



Board Report

Agreed Management Actions

Status Update

GF/B33/08

For information

33rd Board Meeting

Geneva, Switzerland

31 March – 1 April 2015

Purpose: This paper gives a status update on
Agreed Management Actions following OIG work.

I. Executive Summary

2014 saw the roll out of a significantly different approach to following up on OIG reports with the transition from the OIG making recommendations to developing Agreed Management Actions (AMA) with the Secretariat to address the root causes of findings.

Under the new philosophy of AMAs, agreement is reached when the OIG accepts that the solution addresses the root cause and lessens the risk of reoccurrence and when the Secretariat acknowledges that implementation is necessary and achievable within a realistic time frame.

This process has had a number of positive outcomes, notably in influencing the nature of the dialogue between auditors and investigators with Secretariat business units. The negotiation of AMAs leads to valuable discussions regarding the proper level at which to target the response to the findings, as well as the preventive, rather than merely remedial, aspect of the follow-up actions. Further details on why this model was developed and how it works were provided in GF/B32/07 "OIG Status Update on Agreed Management Actions (Revision 1)" Annex 1.

Material Issues - Beyond tracking AMAs, over the last year, the OIG has defined and tracked five overarching key control issues arising from previous audits and investigations: the accountability framework, combined assurance, document retention/record keeping, grant closures, and recoveries. For three of those issues (combined assurance, recoveries and document retention/record keeping), we have performed detailed follow-up work on progress and will do the same, on a quarterly basis, for the remaining two. Progress with regards to combined assurance and recoveries was reported at the Thirty-second Board Meeting.

Open & Overdue Agreed Management Actions - Implementation of AMAs has seen good progress during 2014. The total actions implemented by the Secretariat have increased 229% since tracking began in July 2014, going from 93 to 216, representing a total of 126 newly implemented AMAs. Similar good progress has been seen with overdue items. Nevertheless, as OIG reports now only include high and very high priority actions, the existence of overdue issues is problematic in itself.

While implementation and validation of AMAs has reached cruising speed, the number of overdue AMAs is increasing. As all AMAs are high priority in addressing key issues found during our audit and investigation work, owners should ensure that progress, even partial, is reported in TeamCentral, and that they have a clear vision of overdue and upcoming actions.

OIG Validation of Implemented Actions - The increase in implemented actions by the Secretariat has led to an increased pipeline of AMAs awaiting validation and closure by the OIG. The OIG has been able to keep the amount of AMAs for validation stable, as more actions are reported as closed. We aim to prioritize catch-up with the workload in 2015, as reflected in our work plans.

This pipeline results in AMAs reported as implemented being sent back to the owners for additional clarifications over 90 days after they were reported as implemented. This situation is not desirable and the OIG is working diligently to avoid such situations, while ensuring the validation process is thorough. From June through to 15 January 2015, we have validated and closed 119 AMAs, prioritizing the ones related to the key risk areas, with 94 still awaiting validation.

II. Material issues

As reported in the 2013 Annual Report of the Office of the Inspector General (GF/B31/11, 17 February 2014), our assurance work identified five key control issues that have not yet been fully mitigated through ongoing reforms at the Secretariat. Progress against all five key risk areas is summarized below, with a *Secretariat response* from the Management Executive Committee (MEC) and OIG review results, where applicable. MEC responses are included to reflect a balance of views and have not been validated.

01 Document Retention and Record Management

Controls and processes around record-keeping, information management and the building of institutional knowledge at the Global Fund present a material risk to the organization. The majority of audits undertaken in 2013 highlighted a lack of documentation and inconsistent record keeping. In particular, documents required for routine grant management are regularly lacking timeliness, reliability and standardization. Audits have consistently encountered retroactive grant file completion upon audit notification, centrally filed non-finalized grant records, non-filing of grant recipient external audit reports, or data on the price and quality of pharmaceuticals. Whilst individually these findings may be medium or low-risk, in aggregate we consider this matter to be high risk. This has further been recognized by the Secretariat as an obstacle to better assurance and oversight (Risk #9 on the 2014 Risk Register); orderly management and retention of records is also an enabling factor for accountability.

Through its audits and investigations, the OIG has documented a total of 44 AMAs to address document and record management issues, both at the implementer and Secretariat levels. Of those 44 actions, 32 have been reported as implemented and 12 are not yet or partially implemented. There were 41 agreed actions focused on improving the record keeping of in-country entities while three were focused on internal Global Fund actions.

