

Report to Congress by the U.S. Global AIDS Coordinator on Oversight Information Pertaining to the Global Fund to Fight AIDS, Tuberculosis and Malaria



July 2009

The Department provides this *Report* in response to the following request in the Explanatory Statement to the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Division H, P.L. 111-8): “The Global Fund should continue to make strides in financial and programmatic accountability by continuing implementation of an enhanced financial reporting system that tracks grant recipients (including government, civil society, and faith-based sub-recipients), maintaining an independent Office of Inspector General (OIG), and disbursing grants based on performance. Oversight of the Global Fund remains a high priority. The Secretary of State is directed to provide a report to the Committees on Appropriations not later than 120 days after enactment of this Act that contains the most recent Global Fund audit information, commitment and disbursement data, and a summary of the recipient and sub-recipient expenditures as reported to the United States Government.”

To address the request included in the Explanatory Statement to the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 (Division H, P.L. 111-8), the Office of the U.S. Global AIDS Coordinator (OGAC) invited the Executive Director of the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund), Professor Michel Kazatchkine, M.D., to provide information on the Global Fund's audit information, including the work of the OIG; commitment and disbursement data; and a summary of Principal Recipient (PR) and sub-recipient (SR) expenditures. Professor Kazatchkine's response (Attachment 1) and several supporting documents are attached.

While The Global Fund has made significant headway in addressing the issues raised by the Committee, we would like to see continued improvement in certain areas of the Global Fund's financial and programmatic reporting. Improving the Global Fund's financial and programmatic accountability continues to be a key focus for the U.S. Government and a major point of discussion at Global Fund Board meetings. The Global Fund is now utilizing an Enhanced Financial Reporting (EFR) system that tracks expenditures by disease and cost category, service delivery area (SDA), and implementing entity at the PR and SR levels. This information is made available to the Board upon request.

External Audit Information

The independent auditor of the Global Fund, Ernst & Young Ltd., has unrestricted access to all Global Fund records, and conducts a comprehensive annual audit of Global Fund financial statements. Ernst & Young presented a clean audit report for 2008. The auditor presents the audit results to the Finance and Audit Committee (FAC) of the Global Fund Board annually. The Global Fund's 2008 Financial Statement, as audited by Ernst & Young Ltd., was presented to the FAC in March 2009 and approved by the Board in May 2009 (Attachment 2 – Ernst & Young Audited Financial Statements).

Internal Audit Information – OIG

The Global Fund has established and is working to fully staff a strong, independent OIG. The position of Inspector General has been filled, additional core staff members have been hired, and consultants have been retained to temporarily fill positions for which recruitment is ongoing (Attachment 3 – OIG Progress Report for October 2008-March 2009). Key OIG priorities for 2008 were: providing assurance on grant processes; providing assurance on other main business processes; supporting key

managerial and governance initiatives; and strengthening the OIG (Attachment 4 – Priorities for the Office of Inspector General).

In support of these priorities, the OIG established an “integrity hotline” offering toll-free reporting services in multiple languages; protocols for reporting matters involving fraud, mismanagement, and unethical conduct; and a database for tracking OIG recommendations and follow-up. The OIG is also working to establish new capabilities in forensic information technology that will significantly enhance its capabilities.

The OIG completed nine investigations over the past year and 21 more are underway or scheduled to begin during the coming months. Completed reports include audits of specific country programs as well as analyses of organizational issues such as the risks associated with phasing out the Administrative Services Agreement with the World Health Organization (WHO), the suspension and termination processes for Global Fund grants, and an ethics and reputational risk assessment. The completed reports are available on the Global Fund website (<http://www.theglobalfund.org/en/oig/reports/?lang=en>).

In addition to conducting audit work, the OIG is helping the Global Fund Secretariat develop a Values and Integrity Initiative that will include a code of conduct for suppliers, an accountability framework, and a risk management framework.

OGAC is pleased with the work of the OIG to date, but wishes to emphasize that the completion of the staffing-up process is of paramount importance, as is the production of clear, prioritized OIG reports and recommendations, and timely and transparent Secretariat follow-up on OIG recommendations. OGAC will continue to monitor the OIG’s work and Secretariat follow-up on OIG recommendations closely, engaging with Secretariat staff and Board members where necessary to encourage continued progress.

