OIG SEES IMPROVEMENT IN THE GLOBAL FUND'S GRANT-MAKING PROCESSES, BUT IDENTIFIES DELAYS IN IMPLEMENTING SYSTEM ENHANCEMENTS

The Office of the Inspector General's second audit in three years of the Global Fund's grant-making processes has found that many of the risks identified in the original audit have been addressed. However, the OIG said, implementation of systems enhancements has been delayed, which may affect the ability of the Fund to sign grants on time. In addition, the OIG said, "some improvements are needed to implement and operationalize new initiatives … and to make access to funding and grant-making processes more efficient and effective."

A report on the audit was released on 30 May.

The OIG rated the design of grant-making processes, systems and tools as "partially effective." This is the second highest rating in the OIG's four-tier rating scheme. The four tiers are effective; partially effective; needs significant improvement; and ineffective.

The OIG conducted this latest audit because there were significant deficiencies identified in the 2015 audit (see GFO article). Since the original audit, the Secretariat has implemented the following measures:

- The grant application, review and approval processes have been differentiated in line with the country context and funds allocated to the country.
- Documents required for grant-making have been simplified. The number has been reduced from 22 in 2015 to 10 currently.
- Existing tools and templates have been enhanced in light of risks identified in the 2015 audit.
- How risk is managed in grant-making processes has been formally defined in an operational policy

note.

- An Integrated Risk Management Tool has been designed to support country teams to assess risk throughout the grant management lifecycle. (The tool is expected to be implemented by September 2017.)
- The governance processes related to grant approvals has been improved. For example, the quality of the documentation prepared for the Grant Approval Committee has been enhanced.

Despite the improved processes and tools, the OIG said, there are still challenges with the underlying systems that support grant-making. The Secretariat identified the need for system enhancements to mitigate the delays in grant-making that were experienced in the 2014-2016 funding cycle. However, the OIG stated, implementation of the enhancements has itself been delayed, which may negatively affect the timeliness of grant-making in the current funding cycle.

The audit identified three areas where improvements were required: (1) systems to support grant-making; (2) processes related to catalytic investments and co-financing; and (3) internal controls.

Systems to support grant-making

In September 2015, the Secretariat launched the Accelerated Integration Management (AIM) project to manage the development and implementation of these underlying systems. The project has achieved some early successes, the OIG said, including the alignment of grant application data to grant-making, migration of key grant data from legacy systems to the integrated system, and creation of reporting templates.

An access-to-funding module was implemented, but not until March 2017, which was later than planned. There have been delays as well in implementing the grant-making module; at the time of the audit, it was still being developed. Most of the grant-making module is expected to be implemented in May 2017, the OIG said, which is when grant-making is scheduled to start for most of the 93 funding requests submitted in Window 1 in March. This is too tight, the OIG said; it doesn't leave sufficient room for additional delays in the project or for the operationalization of the modules. If there are further delays, the OIG added, there is a risk that key functions such as the system-generated performance framework and the health product and detailed budget templates will not be finalized on time to support effective grant-making and approval.

According to the OIG, the Secretariat and the project team have attributed the delays to "challenges experienced around data quality, compatibility for data migration and ongoing changing business requirements." The OIG said that the Secretariat rightly decided to address these challenges before the modules are implemented.

As a mitigation measure, the OIG stated, the Secretariat has instituted a coordinating group to monitor the development of supporting processes and systems for grant-making. Where necessary, the group will deploy alternative solutions for processes and systems that may not be ready. The OIG explained that this will include the use of new off-line templates or old processes, tools and systems while the Secretariat develops and implements the new ones. The OIG said that it considers the design of this mitigation measure to be adequate. However, the OIG pointed out, its effectiveness can only be assessed after grant-making is complete.

Processes for catalytic investments and co-financing

In November 2016, the Global Fund Board approved $800 million for catalytic investments, which consists of projects that cannot be adequately accommodated through country allocations but that are considered essential to achieve the aims of the Fund's 2017-2022 Strategy. The catalytic investments are made up of three funding streams: matching funds, multi-country grants and strategic initiatives. The OIG said that

only some of the operational aspects of the three streams have been defined by the Secretariat. Policies, procedures and guidance for the multi-country grants and the strategic initiatives have yet to be developed. (With respect to the multi-country grants, the Secretariat expects to have the application materials and the guidance notes completed by the end of June.)

