Preventing and detecting possible misuse of funds

The Global Fund is committed to the highest standards of accountability and responsibility. An Office of the Inspector General aggressively investigates and audits any inappropriate use of grants. While 1.9 percent of Global Fund grants have been determined to have been misspent, fraudulently misappropriated or inadequately accounted for, we do not tolerate any misuse of funds, no matter how minor. We actively report, pursue and expose any cases where impropriety is reported. When funds are misappropriated or improperly spent, they are recovered as fully as possible. The proportion of the grant portfolio accounted for by fraudulent misappropriation is 0.3 percent.

Investing in developing countries means taking calculated risks. In order to manage those risks, significant measures are in place with a particular focus on fraud prevention and detection. These measures are as follows:

1. Overall approach to Grant Risk Management

Since 2012, the Global Fund has applied a systematic approach to grant risk management that can be considered leading practice. In short, all risks that determine a grant’s success are captured, documented and assessed on a regular basis. These risk assessments inform specific risk mitigation measures, including for fraud risks, grant-by-grant. How this is done in practice is described in a comprehensive Grant Management Assurance Framework, that can be summarized as follows:

- **Up-front capacity standards and enforcement for significant implementers**

  For new grants, a “due diligence” assessment is done of the proposed implementers’ capacity to implement the grant, prior to its approval, as a kind of ‘due diligence’. The Secretariat has formulated a set of “minimum standards” that cover the implementers’ capacity to effectively manage their operations and oversee those of their sub-recipients, both from the programmatic as well as the financial perspective. Any capacity weaknesses are required to be addressed before the grant is signed. Where this is not achievable, mitigation actions are put in place such as changing the implementation arrangements or outsourcing key areas such as financial, procurement or supply chain management to others who have demonstrated capacity.

- **The Qualitative Risk Assessment, Action Planning and Tracking Tool (‘QUART’)**

  As grants are being implemented, the Secretariat’s grant management teams routinely review 19 risk areas grouped in 4 categories for each important grant. As the schematic below illustrates, 20 of the 19 risk areas directly cover fraud and misuse: “Fraud, Corruption, or Theft of Global Fund Funds” and “Theft or Diversion of Non-financial Assets.” Other risks further inform the risk of misuse, particularly those covering inadequate recipient governance and oversight, poor financial reporting, and treatment disruptions. The QUART requires grant managers to assess the factors that contribute to each risk and to evaluate their likelihood and severity. Of the 181 specific risk factors, 22 pertain directly to misuse and another 50 significantly inform this risk.
The QUART is complemented by an analysis of the various entities implementing the grant. Building on the knowledge obtained during the due diligence carried out prior to grant signing described above, the main implementers’ actual performance on the key identified risks, and the reliability of the assurances around those risks, are assessed and mitigation actions are revised as necessary.

Fraud and misuse risks are systematically assessed in the Global Fund. Other risk areas further inform this analysis.

Differentiation of assurance based on grant risk levels and country context

The Global Fund has shifted from a one-size-fits-all oversight model to one informed by and tailored to risk. By having an understanding of the scale and nature of risk per implementer, disease portfolio and individual grant, taking into account each specific country’s context, the Fund adjusts resources and the level and type of assurance activities to each specific situation.

Assuring Quality in Risk Management
The process described above is reviewed by three levels of quality assurance. First, the line managers of each country team review and sign off on the documented risk assessment and mitigation action plans, making certain they are sufficiently robust and ensuring consistency across their portfolio of countries. Second, risk management experts from the Risk Department, which include former OIG investigators, Local Fund Agents, grant managers and auditors, perform in-depth quality assurance reviews. Besides being a quality and consistency check, these reviews also offer grant managers opportunities to receive expert support and hands-on training in effective fraud prevention and detection techniques.

Thirdly, the risk assessments and mitigation action plans are reviewed by a senior level Operational Risk Committee (ORC), co-chaired by the Head of Grant Management and the Chief Risk Officer. The ORC reviews and approves the risk assessments and action plans for individual grants, thus holding senior management accountable for risk management and enabling risk appetite to be determined at senior levels within the Global Fund.

- **Other assurance providers**

In addition to the Secretariat’s grant managers that travel to countries on a regular basis, there are several other providers of assurance over the proper use of grant funds, being: (i) recipients’ own internal control mechanisms, (ii) recipients’ external auditors, and (iii) the Global Fund-appointed Local Fund Agents. In addition, in-country partners, such as bi-lateral and multi-lateral donors and technical partners, who are typically well-placed to provide locally-based and independent oversight, are also leveraged.

