

May 2007

GLOBAL HEALTH

Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions but Needs Standardized Oversight Expectations and Assessments





Highlights of [GAO-07-627](#), a report to congressional committees

Why GAO Did This Study

The Global Fund to Fight AIDS, Tuberculosis and Malaria has approved about \$7 billion in grants to developing countries; the U.S. has contributed \$1.9 billion. The State Department's Office of the Global AIDS Coordinator (OGAC) coordinates the U.S. government's overseas AIDS programs, with participation from the Department of Health and Human Services (HHS) and the U.S. Agency for International Development (USAID). In 2003, Congress directed GAO to report on the Global Fund every 2 years. This report assesses the Global Fund's (1) documentation of information used to support performance-based funding decisions, (2) progress in implementing a risk assessment model and early warning system, and (3) oversight of the performance of "local fund agents" (LFAs), which monitor grant progress in recipient countries. GAO reviewed the documentation for funding decisions and interviewed key officials.

What GAO Recommends

We recommend that the Secretaries of State and Health and Human Services work with the Global Fund's Board Chair and Executive Director to (1) establish standardized expectations for LFA performance and (2) require systematic assessments of LFA performance and the collection and analysis of performance data. The Departments of State and HHS, USAID, and the Global Fund agreed with our findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-627.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-3149 (gootnickd@gao.gov).

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What GAO Found

Since our 2005 review, the Global Fund has improved its documentation for decisions to disburse funds and renew grants. The Global Fund now requires that fund portfolio managers more consistently document factors, such as grant ratings and contextual information that support disbursement and grant renewal decisions. Our current review of 80 grant disbursements and 45 grant renewal decisions confirmed that Global Fund grant files consistently contained explanations of the information used in its funding decisions. For example, all grant disbursement files in our sample contained a written narrative explaining the ratings that portfolio managers gave the grants, based in part on reports completed by grant recipients. Although we noted that many of the grant recipients' reports lacked some information needed for disbursement and renewal decisions, Global Fund officials said that portfolio managers obtain this information informally from the recipients or other stakeholders.

The Global Fund did not implement the risk assessment model that it was developing at the time of our 2005 report, because it determined that the model did not accurately identify grant risk. To identify risks that may affect grant implementation, the organization currently relies on elements of its structures and processes, including its initial technical review, disbursement decision-making form, periodic grant ratings, oversight by country stakeholders, information from technical partners, and LFA oversight. Recognizing the need for a more comprehensive approach to risk management, the Global Fund has begun developing a risk assessment framework for the organization that includes an early alert and response system to address poorly performing grants.

The Global Fund has limited access to the information it needs to manage and oversee LFAs because it does not require systematic assessments of LFAs' performance. As a result, the Global Fund has limited ability to determine the quality of LFAs' monitoring and reporting and to identify situations in which more oversight of LFAs' performance may be required. Previously, the Global Fund introduced a tool to assess LFA performance more systematically; however, this effort was unsuccessful, because use of the tool was not mandatory. Numerous sources raise concerns about the quality of grant monitoring and reporting provided by LFAs, particularly their ability to assess and verify recipients' procurement capacity and program implementation.

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Abbreviations

CCM	country coordinating mechanism
HHS	Department of Health and Human Services
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
LFA	local fund agent
OGAC	Office of the U.S. Global AIDS Coordinator
TB	tuberculosis
UNAIDS	Joint United Nations Programme on HIV/AIDS
USAID	United States Agency for International Development
WHO	World Health Organization

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United States Government Accountability Office
Washington, DC 20548

May 7, 2007

The Honorable Joseph R. Biden, Jr.
Chairman
The Honorable Richard G. Lugar
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Tom Lantos
Chairman
The Honorable Ileana Ros-Lehtinen
Ranking Minority Member
Committee on Foreign Affairs
House of Representatives

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) was created to help finance the fight against three infectious diseases that kill more than 6 million people each year. Established in 2002, the Global Fund is a private foundation intended as a partnership among governments, civil society, the private sector, and affected communities. From 2002 through February 2007, the Global Fund approved grant proposals totaling about \$7 billion to governmental and nongovernmental entities to carry out disease intervention activities in more than 100 countries. During this period, the U.S. government contributed \$1.9 billion—the largest amount provided to the Global Fund by a single donor. The State Department’s Office of the Global AIDS Coordinator (OGAC) coordinates the U.S. government’s overseas AIDS programs, with participation from the Department of Health and Human Services (HHS) and the U.S. Agency for International Development (USAID).

The Global Fund uses a performance-based funding system designed to encourage financial accountability and program progress and to link its continued grant disbursements to achievement of these results. The Global Fund contracts with “local fund agents” (LFA) to assess recipients’ capacity for grant implementation and verify recipients’ financial and program performance data. In June 2007, it plans to issue applications for new contracts for LFA oversight services.

In 2003, Congress directed the Comptroller General to monitor and evaluate projects supported by the Global Fund and to submit a report every 2 years.¹ In June 2005, we reported that the Global Fund's grant documentation did not always show clear grounds for performance-based funding decisions.² These decisions can include periodic disbursements as well as decisions to renew, suspend, or terminate grants. We further noted that some of the grant recipients' self-reported performance data were of poor quality or incomplete. We also reported that the Global Fund was developing a risk assessment model and early warning system to alert its fund portfolio managers to the need to respond to poorly performing grants.³ In addition, we noted that LFAs' assessments of recipient performance contained inconsistencies and that LFAs often lacked the knowledge and experience needed for these assessments. In its response to our 2005 report, the Global Fund generally concurred with our findings and indicated that it was taking steps to improve its structures and systems.

Following up on our 2005 review, this report assesses the Global Fund's (1) documentation of the information used to support performance-based funding decisions, (2) progress in implementing a risk assessment model and early warning system, and (3) oversight of local fund agents' performance.

To address these objectives, we met with key officials from the Global Fund and reviewed Global Fund documents, including key source documents from grant files. To assess the documentation of the information used to support performance-based funding decisions, we analyzed two separate random samples of grant decisions from the Global

¹United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003, Pub. L. No. 108-25, § 202 (f), 117 Stat. 711, 727 (codified at 22 U.S.C. § 7622).

²The June 2005 report on the Global Fund was our first review in response to the mandate. See GAO, *Global Health: The Global Fund to Fight AIDS, TB and Malaria Is Responding to Challenges but Needs Better Information and Documentation for Performance-based Funding*, [GAO-05-639](#) (Washington, D.C.: June 2005). We also completed a report in 2003 on the Global Fund at the request of the Chairman, Committee on Appropriations, Subcommittee on Foreign Operations, Export Financing, and Related Programs. See GAO, *Global Health: Global Fund to Fight AIDS, TB and Malaria Has Advanced in Key Areas, but Difficult Challenges Remain*, [GAO-03-601](#) (Washington, D.C.: May 2003). This report is our final response to the 2003 mandate.

³Risks faced by Global Fund grants include problems associated with operating in countries with varying levels of economic development and capacity, which can affect grant effectiveness.

Fund. The first sample consisted of 80 grants that were assessed for performance-based funding disbursements between January 1 and October 1, 2006. The second sample consisted of 45 grants that were assessed for phase 2 grant renewal.⁴ We projected our findings to the files of all grants that received a disbursement or were assessed for grant renewal during that period. To assess Global Fund progress in implementing a risk assessment model and early warning system, we reviewed international standards on risk management,⁵ met with Global Fund secretariat officials, and reviewed Global Fund documents. We also held discussions with the Global Fund's Inspector General and three of its key technical partners.⁶ To assess the Global Fund's oversight and measurement of LFAs' capacity and performance, we met with each of the six LFA headquarters offices and relevant secretariat personnel. In addition, we held structured interviews with LFA teams in 12 countries via telephone. We also obtained perspectives on the progress of the Global Fund from its partners and outside experts. We conducted our work between May 2006 and March 2007 in accordance with generally accepted government auditing standards. (See app. I for a detailed description of our scope and methodology.)

Results in Brief

The Global Fund has improved its documentation of information that supports its performance-based funding decisions for disbursements and grant renewals. Since our 2005 review, the Global Fund has updated its documentation system to require that portfolio managers more consistently document factors, such as grant ratings and contextual information, on which they base their decision to continue funding a

⁴The Global Fund's Board approves grant proposals covering up to a 5-year period and initially commits grants for the first 2-year phase of the proposal period. Continued grant funding for phase 2 is conditioned on program performance, based on a review of performance reports and other information taken 20 months after the grant program's start date.

⁵See *Committee of Sponsoring Organizations of the Treadway Commission, Enterprise Risk Management—Integrated Framework Executive Summary*: 2004.

⁶As a financing entity, the Global Fund relies on partners to provide technical support to grant recipients. Its key partners include UNAIDS, OGAC, the World Bank, and the World Health Organization (WHO).

grant.⁷ Our review of 80 grant disbursements and 45 phase 2 grant renewal decisions confirmed that Global Fund grant files consistently contained explanations of the information used to make its funding decisions.⁸ For example, 100 percent⁹ of the disbursement and phase 2 files in our samples contained narratives explaining the manager's rating of the grant's performance. We noted that many reports completed by grant recipients lacked explanations either for not meeting or for exceeding the grant's targets. However, Global Fund officials said that fund portfolio managers obtain the needed information informally from the recipients or other stakeholders.

The Global Fund did not implement the risk assessment model that it was developing at the time of our 2005 report, because it determined that the model did not accurately identify grant risk. To identify risks that may affect grant implementation, the organization currently relies on elements of its structures and processes, including its initial technical review, disbursement decision-making form, periodic grant ratings, oversight by country stakeholders, information from technical partners, and LFA oversight. Recognizing the need for a more comprehensive approach to risk management the Global Fund has begun developing a risk assessment framework for the organization that includes an early alert and response system to address poorly performing grants.

