



Office of Inspector General

UNCLASSIFIED

**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Audit of Department of State Oversight
and Reporting of U.S. Government
Contributions to the Global Fund**

Report Number AUD-CG-13-05, October 2012

~~Important Notice~~

~~This report is intended solely for the official use of the Department of State or the Broadcasting Board of Governors, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made, in whole or in part, outside the Department of State or the Broadcasting Board of Governors, by them or by other agencies or organizations, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code, 5 U.S.C. § 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.~~

UNCLASSIFIED



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

Acronyms

Global Fund	Global Fund to Fight AIDS, Tuberculosis, and Malaria
OIG	Office of Inspector General
PEPFAR	U.S. President's Emergency Plan for AIDS Relief
S/GAC	Office of the U.S. Global AIDS Coordinator
USAID	U.S. Agency for International Development
U.S.C.	United States Code

UNCLASSIFIED

Table of Contents

<u>Section</u>	<u>Page</u>
Executive Summary	1
Background.....	2
Objective.....	2
Audit Results.....	3
Finding A. Timeliness of Reporting Needs Improvement	3
Finding B. Withholding Requirements Were Met.....	6
Appendices	
A. Scope and Methodology.....	10
B. Reporting Requirements for FYs 2009–2011	12
C. Withholding Requirements for FYs 2009–2011	13
D. Office of the U.S. Global AIDS Coordinator Response	14
Major Contributors to This Report	16

UNCLASSIFIED

Executive Summary

The Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund) is one of the world's largest donors supporting AIDS, tuberculosis, and malaria programs in developing countries. The Global Fund disburses resources from governments as well as private donors, and it works in close collaboration with other bilateral and multilateral organizations to prevent and treat the three diseases. The U.S. Government's contribution to the Global Fund represents the multilateral portion of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). Since 2009, U.S. Government contributions to the Global Fund have averaged approximately \$1 billion per year. These contributions are subject to a number of withholding and reporting requirements. As the coordinator of the U.S. Government's PEPFAR efforts, the Department of State (Department), Office of the U.S. Global AIDS Coordinator (S/GAC), is responsible for compliance with these requirements.

The objective of this Office of Inspector General (OIG) audit was to determine the extent to which the Department was fulfilling its obligations to oversee¹ and report on contributions to the Global Fund in accordance with the withholding and reporting requirements contained in the United States Code² (U.S.C.) and in other relevant laws and regulations.

OIG found that S/GAC staff completed all required Global Fund-related reports but published oversight information reports for FYs 2009, 2010, and 2011 on average approximately 9 months after the required 120-day timeframe. The missed timeframes occurred because S/GAC officials had to wait to receive certain financial information from the Global Fund, which is based in Geneva, Switzerland, before compiling and disseminating the oversight reports. S/GAC's congressional liaison stated that she notified congressional staff of the delays. Nevertheless, senior S/GAC officials agreed with OIG that reporting timeliness should be improved to increase the currency and relevancy of information presented to policymakers.

OIG found that S/GAC withheld the correct amounts for each of the five withholding requirements for FYs 2009–2011 and that S/GAC had exercised an optional authority within the limits contained in each year's annual appropriation law. The amounts withheld for each of these years averaged approximately \$48.4 million, or approximately 4.7 percent of the amounts available each year for the U.S. Government's contributions to the Global Fund. However, OIG determined that S/GAC officials had continued to apply one additional withholding requirement for at least three fiscal years after the requirement had expired. OIG brought this oversight to the attention of S/GAC officials during audit fieldwork, and the error was promptly corrected.

OIG made one recommendation for S/GAC to establish deadlines and interim benchmarks to govern its reporting processes and incorporate these deadlines and benchmarks into its standard operating procedures. S/GAC concurred with the recommendation.

¹For the purposes of this audit, OIG defines "oversee" to mean implementation of the withholding requirements.

²22 U.S.C. § 7622, "Participation in the Global Fund to Fight AIDS, Tuberculosis and Malaria."

