SECRETARIAT UPDATE ON OIG MATTERS

Purpose:
The purpose of this paper is to present an update on a number of issues related to the work between the Secretariat and the Office of the Inspector General. The paper's main focus is an overview of how the Secretariat is responding to OIG recommendations, and how these are being integrated into the Global Fund's Consolidated Transformation Plan.

EXECUTIVE SUMMARY

1.   This paper presents to the Finance and Audit Committee (FAC) three issues related to work undertaken by the Secretariat and the Office of the Inspector General (OIG). First, there is an update on the relationship between the Secretariat and the Inspector General. Second, there is an update on the protocols and methods of work between the Secretariat and the OIG. Finally, there is an update on how the Secretariat is responding to OIG recommendations through the Consolidated Transformation Plan.

2.   The overlap in timing between the preparation of the OIG Progress Report to the FAC and Secretariat Update on OIG Matters has not yet allowed for any direct response from the Secretariat to the OIG Progress Report. However, the Secretariat will prepare additional responses to the OIG Progress Update for discussion at the FAC meeting. The short time lapse between the release of twelve OIG Audit and Investigations Reports on 31 October 2011 and the submission deadline for this report also did not allow a response to recommendations in those documents to be included in this report. A Secretariat response to these recommendations will be prepared in advance of the Twenty-Fifth Board meeting.

3.   The Executive Director (ED) and the Inspector General (IG) are strongly committed to strengthening the working relationship between the Secretariat and the OIG. Both have initiated the deepening of this relationship, have set face-to-face meetings every two weeks since October 2011, and will continue meeting at that frequency or more if needed in the future. They have also appointed focal points among their respective staff: the Directors of Audit and Investigations on the OIG side and the Country Program Cluster Director for programs audits and investigations and the Corporate Services Cluster Director for internal audits on the Secretariat side.

4.   Based on the work undertaken by the Secretariat and the OIG since the May 2011 Board meeting, a *Protocol of work* is under completion by the Secretariat and OIG, and will be presented at the Board in Accra in November 2011. The draft protocol outlines roles and responsibilities of all parties involved during an audit or an investigation with detailed responsibilities and timelines for each phase. The draft outlines: (i) post-audit standard procedures in phases where an audit may morph into an investigation; (ii) post-audit procedures for investigations, including reporting of preliminary findings and responding to Draft Investigation Reports; (iii) general principles in the working relationship between the Secretariat and the OIG; and (iv) Board communication principles.

5.   At its last meeting in September 2011, the Board tasked the Secretariat and the Office of the Inspector General with developing a single, time-bound and costed Consolidated Transformation Plan which integrates *reform work streams currently in progress and previously planned* with recommendations of the High Level Panel. Each of the OIG recommendations made in reports published between April 2010 and September 2011 have been categorized within the relevant transformation work stream and an update on addressing the recommendations by work stream is detailed in this paper. All OIG recommendations for this 18 month period are included in four of the work streams: (i) Resource Allocation and investment (including evaluation of impact); (ii) Management of risk; (iii) Grant Management (including working with partners); and (iv) Secretariat Organization, management and culture.

6.   The OIG provided a total of nine recommendations from audit reports published in the last 18 months, excluding the 12 reports released on 31 October 2011, which relate to 'Resource allocation and investment (including evaluation of impact)'. These recommendations are grouped in three areas: investing strategically, optimizing and monitoring for value for money, and operational efficiency. These recommendations are addressed in four of the Project Plans. Project 2.D *Improved Grant Management – Processes* will address the Secretariat's operational definition and follow-up of capacity building objectives. Projects 4.A and 4.B will institute a 2-stage application process to improve the quality of demand before Board approval, and resources will be allocated based on a more predictable, risk-informed approach in the future model. Project 6.C *Enhance Performance Based Funding* focuses on deliverables such as providing the Technical Review Panel (TRP) with performance profiles for existing investments to enhance decisions, reviewed TRP policy guidance for funding decisions based on performance and potential for impact and adjusted performance based funding policy to enhance impact and reprogramming at key grant stages.

7.   Twenty-nine OIG recommendations from audit reports published in the last 18 months were related to risk management.. Two work streams in the Consolidated Transformation Plan include projects that integrate these OIG recommendations. These are "Grant management (including working work partners)" and "Management of risk". Two projects under Management of risk underpin most of the planned transformation to managing risk by the Secretariat. Project 2.A proposes to review, revise, and strengthen the overall *Corporate Risk Management Framework*. The Framework will be submitted to the Board for approval at its first meeting in 2012. Project 2.B institutes an *Operational Risk Management Framework*.