Beyond the specific agreed management actions, the Secretariat reported that it was “*currently developing a record-retention procedure to improve the organization and retention of key information.*” This procedure development is expected to improve the Global Fund’s internal record management through the application of retention guidelines to designated official records across divisions and departments. The Secretariat is focusing on two key approaches to improving their systems of record and data quality:

- Improved systems of record to track, store, and collaborate on key grant management interactions with recipients (SharePoint 2013 & Salesforce)
- Revised guidelines for internal users and external partners (Revised Guidelines for Grant Budgeting and Annual Financial Reporting, Capacity Assessment Tool and the Progress Update and Disbursement Request)

1. Improved systems of record to track, store and collaborate on key grant management interactions with recipients

The OIG has reviewed the Project Identification Document for the Grant Management Platform, Grant Agreement Workstream, and the associated project plans as well as met with the Grant Management implementation team. As currently constructed, the project should improve record keeping through improved systems focused on management of work streams throughout the grant lifecycle. The implementation of Salesforce, and upgrading of SharePoint is expected to:

- Create a centralized system of record for all grant management activity
- Create audit trail of operational decisions
- Improve data quality through automated accountability

- Track and facilitate workflows and deliverables for internal and external stakeholders
- Help Country Teams manage their interactions with recipients, as well as embed and support workflows related to the grant lifecycle

By the end of the implementation of the SharePoint & Salesforce projects, the Secretariat should have:

- Implemented data governance to ensure a clearer ownership of content and understanding where content is located
- Reduced silos of information and increased usage of SharePoint
- Created a SharePoint Archive and applied a Retention policy to each document
- Accountability to manage access to content
- Reduction of content
- Separation of active content from inactive content
- Expectations for acceptable document management practices.

The OIG will confirm that the projects' implementation addresses the record keeping deficiencies as planned as the systems are finalized and implemented. The SharePoint 2013 project implementation has been accelerated due to recent IT problems and is now currently scheduled for completion in June. The Salesforce project implementation is delayed by nine months from its original deadline and is now currently scheduled for completion in Q4 2015. Although the cause for the delay cannot be attributed to one specific cause, the OIG recognizes that the Secretariat has increased project management resources and will follow up to determine if the new project timeline will be maintained.

2. Revised guidelines for internal users and external partners

The revised Global Fund *Guidelines for Grant Budgeting and Annual Financial Reporting*, *Capacity Assessment Tool*, and *Progress Update and Disbursement Request* adopted by the Secretariat in 2014 are designed to improve record management at the Principal Recipient level, clarifying expectations around the availability and review of supporting documents for some programmatic activities. The OIG has reviewed all revised guidelines and confirms that changes have been made to improve record keeping at the Principal Recipient level. A few examples are below.

In Grant Budgeting and Annual Financial Reporting guidelines (2014):

Article 7 of the new Grant Regulations has clarified the Principal Recipient's obligations in relation to documentation following previous OIG recommendations. The Grant Regulations have also been updated to reflect the record requirements of the new auditing guidelines.

In Capacity Assessment Tool:

Principal Recipients are required in the Finance Section of the assessment to report on their accounting and record keeping. Under 3.2 the question is: 'Does the organisation have adequate filing and record keeping systems?'. Under section 10 the assessment inquires about the systems for recording expenditure and activity carried out by implementing partners. Under the Governance section, section 5, Principal Recipients are required to describe, and Local Fund Agents to assess, the Principal Recipient's management and information systems.

Principal Recipient audits: the scope of work includes the following that auditors are obliged to report on:

Data retention and supporting documentation - Necessary supporting documents, records, and accounts have been retained in compliance with provisions of the Grant Agreement. Procedures exist for security and management of electronic data (backup systems and procedures, etc.).

While operational policies have been revised to improve clarify or, in some cases, expand, Principal Recipient requirements around document management and record keeping, it is worth noting that existing policies were not consistently applied in full in the past, and the information gathered through existing systems may not have been actionable.

The Secretariat is at this time focusing on significant internal process and guideline improvements and no major initiative will be implemented to lead improvements of financial and programmatic record completeness or quality at the Principal Recipient level until after the implementation of new systems. This strategy is understood by the OIG and we concur that raising the level of professionalism and maturity of Secretariat systems is a reasonable first step in addressing all aspects of the issues related to document retention and record management. Based on the OIG findings, and recognizing the significance and potential for impact of the efforts currently being undertaken, we find constructive momentum around the recognition that proper business intelligence and analysis cannot be undertaken without reliable sources of primary data, and sound knowledge management. This can be expected to be conducive to the development of an institutional culture involving accountability and performance.