2. **Specific fraud risk related measures**

In addition to the general approach to grant risk management described above, with respect to the specific risks of fraud and misuse of funds the following is relevant:

- **Local Fund Agent attention to fraud risk**

In 2011, the Global Fund revised the way it makes use of its Local Fund Agents towards the detection of fraud and other misuse of funds. Specific activities are undertaken aimed at detecting fraud in (sub-) recipients through (i) reviewing high-risk cost categories such as training activities, expenditures related to vehicles, and salaries; (ii) performing targeted forensic audits; and (iii) undertaking checks on vendors related to high-risk procurements.

Additionally, LFAs are increasingly engaged to conduct spot-check verifications to check for signs of fraud. Verifications are tailored to the specific risks of each grant. They are increasingly conducted at the recipient levels below the principal recipient and include reviews of procurement bids, invoices, and training and meeting attendance forms, for any signs of possible fraud.

- **Overhaul of Global Fund’s financial systems and processes**

The introduction of a robust financial planning tool for the internal management of grant budgets, forecasting and actual expenditures will provide core information on interventions, activities and the relevant cost drivers across the grant portfolio. This coupled with the enhanced assurance (fiduciary assessments) and risk framework would help in early identification of fraud-prone activities for country teams to proactively manage. In addition, the establishment of a Treasury function and tools will ensure better management of cash flow through an automated mechanism of releasing cash in a more staggered manner to recipients than can currently be done.
With this automated and integrated finance platform, coupled with proactive controlling, monitoring and robust disbursement mechanisms, the Secretariat will effectively increase the level of security and thereby minimize the financial exposure associated with misuse of funds and fraudulent activities.

- **Codes of Conduct for recipients and suppliers**

The Secretariat has implemented revised Standard Terms and Conditions (STCs) for Grant Agreements to incorporate multiple codes of conduct which explicitly forbid fraud and abuse of Global Fund money, thus legally binding recipients to a commitment to ethical behavior. Article 21(e) of the STCs binds recipients to the Code of Conduct for Recipients, which requires all recipients to “adhere to the highest ethical standards.” It forbids misappropriation, embezzlement, misdirecting, misuse, loss, or failing to account for Global Fund resources in any way. The STCs also incorporate a new Code of Conduct for Suppliers that establishes the principles and standards of conduct required of all recipients of Global Fund grant funds, including, without limitation, recipients, Country Coordinating Mechanisms and procurement agents.

- **Learning from OIG audits and investigations**

Fraud schemes can be very sophisticated and well-concealed. OIG audits and investigations provide a means to unmask these schemes. The Secretariat on a continuous basis translates this intelligence into systemic improvements to the Global Fund’s controls and assurances with the assistance of the OIG’s experts. Examples of recent systemic improvements that address key fraud risks are provided below:

  o **Fraud in Procurement**

  The Global Fund’s Procurement Unit is going beyond Voluntary Pooled Procurement (VPP) to further strengthen value-for-money in the tendering of health products, other key commodities and services. It is increasing price transparency with database driven pre-negotiated pricing, around both health products as well as key equipment, goods and services that are purchased on a regular basis. Contracting, in particular for health products, is now being made directly with manufacturers, and recipients are going to increasingly be provided with the health products directly. Contracts with suppliers will include incentivized contracting that builds in punitive measures in terms of volume or price for engaging in fraud and corruption of any kind. The Global Fund is also partnering with other agencies and sector budget holders to harmonize demand and specification, tightening centralized control.

  Much of the procurement fraud identified by the OIG has pertained to small procurements performed in remote areas, for example for purchasing food and supplies for trainings. In response, a pilot has been approved to lift requirements of providing evidence of procurements for such goods or services—which are often forged—and instead engage LFAs in unannounced visits to the activity sites, which would not only afford the Global Fund a comparison of any over-billing or fraud, but also provide visibility into program quality.

  o **Drug Theft and Counterfeits**

  The Global Fund has undertaken multiple assessments to gauge the severity and likelihood of the risk whether and how health products are vulnerable to theft or counterfeiting. Working in close collaboration with the OIG, USAID, and the President’s Malaria Initiative (PMI) among
others, in 2011 the Secretariat piloted action plans in 20 countries to better mitigate this risk. As follow-up, an internal working group is presently meeting with supply chain experts in the private sector and investigating harmonized measures and technology to improve tracking and anti-counterfeiting throughout the supply chain.

- **Anti-money laundering**

In October 2011, the Global Fund added provisions to the STCs regarding wire transfers and related financial transactions. The STCs incorporate policies which mandate that all transfers of grant funds be carried out only through the Principal Recipient’s beneficiary bank, require Principal Recipients to properly record all wire transfers and currency exchanges involving Grant funds, prohibit all transfers of grant funds for non-programmatic purposes, and require Principal Recipients to include equivalent requirements in all agreements with Sub-Recipients.