8.   There are a total of forty-three OIG recommendations from audit, investigation and lessons learned reports published since April 2010 which relate to Grant Management. Each of these areas are addressed in either on-going projects within the Secretariat or in defined Projects which form part of the Consolidated Transformation Plan which are to be implemented in the next 18 months. Project 2.B the *Operational Risk Management Framework* will include the development of a Risk Management Toolbox and Oversight process. Project 2.C *Country Segmentation Matrix and application of Differentiated Safeguards* will involve developing a risk-differentiated Grant Management approach which includes introducing modified risk-based disbursement requirements and risk-based procedures for the grant negotiation process. The creation of a Quality Assurance team is outlined in Project 2.D *Improved Grant Management – Processes* will be operational by Q1 2012, helping the Secretariat to ensure compliance of grant deliverables with key policies and processes, and identifying and bridging recognized gaps.

9.   Project 6.A *Streamline Results Reporting, Strengthen Data Management Systems, and Focus on Quality* addresses the recommendations through a more rigorous review of performance frameworks that will include quality of services and a focus on outcomes, and through incorporation of independent program evaluations and/or reviews as part of Phase 2/periodic reviews. Project 6.C *Enhance Performance Based Funding for Impact to improve Strategic Investments* will focus on systematic realignment of performance reporting on impact to fill gaps in reporting and to facilitate reprogramming and impact rating.

10.   There are a total of sixteen OIG recommendations from audit reports published in the last 18 months which are related to Secretariat Organization, Management and Culture. The OIG recommendations in this area revolve around the business model, application of minimum standards, and management by Country Teams. The Secretariat will submit a new Global Fund Strategy 2011-2016 for approval at its November 2011 Board Meeting. The strategy addresses the evolving Global Fund business model.   Further, several projects developed as part of the Consolidated Transformation Plan address these OIG recommendations. The KPI framework will be reviewed during Q1 2012 to incorporate the new strategy and the comments of the OIG. In addition to the Corporate and Operational Risk Management Framework to be developed, the Consolidated Transformation Plan addresses improving Secretariat grant management, broader corporate management and strengthen staffing and composition of Country Teams.

1.   BACKGROUND

1.   This paper presents to the Finance and Audit Committee (FAC) three issues related to work undertaken by the Secretariat and the Office of the Inspector General (OIG):

    i. An update on the relationship between the Secretariat and the Inspector General;
    ii. An update on the protocols and methods of work between the Secretariat and the OIG; and
    iii. An update on how the Secretariat is responding to OIG recommendations.

2.   The overlap in timing between the preparation of the OIG Progress Report to the FAC and Secretariat Update on OIG Matters has not yet allowed for any direct response from the Secretariat to the OIG Progress Report. However, the Secretariat will prepare additional responses to the OIG Progress Update for discussion at the FAC meeting. The short time lapse between the release of twelve OIG Audit and Investigations Reports on 31 October 2011 and the submission deadline for this report also did not allow a response to recommendations in those documents to be included in this report. A Secretariat response to these recommendations will be prepared in advance of the Twenty-Fifth Board meeting.

3.   In September 2011, the Board and Secretariat received the High Level Independent Panel report. The recommendations from the Panel were discussed at a special Board meeting on 26 September 2011. At the meeting, the Board tasked the Secretariat and the Office of the Inspector General with developing a single, time-bound and costed Consolidated Transformation Plan which integrates *reform work streams currently in progress and previously planned* with recommendations of the High Level Panel. The single plan includes prioritized action items, deliverables, timelines and parties responsible for the delivery of each item in a coherent, manageable manner.

4.   It is essential that the Consolidated Transformation Plan be consistent with the OIG recommendations, and this paper provides a clear outline of how they relate to (and in some areas guide) the Secretariat's transformation work.

5.   The Consolidated Transformation Plan is organized around six work streams. These are:

    i. Resource allocation and investment (including evaluation of impact);
    ii. Management of risk;
    iii. Grant Management (including working with partners);
    iv. Secretariat Organization, management and culture;
    v. Board Governance; and
    vi. Resource mobilization

6.   Each of the OIG recommendations made in reports published between April 2010 and September 2011 (excluding reports published on 31 October 2011) have been categorized within the relevant transformation work stream and an update on addressing the recommendations by work stream is detailed in this paper. All OIG recommendations for this period are included in four of the work streams:

    i. Resource Allocation and investment (including evaluation of impact);
    ii. Management of risk;
    iii. Grant Management (including working with partners); and
    iv. Secretariat Organization, management and culture.

2. DISCUSSION

Relationship between the Secretariat and the Inspector General

2.1   The Executive Director (ED) and the Inspector General (IG) are strongly committed to strengthening the working relationship between the Secretariat and the OIG. Both have initiated the deepening of this relationship, have set face-to-face meetings every two weeks since October 2011, and will continue meeting at that frequency or more if needed in the future. They have also appointed focal points among their respective staff: the Directors of Audit and Investigations on the OIG side and the Country Program Cluster Director for programs audits and investigations and the Corporate Services Cluster Director for internal audits on the Secretariat side. Open and transparent communication channels between both the IG and the ED, and the focal points, will be a guiding principle of the working relationship between the OIG and Secretariat, preferably in face-to-face meetings or by phone rather than by email exchanges. Beyond the strengthening of the communication between both staff, a protocol will help structure the work between both teams, and clarify the roles and expectations for both at every stage of an audit or investigation.