Because it does not require systematic assessments of LFAs' performance, the Global Fund has limited access to the information it needs to manage and oversee LFAs.¹⁰ Global Fund portfolio managers set expectations for

⁷According to the Global Fund's disbursement decision-making form, contextual information critical to disbursement decisions includes qualitative factors relating to governance, grant management, and external factors. This form, together with the principal recipient's report on the achievement of all individual targets and the LFA's verification is the documented basis for funding decisions during implementation.

⁸The Global Fund maintains a file for each grant that contains, among other things, all reports relating to that grant's performance, funding requests, and disbursement and phase 2 assessments and funding decisions.

⁹For both samples the estimate was 100 percent. For each of these estimates we are 95 percent confident that at least 94 percent of all files in our population contain narratives explaining the manager's rating of the grant's performance.

¹⁰Good practice suggests that organizations should monitor their contractors' performance during the course of interaction and periodically evaluate performance based on clear expectations. Assessment results should include consistent patterns of rewards, penalties, or both. (See app. II for sources of these criteria.)

LFA performance informally and individually, often resulting in, for example, variances in scopes of work and definitions of satisfactory performance. Moreover, the Global Fund does not require systematic assessment or reporting of LFAs' performance; instead, managers provide feedback to LFAs informally. Because of the lack of systematic assessment, the Global Fund has limited ability to determine the quality of grant services provided by LFAs and to identify situations in which more oversight of LFAs by the Global Fund may be required. The Global Fund previously introduced a tool to assess LFA performance more systematically. However, this effort was unsuccessful because use of the tool was not mandatory. Numerous sources raise concerns about the quality of grant oversight provided by LFAs, particularly their ability to assess and verify recipients' procurement capacity and program implementation.

To improve the Global Fund's ability to oversee the performance of its local fund agents, we recommend that the Secretaries of State and HHS work with the Global Fund's Board Chair and Executive Director to (1) establish standardized expectations for LFA performance; and (2) require systematic assessments of LFA performance and the collection and analysis of performance data.

In responding to our draft report, the Departments of State and Health and Human Services, the U.S. Agency for International Development, and the Global Fund agreed with the report's findings, conclusions, and recommendations. (See apps. III and IV for their comments.)

Background

The Global Fund, a private foundation in Switzerland, was established in 2002 as a funding mechanism to collect public and private contributions to finance grants for the prevention and treatment of HIV/AIDS, tuberculosis (TB), and malaria.¹¹ About 96 percent of the contributions to the Global Fund since its inception have come from governments. Private sector support increased in 2006, notably owing to a pledge of \$500 million by the

¹¹UNAIDS and WHO estimate that 39.5 million people were living with HIV in 2006 and that 2.9 million people died of AIDS-related illnesses in 2006. WHO estimates that malaria kills more than 1 million people per year and that 124 million people in Africa live in areas that are at risk for seasonal malaria epidemics. WHO also estimates that 1.7 million people die of TB each year.

Bill and Melinda Gates Foundation and receipt of almost \$19 million through the (RED)TM initiative.¹²

By December 2006, the Global Fund had completed six proposal rounds, approved about \$7 billion in grants, signed grant agreements worth over \$5 billion and disbursed more than \$3 billion to grant recipients in 132 countries. The Global Fund also reports that by December 2006, its grants enabled recipients to supply antiretroviral drugs to 770,000 people infected with HIV/AIDS, treat 2 million people infected with tuberculosis, and distribute 18 million insecticide-treated nets to combat malaria.

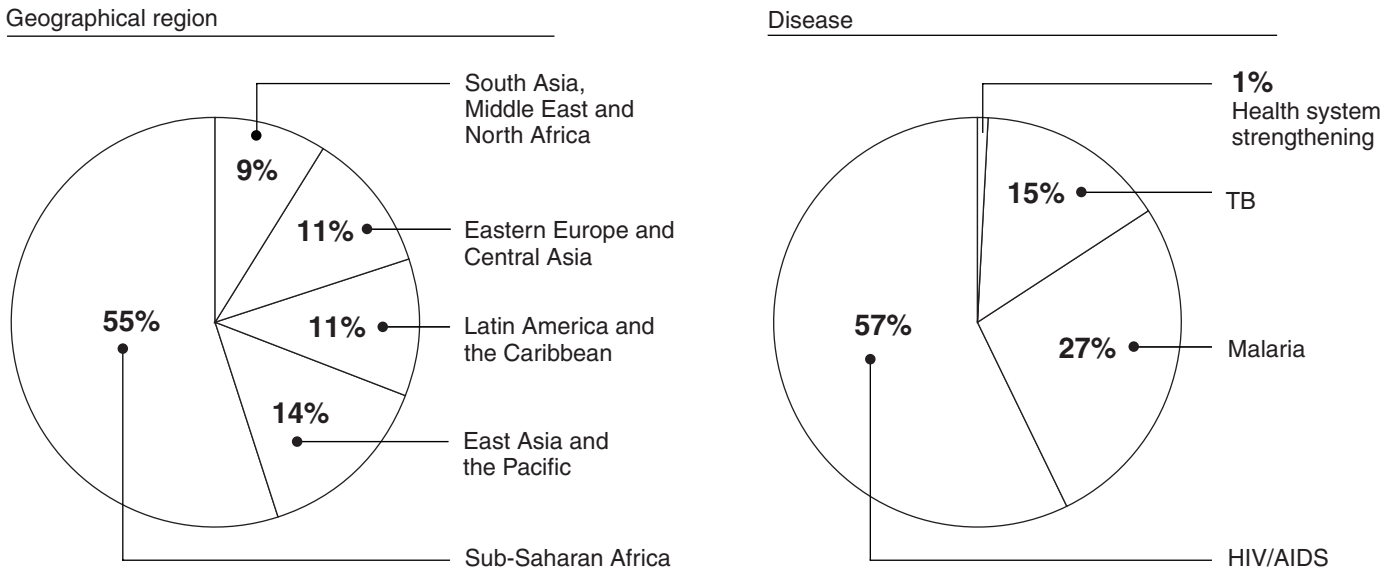
Global Fund Portfolio Distribution

The Global Fund's underlying principles require, among other things, that it maintain a balanced grant portfolio in terms of region, disease, and type of intervention; operate transparently and accountably; and use a simple, rapid, and innovative grant-making process.¹³ As figure 1 shows, between 2002 and 2006, the Global Fund distributed 55 percent of grant funds to sub-Saharan Africa, with the remainder of the funding divided among other regions of the world. Also during this time period, the Global Fund distributed 57 percent, 15 percent, and 27 percent of grant funds, respectively, for HIV/AIDS, tuberculosis, and malaria programs. The remaining 1 percent funded projects to strengthen health systems.

¹²(RED)TM is a private sector initiative to provide financing for Global Fund HIV/AIDS projects in Africa. Companies participating in the initiative donate a portion of profits from the sale of (RED) branded items.

¹³The Global Fund's key principles are to (1) operate as a financial instrument, not an implementing entity; (2) make available and leverage additional resources; (3) support programs that evolve from national plans and priorities; (4) operate in a balanced manner with respect to geographic regions, diseases, and healthcare interventions; (5) pursue an integrated and balanced approach to prevention, treatment, care, and support; (6) evaluate proposals through an independent review process; and (7) operate in a transparent and accountable manner and employ a simplified, rapid, and innovative grant-making process.

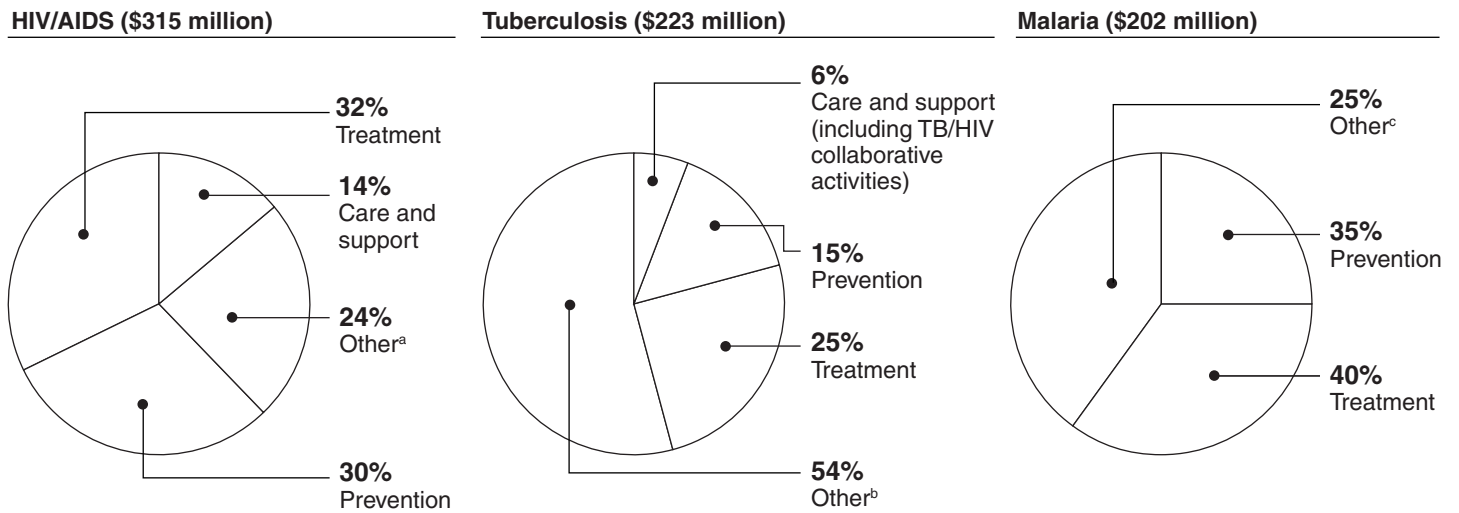
Figure 1: Global Fund Allocations between 2002 and 2006 by Geographical Region and Disease



Source: GAO analysis of Global Fund data.