UNCLASSIFIED

Background

The Global Fund describes itself as a global public/private partnership between governments, civil society, the private sector, and affected communities, which is dedicated to attracting and disbursing resources to prevent and treat AIDS, tuberculosis, and malaria. The Global Fund works in close collaboration with other bilateral and multilateral organizations to supplement existing efforts dealing with the three diseases.

According to the Congressional Research Service, the Global Fund is one of the world's largest donors supporting AIDS, tuberculosis, and malaria programs in developing countries. In July 2011, the Congressional Research Service reported that the Global Fund had committed to provide \$22.3 billion in support of more than 1,000 grants in 150 countries since the fund's establishment in January 2002.³ Since 2009, the U.S. Government's contributions to the Global Fund have averaged approximately \$1 billion per year. For FY 2012, the Department received \$1.3 billion for the U.S. Government's contribution to the Global Fund. For FY 2013, the Department requested that \$1.65 billion be made available for contribution to the Global Fund.

The U.S. Government's contribution to the Global Fund is a multilateral component of PEPFAR. Over 40 countries contribute to the Global Fund, including France, Germany, Japan, and the United Kingdom. Among other non-governmental donors, the largest by far is the Bill and Melinda Gates Foundation, which had contributed \$650 million as of the end of 2011.

As the coordinator for the U.S. Government's PEPFAR efforts, S/GAC is responsible for the oversight and reporting of U.S. Government contributions to the Global Fund. A number of restrictions and conditions must be met before the U.S. Government can provide its contributions to this multilateral effort. These restrictions allow the U.S. Government a degree of influence over the oversight and management of the Global Fund after the U.S. Government contribution is pooled with contributions from other donors. Moreover, S/GAC must publish a number of required annual and periodic reports, including summaries of Global Fund Board meetings.

Objective

The objective of this audit was to determine the extent to which the Department was fulfilling its obligations to oversee and report on contributions to the Global Fund in accordance with the requirements contained in the United States Code and in other relevant laws and regulations.

³*The Global Fund to Fight AIDS, Tuberculosis, and Malaria: Issues for Congress and U.S. Contributions from FY 2001 to the FY 2012 Request*, Congressional Research Service (R41363, July 1, 2011).

Audit Results

Finding A. Timeliness of Reporting Needs Improvement

S/GAC fulfilled all reporting requirements related to the U.S. Government contributions to the Global Fund for FYs 2009–2011. (The reporting requirements are summarized in Appendix B.) However, OIG found that three S/GAC oversight information reports were transmitted to Congressional Appropriations Committees an average of 9 months later than the required 120-day timeframe. This occurred because S/GAC officials had to wait to receive certain financial information from the Global Fund before compiling and disseminating the oversight reports. S/GAC’s congressional liaison stated that S/GAC had provided informal notifications to congressional staff to alert them of the expected delays in providing these reports. Nevertheless, disseminating the required reports on a timely basis to congressional committees would increase the relevancy and usefulness of the information provided and would allow policymakers to make better-informed decisions about the U.S. Government’s contribution to the Global Fund.

Oversight Information Reports

OIG determined that S/GAC had prepared reports in response to each year’s requirement that contained all of the required information, specifically, the most recent Global Fund financial audit information, commitment and disbursement data, and a summary of the recipient and sub-recipient expenditures. However, the reports for all 3 years reviewed were provided to the Appropriations Committees in Congress much later than the 120-day timeframe noted in each year’s requirement.

As shown in Table 1, OIG found that S/GAC had published each of the FY 2009, FY 2010, and FY 2011 reports and sent them to the appropriate parties in Congress between 115 and 563 days late, or on average approximately 9 months late. The FY 2009 appropriations bill became law on March 11, 2009,⁴ establishing the due date as July 9, 2009. The cover of the report noted that the report was published in July 2009, but the Bureau of Legislative Affairs, acting on behalf of S/GAC, provided the report to the relevant congressional recipients on November 2, 2009, or 115 days late.

