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Specific Measures at the Global Fund to Reduce the Risk of Grant Fraud

In a previous [article](#), GFO described the Global Fund's general approach to managing grant risk. In this article, we describe specific measures to reduce the risk of fraud. These measures are explained in a [report](#) prepared by Chief Risk Officer Cees Klumper, recently posted on the Global Fund's website.

The specific measures include the following:

- use of local fund agents (LFAs);
- new financial tools;
- revised terms and conditions;
- fraud-related findings from audits and investigations by the Office of the Inspector General (OIG); and
- special measures for high-risk grants.

Each of these measures is summarised below.

Use of LFAs. In 2011, the Global Fund instructed its LFAs to routinely undertake certain activities designed to detect fraud and other misuse of grant funds among principal recipients (PRs) and sub-recipients (SRs). These activities included (a) reviewing high-risk cost categories such as training activities, expenditures related to vehicles, and salaries; (b) performing targeted forensic audits; and (c) undertaking checks on vendors involved in high-risk procurements.

In addition, LFAs are increasingly being asked to conduct spot-check verifications to check for signs of fraud. The verifications are tailored to the specific risks of each grant. They involve reviewing procurement

bids, invoices, and training and meeting attendance forms. More and more, the verifications are being conducted among implementers below the PR level.

New financial tools. The Secretariat has implemented a new and improved financial planning tool for managing grants. The tool will allow for the tracking of grant expenditures. It will enable the Global Fund to see what the major categories of expenditure are at the level of the overall grant portfolio. The tool will also provide information on what unspent grant funds will be used for in future.

This tool – when combined with (a) assessments of controls in place to prevent and detect inappropriate use of funds; and (b) the new risk framework – will enable Secretariat staff to identify activities that may involve inappropriate expenditures (while the activities are in the early stages of being implemented).

In addition, a treasury function has been established (for the first time at the Fund). Staff in this unit are currently designing systems and tools that will result in better management of cash flows to grant recipients. One of the tools will be an automated mechanism of releasing cash to recipients in a “more staggered” manner than is the practice today. In this instance, “more staggered” means more frequent disbursements, but in smaller amounts that are more in line with the need for funds.

Collectively, the new financial tools described above will enable the Global Fund to increase the level of security and thereby minimise the financial exposure associated with misuse of funds and fraudulent activities.

Revised terms and conditions. The Secretariat has implemented revised standard terms and conditions (STCs) for grant agreements. The revised STCs incorporate multiple codes of conduct which explicitly forbid fraud and abuse of Global Fund money. This means that PRs contracting directly with the Global Fund have a legally binding commitment to ethical behaviour. The STCs 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. The grant agreements with PRs require that the PRs incorporate the relevant provisions of the STCs into contracts that they sign with sub-recipients, suppliers and other agents.

Fraud-related findings from OIG audits and investigations. Through its audits and investigations, the OIG has been able to deconstruct some pretty elaborate fraud schemes. The Global Fund Secretariat uses this information to improve the Fund’s financial and management controls.

For instance, much of the procurement-related fraud identified by the OIG concerns small procurements done in remote areas – e.g. for purchasing food and supplies for trainings. Evidence of procurements for such goods is often forged. So, the Secretariat has launched a pilot project. Under this project, the requirement to provide evidence of procurements for these goods is removed, and is replaced with a system where LFAs make random, unannounced visits to the activity sites.

OIG reports have highlighted the risk of drug theft and counterfeiting. In response, the Global Fund has undertaken multiple assessments to gauge the severity and likelihood of this risk. In 2011, working with partners, the Secretariat piloted action plans in 20 countries to better mitigate this risk. In addition, an internal working group is currently meeting with supply chain experts in the private sector to explore the possible use of harmonised measures and technology to improve tracking and anti-counterfeiting throughout the supply chain.

In 2011, to combat money laundering, the Global Fund added provisions to the grant agreement STCs regarding wire transfers and related financial transactions. The STCs require that all transfers of grant funds be carried out only through the PR’s beneficiary bank; and that PRs properly record all wire transfers and currency exchanges involving grant funds. The STCs prohibit all transfers of grant funds for non-programmatic purposes. Finally, the STCs require PRs to include equivalent requirements in all

agreements with SRs.

Special measures for high-risk grants. The Global Fund is making increasing use of several risk mitigation measures for grants that have been identified as having a high risk of fraud and misuse of grant funds.

These measures include the following:

- reducing investments in high-risk activities;
- restructuring portfolios to make them less complex;
- use of fiscal agents;
- direct contracting with external auditors;
- paying vendors directly (“zero-cash policy”);
- donor mapping; and
- engaging with countries’ supreme audit institutions and with international accountancy organisations.

Each of these measures is further described below.

Reducing investments in high-risk activities. Certain activities – such as training, communication campaigns and remunerating staff have been found to be particularly vulnerable to fraud risks. Where such risks are deemed to be particularly high, the Global Fund has worked with recipients to re-design the programme scope to reduce or completely halt investment in such activities. Where higher-risk investments are still required from a public health perspective, the Global Fund helps to identify alternative sources of funding, thereby shifting the risk to other institutions that are better-placed – e.g. by having a stronger in-country presence – to oversee such investments.

Fiscal agents. Where a PR’s financial management and internal controls are particularly weak, the Global Fund has contracted with fiscal agents to work with the PRs. Fiscal agents provide assurance that requests for funds and payments are economically justified, are adequately documented, and are based on the approved budgets and work plans. The Global Fund now has arrangements in place with six international fiscal agents.

Direct contracting with external auditors. In countries where external audits have been of poor quality, the Global Fund is directly contracting independent external audit firms.

Zero-cash policy. For some high-risk grants, the Global Fund has instituted a policy whereby the PR (or the fiscal agent) makes direct payments to vendors of goods and services, rather than transferring funds to SRs for this purpose.

Donor mapping. To guard against “double dipping” – charging multiple donors for the same expenditure – the Global Fund is conducting a detailed mapping of funding provided in countries to identify possible overlaps. This is being done in conjunction with other donors.

Engaging with countries’ supreme audit institutions and with international accountancy organisations. The Global Fund is working with the supreme audit institutions in many countries to strengthen their capacity. In February 2013, the Global Fund signed memoranda of understanding (MOUs) with the International Organization of Supreme Audit Institutions and several professional accountancy organisations. The MOUs describe the Global Fund’s intent 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.

Office of the Inspector General

The OIG is an independent and comprehensive additional “line of defence” 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 whistle-blower hotline through which any individual can report suspicions of misuse. The OIG'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.

This is the second of two articles on the Global Fund's approach to risk management. The first article is available [here](#).

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