The OIG observes that currently there is limited planning focused on the implementation of operational workflows and accountability requirements after the technology roll out. Conversations with the Grant Management Support team have indicated their recognition of that gap and they have verbally committed to addressing those deficiencies later in their project planning.

The OIG also observes that as of February, there are currently significant issues facing the implementation of Salesforce. The project has already been delayed nine months from its original deadlines and the potential for further delays is likely. The project has grown significantly in scope since the original implementation planning and many key processes within the Secretariat are now reliant on the proper and timely roll-out of the system. For example during this period of implementation, key systematic functions such as Grant Signings, continue to be manual tasks. Also the resourcing for roll-out and training to external users, such as Principal Recipients and Country Coordinating Mechanisms, are limited and will risk the proper implementation of Salesforce with external partners as envisioned. Salesforce's impact to the Secretariat's operational workstream will be significant and therefore we will continue to monitor and assess progress, notably against the development and implementation plans for the new Secretariat IT tools and operational accountability.

MEC response:

The Secretariat generally considers the OIG's assessment of current document retention and record management controls and processes to be accurate and, as the OIG notes, has been working hard to address these known shortcomings. Progress to date in updating guidance and tools is well noted in the report, as well as the dependency with on-going IT projects to allow this work to progress. Management recognizes the delay in implementing the grant management platform on Salesforce. The Grant Management Support Department has decided to increase resources dedicated to project management of the Salesforce implementation and is in the process of setting up a project management unit dedicated to this.

02 Recoveries

The OIG has completed a follow-up analysis of all cases relating to OIG reports submitted to the Recoveries Committee ("RC") between in October 2012 to June 30th 2014. Findings were reported in GF/B32/07 "OIG Status Update on Agreed Management Actions (Revision 1)". We note the Decision Point GF/B32/DP04, which changes the way in which the Global Fund Board receives information about the way in which the Secretariat and ensures the OIG can independently report on non-compliant expenditures and financial loss, as well as the associated recoveries efforts by the Secretariat. We expect to review, and report to the AEC and the Board on, the Secretariat's progress on matters related to recoveries in the course of 2015. The OIG notes that the Secretariat is exploring applying a 2 for 1 reduction in the allocation for outstanding recoveries, and will review the effectiveness of this measure when it report on the progress of recoveries.

MEC response:

Progress over the past six months has been good: the amount to be recovered, taking into account written commitments to repay, has decreased by 25% from \$66.7 million to \$49.1 million. In cash terms, the amounts collected increased 18%, from \$29.2 million as of June 30, 2014 to \$34.4 million as of December 31, 2014. Record keeping and other administrative matters highlighted by the OIG are expected to improve once the full-time Recoveries Officer is on board. The recruitment of a suitable individual is currently underway.

03 Grant Closures

“50% of grants due for closure had not been closed at the time of our audit and only one grant closure audited was fully in compliance with policy and guidelines. This has been partly addressed through policy changes and a simplified approach to closing long-outstanding grants. An important next step is to close the long-outstanding grants.” - GF/B31/11

Outstanding cash balances and misuse of assets, including cash, are two risks associated with not undergoing an orderly wind down of an expiring grant, in addition to the programmatic consequences of not having a properly approved exit or transition strategy. Current policy guidance according to the Operational Policy Manual available on the Global Fund website is that in most cases a grant should be financially closed six months after the end of the approved funding term, with administrative closure taking up to 12 months for cases where there is transition to a new Principal Recipient.

MEC response:

At the time of the OIG’s review in 2013, 50% of grants due for closure had not been closed. This represents a revised total of 242 grants which were not closed at the time of the OIG audit. The large majority of these (90% -- 224 grants) have now been financially closed and over 55% (134 grants) have been both financially and administratively closed. This has been facilitated by operational policy changes to streamline the grant closure process, including a simplified approach to closing long-outstanding grants, and continued support is being provided to fully close all grants despite competing priorities as more countries prepare to submit concept notes under the new funding model. Management committees such as the Recoveries Committee continue to review cases where issues need escalation.

The OIG review identified areas on which Country Teams should focus their efforts and on this basis a streamlined process for closures was developed to address the long-outstanding closures. Additionally, a new operational policy on grant closures was approved in December. This new policy builds on lessons learned from implementing the streamlined approach for addressing long-outstanding closures.