In 2005, the Global Fund began tracking the allocation of grant funds in grant proposals according to the disease intervention categories of prevention, care, and treatment. Figure 2 shows the Global Fund's estimated distribution by disease and intervention category.

Figure 2: Global Fund Allocations by Disease and Intervention Category



Source: GAO based on Global Fund Round 5 data from 2006.

^aFor HIV/AIDS, “Other” includes grants for health system strengthening, monitoring and evaluation, supportive environment, HIV/TB collaborative activities, and other activities.

^bFor tuberculosis, “Other” includes grants for health system strengthening, monitoring and evaluation, supportive environment, and other activities.

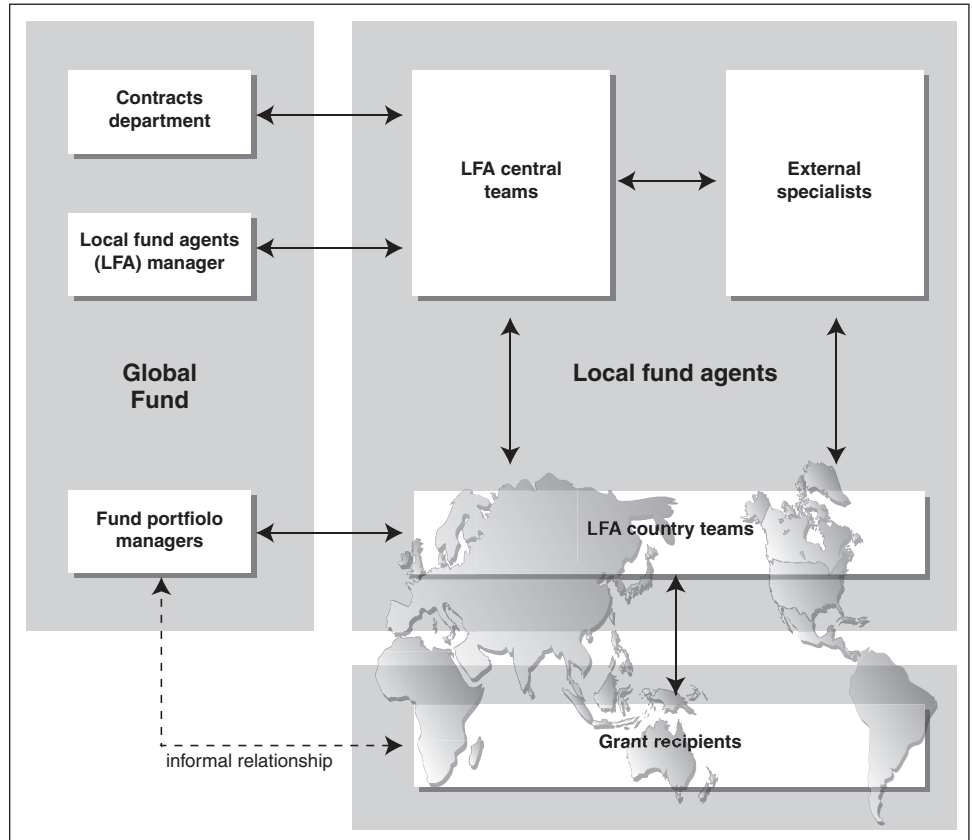
^cFor malaria, “Other” includes grants for health system strengthening, supportive environment, and other activities.

Key Elements of the Global Fund’s Structure

The Global Fund’s principles also require it to focus on performance by linking its resources to the achievement of clear, measurable, and sustainable results. To achieve this focus on performance-based funding, the Global Fund relies primarily on oversight by, and interaction among, Global Fund secretariat personnel,¹⁴ grant recipients, and LFAs. (See fig. 3.)

¹⁴Between 2003 and 2006 the Global Fund secretariat staff increased from 63 to 240 employees.

Figure 3: Performance-based Funding Oversight by Global Fund Secretariat, Grant Recipients, and LFAs



Sources: GAO (data); Map Resources (clip art).

*Fund portfolio managers also have formal relationships with grant recipients and they interact with all stakeholders including LFA central teams

- Global Fund secretariat personnel.* Within the secretariat, the fund portfolio managers are primarily responsible for reviewing grant progress and making performance-based funding recommendations. Other secretariat personnel are consulted during key stages in the grant life cycle. Fund portfolio managers interact with the LFA country teams providing oversight services for their grant, as well as with principal recipients, subrecipients, technical partners, and other stakeholders in the recipient countries. In addition to the country teams, staff from the contracts department and the Global Fund’s LFA manager interact with LFA headquarters teams, known as the central teams, regarding

contracting and administrative matters and any problems related to LFA country teams.

- *Grant recipients.* At the country level, the principal grant recipient is responsible for receiving and implementing the grant.¹⁵ During implementation, the principal recipient is responsible for monitoring and evaluating the grant's effectiveness in accordance with grant objectives and making sure that funds are properly accounted for. The principal recipient is also responsible for overseeing the activities of any subrecipients implementing grant activities.
- *Local fund agents.* The Global Fund currently contracts with LFA headquarters central teams at six organizations¹⁶ to oversee grants in 120 countries and multicountry programs.¹⁷ In the majority of cases, the central team establishes interfirm agreements with its affiliated offices within each country to perform LFA services.¹⁸ The LFA assesses recipient capacity prior to grant signing and performs verification and oversight duties throughout the life of the grant. The LFA central teams typically contract with external specialists for work outside the expertise of their organization, especially during the initial assessments of recipient capacity. For example, during the initial assessments, some organizations contract with a procurement expert to review recipients' capacity for

¹⁵Government agencies are the principal recipients of 64 percent of grant funds. Nonprofit development organizations and multilateral organizations also act as principal recipients. In many cases the principal recipient further distributes the funds to multiple subrecipients to implement grant activities.

¹⁶As of 2007, the Global Fund had contracted with the following organizations to perform LFA oversight duties: PricewaterhouseCoopers, KPMG, Emerging Markets Group, Crown Agents, the Swiss Tropical Institute, and the United Nations Office for Project Services. PriceWaterhouseCoopers and KPMG together account for LFA services in 97 of 120 countries and regional programs.

¹⁷In addition to 113 country programs, LFAs oversee grants in 1 multicountry program in Africa 5 multicountry programs in Latin America and the Caribbean, and 1 multicountry program in the Western Pacific.

¹⁸The specific responsibilities delegated to the LFA central team, LFA country team, and outside experts sometimes vary from one LFA organization to another. For example, of the two firms with the largest portfolios, one uses a decentralized approach in which the majority of the work occurs within the country team, and the other uses a centralized approach in which the country teams perform the oversight tasks, but all LFA products are vetted through the central team before reaching the secretariat. Using a different approach, one of the smaller LFA organizations has very limited presence within the recipient countries; instead, it sends specialists into the country to perform oversight activities as needed.

procurement and supply chain management. The Global Fund budgeted approximately \$22 million—26 percent of the secretariat’s operating budget—to support the LFA structure for 2006 and spent about an additional \$320,000 on LFA-related functions, including personnel costs related to LFA management, studies of the LFA model, and travel to meet with LFAs.

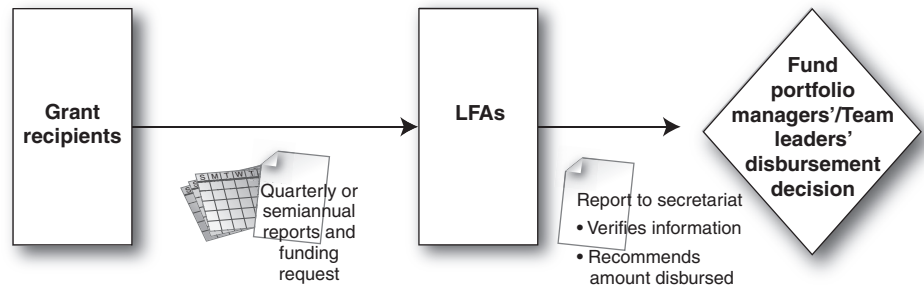
Performance-Based Funding Process

The Global Fund’s performance-based funding process involves an initial assessment of recipients’ capacity to manage and implement grants, periodic disbursement decisions based largely on reports by the grant recipient and the LFA, and a phase 2 grant renewal review after about 2 years.

- *Assessment of grant recipients’ capacity.* Prior to funding a grant, the Global Fund considers, among other things, a grant recipient’s ability to (1) manage, evaluate, and report on grant-funded activities; (2) manage and account for funds; and (3) procure goods and services. LFAs assess prospective recipients’ capacity to perform these activities. Funding is conditioned on recipients’ meeting performance targets mutually agreed with Global Fund technical experts.
- *Periodic disbursements.* After the initial screening and approval process, the grant recipient must produce quarterly or semi-annual reports describing financial and program progress as well as a funding request for the next disbursement period. The grant recipient sends these reports to the LFA, which prepares a report verifying the accuracy of the information, identifying potential grant problems, rating grant performance, and recommending a disbursement amount. The LFA then forwards the grant recipient’s report and its own report to the designated Global Fund portfolio manager. The fund portfolio manager compares the financial information and data on program progress with the grant’s performance targets, taking into account information such as the status of procurements and political or economic constraints. The fund portfolio manager’s team leader makes a funding decision if the disbursement is less than \$2 million.¹⁹ Figure 4 illustrates the Global Fund’s periodic disbursement decision process.

¹⁹A disbursement greater than \$2 million requires a decision by the secretariat’s Director of Operations.

