jointly publish before each regular scheduled meeting of the Board, a Losses & Recoveries Report (“Report”) containing background information and an updated table in the format outlined in Attachment 1 to GF/B23/6.

The Board requests the FAC to:

- (i) Oversee the process to create/update the Report and table.*
- (ii) Ensure requests for clarifications are addressed to the FAC’s satisfaction.*
- (iii) Report to the Board on FAC’s oversight of this process.*

The table shall include the verified loss figures only after:

- (i) The principle of country ownership has been respected by notifying the Country Coordinating Mechanism (CCM) and the entities involved, of the details of the losses claimed, where they have been provided with appropriate time to respond, and this response is incorporated by the OIG in the publicly available reports;*
- (ii) The details of losses identified have been submitted to the Global Fund Secretariat and comments have been considered by the OIG;*
- (iii) The Global Fund’s Legal Counsel has made a determination that the Global Fund is entitled to make a claim for recovery against an entity based on the work of the OIG; and*
- (iv) These figures have been made public, i.e. the OIG has reported a number either through a specific public report or through the OIG Progress report to the Board which will also be made public, or the OIG has notified the FAC in writing.*

The usefulness of the application of the Losses & Recoveries Report for information sharing and communication will be reviewed by FAC before the second Global Fund Board meeting of 2012.

This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.



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Annex 1

TABLE OF LOSSES AND STATUS OF RECOVERIES AS AT 31/XX/20XX

| Country (or PR) | OIG Report Reference Per OIG Website | Type of Examination | Audit Period Covered | Fraud (US\$) | Unsupported (US\$) | Ineligible (US\$) | Other (US\$) | TOTAL (US\$) | Amount Recovered or Commitment to Repay | Comments/Actions |
|---------------------|--------------------------------------|---------------------------------|----------------------|--------------|--------------------|-------------------|--------------|--------------|---|------------------|
| Country X -Entity A | TGF-OIG-XX-XX | Audit | 200X - 200Y | | | | | | | |
| Country X -Entity B | TGF-OIG-XX-XX | Audit | 200X - 200Y | | | | | | | |
| Country Y -Entity C | TGF-OIG-XX-XX | Audit followed by Investigation | 200X - 20XX | | | | | | | |
| Country Z -Entity D | TGF-OIG-XX-XX | Investigation | 20XX - 20XY | | | | | | | |
| Total (US\$) | | | | | | | | | | |