- **Vetting individuals and entities managing grant funds**

In some cases, individuals found to have engaged in misuse of Global Fund grants have had a prior history of misuse or other inappropriate conduct. The Global Fund is beginning to pilot integrity due diligence checks of key individuals and entities within the portfolio. These checks are a leading preventive measure across multilateral development banks and private sector investors. It entails checking names of key individuals and entities against lists maintained for this purpose, including donor fraud and corruption blacklists, as well as conducting “bad press” checks. The Global Fund is currently benchmarking and exploring how it can best tailor this measure to its needs.

- **Key Mitigation Measures for Portfolios Exhibiting High Risk of Fraud**

In the case of grants identified to have a high risk of fraud and misuse, the Global Fund is increasingly utilizing the following mitigation efforts to better prevent and detect risk of fraud:

  - **Reduced investment in high-risk activities**

  Certain activities such as training, communication campaigns, and human resources costs have been found to be particularly vulnerable to fraud risks. In cases exhibiting particularly high risks in such activities, the Global Fund has worked with recipients to re-design the program scope to reduce or altogether halt investment in such activities. Grants focus on funding traceable, trackable and measurable activities. Where higher-risk investments are still required from a public health perspective, the Fund assists in identifying alternative sources of funding, thereby shifting the risk to other institutions that are better-placed, e.g., through their stronger in-country presence, to oversee such investments.

  - **Portfolios restructured for simplification**

The Global Fund has undertaken to restructure particularly high-risk and complex portfolios to introduce simplicity, and therefore facilitate improved oversight across key implementers throughout the implementation arrangement. The process of portfolio restructuring has also facilitated additional mitigation measures, including changing of the Principal Recipient, re-prioritizing activities and reprogramming, and the introduction of technical assistance, a fiscal agent, ‘zero-cash’ policy (see below), etc.

  - **Fiscal Agents**
Weak financial management and internal controls, as well as poor financial reporting, correlate with a high risk of misuse of funds. The Global Fund has therefore directly contracted so-called Fiscal Agents to work with recipients that have such weaknesses. Fiscal Agents provide assurance that requests for funds and payments are economically justified with adequate supporting documentation and based on the approved budgets and work plans. They act as co-signatory on all principal recipient bank orders, work to improve the Principal Recipient’s financial management and controls, and monitor transition to a new Principal Recipient and close-out of the grant where applicable. The Global Fund now has arrangements in place with six international Fiscal Agents.

- **Direct Contracting with External Auditor**

Delayed, poor quality, and even tainted external audits have been found to correlate with weak implementer control environments, undermining an important assurance layer that is particularly important to detect fraud in such high-risk cases. The Global Fund has begun to strengthen the reliability of external audits. Where appropriate, the Global Fund is directly contracting independent external audit firms, thus ensuring selection of quality audit firms and improving the likelihood of attaining timely, quality assurance over the accuracy and timeliness of financial reporting.

- **Zero Cash Policy**

Transfers of funds between implementers have facilitated diversion of funds in the past. The Global Fund has therefore introduced a “zero cash policy” where appropriate in high-risk portfolios. Under this policy, the Principal Recipient (or the Fiscal Agent where relevant) makes direct payments to vendors of goods and services, rather than transferring funds to Sub-Recipients.

- **Donor Mapping**

In order to guard against “double dipping,” or charging multiple donors for the same expenditure, the Global Fund is conducting a detailed mapping of funding provided in countries to identify possible overlaps, as well as gaps. This mapping is performed together with other donors, analyzing costs by intervention and cost category.

- **Engaging with Supreme Audit Institutions and Accountancy Organizations**

The Global Fund is engaging increasingly with countries’ Supreme Audit Institutions, supporting their capacity while relying on their oversight. The Global Fund is also committed to broadening its engagement with these institutions: In February 2013, the Global Fund signed Memoranda of Understanding with the International Organization of Supreme Audit Institutions (INTOSAI) and Professional Accountancy Organizations (PAOs). The MOUs set forth the intent of the Global Fund to strengthen audit and accountancy capacity in developing countries so that there is sustained improvement in standards of audits, accountancy, financial management, and reporting in the public sector.

### 3. The Office of the Inspector General

The mission of the Office of the Inspector General is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls or processes
in place to manage the key risks impacting the Global Fund's programs and operations, including the quality of such controls and processes.

All systems, processes, operations, functions and activities within the Global Fund and the programs it funds (including those in place or carried out by its program recipients, partners, suppliers and service providers) are subject to the Office of the Inspector General’s review, evaluation, and oversight. The Office of the Inspector General may also act in an advisory role to further the Global Fund’s mission and objectives.

The Office of the Inspector General is an independent and comprehensive additional ‘line of defense’ and layer of assurance in the prevention and detection of misuse of funds. It carries out in-country audits and investigations and operates a 24/7 multi-language whistleblower hotline through which any individual can report suspicions of misuse on a confidential or even anonymous basis. The Office’s charter contains explicit counter-fraud provisions, and a significant portion of the office’s annual budget is dedicated to counter-fraud activities and investigations.