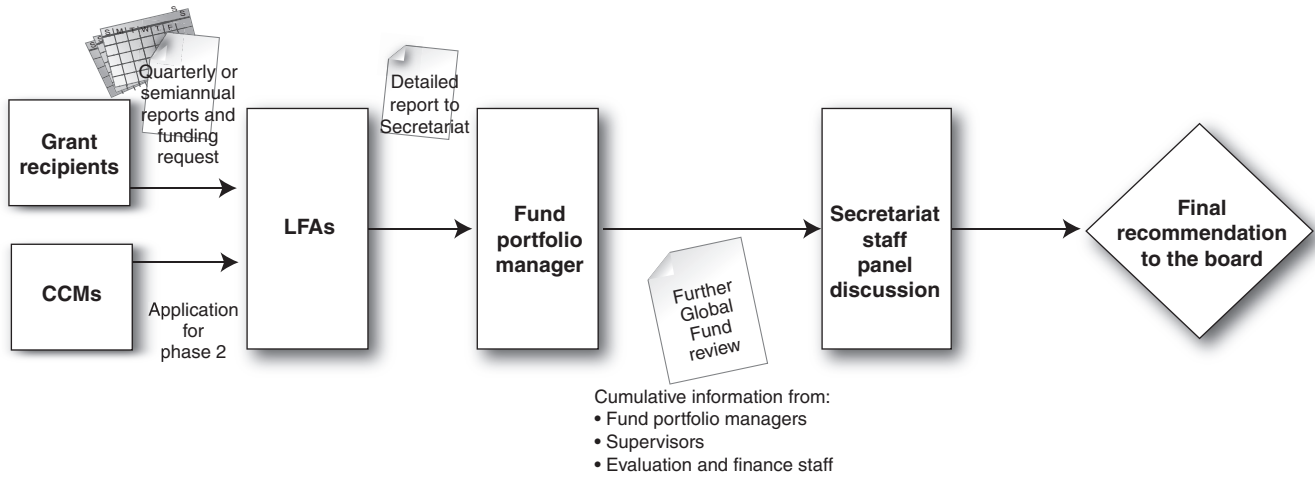
Figure 4: Global Fund Disbursement Decision Process



Sources: GAO (data); Map Resources (clip art).

- *Grant renewal process.* A key milestone in the performance-based funding approach is the phase 2 grant renewal review—a detailed analysis of grant progress at about 2 years, required to continue funding for up to the next 3 years. Similar to its process for disbursement decisions, the Global Fund’s grant renewal process requires grant recipients to send documentation of financial and program progress to the LFA, which verifies the information and analyzes the phase 2 proposal. In a report to the Global Fund, the LFA identifies potential grant problems, rates the performance of the grant, and recommends the amount needed to fund up to the next 3 years of the grant. Because phase 2 is the decision point for continuing the grant to its 5-year completion, the process also includes an extensive and detailed review of cumulative information by fund portfolio managers, their supervisors, and evaluation and finance staff. The phase 2 renewal process culminates in a panel discussion and final recommendation to the board. Figure 5 illustrates key elements of the Global Fund’s phase 2 grant renewal process.

Figure 5: Key Elements of the Global Fund’s Phase 2 Grant Renewal Process



Sources: GAO (data); Map Resources (clip art).

Table 1 outlines the key source documents related to disbursement decisions and phase 2 grant renewals from electronic “grant files” that we reviewed in conducting this study.

Table 1: Key Source Documents for Disbursement and Grant Renewal Decisions

Funding decision	Reporting form	Completed by
Disbursement	Progress Update and Disbursement Request	Grant recipient
	LFA Progress Review and Recommendation	LFA
	Disbursement Decision-Making Form	Global Fund secretariat

Funding decision	Reporting form	Completed by
Phase 2 renewal	Request for Continued Funding	Country coordinating mechanism (CCM) ²⁰
	Grant Performance Report	Global Fund secretariat
	Phase 2 Request Assessment Report	LFA
	Grant Scorecard	Global Fund secretariat

Source: GAO analysis based on Global Fund documentation.

In preparation for its retender of LFA contracts worldwide in mid to late 2007, the secretariat will continue discussions on the key principles that will potentially shape the design of the next LFA model. According to a Global Fund official, they will take into consideration findings from this review and two internal Global Fund studies. They expect to issue the request for applications in late June.

Global Fund Has Improved Documentation of Its Basis for Funding Decisions

The Global Fund has improved its documentation of information supporting its performance-based funding decisions. For example, the Global Fund's system now requires that portfolio managers consistently document factors that may affect the decision to continue funding a grant, especially when the grant falls short of its performance targets. In addition, the Global Fund grant files that we reviewed consistently contained explanations of funding decisions and contextual data informing the decisions. Although we found many reports submitted by grant recipients to the Global Fund do not provide explanations for all unmet grant performance targets, according to Global Fund officials, fund portfolio managers are able to obtain the needed information directly from the grant recipients or other stakeholders.

²⁰ Country coordinating mechanisms are the entities that formally submit the Request for Continued Funding. In their capacity as the national authority that oversees grant implementation, CCMs include representatives from both the public and private sectors, including governments; multilateral or bilateral agencies; non-governmental organizations; academic institutions; private businesses; and people living with the diseases. For each grant, the CCM nominates one or a few public or private organizations to serve as grant recipient.

Global Fund Has Improved Its Processes for Documenting the Basis for Funding Decisions

The Global Fund has developed a more systematic process for documenting the basis for its funding decisions. In June 2005, we noted that the Global Fund did not consistently document the reasons for its determinations that recipients' performance warranted additional funding for periodic disbursements or its recommendations regarding grant renewals. We recommended that the Global Fund continue efforts to clearly document the Global Fund's reasons for periodically disbursing funds and renewing grant agreements. Subsequently, to increase the transparency of its performance-based funding system, the organization made several changes to its documentation process.

In late 2005, the Global Fund developed a disbursement decision-making form to ensure that fund portfolio managers consistently show the basis for each disbursement decision. The form requires, among other things,

- an explanation of the performance rating assigned to the grant, addressing any discrepancy between ratings by the fund portfolio manager and the LFA and verifying that the manager has considered any problems raised by the LFA regarding data quality and reporting, program progress, and expenditures;²¹ and
- contextual information critical to the disbursement decision, such as information demonstrating governance problems, grant management weaknesses, currency fluctuations, or natural disasters in the country or region where a funded project is being implemented.

The Global Fund also revised other forms to provide more systematic reporting of grant program progress. These revisions included improvements to the grant progress update and disbursement request, the LFA progress review and recommendation report, and the phase 2 grant scorecard.²² For example, the updated progress update form contains a new requirement that LFAs comment on the reliability of grant recipient data on target achievement. The updated grant scorecard includes requests for data showing the timeliness and effectiveness of grant recipients' use of the funds during phase 1 of grant implementation. It also

²¹Fund portfolio managers, with recommendations from LFAs, give performance ratings that range from A (expected or exceeding expectations), B1 (substantial achievements made), B2 (little progress made), C (unacceptable).

²²In preparation for the phase 2 grant renewal decision, Global Fund staff prepare a summary of information from the grant recipient, LFA, portfolio manager, performance evaluation team, and secretariat financial staff on grant performance.

includes a new section where the secretariat can record plans to materially change the grant in phase 2—for example, adding or dropping goals or objectives because of lessons learned during phase 1.²³

According to Global Fund officials, the changes to their system of recording information about grant performance and problems have made the decision process more systematic and transparent. For example, Global Fund officials, including some fund portfolio managers, said the new disbursement decision-making form provides managers a place to systematically explain their ratings. Officials from OGAC and the World Bank with whom we met said that the Global Fund’s more consistent documentation of the basis of its decisions has made the decisions easier to understand.

Grant Files Demonstrate Improved Documentation Supporting Funding Decisions

Our review of random samples of disbursement and phase 2 grant files indicated that most files systematically explain a number of key factors used to support disbursement and grant renewal decisions.²⁴ In our 2005 report, we observed that the Global Fund’s grant files provided little explanation of disbursement decisions, including decisions to disburse funds to recipients who reported not meeting their targets. In addition, our 2005 report noted that, according to Global Fund officials, many grant renewal decisions were not supported by the information needed to assess whether funding decisions were consistently based on grant performance.

In our current review, we found that Global Fund grant files consistently contained explanations of ratings of grant performance that were important to funding decisions, even when key stakeholders’ ratings and recommendations did not concur. Based on our samples, 100 percent²⁵ of both disbursement and phase 2 files contained narratives explaining the manager’s rating of the grant’s performance. Most grant files also contained explanations for lack of concurrence in ratings or

²³The Global Fund calls such changes material reprogramming.

²⁴All percentage estimates based on this sample provided in this report have 95 percent confidence intervals of within plus or minus 13 percentage points. See appendix I for more information on our sampling methodology.

²⁵For both samples the estimate was 100 percent. For each of these estimates we are 95 percent confident that at least 94 percent of all files in our population contain narratives explaining the manager’s rating of the grant’s performance.

recommendations by the various officials charged with assessing grant performance.²⁶ For example:

- In all 8 cases in which fund portfolio managers' phase 2 grant ratings differed from those of the evaluation staff, the scorecards in the grant files contained an explanation for the lack of concurrence.²⁷
- In all 5 cases in which fund portfolio managers' phase 2 grant renewal recommendations differed from those of the LFAs', the scorecards in the grant files contained an explanation for the lack of concurrence.
- In cases in which fund portfolio managers' assessments of grant performance led them to disagree with the disbursement amount recommended by the LFA or the amount requested by the grant recipient, 31 of 32 of those grant files included a narrative explaining the discrepancy.²⁸

According to Global Fund officials, such explanations provide valuable information that helps decision-makers better understand and consider grant performance.

The Global Fund files that we reviewed also consistently explained contextual information and other issues that may affect the grant recipient's ability to meet agreed-upon targets. We found that an estimated 96 percent of disbursement files in which portfolio managers had specified contextual issues that negatively affected grant performance included narratives explaining each issue. According to Global Fund officials, such

²⁶LFAs, portfolio managers, and evaluation staff make phase 2 funding recommendations (Go, Conditional Go, or No Go). The Global Fund Board of Directors reviews these recommendations and makes the final phase 2 recommendation to renew the grant, not to renew the grant, or to renew the grant with conditions attached. Global Fund officials said that differences between ratings and proposed funding levels are common and do not necessarily indicate mistakes or poor judgment by LFAs, portfolio managers, or staff from the evaluation team. They said, for example, that after LFAs have completed their assessments, LFAs and fund portfolio managers often receive new information about grant performance that leads them to propose a different phase 2 amount than originally recommended by the LFA.

