OIG REPORT ON ITS AUDIT OF GLOBAL FUND GRANT CLOSURE PROCESSES

On 16 March 2021, the Office of the Inspector General (OIG) published its report on its audit of Global Fund grant closure processes.

Background

The OIG's 2016 audit of grant closure processes had found some major challenges. This report deals with the progress made since then. In September 2018, the Secretariat implemented a new Operational Policy Note (OPN) and new Operational Procedures for Grant Closure and the Implementation Period (IP) Reconciliation process, adapted to the Global Fund's current funding model. Grant closure processes are now managed centrally within the Grant Operating System (GOS). Moreover, grant closure processes are now managed better, and there is improved visibility and tracking.

As the OIG report explains, grant closure stages and steps vary depending on the type of closure, which is: plan, implement and finalize. The new OPN and accompanying training modules define specific timelines for IP reconciliation and closure and the accountable stakeholders. The grant closure process should be completed 12 months after the IP end date, with the required documentation tracked through GOS.

Audit Findings

The report lists two main findings:

1. Grant closure times could be reduced through simplification and prioritization. The Secretariat has

revised and improved grant closure policies and procedures, improving visibility, tracking, and accountability. However, 41% of grant closures are overdue (16% are pending administrative requirements entailing lower risks), and grant closure processing times could be further improved. While there are low risks that outstanding cash balances in overdue grants are misused, the delays entail administrative and reporting burdens for management and staff.

2. Irreconcilable cash balances are hampering grant closures. The Secretariat has striven to reconcile outstanding cash balances with total disbursements and reported expenditures for the entire portfolio. The remaining unreconcilable differences are mainly due to limited information on opening cash balances from the Global Fund legacy systems. Final cash balances of previous periods need to be systematically deducted from initial purchase orders of new implementation periods, minimizing risks of excess cash available in-country.

Significant progress on grant closure compared with the 2016 audit

The OIG noted the significant progress made by the Secretariat on grant closure, compared with the 2016 audit:

1. A revised OPN and new operational procedures on grant Closure, aligned to the current Global Fund funding model, which differentiates between cases of Principal Recipients (PRs) changing or ending, as opposed to PRs continuing beyond the implementation period/cycle, simplifying closure requirements and facilitating a more efficient process;
2. The new grant closure module in GOS is aligned with the Closure OPN and Procedures. It follows the structure of the OPN requirements, providing better visibility of requirements, respective due dates for submissions, and actual submissions by PRs/Local Fund Agents (LFAs). The system provides an audit trail of each process, including the date of action taken, the responsible owner for the approval process, and supporting documentation;
3. The Financial Closure Report (FCR) is a new requirement for PRs to report on final expenditures, confirmation on commitments and obligations, and supporting reconciliation of final grant cash balances;
4. A Grant Closure Dashboard has been created, displaying critical information on grant closures to all Secretariat staff;
5. Monitoring and reporting have improved. The Grant Management Division's Operational Efficiency Team monitors grant closure processes and status, in collaboration with the Finance Department. Senior management in Grant Management, Risk and Finance receive monthly status reports on closures and material cases with exceptional delays based on defined thresholds (but without a summary of overall trends in pending closures and refunds and materiality of outstanding recoveries/refunds involved); and
6. The Long Outstanding Closure (LOC) Initiative was launched in August 2018 to close outstanding round-based and NFM 1 grants. The Executive Grant Management Committee accorded waivers of various requirements for 27 grants where Country Teams could demonstrate rigorous follow-up with the countries, and where additional efforts were not deemed productive, and/or the outstanding requirements were not material. The Initiative has contributed to closing 51% of the grants due for closure, while improving the average time taken for closure, from 1,326 to 500 days for the New Funding Model (NFM) 1 grants.

Some improvements are still required

Despite the progress made, many grants' closures remain pending. While the risk of misuse of outstanding cash balances is reasonably low, these outstanding grants increase reporting, monitoring and follow-up responsibilities for countries, Country Teams and Secretariat management. This increases staff workload lowers process efficiency and takes up management time. The following improvements on timely actions and follow-up with PRs could further enhance process efficiencies and results:

Half (20 of 40) of grants sampled had over five-month delays in FCR submission, delaying the reconciliation of outstanding cash balances and grant closure. Reasons for this included a low understanding of FCR calculations due to first-time implementation, resulting in multiple iterations and versions by PRs, LFAs, and Country Teams. The OPN requires PRs to be informed on closure processes six months before the end of the IP period, and recoveries to be resolved within six to 12 months of the closure period; however, for sampled grants, none of these timelines were met.

The grant closure process requires submission of all closure documents and completion of regular reporting responsibilities, including a final audit report, financial closure report, last progress update including expenditures, and final tax report. Many of these documents validate cash balances, total grant expenditure and other items, sometimes with different cut-off dates. For example, audit reports, a regular assurance requirement to be completed prior to grant closure, were pending deliverables for 91 grants, preventing them from being closed.