Commitment, Disbursement, and Expenditure Data

Global Fund grant-level commitments (in the form of Board approved ceilings and actual signed grant amounts) are available on the country profile pages of the Global Fund website (<http://www.theglobalfund.org/en/portfolio/?lang=en>). In order to collect more detailed data on disbursements and expenditures, the Global Fund has undertaken the development and implementation of the Enhanced Financial Reporting system.

In January 2008, the Global Fund began implementation of the EFR, to collect standardized and detailed financial information from grant

recipients (Attachment 5, Enhanced Financial Reporting Results). The Global Fund Secretariat piloted the EFR system in 2007 and rolled the system out over the course of 2008. PRs are now required to report annually on budget, expenditures, and variances by cost category, SDA, and implementing entity on both the PR and SR level.

The EFR template requires an analysis of each grant's spending by category, including figures for both budgets and actual expenditures. The categories include items such as technical assistance, training, health products and health equipment, and monitoring and evaluation (M&E). The EFR cross-references the budget data according to programmatic activity, including categories such as prevention, treatment, and care and support, as well as by implementing SR. The EFR system reports information in a number of categories, including the identity of SRs, type of organization (governmental, civil society, faith-based, etc.), relationship of SRs to PRs, and dollar amounts of all sub-grants to SRs. The EFR does not report on individual sub-sub-recipient (SSR) budgets or expenditures, but these expenditures are consolidated within relevant SR amounts to ensure that total grant expenditure is captured in the EFR report.

OGAC is encouraged by the development of this EFR system, and believes it marks a significant step forward in terms of the Global Fund's ability to account for grantee expenditures, at least at the level of the PRs and SRs. As of 25 June 2009, the Global Fund had received 401 reports, a compliance rate of 88 percent for 2008 reporting. Professor Kazatchine's letter affirms the Global Fund will work to improve upon this compliance rate in 2009. In addition to tracking and improving upon the general compliance rate, it will be important for the Secretariat to monitor the quality and completeness of the data presented in the EFR to ensure that the disaggregated amounts reported accurately reflect programmatic realities.

Reporting on Results Achieved

The Global Fund is built upon the core principle of performance-based funding (PBF). Therefore, the ability to track results as well as expenditures is a matter of utmost importance to the Global Fund and is an essential basis of the U.S. Government's continued support for this institution. Disbursement reports, including reported results, are available on the grant detail pages on the Global Fund's website (<http://www.theglobalfund.org/en/portfolio/?lang=en>).

In accordance with the Global Fund's PBF principle and the Performance Frameworks that form part of the grant agreements between the Global Fund Secretariat and PRs, PRs report to the Global Fund Secretariat

on results achieved at every disbursement request (the timeframe of which depends on program implementation speed). Approval of disbursement requests is contingent upon progress towards agreed targets. The results reported by PRs incorporate, but often do not disaggregate, the results of SRs; i.e., they are based on the work output and achievements of all SRs for a given PR, as well as the PR itself.

Clear, transparent criteria for determining grant performance and assessing the quality of performance data are critical to the successful implementation of the Global Fund's performance-based funding model. OGAC will encourage the Secretariat to ensure the Global Fund website contains easy to find and up-to-date information on performance criteria and data quality standards. It would also be helpful for the Global Fund to make more information available on whether and how external factors (e.g., armed conflicts, civil unrest, and natural disasters) are accounted for in assigning performance grades and making funding decisions.

In order to increase harmonization and explore possible synergies, OGAC is working closely with the Global Fund Secretariat to review Global Fund and PEPFAR reporting requirements in the context of national reporting systems. At present, many Global Fund grantees report on the achievement of national targets. Progress towards these targets is often the result of the work of many different entities and donor funding streams. Further information on the role of Global Fund grantees and extent to which they are active, as well as Global Fund expenditures in achieving these targets, would be helpful. The U.S. Government intends to continue working with the Global Fund to improve data quality and increase harmonization of reporting around key HIV/AIDS, tuberculosis, and malaria indicators and improve the ability of Global Fund grantees and the Global Fund Secretariat to document and accurately report on the contribution of the Global Fund grants to national disease programs.