²⁷Fund portfolio managers and the evaluation staff gave the majority of the phase 2 grants matching ratings. They concurred on about 73 percent of their phase 2 grant renewal recommendations.

²⁸We estimated that in almost half of grant disbursement files, the fund portfolio manager disagreed with the amount recommended by the LFA or the amount requested by the grant recipient.

information is crucial to grant disbursement and renewal decisions, especially if recipients have not met many of the targets set at the grant's initiation. In addition, in reviewing 43 disbursement files for grants whose recipients had not yet met remedial requirements imposed by the Global Fund as conditions for grant renewal, we found that 42 (98 percent) contained an explanation of recipients' progress toward meeting the requirements.

Global Fund Informally Gathers Missing Data on Grant Recipients' Performance

Although recipients' formal documentation of grant performance remains incomplete, Global Fund officials informally gather the missing information that they consider necessary for making and documenting the basis for funding decisions. In June 2005, we reported that recipient progress reports varied in quality and that the limited monitoring and evaluation capabilities of many recipients raised questions about the accuracy of their reporting.²⁹ Our current analysis found that an estimated 39 percent of phase 2 grant files contained evidence, identified by fund portfolio managers, of weaknesses in the reliability of the grant recipient's data. In contrast to the consistent documentation we found on forms completed by Global Fund staff, many periodic performance reports completed by grant recipients lacked explanations either for not meeting or for exceeding the grant's targets. In those cases, according to LFAs, fund portfolio managers, and other Global Fund officials, fund portfolio managers relied on regular phone and e-mail contact with grant recipients or other stakeholders to obtain the missing information needed for performance-based funding decisions. Global Fund officials said that information crucial to funding decisions is documented on the disbursement decision-making form or phase 2 grant scorecard, even if it was not recorded by grant recipients or LFAs in their formally required reports.

Global Fund portfolio managers said that recipients' explanations for not meeting targets may influence the portfolio manager's recommendation to withhold funds or, alternately, to continue to fund the grant despite performance problems. According to Global Fund officials and public health experts, improving grant recipients' monitoring and evaluation capacity, as well as their ability to report accurately and completely, will require long-term investment on the part of the Global Fund and its partners.

²⁹ [GAO-05-639](#).

Global Fund Did Not Implement Earlier Risk Model but Is Developing Comprehensive Risk Framework That Includes Early Alert and Response System

The Global Fund did not implement the risk assessment model that it was developing at the time of our 2005 report, because it determined that the model did not accurately identify grant risk. The organization relies on elements of its structures and processes, including its initial technical review, disbursement decision-making form, periodic grant ratings, CCM oversight, information from technical partners, and LFA oversight, to identify potential risks. Recognizing the need to establish a more comprehensive approach to risk management, the Global Fund has begun developing a risk assessment framework for the organization that includes an early warning and response system to address poorly performing grants.

Global Fund Did Not Implement the Grant Risk Assessment Model Described in the 2005 GAO Report

The Global Fund did not implement the risk-assessment framework to identify poorly performing grants that it was developing at the time of our 2005 report.³⁰ We reported that the organization had devised a risk assessment model and an early warning system to identify poorly performing grants and more systematically alert portfolio managers when they needed to intervene.³¹ According to the Global Fund, because it disburses grants in countries with varying levels of economic development and health systems capacity, the risk model was to incorporate quantitative data, such as grant size and performance as well as country development and corruption data. Using these quantitative indicators, the model would generate reports that indicated potential problems, and portfolio managers would evaluate the reports in light of contextual information. According to an official who participated in developing the framework, it was not implemented because it relied too heavily on quantitative indicators and did not adequately account for contextual factors, leading to risk ratings that were too inaccurate to be useful. For example, according to Global Fund officials, in a test of the model, a particular grant was rated as low risk based on the host country's development and corruption indicators. However, the grant ultimately failed and was not renewed at the phase 2 grant renewal review.

³⁰ According to international standards, risk assessment reduces operational surprises and losses and enhances an organization's ability to identify potential concerns and establish appropriate responses. See Committee of Sponsoring Organizations of the Treadway Commission, *Enterprise Risk Management —Integrated Framework Executive Summary*, 2004.

³¹ [GAO-05-639](#).

Global Fund Applies Elements of Risk Management but Lack of Risk Assessment Model Limits its Ability to Respond to Poorly Performing Grants

Although the Global Fund's grant oversight incorporates several elements of risk management, the absence of a risk assessment model limits its ability to respond methodically to poorly performing grants and use available resources to increase oversight as needed. According to Global Fund officials, the organization currently relies on existing oversight mechanisms such as its initial technical review of grant proposals, standardized decision forms, periodic grant ratings, CCM oversight, technical partners' assistance, and LFAs' reviews to identify and assess potential mismanagement, irregularities, or other risks to successful grant implementation.

- *Technical review.* The technical review panel raises important technical issues that grantees must address when presenting their proposals to the panel. Proposals with a very high technical risk profile generally are not recommended for funding.
- *Disbursement decision-making form.* Grant risk is mitigated by the fund portfolio manager's use of the standard disbursement decision-making form, which includes financial and program data from the recipient that has been verified by the LFA.
- *Rating grant progress for each disbursement request.* Since 2006, according to Global Fund officials, every progress and disbursement request, after the first disbursement, has been graded on a scale of A, B1, B2, or C. This information is posted on the Global Fund Website's financial data base and included in grant performance reports that are updated on the Global Fund website at each disbursement. This rating system is a key tool for identifying grants at risk and for sharing information with technical partners.
- *Country coordinating mechanism (CCM).* A key responsibility of the CCM is to continue to monitor grant progress during implementation and identify problems that may affect progress. In many countries, Global Fund technical partners such as UNAIDS, WHO, and USAID are members of CCMs.
- *Partner assistance.* Global Fund officials rely on technical partners with staff based in recipient countries to provide contextual information on grant performance, identify risks, and help respond to problems that affect grant implementation.
- *LFA reviews.* Global Fund officials emphasized that LFAs identify potential grant risks in their periodic verification of grant progress and

during the cumulative review and performance assessment for the phase 2 renewal process.

The absence of a model to assess grant risk has limited the Global Fund's ability to methodically identify poorly performing grants and use available resources to increase oversight as needed. According to a senior manager from an LFA with one of the largest grant portfolios, because the Global Fund has not assessed grants as high, medium, or low risk, LFA oversight has not differed substantially by grant risk level and LFA oversight resources have not been used to optimal effect. For example, although some grants may require more oversight because of potential misuse of grant money or limited recipient capacity, LFA task orders and fees are generally no different for potentially problematic grants than for grants with few expected problems. Similarly, the frequency of LFA visits to project sites for monitoring and data verification has not been based on a systematic estimate of risk.

Global Fund Is Developing a Comprehensive Framework for Risk Management and Has Established First Components

Global Fund officials informed us in April 2007 that they are developing a top-level framework for risk management that will cover all aspects of the organization's strategic direction, including addressing resources and skills at the secretariat level, developing a model for systematically assessing grant risk, and fully implementing an early alert and response system. Global Fund officials have acknowledged the need for a quantitative model for ranking grants by level of risk, supplemented by additional qualitative factors that may change a grant's rating or ranking, to identify and mitigate grant risk in a timely manner. The Global Fund recently organized a risk seminar for directors and senior managers and engaged an international firm to help them achieve consensus on a shared approach to comprehensive risk management. We reviewed a draft outline of the guiding principles for developing a risk management framework that the Global Fund developed in February 2007. As of April 2007, the Global Fund is in varying stages of progress in developing and implementing detailed risk strategies.

According to Global Fund officials, the secretariat has put in place the first components of its early alert and response system intended to identify as early as possible grants that are performing poorly and facing implementation difficulties. These first components include posting the grant disbursement and renewal ratings on the Global Fund Website and efforts to engage more technical assistance from partners for poorly performing grants. Global Fund officials recognize that for the system to work effectively principal recipients, CCMs, stakeholders, and partners

must share responsibility for tracking the progress of grant implementation and take appropriate action when progress is impeded. Global Fund officials stated that the early alert and response system will eventually include documenting and disseminating best practices, formalizing the system within the secretariat and among country-level stakeholders and partners, and increasing the engagement of partners in grant oversight.

Global Fund Has Limited Ability to Manage and Oversee Local Fund Agents' Performance

The Global Fund lacks the information it needs to manage and oversee the LFAs because of a lack of systematic assessments of LFAs' performance. Good practice suggests that organizations monitor their contractors' performance during the course of interaction and periodically evaluate performance based on clear expectations. Assessment results should include consistent patterns of rewards, penalties, or both. (See app. II for sources of these principles.) Global Fund portfolio managers set expectations for LFA performance informally and individually, frequently leading to inconsistent expectations and resulting in challenges for both the LFAs and their managers. Moreover, the Global Fund does not require formal assessments or reports of LFA performance; instead, LFAs are assessed informally and irregularly, and assessment results are not systematically documented. As a result, the Global Fund has limited records of, and data on, LFA performance. Although the Global Fund made a previous attempt to assess LFAs more systematically, this effort was unsuccessful. According to secretariat staff, key partners, and outside experts, LFAs' performance and capacity vary.

