



Independent observer
of the Global Fund

OIG Says Global Fund Is Being Unfairly Criticised

OIG warns against making broad generalisations on the basis of a few investigations

Progress report also touches on drug thefts, changes to the audit process, the CCM oversight role, and UNDP as PR

In the opinion of the Office of the Inspector General (OIG), the Global Fund has been unfairly singled out for criticism on issues that are common to many donors. The OIG was referring to media attention triggered by a January 2011 Associated Press article on findings by the OIG of misuse of Global Fund grant money in a small number of countries, and to the reaction of donors to this story.

The OIG's comments were contained in a progress report submitted to the Global Fund Board for its meeting in Geneva.

The OIG said that the Associated Press article was factually misleading, and that it “largely misinterpreted the OIG results and made broad and sweeping claims about the nature and extent of fraud and corruption” in Global Fund grants. “Rather than being lauded for its transparency, the Global Fund was subject to criticism and given notice of possible disruptions in funding, while other similarly situated bilateral and multilateral organizations that also operate in these high risk environments escaped scrutiny.”

In the progress report, the OIG said that its investigations unit had 134 cases in its case file as of 28 April 2011, of which 36 were under active investigation, and 37 were being assessed to determine if they merited investigation. The OIG said that the other 60 cases had been assessed and were deemed worthy of investigation, but the investigations had not started because of a lack of resources at the OIG. (The numbers in the OIG report add up to 133, not 134.)

The OIG said that the rate at which allegations of misuse of grant money have been referred to the OIG has been increasing, largely because of referrals from the Global Fund Secretariat and local fund agents (LFAs). In the four-month period ending in early March 2011, 40 referrals were received, of which 12 were from the Secretariat directly and nine were from LFAs via the Secretariat. In the past, very few referrals came from these sources.

The OIG said that the above numbers – and the recent findings of fraud and misappropriation of grant funds – cannot be used to draw conclusions about all Global Fund grants. The OIG said that the extent of misappropriation cannot be calculated precisely because programmes financed by the Global Fund operate in 145 countries, “all of which are of a different character, and present different material risks... No two programs are identical.”

CCM oversight role

The OIG said that through its audits and investigations, it has found that CCMs lack accountability, and invariably suffer from serious conflicts of interest that render them incapable of performing their oversight role. For example, the OIG said, many CCMs include grant recipients as members. “Recipients of grant funds that also serve on CCMs are placed in a position whereby they are required to monitor and provide oversight of themselves, an obviously untenable situation.”

Theft of medicines

In its progress report, the OIG said that it is currently investigating 17 cases of drug theft in 13 countries in Africa. The OIG noted that many of the thefts appear to be well organised, and that there are two particularly vulnerable points in the supply chain – transportation of the medicines from the point of entry in the country to the central stores, and storage and maintenance in the stores themselves. Theft has also occurred at airports soon after drugs have arrived in country. In at least three cases being investigated by the OIG, security guards hired to protect the shipments have been involved in the thefts.

The OIG said that although it is impossible to determine the full extent of losses through drug thefts across the entire Global Fund grant portfolio, several individual thefts have involved drugs worth in excess of \$1 million. According to the OIG, in at least three instances, drug thefts have been accompanied by fraud. Records have been falsified and documents altered in the central store files to attempt to disguise the thefts. The OIG said that in Togo senior officials at the central medical supply stores engaged in a fraud scheme that operated over time and resulted in the theft of approximately \$860,000 worth of artemisinin-based combination therapies (see GFO [article](#)). The Government of Togo has since repaid the loss in full.

In light of these episodes, the OIG said, LFAs should carefully monitor record keeping in the stores, and undertake frequent checks of drug supplies. The OIG recommended that measures be taken to secure the transportation, delivery and storage of medicines, and that consideration be given to establishing parallel systems.

Audits commissioned by implementers

The OIG said that in a number of recent cases, principal recipients (PRs), and even sub-recipients (SRs), have commissioned external audits or financial reviews upon the receipt of an allegation of financial misappropriation, without providing notice to the OIG, or providing notice only significantly after the audits have been completed and the reports issued. In other instances, PRs have commissioned such audits without engaging with the OIG on the terms of reference. In many of these cases, the OIG said, the audits do not satisfactorily address the significant issues, namely the full nature and extent of the fraud, the full identification of the loss, and the identification of the responsible parties.

According to the OIG, in some instances the Global Fund Secretariat has, without notice to or approval from the OIG, commissioned financial reviews in countries that have been selected for an OIG audit, in advance of the OIG's arrival. The OIG said that China was one country in which this had happened. The OIG was unaware of this effort until the review had been completed and the results disclosed to the PR. The OIG said this practice is dangerous because it could cause complications for subsequent OIG audit and investigation efforts, and could risk premature disclosure of evidence and findings.

Changes to the OIG's audit process

In its progress report, the OIG announced some changes to the process used for conducting audits. The OIG said that in future:

- In cases where an audit has been completed, but the draft audit report cannot be released because this might impede a follow-up investigation, the OIG will provide PRs with a list of recommendations that are not directly relevant to any investigations. (More than 75% of audits now result in investigations being undertaken or, at least, considered.)
- The OIG will undertake a one- or two-week planning mission before starting the main audit field work to ensure that PRs understand what documentation needs to be made available.
- In most cases, audits will focus on current grants, and will not include closed grants, where it is often particularly difficult to locate necessary documentation.
- The OIG will ensure that, before the audit reports are finalised, PRs are given feedback on how the OIG treated the responses PRs gave to the draft audit reports.
- The OIG will make sure that final audit reports are disseminated to PRs, LFAs and CCMs before they are released to the Board and posted on the Global Fund website.

UNDP

In its progress report, the OIG lamented the fact that, in its view, there has been little progress on the issue of persuading the United Nations Development Programme (UNDP) to disclose information that is relevant to OIG audits and investigations.

As [reported](#) previously in GFO, in September 2011, the UNDP Board is scheduled to consider a proposal to allow institutional donors access to UNDP audit reports; and, in the interim, the UNDP's Office of Audits and Investigations (OAI) has agreed to prepare and share with the Global Fund a consolidated summary of its findings on audits of Global Fund-supported programmes for which the UNDP is PR. The UNDP manages about 12% of the Global Fund's grant portfolio.

However, the OIG said that it is not only seeking access to audit reports prepared by UNDP, but also access to relevant documents and financial records in the possession of UNDP – including, often, materials submitted to them by sub-recipients and suppliers that may impact upon investigations or audits being conducted, or contemplated, by the OIG. The OIG has raised this issue numerous times before.

The OIG's Progress Report for November 2010 to March 2011 is available [here](#).

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