04 Accountability Framework

“Individual responsibilities are not always well-defined. For example, the relationships between specialists in country teams and technical hubs in grant management have not been sufficiently delineated. In country teams, it was unclear who was ultimately responsible for approving grant-related documents. This was partly addressed in August 2013 through the ‘Country Team Responsibilities Matrix’. An important next step will be to clarify the roles and responsibilities of stakeholders who have a management control function outside of the country team” - GF/B31/11

MEC response:

A matrix management project has been initiated and, on February 19, an associated working group consisting of representatives from the relevant divisions and departments met for the first time. This project will address the OIG’s past recommendations to further improve the functioning of the country teams, as well as bring about other improvements to the way matrix management is operationalized to, in the end, lead to better decision making and more effective

(human) resource management. This project fits well in the context of a 2015 special objective set by the Management Executive Team around further improving collaboration across the organization

05 Combined Assurance

“Limited reliance can be placed on assurance providers constituting the first and second lines of defense. For example, Country Coordinating Mechanisms are neither sufficiently independent nor adequately resourced to provide reliable assurance, and external audit arrangements over grant recipients are less than satisfactory.” - GF/B31/11

The OIG collaborated on a detailed presentation provided by the Secretariat to the AEC in document GF/AEC10/12.

MEC response:

As reported to the Board in both of its meetings in 2014, the main aspect of grant management that needs to be improved further is the manner in which country teams, their managers, and the various risk owners across the Secretariat plan, obtain and evaluate adequate assurance with respect to how implementers manage their risks. This is referred to as the ‘Risk and Assurance project’, the central coordination and support for which was placed with the Risk Management Department following the conclusion of the first phase of the project at the end of 2014. Additional resources, including a Risk and Assurance Senior Manager / Deputy CRO, are being recruited into the department for this purpose. Pending this recruitment, a temporary individual has been retained. Planning for seven country pilots, where the new approaches will be validated, is underway. The Global Fund Risk and Assurance Committee, co-chaired by the Executive Director and the CRO, is overseeing the project.

III. Progress in December 2014

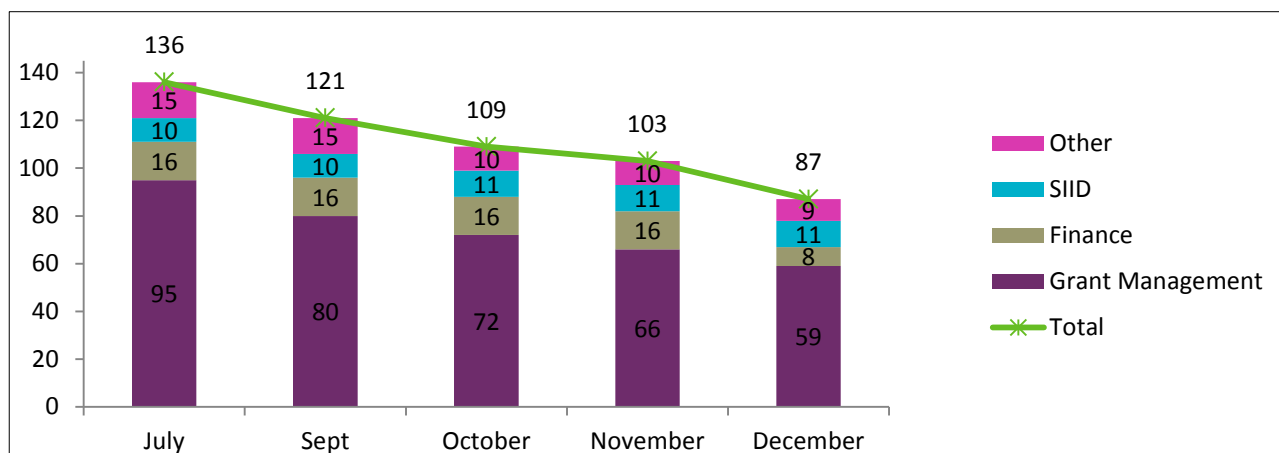
TeamCentral, the web-based platform to track audit and investigation recommendations, is live and actively maintained. Twelve training sessions have been conducted with the OIG focal points at the Secretariat as well as with Country Teams to ensure the new system is understood and used effectively. A system of role assignment and responsibility for updating the actions has been established and we are working on efficiently executing updates with the Secretariat and the grant management team. As the agreed actions reported in TeamCentral become regularly vetted and updated, the OIG will begin reporting on AMAs on the OIG website.

Although TeamCentral is currently being used to track agreed actions, it is the OIG's long-term intention to integrate agreed action management into the Salesforce platform. Engagement with the DASH team for inclusion in project planning began during the month.

The Secretariat has made progress on the implementation of OIG recommendations and agreed actions with an overall drop from 103 open recommendations in November to 87 in December. The reporting for January includes all agreed actions from OIG reports through 18 November 2014 including 15 new AMAs from newly published reports.