The requirement for the FY 2010 report was contained in a House of Representatives report⁵ that accompanied the appropriations bill and became effective when that bill became law on December 16, 2009.⁶ This requirement established the due date for this report as April 15, 2010. The cover of the report noted that the report was published in October 2011, but the

⁴Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009, Pub. L. No. 111-8, div. H, 123 Stat. 898 (2009) (Explanatory Statement Submitted by Mr. Obey, Chairman of the House Committee on Appropriations, Regarding H.R. 1105, Omnibus Appropriations Act, 2009.)

⁵H.R. Conf. Rep. No. 111-187, 111th Cong., 2nd Sess., Title III, “State, Foreign Operations, and Related Programs Appropriations Bill” (2010).

⁶Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3034 (2009).

UNCLASSIFIED

Bureau of Legislative Affairs, acting on behalf of S/GAC, provided the report to the relevant congressional requestors on November 1, 2011, or 563 days late.

Similarly, for FY 2011, the appropriations bill that carried the requirement forward from the previous year became law on April 15, 2011,⁷ establishing a reporting deadline of August 12, 2011. The cover of the report noted that the report was published in November 2011, but the Bureau of Legislative Affairs, acting again on behalf of S/GAC, provided the report to Congress on December 6, 2011, or 115 days late.

Table 1. Timeliness of Oversight Information Reports Transmitted to Congress

Report	Date the Appropriations Bill Became Law	Date Report Was Due to Congress	Date Report Was Transmitted to Congress	Number of Days Late
FY 2009	March 11, 2009	July 9, 2009	November 2, 2009	115 days
FY 2010	December 16, 2009	April 15, 2010	November 1, 2011	563 days
FY 2011	April 15, 2011	August 12, 2011	December 6, 2011	115 days

Source: OIG analysis of data provided by the Office of the U.S. Global AIDS Coordinator.

The S/GAC official responsible for compiling the oversight information reports stated that the reports were late because S/GAC needed information from the Global Fund’s audited financial statements. However, this information was not provided in sufficient time for S/GAC to meet the 120-day requirement. The Global Fund’s financial auditor usually completes its audit during the 6 months following the end of the Global Fund’s fiscal year on December 31 and delivers the audited financial statements to the Global Fund Board for review and approval at the Board’s meeting in May of each year. The S/GAC official stated that the financial statements and other supporting information were made available to the U.S. Government and other interested parties only after review and approval by the Global Fund Board. Moreover, the S/GAC official stated that after receiving the requisite financial information, the report had to be cleared by relevant stakeholders before being delivered to Congress through the Bureau of Legislative Affairs.

OIG concluded that establishing formal procedures, including reporting deadlines and interim benchmarks, would be helpful to S/GAC officials in improving the timeliness for all their reporting requirements. Moreover, the Government Accountability Office has emphasized the importance of appropriate documentation as an internal control standard, stating that “documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form.”⁸ OIG further concluded that improving the timeliness of S/GAC’s reporting would improve the relevance and usefulness of the information provided to congressional committees and allow policymakers to make better-informed decisions regarding the U.S. Government’s contribution to the Global Fund.

⁷Department of Defense and Full-Year Continuing Appropriations Act, 2011, Pub. L. No. 112-10, 125 Stat. 38 (2011) div. B, tit. I, §§ 1101(a)(6) and 1104.

⁸*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Nov. 1999), p. 15.

UNCLASSIFIED

Recommendation 1. OIG recommends that the Office of the U.S. Global AIDS Coordinator establish deadlines and interim benchmarks for meeting each of its reporting requirements and incorporate these deadlines and benchmarks into its standard operating procedures.

S/GAC Response: S/GAC agreed with the recommendation, stating that it had “established internal benchmarks and timelines for the certification of withholding requirements, in an effort to hold [itself] accountable and to improve the predictability of financial contributions and reporting.”