Global Fund Has Not Standardized Its Expectations for Local Fund Agent Performance

Rather than establish standardized performance expectations for all LFAs, the Global Fund portfolio managers establish expectations informally for the quality of each LFA's performance. The Global Fund's contracts with LFAs, as well as the guidelines that it provides, outline the tasks that all LFAs must complete, such as considering a principal recipient's programmatic and financial implementation progress in relation to its plans. The contracts also contain general statements about LFA performance; for example, a sample LFA contract specifies that all tasks should be carried out to the satisfaction of the Global Fund.³² However, Global Fund policy states—and secretariat staff and 11 of the 12 LFA

³²Global Fund officials gave us a sample LFA contract and said that its contracts with the six LFAs were very similar.

country teams that participated in our structured interview confirmed—that the fund portfolio manager is primarily responsible for defining satisfactory performance for his or her designated LFAs. As of March 2007, the Global Fund had not provided fund portfolio managers any specific training or written guidance defining acceptable or good LFA performance, including the quality of their reporting.³³

The lack of standardized performance expectations results in challenges both for the LFAs and for Global Fund management.

- *LFA challenges.* Because fund portfolio managers set expectations informally and individually, LFA country teams frequently encounter different expectations from successive portfolio managers. For example, among the LFA country teams who participated in our structured interviews, 6 of 10 teams who had interacted with more than one fund portfolio manager said that the managers' criteria for a high-quality report had varied. According to the respondents, variations in fund portfolio managers' expectations often involved differences in the scope of work that they expected LFAs to complete. For instance, members of one country team said that their previous fund portfolio manager had wanted the team to focus primarily on financial data in its reports, while the current manager wanted a focus on programmatic issues. In another country, one fund portfolio manager wanted the team to conduct on-site verification of grant subrecipients, while a subsequent manager did not consider site visits a priority. In the remaining four cases, country teams did not report substantial variation between different fund portfolio managers. In one of these cases, the team said that a previous manager established expectations that subsequent managers used in turn, therefore providing continuity.
- *Management challenges.* The lack of standardized LFA performance expectations also presents challenges among those responsible for managing the LFAs. According to the manager of one LFA central team with a large grant portfolio, variations in Global Fund expectations made it difficult to establish best practices for its LFA country teams. Likewise, several Global Fund officials noted that secretariat staff have conflicting ideas about LFA performance criteria. In one instance, according to Global Fund officials, a group of fund portfolio managers were unable to agree on

³³The Global Fund secretariat began piloting training courses for fund portfolio managers in 2006 and told us that a module on LFAs would be added to this training series in the future.

what constituted a high-quality report. Fund portfolio managers and other key officials observed that more standardization of expectations would be beneficial, although some noted that this standardization should be balanced to allow them to maintain flexibility to account for country context.

Global Fund Does Not Assess LFAs Systematically and Lacks Formal Records of LFA Performance

LFA Performance Assessment and Reporting Are Informal and Irregular

The Global Fund does not require formal, regular assessments of LFA performance. As a result, it lacks LFA performance records and cannot systematically track performance.

Although Global Fund officials regularly review the reports they receive from the LFAs and provide informal feedback to country teams, they assess LFA performance informally and at irregular intervals.³⁴ All fund portfolio managers that we interviewed, as well as 11 of the 12 LFA country teams that participated in our structured interviews, said that fund portfolio managers interact informally and frequently with country team members, often orally or by e-mail. In addition, all but one country team said that fund portfolio managers provide informal feedback on their performance. For example, members of one team noted that they received feedback from their fund portfolio manager for each report and requested more information as necessary. In another case, the manager provided feedback to the LFA central team, which passed the feedback to the country team. A majority of the country teams reported receiving feedback from their fund portfolio manager when he or she traveled to the recipient country, at least once a year. Fund portfolio managers told us that if they continually encounter problems with a country team, they inform the Global Fund's LFA manager, who discusses the issue with the central team; if this does not resolve the problem, the contract may be terminated. A key Global Fund official stated that two to three LFA country team subcontracts are terminated each year based on information from fund portfolio managers on their poor performance.

Although LFA central teams provide some performance feedback to their country teams, the scope and frequency of that feedback varies depending on the LFA's structure. Ten of the LFA country teams that participated in

³⁴Good practice for overseeing contractors suggests that contractors' fulfillment of established expectations should be systematically measured. See appendix II.

our structured interviews told us that LFA central teams provide informal feedback about their performance. The central team at two of the six LFA organizations reviews all products before they reach the secretariat. At two other LFA organizations, reports are reviewed only if it is deemed necessary, and in those cases, regional coordinators or mentors may review the reports.³⁵ At the remaining two LFA organizations, the distinctions between the country and central teams are less clear, because the reports are at least partially written by central team members.

Lack of Assessment Records
Limits Available Information on
LFA Performance

The lack of formal assessments limits the Global Fund's access to the information needed to manage LFAs' performance. The fund portfolio managers we interviewed said that their frequent interaction with country teams generally allows them to know which teams are performing well and which teams need improvement. However, Global Fund officials with LFA management responsibility stated that formalizing the process would allow the agency to establish LFA performance records and identify situations in which more oversight of LFAs by the Global Fund may be required. A working group of Global Fund experts echoed these concerns, reporting that despite extensive debate about the LFA model, the Global Fund had conducted little systematic assessment of the performance of individual LFA country teams.³⁶

Global Fund Previously
Attempted to Implement
Systematic LFA
Assessments

A prior attempt to introduce a tool to make LFA assessments more systematic was not successful, because use of the tool was not mandatory and fund portfolio managers did not see it as a priority. According to the Global Fund, the LFA manager conducted a pilot of an evaluation checklist as a tool for fund portfolio managers to systematically assess LFA performance. Secretariat staff stated that, because Global Fund management did not require fund portfolio managers to complete the checklist, very few portfolio managers used it. As of early 2007, the LFA manager was developing a revised tool to routinely collect staff input on LFAs. However, it is too early to determine whether this tool, when finalized and made available to staff, will capture the information needed to assess LFA performance. According to the LFA manager, integrating

³⁵Mentors are individuals from country teams that the central team has identified as high performers.

³⁶Challenges and Opportunities for the New Executive Director of the Global Fund - Seven Essential Tasks" by Steve Radelet et.al. (Washington, D.C.: Oct. 2006).

this tool into existing tasks and making it an explicit component of fund portfolio managers' job descriptions would increase its use.

LFA Performance and Capacity Reportedly Vary

Although Global Fund officials cited instances in which LFA country teams performed adequately, secretariat staff, key partners, and outside experts expressed concerns about some LFAs' capacity to oversee grant recipients' programmatic and procurement activities. To illustrate adequate LFA capacity and performance, secretariat staff identified cases where LFA country teams have quickly identified problems with grants. For example, the majority of fund portfolio managers we interviewed noted that most LFA country teams performed financial oversight competently.³⁷ Similarly, a procurement officer described a country team that focused on supply management issues throughout the life of the grant and proved instrumental in resolving a large corruption problem. One fund portfolio manager described a country team that had enough knowledge of monitoring, evaluation, and procurement to understand an LFA subcontractor's initial assessment of recipient capacity and, therefore, could use this information in subsequent reporting about grantee progress.

Conversely, secretariat staff also cited multiple instances in which LFAs demonstrated lack of capacity that affected the conduct of their oversight duties. In a recent Global Fund survey, secretariat employees who identified themselves as having sufficient exposure to LFAs to form an opinion reported mixed experiences regarding LFAs' technical program and monitoring expertise.³⁸ About half of the respondents disagreed with the statement that LFAs with whom they had worked provided "adequate" expertise on health and program issues. The remainder was about equally divided between those who agreed that health and program expertise was adequate and those who neither agreed nor disagreed. Global Fund employees' assessments of the adequacy of LFAs' expertise for monitoring

³⁷Of the 12 country teams that participated in our structured interviews, almost all team members had financial expertise but limited training in procurement or monitoring and evaluation.

³⁸The Global Fund drafted a questionnaire that a contractor tested and administered anonymously in a Web-based survey from November 9 to 16, 2006 to the approximately 120 Geneva-based Global Fund secretariat staff who use LFA services. The 75 staff who responded rated their agreement on more than 50 statements about LFA-related issues using a five-point scale of "Strongly Disagree, Disagree, Neither Agree nor Disagree, Agree, Strongly Agree" while being given the option on most questions of not answering if they had "Insufficient experience to form an opinion." We report responses for the 51 operations staff, all of whom had direct contact with LFAs on a range of issues.

and evaluation were similarly mixed. The survey also provided evidence that the service quality varies greatly among countries: about three-quarters of the staff agreed with the statement that “within LFA firms there are substantial differences in service quality across countries.”

In addition, Global Fund partners and outside experts have raised concerns about LFAs’ oversight capacity. UNAIDS officials said that they have serious doubts about the capacity of LFAs to monitor program progress, specifically noting that LFAs have little understanding of how to weigh and balance various performance targets that are not of equal importance.³⁹ For example, according to these officials, an LFA that lacks strong technical program capacity might not recognize that a recipient exceeding a simple performance target, such as training staff, may be trying to compensate for poor performance in more difficult target areas, such as administering drugs to treat AIDS, TB, or malaria. Several other sources—a report commissioned by the Global Fund, our 2005 report, and several reports by an acknowledged expert on the Global Fund—also note problems with LFA capacity. (See app. II for a list of sources.)

Conclusions

Since our report in June 2005, the Global Fund has taken steps to improve operations at its secretariat in Geneva while it continues to confront complex issues facing grant implementation at the country level. The Global Fund will continue to face important challenges, including evaluating the effectiveness of its investment of the billions of dollars it receives annually from the United States and other donors and the impact of its programs over time. The Global Fund has improved the transparency of its periodic disbursement and grant renewal decisions by providing better documentation in its grant files. Delays in developing a systematic approach to assessing grant risk have left the Global Fund vulnerable to some of the risks associated with implementing grants in developing countries. However, the Global Fund board recognizes the importance of developing a more comprehensive approach to risk management, and the secretariat has recently drafted principles to guide its development of a risk framework for the organization. In addition, the Global Fund’s lack of a formal process for setting expectations and assessing and analyzing LFA

³⁹The Global Fund categorizes targets into three levels of complexity. The first two levels are considered to be “process” indicators, and include measures such as “people trained” or “service points supported.” The third, more complex category, denotes “coverage” indicators and measures the number of individuals receiving services. The Global Fund is also considering the most appropriate way to measure “impact” indicators.

performance constrains its ability to determine the quality of the LFAs' services, track LFA performance over time, and address ongoing capacity issues. The lack of a formal assessment process also limits the information available to the Global Fund during its upcoming global retender of LFA contracts.