Protocols and methods of work between the Secretariat and OIG

2.2   In 2011, the Secretariat has noted a more collaborative approach to the working relationship with the OIG in country audit situations. This was noted in preparation for and during the in-country audit debrief for the country audits to Ethiopia and Namibia, as well as the diagnostic review in South Africa. This has included: more engagement requested from the Secretariat to inform the OIG's audit plan; more information sharing from both teams; and a longer and more collaborative in-country debrief preparation where the Secretariat is able to take a more active role. The Secretariat is encouraged by this progress and looks forward to continuing in this trend.

2.3   The High Level Panel Recommendation 1 included several recommendations targeted at the working relationship between the Secretariat and the OIG. One specific recommendation was that the Secretariat and OIG establish protocols and methods of work between the Secretariat and the OIG, including to allow the Secretariat to receive timely advice, briefings and copies of reports directly from the OIG, without this being seen as impairment of the OIG's independence.

2.4   Following the 26 September 2011 Board meeting, the Secretariat and OIG took immediate steps to implement this recommendation. The Consolidated Transformation Plan work stream on 'Secretariat organization, management and culture' includes projects addressing the working relationship between the Secretariat and OIG.   Project 1.B outlines the process in three stages, which are: (i) Stage 1: Develop an audit and investigations protocol; (ii) Stage 2: Inspector General and Executive Director collaboration; and (iii) Differentiate reporting.

2.5   Based on the work undertaken by the Secretariat and the OIG since the May 2011 Board meeting, a *Protocol of work* is under completion by the Secretariat and OIG, and will be presented at the Board in Accra in November 2011. The draft protocol outlines roles and responsibilities of all parties involved during an audit or an investigation with detailed responsibilities and timelines for each phase. It also aims at clarifying roles and responsibilities in the decision-making process on grant management, and setting clear principles to ensure that the OIG's work will not be hampered during an audit or investigation while making sure the Secretariat receives the right information at the right time to guarantee optimal management of grants.

2.6   The draft outlines:

    i.Post-audit standard procedures in phases where an audit may morph into an investigation;
    ii.Post-audit procedures for investigations, including reporting of preliminary findings, responding to Draft Investigation Reports and a communications strategy when the investigation report is made public;
    iii.General principles in the working relationship between the Secretariat and the OIG, covering grant management, timing of reports, confidentiality, and receipt of allegations; and
    iv.Board communication principles.

Highlight of Secretariat progress on earlier OIG recommendations

2.7   While the intention of this paper is to underscore how the OIG recommendations from reports published between April 2010 and September 2011 are aligned to the Consolidated Transformation Plan, which includes projects already in progress, the following advancements in 2011 highlight the Secretariat's progress to date:

    i.Policy and operational implementation of training plans was launched in Q1 2011;
    ii.New Eligibility, Counterpart Financing and Prioritization Policy was used to determine eligibility and guide counterpart financing levels for Round 11;
    iii.Updated and expanded Budgeting Guidelines were launched in Q3 2011;
    iv.Value for Money Checklist implemented in Q2 2011 for all Round 10 grants to be signed;
    v.Realignment of FTE to increase the proportion of positions with direct grant management functions began in Q3 2011 and is on-going;
    vi.Restructuring of units to better support the grant management process, including the creation of the Quality Assurance Unit and region-specific alignment of teams within functional units to provide more effective grant management support;
    vii.Standard Operating Procedures for Country Teams are in the process of being finalized;
    viii.The disbursement process was enhanced with the Q2 2011 launch of the enhanced Progress Update and Disbursement Request template further addressing risk with more reporting at the Sub-Recipient level;
    ix.Performance-based funding has been enhanced with application of stronger investment ranges to Phase 2 in 2011; and
    x.Automation of the Disbursement Decision Making Form is in testing phase and will be launched in January 2012.

Secretariat response to OIG recommendations: Resource allocation and investment (including evaluation of impact)

2.8   The OIG provided a total of nine recommendations from audit reports published in the last 18 months (April 2010 to September 2011) which relate to 'Resource allocation and investment (including evaluation of impact). Most of these recommendations originate from the OIG Review of the Global Fund Grant Application Process[1] and the OIG Report on Lessons Learned from the

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[1] The OIG Review of the Global Fund Grant Application Process, TGF-OIG-10-001, Issue date 22 April 2010.

Office of the Inspector General's Country Audits [2] and have significant overlap with the recommendations of the High Level Panel Report.

2.9   These recommendations can be grouped in three areas: investing strategically, optimizing and monitoring for value for money, and operational efficiency.

2.10   Six of these recommendations are related to "investing strategically", including during grant application and negotiation processes to ensure additionality, ensure prioritization of greatest needs, clarify health systems strengthening, and ensure return on long-term investments in capacity building.

