



Independent observer
of the Global Fund

GLOBAL FUND'S PROCESS OF RECOVERING NON-COMPLIANT EXPENDITURES IS 'PARTIALLY EFFECTIVE', OIG SAYS

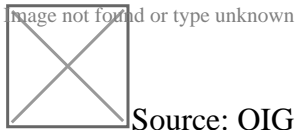
The Office of the Inspector General (OIG) conducted an audit of the Global Fund's Recovery Management processes, aiming to provide reasonable assurance on the effectiveness of processes and controls to identify, resolve, monitor, and report on amounts from Global Fund grants as a result of non-compliant expenditures. The OIG identified gaps in the identification and notification of potentially recoverable amounts and the initiation of the recovery process and thus rated the recovery process as 'partially effective.' The OIG partly attributed the identified gaps to the Global Fund Country Teams' non-adherence with policies and procedures related to the recoveries process.

The OIG published the report on the audit of the [Global Fund recoveries management processes](#) on 17 March 2020.

Background for the recoveries process at the Global Fund

The Global Fund applies the recoveries process after determining that grant expenditures incurred by the implementers are non-compliant (including unsupported expenditures or expenditures outside the scope or period of the grants), as defined by the [Budgeting Guidelines](#). However, the process varies depending on the type of recoveries. Recoveries can either be 'OIG-identified' amounts, which are from OIG published reports, or 'non-OIG identified' amounts that arise in the normal course of grant management or in OIG investigations that did not result in a published report (Figure 1). The Operational Policy Note on the Recovery of Grant Funds describes the end-to-end recovery process for each of the recoverables. However, it is a Global Fund internal document and is not publicly available.

Figure 1: Global Fund's recoveries process depending on the type of recoverables



Source: OIG audit report on the [Global Fund recoveries management processes](#)

For the 'non-OIG identified' recoveries, the Country Team should notify the Principal Recipient (PR), in the form of a Notification Letter, immediately upon the identification of potentially non-compliant expenditures. The letter asks the PR to justify the expenditures or repay the amounts within 60 days. The Country Team then reviews the additional documentation within 60 days and issues a Demand Letter to the PR, requesting a refund of the unsupported amounts. For the OIG-identified amounts, the Country has to obtain approval of the recoverable amount from the Global Fund's Executive Director, and only then can they send the Demand letter to the PR.

The OIG noted that Country Teams are responsible for administering the recoveries process of non-compliant procedures.

Audit scope

The audit covered Secretariat controls and processes to identify non-compliant expenditures. Concerning the identification and recognition of recoverable amounts, the OIG focused on non-OIG recoveries, since it had covered OIG recoveries in prior audits. Whereas, for subsequent monitoring, resolution and reporting of recoverables, the audit covered both OIG and non-OIG identified amounts. The audit period was from September 2017 to September 2019.

Key achievements and good practices

The OIG highlighted the fact that the Secretariat had put in place structures—including setting up a Recoveries Committee—to support oversight and management of the Recoveries process. The improvements in the oversight mechanisms helped decrease outstanding recoverables as a percentage of gross recoverable amounts, from 54% (\$ 69.32 million) in 2015 to 17% (\$34.73 million) in 2019.

In addition, the OIG noted that the Secretariat had also enhanced its systems to record recoverable amounts by adding a Recovery Module on the Grant Operating System. The Country Teams have to enter potential non-compliant amounts into the module and update it with all subsequent actions related to the recoveries process.

Findings

The report highlighted only one main finding and its associated Agreed Management Action (AMA), both of which we describe in detail below:

Sub-optimal processes and controls around the identification, notification, monitoring and reporting of non-compliant expenditures

The OIG noted instances of the Country Team's non-adherence to the policies and procedures related to the recoveries process as described below:

Significant delays in the identification and notification of recoverable amounts

In all the cases reviewed, the OIG found significant delays in the issuance of the Notification and Demand Letters to the PRs. The Country Teams took, on average, 433 days from identification of non-compliant expenditure to notification through a Notification Letter and finally issuance of a Demand Letter, against a 120-day requirement.

The OIG attributed the delays in part to Country Teams' engaging in multiple rounds of discussions and negotiations

with implementers on recoverable amounts. While appreciating the usefulness of this engagement, the OIG raised the concern that handling the non-compliant amounts outside the stipulated recovery process weakens the level of oversight and monitoring expected from the Recoveries Committee.

The Secretariat also failed to initiate the recovery process on some of the non-compliant expenditures. These expenditures included those identified either through case closure memorandums issued by the OIG Investigations Unit or by the various grant assurance providers such as the LFAs and fiscal agents, said the OIG.

Gaps in the identification of potential non-compliant amounts in the Recoveries module

The OIG, while commenting on the use of the Recoveries module on the Grant Operating System, noted that the Secretariat does not always capture all potentially non-compliant expenditures. Also, the OIG said the Country Teams do not provide key updates and relevant adjustments to the identified non-compliant expenditures resulting from the resolution process with the PRs, contrary to the guidelines. While the Country Teams resolved these recoveries, the exceptions produce an incomplete status of the ineligible amounts, impacting monitoring and reporting of recoveries.

The OIG attributed these gaps in part to the weaknesses in the design of the Recoveries module in the Grant Operating System. For instance, the module does not have the functionality to display all potentially non-compliant expenditures automatically.

Gaps in the monitoring and reporting on recoveries

Country Teams are required to report to the Recoveries Committee twice every year if the PR has either not repaid or has agreed to a repayment plan for the recoverable amount. The OIG, however, found that Country Teams had failed to report to the Recoveries Committee in 35% of the reviewed cases, despite the stipulated six-month reporting period having elapsed and these cases being in default of the repayment deadline by 11 months.

Agreed Management Actions

The Secretariat agreed to review the recoveries process and define additional controls as necessary, to identify, monitor and report all potential non-compliant amounts. The Secretariat will take the following actions :

1. Formally track potential recoverable transactions from all sources and subject them to the recoveries process.
2. Prepare demand letters within the timeframe prescribed by policy i.e. 120 days, with controls to identify and follow-up non-compliance.
3. Develop an operational reporting mechanism to enhance end-to-end visibility of potential and confirmed recoverable amounts, including aging and policy requirements for optimal Secretariat oversight including Recoveries Committee.

This AMA is owned by the Chair of the Recoveries Committee and the Senior Recoveries Officer and is due on 31 December 2020.

Previous audits

In 2016, the OIG had undertaken a [limited-scope review of the Recoveries Report](#) that the Secretariat presented to the Board of the Global Fund for the semester ending 31 December 2015. The review had identified significant weaknesses in the identification and complete and accurate reporting of non-OIG identified amounts, and in the reporting of OIG-identified amounts to the Board.

To address these weaknesses, the Secretariat agreed to train relevant operational teams on the process for identifying and reporting non-OIG recoveries, and to refine guidance and monitor timeframes for Country Teams to present cases to the Recovery Committee following the publication of OIG reports. The Secretariat had implemented these

actions at the time of this audit. However, the OIG said key weaknesses remain in the recovery of non-OIG recoverable amounts.

Further reading:

- This audit report, [Global Fund recoveries management processes](#), 17 March 2020 (GF-OIG-20-006)
- An OIG audit report, [Recoveries: Limited scope review of the Secretariat's Recoveries Report for the period up to 31 December 2015](#), 30 August 2016 (GF-OIG-16-021)

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