IV. Tables

Table 1: Total Open AMA (excluding recoveries)



Overall total open AMAs that were not completed by the agreed implementation date are considered overdue. The total overdue actions have changed from 39 in October, 37 in November and 43 in December. Between 18 November and 31 December, 16 of 52 newly due recommendations were reported as implemented (6 closed).

Table 2: Total Open AMAs currently overdue (excluding recoveries)

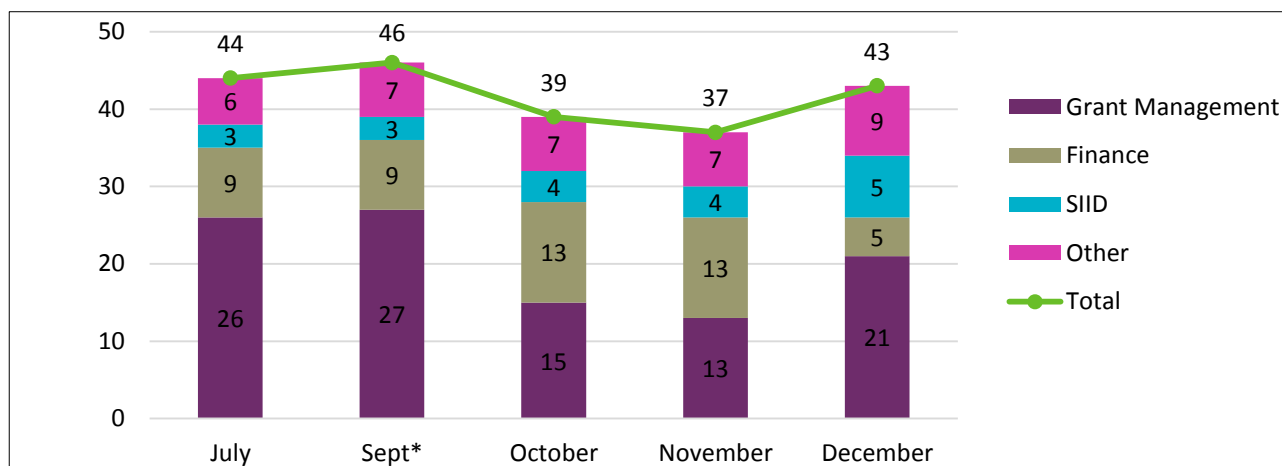


Table 3: Total Implemented AMAs validated by OIG

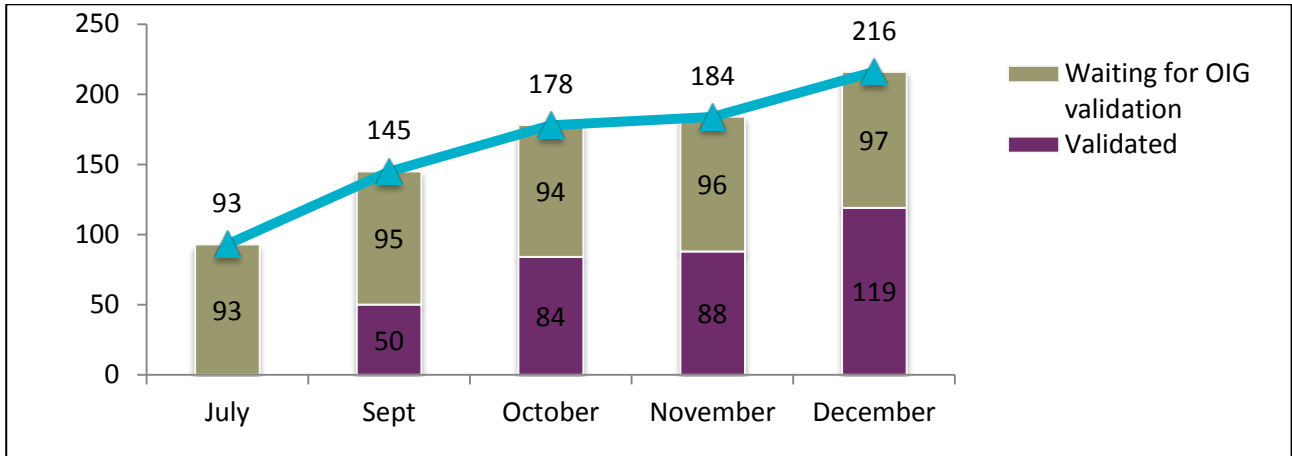


Table 4: QUART categories of the open recommendations (excluding recoveries)