2.11   These recommendations are addressed in four of the Project Plans: Project 2.D *Improved Grant Management – Processes* will address the Secretariat's operational definition and follow-up of capacity building objectives; Projects 4.A and 4.B will institute a 2-stage application process to improve the quality of demand before Board approval, and resources will be allocated based on a more predictable, risk-informed approach in the future model; and Project 6.C *Enhance Performance Based Funding for Impact to improve Strategic Investments* focuses on deliverables such as providing the Technical Review Panel (TRP) with performance profiles for existing investments to enhance decisions, reviewed TRP policy guidance for funding decisions based on performance and potential for impact and adjusted performance based funding policy to enhance impact and reprogramming at key grant stages.

2.12   In its Lessons Learned Report, the OIG recommended: monitoring and optimizing value for money during the grant management phase through the use of data available to analyze programmatic results with financial inputs; using this information during budget negotiations and disbursement reviews; monitoring budget items such as human resources and allowances; and closely monitoring the recovery of funds. Further to the Secretariat's implementation of the Value for Money review and checklist for all Round 10 grants as part of a framework for considering value for money throughout the grant life cycle, Project 6.D *Improved Value for Money in Strategic Investment decisions* addresses the OIG's recommendations for improved linking between programmatic, budget, disbursement, and expenditure information. This project, which builds upon on-going improvements to achieve a more integrated approach by 2013, will also include a direct inclusion of cost per service information into grant decision-making. This project, along with more systematic application of the value for money framework, will greatly enable the Secretariat to manage detailed up-to-date costing of the budgets approved, removing padding, benchmarking prices and ultimately creating greater value for money.

2.13   Finally, the OIG recommends to the Secretariat to draw further on the technical expertise available within the organization and to expand the country team approach (CTA) across the grant portfolio. Projects 5.A *Improved Grant Management – Organization and Structure* and 5.E *Workforce Alignment* address this recommendation with a thorough review of alignment of both Country Programs and functional professionals in Country Teams which will be segmented according to risk, burden, and volume and associated workload. These enhanced Country Teams will benefit from associated risk-differentiated grant management approaches according to the deliverables of Project 2.C *Country Segmentation Matrix and Application of Differentiated Safeguards.* This will optimize the human resource allocation in the Secretariat leading to a more efficient and effective use of time.

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[2] OIG Report on Lessons Learned from the Office of the Inspector General's Country Audits, GF-OIG-11-001, Issue date 15 March 2011.

Secretariat response to OIG recommendations: Management of risk

Summary of OIG recommendations

2.14 Twenty-nine OIG recommendations from audit reports published between April 2010 and September 2011 were related to risk management at the Secretariat and in countries, including ten from the OIG Report on Lessons Learned[3]. The recommendations have substantial overlap with the recommendations in the High Level Panel report. In particular:

    i. The OIG recommended that the Secretariat embrace risk management, making it an integral part of the grant making process;

    ii. That the Secretariat establish policies or clarify existing policies to address the risks related to common high-risk areas such as management fees;

    iii. Two recommendations were focused on procurement-risk - strengthening the logistics management chain and enforcing quality assurance policies such as testing pharmaceutical products throughout the supply chain.

2.15 Other OIG recommendations addressed:

    i. Strengthening controls over expenditures, to minimize risk by ensuring that budgeting guidelines are consistently applied across the Secretariat and that the Local Fund Agents (LFAs) undertake more thorough reviews of budgets;

    ii. Regulating cost areas more vulnerable to abuse, such as training and per diems;

    iii. Revisiting audit arrangements followed by recipients to ensure that they provide adequate assurance on grant implementation;

    iv. Adjusting the LFA terms of reference to leverage their effectiveness; and

    v. Addressing how Country Coordinating Mechanisms (CCMs) can be made more effective in their current form in order to devote adequate effort to oversight.

2.16 OIG recommendations from country audit and investigation reports in Cameroon and Mali also have substantial overlap with High Level Panel recommendations. Many of these recommendations focus on strengthening fiduciary controls at country level, providing detailed information on minimum standards in fiduciary documentation, and the role of the LFA in carrying out risk assessments in environments where Global Fund supported programs are implemented.

Secretariat response

2.17 Two work streams in the Consolidated Transformation Plan include projects that integrate these OIG recommendations. These are "Grant management (including working work partners)" and "Management of risk".

2.18 Two projects under Management of risk underpin most of the planned transformation to managing risk by the Secretariat. Project 2.A proposes to review, revise, and strengthen the overall *Corporate Risk Management Framework*. The Framework will be submitted to the Board for approval at its first meeting in 2012. Project 2.B institutes an *Operational Risk Management Framework*. The project has four key stages:

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[3] Ibid.

Stage 1: Risk assessment tool design;
Stage 2: Risk mitigation toolbox development;
Stage 3: Risk management oversight process development; and
Stage 4: Continuous improvements.