OIG Analysis: OIG considers the recommendation closed.

Annual Reports

S/GAC officials published online the required annual reports for FYs 2009–2011, and OIG determined that the annual reports contained all the required information. OIG found, however, that the annual reports covering all three fiscal years were issued at the same time, with the information for FYs 2009 and 2010 combined together into one report.

While the requirement to submit an annual report did not specify a deadline for these annual reports, OIG found that the reports relating to each of the three fiscal years reviewed were all issued in November 2011. The S/GAC official responsible for compiling these reports stated that the clearance process for the combined report for FYs 2009 and 2010 caused a delay, during which time she and her colleagues had almost completed the FY 2011 report. Because of this, the official stated that S/GAC management decided to release both reports at the same time. This official noted that S/GAC did not have any formal self-imposed deadlines for completion of the annual reports but stated that S/GAC’s informal goal was to publish each annual report by the end of the month following the end of each year (that is, by the end of January 2012 for the FY 2011 report). The official acknowledged that this goal of adhering to a deadline was not part of S/GAC’s standard operating procedures because such a deadline was not required. However, the official agreed with OIG that standard operating procedures with targeted milestones could be developed to improve reporting timeliness and make the information provided more relevant for policymakers.

Global Fund Board Decision Points and U.S. Government Views and Votes

OIG determined that S/GAC’s summaries of the U.S. Government’s views and votes regarding the decision points reached at the November 2008 and May 2009 Global Fund Board meetings were published on S/GAC’s public Web site, as required, although each summary omitted three minor administrative decision points: appointing a *rapporteur*, approving the minutes of the prior Board meeting, and approving the agenda for the current meeting. However, OIG noted that S/GAC’s performance regarding these reports had improved over time: S/GAC’s summaries for the November 2009 Global Fund Board meeting and for all subsequent Board meetings included information related to all decision points.

Congressional Requests

The United States Code⁹ requires that the Department respond to congressional requests within 30 days for four categories of information: (1) all financial and accounting statements for the Global Fund, (2) reports provided to the Global Fund by organizations contracted to audit fund recipients, (3) project proposals submitted to but not funded by the Global Fund, and (4) progress reports submitted to the Global Fund by grantees. S/GAC's congressional liaison stated that she was not aware of any inquiries for information covered under this requirement, and OIG's fieldwork did not identify any such inquiries. Therefore, a timeliness requirement for responding to congressional requests for the four categories of information did not apply.

Finding B. Withholding Requirements Were Met

OIG found that S/GAC had fully complied with each of the five withholding requirements in effect for FYs 2009–2011 and verified that the amounts withheld were correct. OIG also found that S/GAC had exercised its authority to withhold funding based on an authority in each year's appropriation law that has allowed money to be set aside for technical assistance. (A list showing the withholding requirements and the optional authority provided to S/GAC is provided in Appendix C.) The amounts withheld were as follows: FY 2009, \$40,963,316; FY 2010, \$50,919,818; and FY 2011, \$53,380,688.¹⁰ These amounts represented approximately 4.1 to 5.1 percent of the annual U.S. Government contribution to the Global Fund. For each year, the total amount withheld was the sum of an offset of Global Fund transfers to state sponsors of terrorism and an S/GAC decision to set aside funding pursuant to an optional authority through which S/GAC is allowed to provide funds to the U.S. Agency for International Development (USAID) for technical assistance projects. S/GAC considered the remaining four withholding requirements, but no withholding was required because the Global Fund's actions or activities did not trigger the withholding. While the annual withholdings related to the six items noted were accurate, OIG determined that for FYs 2009, 2010, and 2011, S/GAC officials continued to consider a withholding requirement that had expired after FY 2008. OIG brought this error to the attention of S/GAC officials during the audit, and the officials corrected their contributions for the relevant years. As a result, OIG is not making a recommendation on this issue.