In addition, the OIG said, the short timelines between Board approval (17 November) and the first wave of funding requests (20 March) made it difficult for countries to meet the requirements for matching funds which the OIG described as "significantly complex."

For example, the OIG said, matching fund requires ambitious and innovative programming approaches driven by evidence. These include strategic priorities such as scale-up of evidence-informed HIV programs for key populations, removing human rights barriers to accessing HIV services, and reducing HIV incidence amongst adolescent girls and young women. Such interventions are complex, the OIG explained, and they require significant time to research, and to develop programmatic approaches to achieve the strategic priorities.

The OIG said that the Secretariat made significant efforts in the short time frame to develop application materials and guidance for countries on the matching funds, but there wasn't enough time to develop what the OIG referred to as "change management interventions" – meaning training and other methods for introducing a new initiative.

In Window 1, 13 countries that submitted funding requests for one or more components were eligible to receive matching funds. The OIG said that only seven of the 13 countries submitted requests for matching funds along with their general funding requests and that this is at least partly explained by the short time frames. According to the OIG, the Secretariat anticipates that the other six countries will submit their requests for matching funds during either grant-making or grant implementation. "This complicates the access-to-funding and grant-making processes," the OIG stated, "as the Technical Review Panel (TRP) will need to additionally and separately review these requests."

Regarding co-financing, the OIG said that although the Board approved a policy on sustainability, transition and co-financing in April 2016, an operational policy note on co-financing was not approved until 31 March 2017, "which means that related change management activities are yet to be performed."

The OIG said that these challenges are complicated by the volume of funding requests received in the first window. On 20 March, the Secretariat received 93 out of the 228 expected funding requests for the current funding cycle, the OIG said, even though not all of the supporting processes and systems were fully ready. The 93 applications represent about $5 billion, which is almost half of the total allocation for 2017-2019.

The OIG said that countries and the Secretariat could have done a better job of determining the timing of the funding requests. The OIG noted that 13 of the 93 requests received in Window 1 have existing grants that don't expire until 2018 or 2019. On the other hand, the OIG said, there were 55 disease components that have existing grants expiring in 2017 and for which applicants did not submit funding requests in Window 1. (Editor's note: The Secretariat expected that funding requests for most of these 55 components would be submitted in Window 2, for which the submission deadline was 23 May.)

According to the OIG, the Secretariat estimates that 66 components will need additional time to prepare their funding requests (51 will need three more months; 15 will need six more months). The OIG said that the Secretariat is considering possible actions, including grant extensions, to avoid treatment disruptions. The OIG noted that the ability to scale up interventions is limited during extensions.

Internal controls

For 2017-2019, the grant application, review and approval processes were differentiated and simplified. The OIG said that this requires that relevant controls be incorporated to prevent misuse and achieve optimal benefits. However, the OIG said, two key controls have yet to be defined: capacity assessment of implementers; and identification of material changes after the TRP review.

Under the differentiated grant-making process, a capacity assessment of implementers is only required when the implementer is new to the Global Fund or there has been a significant change in the activities performed by the implementer. An operational policy note defines the criteria for performing a full or tailored capacity assessment. However, the OIG said, there are limited controls in the grant-making and approval processes to ensure that the scope of the capacity assessment performed on the implementers is consistent with the requirements in the operational policy. "The assessment is a key component of the grant-making processes since it allows the Secretariat to identify, prioritize and institute mitigation measures to ensure effective implementation of the grants after signature," the OIG stated.

Concerning material changes, the TRP reviews grant applications submitted by countries for technical and strategic focus of the interventions. Any material changes made during grant-making, such as program budget, implementation arrangements and use of health products, are required to be submitted to the TRP for additional reviews before grant approval. However, the OIG said, the related controls to identify material change to funding requests and grants after the TRP reviews have yet to be instituted.

Agreed management actions

The Secretariat has agreed to implement the following actions in response to the audit findings:

- Develop a three-year plan for the implementation of key grant management business process and system improvements. (This is designed to ensure that enhancements are started and completed on time.)
- Liaise with the Board to ensure that policy decisions are aligned to the three-year plan.
- Finalize development of the governance and management processes for the strategic initiatives.
- Develop and implement procedures and guidance for multi-country grants and processes, and controls for the review and approval of strategic investments.
- Continue change management activities and reinforce principles for the new components of grant-making in the 2017-2019 funding cycle (with country teams and implementers in-country).
- Update the grant-making sign-off form to address internal controls issues.

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