2.19 The expected benefits of these two projects include a strengthened corporate and operational approach to risk, and the allocation of appropriate financial, oversight and human resources to the highest areas of operational risk, with appropriate costed risk mitigation strategies. This will result in a consistent approach to mitigating risks the organization faces with consistent and appropriate responses from the Secretariat, Board and OIG when risks materialize. Fund Portfolio Managers and Country Teams will have the framework required to empower them to make the necessary grant management decisions and to be accountable for these decisions. This will better ensure that funds are properly safeguarded and managed to achieve intended outcomes and impact over time.

2.20 Interdependent with the development of the Operational Risk Management Framework, is Project 2.C, the *Country Segmentation Matrix and application of Differentiated Safeguards*. This project will have two stages: (i) Develop portfolio segmentation and (ii) Develop a risk-differentiated grant management approach. The segmentation of the portfolio will build on the risk-burden matrix described in the High Level Independent Panel report to include volume of funding and workload, in addition to risk and disease burden. The second stage will build upon on-going work to rebalance LFA resources, in addition to introducing modified risk-based disbursement decisions and modified risk-based procedures for grant negotiations.

2.21 The expected benefits of the portfolio segmentation, and the corresponding improved grant management approach, will be to optimize Secretariat and country resources through a clearer correlation between risk, burden and workload, and better calibration of LFA resourcing and scope of work to the specific risks in each implementation environment. It is also expected to improve consistency in treatment of recipient countries, leading to similar country scenarios receiving a similar grant management approach.

2.22 Follow-up actions regarding country-specific operational recommendations continue to be implemented by Fund Portfolio Managers and Country Teams. For details regarding specific OIG recommendation follow-up, please see Annex 1.

Secretariat response to OIG recommendations: Grant management (including working with partners)

2.23 There are a total of forty-three OIG recommendations from audit, investigation and lessons learned reports published betweem April 2010 and September 2011 which relate to Grant Management. Approximately one third of these recommendations are detailed in the OIG's Report on Lessons Learned, correlating closely to recommendations made in each of the country audit and investigation reports. Similar to the risk-management-themed OIG recommendations detailed earlier, these Grant Management recommendations are closely aligned to those of the High Level Independent Panel Report.

2.24 The Grant Management recommendations have been grouped in the following seven areas:
  i.Enhanced PR capacity assessments and results aligned to an appropriate grant/risk management approach;
  ii.Enforcement of policies;
  iii.Enhanced strategy for use of parallel systems with transition plans for building national systems;
  iv.Reinforced procurement processes;
  v.Improved Financial reporting, Fiduciary and Internal Controls;
  vi.Secretariat systems and documentation; and
  vii.Strengthening oversight.

2.25 Each of these areas are addressed in either on-going projects within the Secretariat or in defined Projects which form part of the Consolidated Transformation Plan which are to be implemented in the next 18 months.

2.26 The OIG urged the Secretariat to "establish minimum acceptable capacity standards, assess [Principal Recipients] rigorously and hold them accountable when things go wrong."[4] Later the OIG suggested that a tailored approach could be used, given the particular context of a Principal Recipient (PR). These are important issues which the Secretariat has encountered. There is both high complexity and high risk in working with a nominated PR with insufficient capacity. As such, Project 2.B the *Operational Risk Management Framework* will include the development of a Risk Management Toolbox and Oversight process; Phase 2 of Project 2.C *Country Segmentation Matrix and application of Differentiated Safeguards* will involve developing a risk-differentiated Grant Management approach which includes introducing modified risk-based disbursement requirements and risk-based procedures for the grant negotiation process. This integration of a relevant risk management approach in Secretariat processes will better align these processes to the particular country context and if issues at the PR-level persist, then the Secretariat will be in a better position to enforce policies and remedies where early warning alerts exist.

2.27 In this spirit, the OIG recommended that the Secretariat enforce "its policies and guidelines that have not been implemented at country level starting with the grant agreement and instituting mechanisms to monitor compliance."[5] The Secretariat acknowledges that while adherence to its policies and guidelines is usually respected and enforced, lapses exist and an internal mechanism to monitor this compliance is crucial. As such, the creation of a Quality Assurance team is outlined in Project 2.D *Improved Grant Management - Processes*. The team structure was established in June 2011 and will be operational by Q1 2012, helping the Secretariat to ensure compliance of grant deliverables with key policies and processes, and identifying and bridging recognized gaps.

2.28 With regard to grant performance, the OIG remarked in a number of reports that grant performance frameworks should include qualitative measures (e.g. new quality of services assessment, progress from evaluations, quality of training, and value for money) and that alignment between country indicators and Global Fund-defined indicators should be improved.

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[4] Ibid.
[5] Ibid.