Recommendations for Executive Action

To enhance Global Fund operations, we recommend that the Secretaries of State and HHS work with the Global Fund's Board Chair and Executive Director to take the following two actions:

- establish standardized expectations for LFA performance, and
- require systematic assessments of LFA performance and the collection and analysis of LFA performance data to improve the management and oversight of LFAs.

Agency Comments

Written comments on a draft of this report from the Departments of State and Health and Human Services and the U.S. Agency for International Development are represented in the unified response received from the Office of the U.S. Global AIDS Coordinator. The Global Fund also provided written comments on the draft. Both entities agreed with the report's findings, conclusions, and recommendations. The Office of the U.S. Global AIDS Coordinator stated that the report accurately reflected areas in which the Global Fund has made progress as well as areas in which more work remains to be done. The Office's response noted that the United States will urge the Board to adopt concrete recommendations from several studies to improve the accountability and transparency of Global Fund activities and will work with the Global Fund to improve its oversight and risk assessment mechanisms. The Global Fund stated that the report reinforced the importance of measures it has begun taking to better measure local fund agent performance. Regarding risk assessment, the Global Fund emphasized the role of its country-based and global partners in helping to track grant implementation and provide technical support as needed. (See apps. III and IV for their comments.)

We are sending copies of this report to interested congressional committees and will make copies available to others on request. In addition, this report is available on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

A handwritten signature in black ink, appearing to read "David Gootnick". The signature is fluid and cursive, with the first name "David" written in a larger, more prominent script than the last name "Gootnick".

David M. Gootnick
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

To assess the Global Fund's efforts to improve documentation of performance-based-funding decisions, we analyzed the forms used to collect data on grant performance and discussed with Global Fund officials how the forms have changed since GAO's 2005 report. We met with officials from all of the entities that have current contracts to serve as local fund agents and with officials from the Office of the Global AIDS Coordinator, UNAIDS, and the World Bank—the Global Fund's key technical partners—to discuss how documentation of the Global Fund's decisions has changed and whether it has improved.

To review information in the grant files used to support performance-based funding decisions, we analyzed two separate simple random probability samples of grant funding decisions using a separate data collection instrument for each sample. The first sample consisted of 80 of the 348 grants that the Global Fund assessed for performance-based funding disbursements between January 1 and October 1, 2006. The second sample consisted of 45 of the 65 grants that the Global Fund assessed for phase 2 grant renewal during the same time period.¹ We chose January 2006 as the starting point for our sample because Global Fund officials told us that their new disbursement decision worksheet—created to address GAO's recommendation that they better document their decisions—was fully implemented by the end of 2005. With our two probability samples, each member of the study population had a nonzero probability of being included, and that probability could be computed for any member. Each sample case file was subsequently weighted in the analysis to account statistically for all the case files in the population, including the files that were not selected.

Because we followed a probability procedure based on random selections, our samples are only one of a large number of samples that we might have drawn (for both the grant disbursement and phase 2 file reviews). Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as 95 percent confidence intervals. These are intervals that would contain the actual population values for 95 percent of the samples we could have drawn. All percentage estimates provided in this report based on our samples have 95 percent confidence intervals of within plus or minus 13 percentage points.

¹We did not consider grants for the disbursement sample that received their first disbursement of funds during the period so our results were not skewed by problems that commonly accompany grants when they start.

For each grant in our disbursement sample, we requested the grant recipient's Progress Update and Disbursement Request report, the Local Fund Agent Recommendation report, and the Global Fund's Disbursement Decision-Making Worksheet. For the phase 2 decision sample, we requested the following documents for each grant:

- Phase 2 Grant Scorecard (the in-house version that goes to the panel)
- Phase 2 Grant Scorecard (the panel's version that goes to the board)
- Documentation of the board's decision with any explanation or justification of the decision (whether this is in the form of a scorecard or some other format)
- Phase 2 Panel Minutes
- Board Notes
- Grant Performance Report
- Annex A Attachments 2 and 3
- Local fund agent Phase 2 Assessment Report

We gathered the information from the documents for our data collection instruments and verified the data that we used to support our findings.

Our file review consisted of a number of checks on the presence or absence of an array of qualitative and contextual information that the Global Fund forms specify as important for grant decision-making and that therefore should be provided by those responsible for filling them out. We did not evaluate the appropriateness or accuracy of the judgments made on the basis of the narrative or contextual information provided in the documents; we focused on the issue of whether the contextual or narrative information provided was relevant to particular judgments or decisions.²

²A limitation of our analysis was that we did not evaluate the adequacy of the information provided, as determining adequacy would have required us to make judgments requiring substantial additional grant-specific information not contained in the grant files.

In our analysis of the disbursement files, while we examined information contained in other documents, we focused mostly on the Disbursement Decision-Making Form, due to the fact that this was the key form that the Global Fund instituted for disbursement-related decision-making since our last report. In this form, we checked for the presence or absence of the following pieces of information:

- Fund portfolio manager/cluster explanation for differences in fund portfolio manager/cluster and LFA ratings
- Fund portfolio manager's explanation for performance rating
- Fund portfolio manager's explanation for differences in funding decision with the principal recipient request and LFA recommendation
- Fund portfolio manager's check-offs on an array of grant decision-making issues such as performance evaluation, financial considerations, future and outstanding requirements, etc.
- Fund portfolio manager's explanation for array of contextual issues (e.g., governance, general management, and external factors)
- Fund portfolio manager's explanation for required documents and conditions precedent items

In the phase 2 files we focused on the Grant Scorecard, as this is the key Global Fund decision-making document for this phase, although we performed checks on several other documents as well. We checked for the presence or absence of the following pieces of information in the following phase 2-related documents; all items are for the Grant Scorecard unless otherwise noted:

- Evaluation unit's explanation for nonconcurrency with fund portfolio manager/cluster rating
- General explanation for difference between fund portfolio manager/cluster recommendation and the LFA's recommendation
- Evaluation unit's explanation for difference between fund portfolio manager/cluster recommendation and the LFA's recommendation
- General explanation for difference in the recommended amounts between Global Fund financial review and cluster leader phase 2

- General explanation for difference in the recommended amounts between LFA and fund portfolio manager/cluster leader (i.e. the Global Fund) phase 2
- Fund portfolio manager/cluster identification of material issues with reliability of principal recipient's data
- Fund portfolio manager/cluster explanation for phase 2 rating
- Fund portfolio manager/cluster explanation for phase 2 recommendation
- (LFA phase 2 assessment) report-specific conditions identified by LFA for 'Conditional Go' recommendations
- Time-bound actions identified by portfolio manager/cluster for 'Conditional Go' recommendations

To assess the Global Fund's progress in implementing a risk assessment model and early warning systems for its grants, we followed up on the risk assessment model and early warning system described in our 2005 report with Global Fund officials. In addition, we reviewed international standards for risk that establish the criteria for assessing risk developed by the Committee on Sponsoring Organizations of the Treadway Commission. We also discussed the need for a risk assessment model and early warning system with key Global Fund staff, key Global Fund partners, UNAIDS, World Bank, and OGAC, and with the Global Fund Inspector General and LFA officials. In addition, we reviewed Global Fund board notes and the Global Fund's draft outline of Guiding Principles for a Risk Management Framework. In their technical review of our draft, Global Fund officials clarified the distinction between the risk assessment model that was not implemented and the current early alert and response system, and they provided additional information on the current status of the early alert and response system. We modified the risk assessment section of the draft based on our analysis of this information.

To assess how the Global Fund oversees and measures the capacity and performance of local fund agents, we established criteria for good practices in performance assessment, consulted key reports and documents, met with relevant personnel, conducted structured interviews with LFA country teams, and analyzed the structured interview data using a content analysis framework. We consulted GAO experts in performance

assessment and contracting, good practice documents from the Government Performance and Results Act,³ performance-based contracting literature, internal control literature, and training development literature. (See app. II) To understand Global Fund policies and requirements regarding LFA performance, we reviewed Global Fund documentation, including guidelines for LFA work, the Global Fund's operational policy manual, LFA manager terms of work, and LFA framework contract forms, as well as relevant evaluative reports published by the Global Fund and development experts. We meet with key Global Fund officials in Geneva, Switzerland, including the fund portfolio managers and members of the Portfolio Services and Projects Team, representatives from all LFA central teams, selected LFA subcontractors, and recognized experts on the Global Fund to discuss the current practices and potential difficulties of the LFA system. We also reviewed the methodology and results of a survey of Geneva-based Global Fund secretariat staff who are users of LFAs conducted by a Global Fund contractor in November of 2006.

Additionally, to support our review of issues related to LFA capacity and performance, we conducted structured telephone interviews with a nonprobability sample of 12 LFA country teams out of a total of 102 LFA country teams worldwide.⁴ We selected country teams for this sample based on criteria such as the size and amount of the grants that the LFA oversaw, whether the LFA was located within the country, and whether the LFA acted as a mentor to other LFA country teams. The purpose of these 12 interviews was to obtain information on the views of these important participants in the Global Fund process; we did not obtain a representative perspective of the views of all 102 country teams. We pre-tested our questions with two of our initial respondents and refined our questions based on their input. We followed up via e-mail with our respondents to obtain supplementary information. To summarize the open-ended responses and developed categories for the analysis, we first grouped interview responses by general categories, based on our objectives, criteria, and inductive observation. Within each of these general categories, we then further grouped the data into subcategories

³Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285.