While management receives frequent reports following defined thresholds, these could have enhanced focus on overall trend summaries and the materiality of amounts involved, to aid decision making, e.g., the total number of outstanding grants due for closure, outstanding grants with material outstanding cash to be refunded.

Two-thirds (135/204) of open grants which are past their grant closure date involve recoveries or refunds. Currently, recoveries and related negotiations need to be manually tracked and updated in GOS and Global Fund Strategy modules, rather than Purchase Orders being automatically updated. This entails extra work of reconciling Purchase Orders and tracking recoveries and negotiation updates before closing grants, increasing the risk of manual error. Recovery and closure modules in GOS are not integrated, and the recovery module has to be manually updated once a recovery has been concluded. As self-identified by Grant Management and Finance, further aligning grant closure and recovery processes would facilitate the consistent tracking of refunds, recoveries and negotiation updates, before closing grants.

GOS does not currently send reminders/guidance to PRs on IP reconciliation and closure submissions upon grant end date. A 2020 OIG audit identified gaps in essential documentation (such as demand letters) confirming refunds/deductions of final cash balances in GOS. Regular reminders to PRs on pending closure deliverables need to be embedded in standard processes.

Irreconcilable cash balances hampering grant closure

For the NFM2 grant cycle, the Secretariat made efforts to reconcile outstanding cash balances as reported in Financial Closure Reports against total grant funds. The OIG found the Secretariat’s calculations to be materially correct. The Secretariat did, however, identify grants where closing cash balances could not be reconciled with total grant funds and expenditures, due to Global Fund legacy systems having limited information about opening cash balances. The OIG confirmed this issue: of 23 sampled grants, three showed a material difference between grant funds, reported expenditures and the FCR cash balance.

Where disbursements have been executed without subsequent adjustments, there are risks of excess cash in-country, which is inefficient and risks misuse. While the Secretariat reported the uncommitted cash balance to the Audit & Finance Committee in 2018, reporting could be further improved by making explicit reference to the differences, to ensure the Committee fully understands and accepts the risks.

Three grants in the OIG sample remain open; since the remaining differences cannot be further reconciled, a solution is needed to write off and close them.

For continuing PRs, the Finance Department did not deduct an estimated $4 million of in-country closing cash balances from total disbursable funds (Purchase Orders) for the next grant cycle. To put this into context, for the total 286 NFM1 grants under the closure process, there was an estimated $335 million of in-county uncommitted funds (ending cash balances). Out of this, the initial Purchase Order was not adjusted for 86 grants, with expected cash balances totaling $45.8 million.

Agreed Management Actions

Two Global Fund management actions have been agreed with the Secretariat:

1. The Secretariat will undertake a review of the following areas of grant closure process and results to identify avenues for greater efficiency, timeliness and quality closure completion:

- content and purpose of closure requirements;
- further alignment with the recoveries process;
- regular Country Team reminders to PRs on pending closure deliverables;
- reporting to senior management on overall trends and material refunds; and
- updates to guidance and training materials, as necessary.

2. The Secretariat will:

- identify the NFM1 grants where the cash balance has to be determined based on FCR validation, and conclude on the process for a refund or transfer to the subsequent implementation period; and
- enhance the current monitoring across Finance and Grant Management Division, to ensure that cash balances from previous Implementation Periods, are deducted from grant purchase orders (funds available) for the next period.

Observations

This OIG audit report presents good news of real progress in grant closures. However, to an outsider, some questions remain.

The LOC Initiative average time taken for closure for NFM1 grants was reduced from 1,326 to 500 days but, as the report points out, only 20% of grants were closed within the required twelve months. So, some grants were still outstanding for more than 500 days. The report also notes that, as of December 2020, the Secretariat had fully closed 59% of the 507 grants which were past their grant closure date. That means that there were 208 grants remaining past their closure date. It is difficult to understand the reasons for this. It would have been more informative for the report to have listed the grants in order of outstanding duration with some analysis of the reasons. Given the progress resulting from the LOC Initiative, the reader is left wondering whether the Initiative has been maintained; or has it become part of the new OPN.

One major reason is the issue of reconciling cash balances. Here too it is difficult to fully understand the issue. Cash balances are surely reconciled on a routine basis, not just at the time of grant closure? Anyone who has worked in a treasury function in an organization knows that regular, usually daily, reconciliations are mandatory and, if an unresolved difference arises, which is uncommon, it is immediately investigated and appropriate action taken. Surely there must have been reconciliations performed prior to grant drawdowns? And what are the factors contributing to the reconciliation difficulty? Again, it would have been useful to have had a list of the grants with the unreconciled cash balances and an analysis of the reasons for non-reconciliation. The report notes that three grants in its sample have irreconcilable balances and should be written off. How did such ‘irreconcilable’ balances occur?

The reader is left with another question: if there are so many balances that have not been reconciled, then how can remaining balances at the end of an implementation period be deducted from grant Purchase Orders (funds available) for the next period? Have or have not unreconciled balances been carried forward?

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