2.29 Project 6.A *Streamline Results Reporting, Strengthen Data Management Systems, and Focus on Quality* addresses these items through a more rigorous review of performance frameworks that will include quality of services and a focus on outcomes, and through incorporation of independent program evaluations and/or reviews as part of Phase 2/periodic reviews. Project 6.C *Enhance Performance Based Funding for Impact to improve Strategic Investments*, sub-project 2 will focus on systematic realignment of performance reporting on impact to fill gaps in reporting and to facilitate reprogramming and impact rating. Both of these projects will feed into updated guidelines on Performance Frameworks which are expected to be completed by Q2 2012.

2.30 The OIG recommended "incorporating transition clauses with set deadlines when parallel systems are established."[6] The OIG further suggested that "in cases where parallel systems have to be set up, these structures should be for a defined period of time with relevant capacity building and transition plans for the eventual transitioning back to national structures."[7] In the context of parallel systems, transition planning is currently captured in Global Fund policies and the Secretariat acknowledges that the follow-up and enforcement of these policies is essential to the efficiency of its funding. While this a complex issue with a long term response needed, it will be first addressed in Project 2.D *Improved Grant Management – Processes* where the operational implementation of the policy will be further defined.

2.31 Procurement is an important area where the OIG suggested a number of enhancements which will not only improve grant management, but also potentially increase value for money from pharmaceutical and health product procurement. These recommendations include: strengthening PR forecasting and quantification of pharmaceutical and health product needs; making information more reliable and updated on a regular basis; investing to strengthen inventory management, and logistics; and investing for more secure and efficient in-country supply chains. Project 2.D will address these recommendations by improving management of financial, PSM and other aspects of grants through expanding upon the minimum standards at CCM, PR and SR levels to generate a clearer set of defined and formalized minimum standards and strengthening measures which are directly linked to the operational risk model identified in project 2.B.

2.32 The OIG suggested a number of financial reporting, fiduciary and internal control measures be strengthened at the PR/Sub-Recipient (SR) level and monitored. These recommendations include having a mechanism in place to systematically monitor and control HR costs in grants; enhancing policy covering overhead, administration and management fees and tracking these more closely; creation of a policy covering common costs allocation; enhancing and monitoring sub-recipient management; and lastly confirmation of segregation of duties at the PR-level for all payment-related and financial reporting functions.

2.33 The Secretariat acknowledges the importance of these recommendations, where related on-going work is being completed on a country-by-country basis. Furthermore, these recommendations are included in Project 2.D for a broader roll-out of guidance and operational implementation aimed at improving management of financial, PSM and other aspects of grants

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[6] Ibid.
[7] Ibid.

through establishing a clear set of defined and formalized minimum standards at CCM, PR and SR levels.

2.34 In addition, the terms of reference for LFA have already been enhanced to effect the implementation of OIG recommendations, particularly in relation to verifying the effectiveness of fiduciary controls at PR and SR levels and raising 'red flags' when risks are identified. As part of this, the updated *LFA Manual* was published in July 2011 as a comprehensive resource for LFAs.[8] In addition, the Secretariat has delivered specialized training events for LFA experts in finance, procurement and supply management, and monitoring and evaluation over the past 12 months. The events included presentations by the Office of the Inspector General.

2.35 Related to both operational risk management and grant management, the OIG recommended to the Secretariat to computerize its grant making process. The Secretariat welcomed this recommendation, as automation using enhanced IT functions is an on-going effort. To date, the automated approach to the grant renewal process has been launched and has been in use since Q2 2011. As well, a Planning and Tracking tool has been developed, is being piloted in a number of countries and is planned to be launched more broadly Q1 2012. The Secretariat's disbursement process is currently in testing phase and is planned to be launched January 2012. Through the management of Project 2.D, this automation development will continue through to Q2 2012 with launches of various components throughout the development phase. These automation projects include:

    i. Codification of Standard Operating Procedures and best practices
    ii. Disbursement process (Secretariat)
    iii. Disbursement process (PRs and LFAs)
    iv. Planning and tracking tool
    v. Periodic reviews
    vi. Enhanced filing system

2.25 Lastly, related to grant management the OIG has recommended strengthening grant oversight through structures including the CCM, LFA and PR oversight structures (i.e. PR board, committees, etc...). This strengthening of oversight needed is addressed in Projects 2.D *Improved Grant Management - Processes*, 5.B *Leverage the investment in LFAs* and 5.C *Define Responsibilities of External Auditors*. Specifically, Project 2.D will target improved CCM oversight and LFA verification through the design and roll-out of training modules for these two stakeholder groups. Particularly for the enhancement of CCM oversight, a pilot to strengthen five weak CCMs to deliver significantly improved program oversight will be undertaken, resulting in formalized lessons learned which will inform the roll-out of an improvement plan to further strengthen an additional number of CCMs. Project 5.B *Leveraging the Investment in LFAs* will establish a service planning and resourcing model ensuring that the LFA scope of work and capacity is tailored to the risk management framework in individual countries, addressing the key risks and their mitigation. Deliverables for Project 5.C will include revised terms of reference for external audits focusing on the scope, depth and minimum requirements in addition to updated guidelines for SR audits.