⁴Results from our nonprobability sample cannot be used to generalize to the overall population of LFA country teams because, in a nonprobability sample, some elements of the population being studied have no chance or an unknown chance of being selected as part of the sample.

based on the emerging themes. To ensure the validity and reliability of our analysis, these subcategories were reviewed by a methodologist, who proposed modifications. After discussion of these suggestions, we determined a final set of subcategories. An analyst and a methodologist independently tallied the number of respondents providing information in each subcategory, compared their tallies, and reconciled any variation.

Appendix II: Other Sources Cited

Principles for Contractor Management

- GAO, Strategic Issues Web pages on the Government Performance and Results Act (GPRA)
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Appendix III: Comments from the Global Fund



Investing in our future
The Global Fund
To Fight AIDS, Tuberculosis and Malaria

22 April 2007

Mr David Gootnick
Director, International Affairs and Trade Issues
United States Government Accounting Office
WASHINGTON DC 20548
United States of America

Dear Mr Gootnick

Thank you for sharing your draft report on the Global Fund: *“Global Health: Global Fund to Fight AIDS, Tuberculosis and Malaria Improved Documentation of Funding Decisions but Needs to Standardize Oversight Expectations and Assessments.”* External analyses such as this report are extremely useful. We welcome its findings as they provide feedback and recommendations that will help the Global Fund to remain adaptive, responsive and ultimately more successful in its fight against HIV/AIDS, tuberculosis and malaria.

Documentation and Funding Decisions

We acknowledge your recognition of the significant improvements made by the Global Fund in the documentation of decisions to disburse funds and renew grants since your 2005 report entitled *“Global Health: The Global Fund to Fight AIDS, Tuberculosis and Malaria is Responding to Challenges but Needs Better Information and Documentation for Performance-based Funding.”*

As noted in your report, the Global Fund has significantly strengthened its systematic documentation of funding decisions throughout a grant’s life-cycle. We are committed to continuously monitor and improve the system as appropriate.

Risk Management Framework and Early Alert System

The report reflects the progress made to date by the Global Fund to improve grant oversight and grant-associated risk management. We have recognized the need to develop a comprehensive risk management framework for the Global Fund and work has commenced on this. As part of this framework the Global Fund has already implemented the first phase of an early alert and response system to address poorly performing grants. We will work to improve the systems and tools for use by the Secretariat and our in-country partners, as well as by our global partners, to better respond to grants at risk.

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22 April 2007

Mr David Gootnick

We wish to emphasize the different yet critical roles and responsibilities that country-based and global partners play in tracking progress in Global Fund grant implementation and providing technical support as needed. This dependence on in-country partners arises from the founding principles that underpin the business model of the Global Fund. The Global Fund was established as a financing not an implementing entity with no country-based staff. The support of partners is therefore essential for an effective response to address grants at risk.

The Secretariat will continue to make all possible efforts to improve its communication and information sharing, to ensure that the risk information is more readily accessible and available to our partners at the country level. We will also work with them to strengthen the reciprocal, timely and effective flow of information from our partners in the field.

Local Fund Agent's Management and Oversight

The Secretariat agrees with the report's findings and recommendations on the need to establish standardized expectations for Local Fund Agent's (LFA) performance and to require the systematic assessment of LFA performance. The quality of LFAs' work-products and performance is periodically reviewed by individual Fund Portfolio Managers, and the Secretariat provides feedback to LFAs. This assessment now needs to be more transparent and systematic. We had already commenced work on developing performance standards and measuring tools and this report reinforces the importance of that initiative. These standards will form part of any new contractual agreement following the retendering of LFA services due to commence in mid 2007.

The report also raises concerns about the ability of some current LFAs to monitor procurement and program implementation. This is an area of ongoing discussion with LFAs. The Secretariat is committed to ensure that all future LFAs have access to high-quality procurement and programmatic skills, to enable them to better deliver on the oversight of grants performance.

Continued...3

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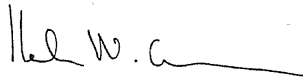
Mr David Gootnick

Conclusion

In conclusion, the Global Fund Secretariat thanks GAO for this report. We appreciate the constructive and forward looking recommendations and commit to their implementation.

We welcome the United States Congress's continued interest in, and support for, the Global Fund. We value the significant contribution that representatives of the United States make on the Global Fund Board and the close collaboration we have at country level with the PEPFAR program. We are also deeply grateful to the United States for its significant financial contribution to the global fight against the three pandemics.

Yours sincerely



Helen Evans
Executive Director *Ad Interim*

Appendix IV: Comments from Departments of State and Health and Human Services and U.S. Agency for International Development



United States Department of State

*Assistant Secretary for Resource Management
and Chief Financial Officer*

Washington, D.C. 20520

APR 26 2007

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "GLOBAL HEALTH: Global Fund to Fight AIDS, TB and Malaria Improved Documentation for Its Funding Decisions but Needs Standardized Expectations and Assessments," GAO Job Code 320416.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Mary Jeffers, Point for Global Fund Issues, Office of the U.S. Global AIDS Coordinator, at (202) 663-2586.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Kaplan".

Sid Kaplan (Acting)

cc: GAO – Audrey Solis
S/GAC – Amb. Mark Dybul
State/OIG – Mark Duda

**Appendix IV: Comments from Departments of State and
Health and Human Services and U.S. Agency for
International Development**

Department of State, Health and Human Services, and USAID Comments
GAO-07-627; Code 320416

On behalf of the U.S. Departments of State (DOS) and Health and Human Services (HHS), and the U.S. Agency for International Development (USAID), the Office of the U.S. Global AIDS Coordinator (OGAC) appreciates the opportunity to comment on the draft report from the Government Accountability Office (GAO) entitled, *“Global Fund to Fight AIDS, TB and Malaria Has Improved Its Documentation of Funding Decisions but Needs Standardized Oversight Expectations and Assessments”* (GAO-07-627).

OGAC concurs with the report’s conclusions. We believe the report accurately identifies areas in which the Global Fund Secretariat has made great improvement, as well as areas in which there is still work to be done. One of President George W. Bush’s primary mandates for the Global Fund at its inception was that it award grants on the technical merit of proposals and make disbursements based on subsequent grant performance. As the Global Fund enters its sixth year of operations, it is clear there is still significant variation in how well recipients are able to implement and administer Global Fund grants. The issues GAO addresses in this report go to the heart of the Global Fund’s ability to develop and use effective tools to respond to such performance variability.

We have worked diligently on the Global Fund Board and with the Global Fund Secretariat to address the issue of documentation of performance, and are pleased the GAO sees a marked improvement in this area, as we do ourselves. The GAO notes, however, that it did not evaluate the appropriateness or accuracy of the judgments made by the Global Fund Secretariat based on the documents the GAO reviewed. It also did not comment on whether the Global Fund Secretariat appropriately adjusted the budgets of grants to reflect material reprogramming in each grant. In addition, we remain concerned by the paucity of information on the performance of sub-recipients of Global Fund grants.

We have also worked consistently on the Global Fund Board to urge an expanded and more consistently active role for Local Fund Agents (LFAs), and we welcome the report’s specific recommendations in this area. We concur with the need for the Global Fund to establish standardized expectations for LFA performance, and believe these expectations should include a specific instruction to LFAs to look beyond financial management and examine program management and the delivery of quality interventions, including on-site verification of sub-recipients’ activities. The examination by LFAs of program implementation and financing of grant activities, as a standard practice, would provide critical information for the Secretariat to make fully informed and consistent decisions about disbursements and possible adjustments to grant budgets.

We would like to note that the Global Fund Secretariat has commissioned a study of the LFA system, which it presented at the Meeting of the Board in April 2007.

**Appendix IV: Comments from Departments of State and
Health and Human Services and U.S. Agency for
International Development**

The U.S. Delegation urged our Board colleagues to adopt concrete recommendations from this and other studies to improve the accountability and transparency of Global Fund activities at the country level.

Finally, we are very appreciative of the report's insights into the Global Fund Secretariat's efforts to develop an early warning system for grants that are experiencing problems. USAID, HHS, OGAC, and U.S. Government country teams in the field all have mechanisms to provide necessary technical assistance to Global Fund grants. Unfortunately, the lack of a risk-assessment and early-warning system at the Global Fund Headquarters in Geneva has hampered our ability to offer timely technical assistance and support to grants that are experiencing implementation bottlenecks. We plan to continue working directly with the Global Fund Secretariat, as well as through multilateral groups such as the Global Implementation Support Team (GIST), to help the Global Fund refine and improve its oversight mechanisms, and to develop an effective system to identify poorly performing grants quickly so as to allow Global Fund grantees to use and fully benefit from these and other technical-assistance resources.

Given that the U.S. Government has provided roughly one-third of all total Global Fund contributions to date, the Coordinator's office takes very seriously every aspect of the Global Fund's ability to use U.S. taxpayer money in the most efficient and effective way possible. The *GAO Report* has made a valuable contribution to our long-term efforts to help the Global Fund achieve fully its enormous potential to aid in the global fight against HIV/AIDS, tuberculosis and malaria.

**Appendix IV: Comments from Departments of State and
Health and Human Services and U.S. Agency for
International Development**

Drafted: MJeffers, S/GAC

Clearances:

RM/GAO: JSchinnick
MMeche, S/GAC – OK
TWalsh, S/GAC – OK
WSteiger, HHS – OK

Other clearances:

JKolker, S/GAC – OK
GSteele, USAID – OK
MWynne, HHS – OK
JWright, USAID – OK
PMamacos, S/GAC – OK
ALion, S/GAC – OK
CNeary, H – OK

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick (202) 512-3140

Staff Acknowledgments

In addition to the person named above, Audrey Solis, Assistant Director; Tom Zingale; Jeffrey Baldwin-Bott; Bruce Kutnick; Barbara Steel-Lowney; David Dornisch; and Reid Lowe made key contributions to this report. Kathryn Bernet, Antoine Clark, Etana Finkler, Hynek Kalkus, and Tracy Guerrero provided technical support.

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