2.26 These strengthening measures for external oversight together with the Secretariat's planned and in-progress projects reinforcing the grant management process will solidify general grant

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[8] The LFA Manual and the latest suite of LFA tools and guidelines are available from the LFA section of the Global Fund website:_www.theglobalfund.org/en/lfa/documents/

oversight and risk mitigation throughout the portfolio and additionally provide operational efficiencies in the long term.

Secretariat response to OIG recommendations: Secretariat Organization, Management and Culture

Summary of OIG recommendations

2.27 There are a total of sixteen OIG recommendations from audit reports published between April 2010 and September 2011 which are related to Secretariat Organization, Management and Culture. Ten of these recommendations come from the OIG Report on Lessons Learned. The recommendations have significant overlap with the recommendations of the High Level Panel report. The remaining three recommendations are from the Rwanda Country Audit and the Mali Investigation Reports.

2.28 The OIG recommendations in this area revolve around the business model, application of minimum standards, and management by Country Teams. The OIG recommends that the Global Fund revisit its country ownership principle and devise a new management approach that allows for better risk mitigation. The OIG also recommends that the role of country programs teams in light of the new architecture should be reviewed and well as periodically reviewing its policies in light of emerging risks as they arise across the portfolio.

2.29 Regarding data quality and management, the OIG recommends the Global Fund revisit the appropriateness of its corporate Key Performance Indicators (KPIs) in light of the need for measurement of quality of products and service delivery and value for money. Further, the Board should reconsider using the amount and pace of grant funds disbursement as a KPI for Secretariat staff and place priority on quality rather than quantity of disbursements.   The OIG also recommends reviewing methods of calculating margins of error in On-Site Data Verifications to avoid generating erroneous results.

Secretariat Response

2.30 The Secretariat will submit a new Global Fund Strategy 2011-2016 for approval at its November 2011 Board Meeting. The strategy addresses the evolving Global Fund business model. Further, several projects developed as part of the Consolidated Transformation Plan address these OIG recommendations. The KPI framework will be reviewed during Q1 2012 to incorporate the new strategy and the comments of the OIG. In addition to the Corporate and Operational Risk Management Framework to be developed, the Consolidated Transformation Plan addresses improving Secretariat grant management, broader corporate management and strengthen staffing and composition of Country Teams.

2.31   Projects 2.D *Improved Grant Management – Processes,* 5.A *Improved Grant Management – Organization and Structure* and 5.B *Leverage the Investments in LFAs* focus extensively on improving grant management processes. The projects include revising the Terms of Reference and scope of work of LFAs to better leverage LFA investments and focus on highest risk areas.

2.32   Projects 5.A and 5.E *Workforce Alignment* focus on strengthening grant management from a broader, corporate perspective. This approach will align the Secretariat staffing to bolster grant management, empowering Fund Portfolio Managers and streamlining and expanding Country Teams. Realignment of human resources is intended over the next year and will be based on the segmentation of the portfolio as part of the projects transforming risk management.   Further

operational work will continue simultaneously that will include an analysis of current Operational Policy Notes and other normative documents followed by recommendations for revisions to existing policy framework.

3. NEXT STEPS

3.1 On 7 November 2011, the Secretariat and Office of the Inspector General will submit to the Board a final draft of the Consolidated Transformation Plan for review and approval at its Twenty-Fifth Board Meeting in Accra, Ghana. The Consolidated Transformation Plan submitted to the Board will be consistent with OIG recommendations and once approved, implementation of the project plans will be initiated for new projects and implementation of ongoing reform areas will continue.

3.2 The Secretariat will continue to provide updates on OIG matters to the Board through the Audit and Ethics Committee when it comes into effect in December 2011. Follow-up actions regarding country-specific operational recommendations will continue to be implemented by Fund Portfolio Managers and Country Teams and detailed in Secretariat updates to the Board.

STATUS UPDATE ON SECRETARIAT'S FOLLOW-UP ON OIG FINDINGS AND RECOMMENDATIONS

As of September 2011, the OIG had issued 18 audit and investigation reports with a total of 755 recommendations. Of the 18 reports, listed below:

- Twelve are country-audits with 628 recommendations,
- One investigation report for Mali with 6 recommendations, and
- Five Global Fund Secretariat reviews and audits with 121 recommendations. These were mainly aimed at improving the Secretariats internal processes and systems.

#	Audit Report	Number of Recommendations
1	Review of Grant Application Processes	28
2	Review of Procurement and Supply Chain Management	17
3	Cambodia Country Audit	72
4	Cameroon Country Audit	62
5	Democratic Republic of Congo Country Audit	50
6	Haiti Country Audit	53
7	Lessons Learnt from the country audits	22
8	Philippines Country Audit	56
9	Procurement, supply Chain Management and Service Delivery of Global Fund's Grants to the Government of India	72
10	Review of LFA Tendering Process	17
11	Review of Principal Recipient audit arrangements	37
12	Review of suspension and termination Processes	37
13	Rwanda Country Audit	64
14	Sierra Leone Audit	15
15	Tanzania Country Audit	66
16	Uganda Follow up audit	15
17	Zambia Country Audit	66
18	Mali Investigations	6
	Total number of recommendations	**755**

In December 2010 the OIG carried out a validation exercise for all recommendations that were reported as fully implemented. Following this exercise, the Secretariat and the OIG agreed to close a total of 197 recommendations that had been fully implemented. The remaining 558 recommendations are still open and the secretariat is following up to ensure timely implementation and closure.

#	Audit Report	Number of Recommendations	Closed recommendations following OIG validation.	Recommendations currently being followed up by the Secretariat
1	Review of Grant Application Processes	28	20	8
2	Review of Procurement and Supply Chain Management	17	7	10
3	Cambodia Country Audit	72		72
4	Cameroon Country Audit	62		62
5	DRC Country Audit	50	22	28
6	Haiti Country Audit	53		53
7	Lessons Learnt from the country audits	22	2	20
8	Philippines Country Audit	56	45	11
9	India –PSM audit	72	26	46
10	Review of LFA Tendering Process	17	16	1
11	Review of Principal Recipient audit arrangements	37	37	0
12	Review of suspension and termination Processes	37	7	30
13	Rwanda Country Audit	64		64
14	Sierra Leone Audit	15	12	3
15	Tanzania Country Audit	66		66
16	Uganda Follow up audit	15	3	12
17	Zambia Country Audit	66		66
18	Mali investigation	6		6
	Total number of recommendations	**755**	**197**	**558**

Follow-up on the 558 recommendations is well underway, and a total of 83% of the recommendations are either fully met (27%) or at various stages of implementation (56%). The remaining 17% of recommendations are either not yet implemented *or* have been invalidated by existing circumstances (e.g. when a change in Principal Recipients renders issues raised in relation to the PRs invalid). The table below maps the current status of recommendations the Secretariat is following up on, to their priority as assigned by the OIG.

	Recommendations by Priority Status (as set by the OIG)					
	High Priority	Significant Priority	Requires Attention	No priority assigned	Grand Total	
	174	231	68	85	558	100%
Fully Implemented	55	62	24	6	147	27%
Partially Implemented	92	120	28	74	314	56%
Not Implemented	19	38	12	5	74	13%
N/A -Not Applicable	8	11	4		23	4%

Follow up on recommendations in the 13 audit and investigation reports (519 Recommendations)

Recommendations following country audits primarily relate to improved performance for the Local Fund Agents, Principal Recipients, Country Coordinating Mechanisms, and in some instances Sub-Recipients and the Secretariat. These broadly cluster around five key themes:

   i. Financial management;
  ii. Program management (including the approach adopted to tackle the three diseases);
 iii. Procurement and supply chain management;
  iv. Governance and program oversight, including Sub-recipient management; and
   v. Monitoring and evaluation.

The table below provides a summary of the implementation status of country audits:

Audit Reports	Date Published	Fully Implemented	Partially Implemented	Not Implemented	N/A	Total
Status of Implementation						
Cambodia Country Audit	October 2010	21	41	10		72
Cameroon Country Audit	October 2010	21	11	30		62
DRC Country Audit	March 2010		26	1	1	28
Haiti Country Audit	October 2010	18	29	2	4	53
Philippines Country Audit	Feb 2010		5	6		11
India -PSM audit	Sept 2008		46			46
Review of suspension and termination Processes	September 2008	4	26			30
Rwanda Country Audit	March 2011	24	31	8	1	64
Sierra Leone Audit	September 2009	2	1			3
Tanzania Country Audit	June 2009	48	15	3		66
Uganda Follow up audit	September 2009		11	1		12
Zambia Country Audit	October 2010	1	42	6	17	66
Mali investigation	June 2011		1	5		6
Grand Total		139 (27%)	285 (55%)	72 (14%)	23 (4%)	519 (100%)

Follow up on recommendations following Secretariat audits and reviews (five reports, 39 recommendations)

Implementation of recommendation is this category is underway with 21% of recommendations fully implemented and an additional 74% in progress. Recommendations and findings related to PR audit arrangements have been fully met, and in general the processes within the Secretariat continue to improve considerably as a result of the OIG's work. The overall implementation status for the five reports is summarized in the table below:

Status of Implementation					
	Date published	Fully Implemented	Partially Implemented	Not Implemented	Total
1) Review of the Global Fund Grant Application Processes	April 2010	5	3		8
2) Review of Grant Procurement Oversight Arrangements	April 2010	1	9		10
3) Lessons Learnt from the country audits	September 2009	2	17	1	20
4) Review of LFA Tendering Process	September 2009			1	1
5) Review of Principal Recipient audit arrangements	September 2009				0
Grand Total		8 (21%)	29 (74%)	2 (5%)	39 (100%)