For each of the years reviewed, S/GAC oversaw approximately \$1 billion in appropriations meant for the U.S. Government's contribution to the Global Fund. This funding was provided through three separate appropriation bills: the Department's appropriation, that of USAID, and that of the National Institutes of Health. The withholding pursuant to the optional authority to fund USAID technical assistance projects averaged approximately \$36 million each year. At the same time, S/GAC withheld between \$6.4 million and \$16.0 million from each

⁹22 U.S.C. § 7622(g).

¹⁰The total contribution for FY 2011 had not been finalized as of June 30, 2012. The amounts reported for FY 2011 were current as of that date but are subject to change.

UNCLASSIFIED

year's contribution to offset transfers from the Global Fund to countries that are designated by the U.S. Government as state sponsors of terrorism. The amounts appropriated, withheld, and contributed for FYs 2009–2011 are shown in Table 2, which also notes the percentages that the withheld amounts represented as a proportion of the overall appropriations for each year reviewed.

Table 2. Withholdings and Contributions for FYs 2009–2011

	FY 2009	FY 2010	FY 2011*
Appropriations			
Department of State	\$ 600,000,000	\$ 750,000,000	\$ 748,500,000
USAID	100,000,000	0	0
National Institutes of Health	300,000,000	300,000,000	297,300,000
Total Appropriations	1,000,000,000	1,050,000,000	1,045,800,000
Withholdings			
Required			
State Sponsors of Terrorism	6,376,748	14,919,818	15,955,688
Limitation on Size of U.S. Government Contribution	0	0	0
Administrative Expenses	0	0	0
Section 7060 Certification–Applied to FY 2009 only	0	(Not applicable in FY 2010)	(Not applicable in FY 2011)
Lantos-Hyde Certification–Applied beginning in FY 2010	(Not applicable in FY 2009)	0	0
Optional			
USAID Technical Assistance	34,586,568	36,000,000	37,425,000
Total Withholdings	40,963,316	50,919,818	53,380,688
Total Contributions	\$ 959,036,684	\$ 999,080,182	\$ 992,419,312
Withholdings as a Percent of Appropriations	4.1	4.8	5.1

*FY 2011 data current as of June 30, 2012.

Source: OIG analysis of data provided by the Office of the U.S. Global AIDS Coordinator.

State Sponsors of Terrorism

S/GAC must withhold an amount to offset Global Fund transfers to “any country, the government of which” is a state sponsor of terrorism. Under this requirement, S/GAC officials withheld \$6,376,748 for FY 2009, \$14,919,818 for FY 2010, and \$15,955,688 for FY 2011.¹¹ OIG verified that the amounts withheld for each year were accurate. For each year reviewed, S/GAC relied on information provided by the Global Fund to indicate how much funding it provided to governments that are sponsors of terrorism. This information was attached to the authorization memoranda, and OIG determined that each memorandum contained sufficient justification to support the amounts withheld.

¹¹For FYs 2009–2011, the countries identified as state sponsors of terrorism were Cuba, Iran, Sudan, and Syria.

UNCLASSIFIED

Technical Assistance

For each of the years reviewed, S/GAC had the optional authority to set aside up to 5 percent of the Department's and USAID's appropriations designated for contribution to the Global Fund for USAID's use on technical assistance projects related to the implementation of Global Fund grants. For FY 2009, S/GAC could have set aside up to \$35,000,000 but instead withheld slightly less, \$34,586,568. Similarly, for FY 2010, S/GAC could have set aside up to \$37,500,000 but instead withheld \$36,000,000. Although the U.S. Government's contribution to the Global Fund for FY 2011 had not been finalized as of June 30, 2012, S/GAC set aside the maximum amount, \$37,425,000, on a provisional basis pending a final decision regarding which technical assistance projects to support with this funding. OIG determined that the amounts set aside for each year did not exceed the 5 percent maximum allowed. Further, for FYs 2009 and 2010, OIG determined that S/GAC officials had prepared a memorandum to summarize the technical assistance projects they would fund. The amounts set aside for each of those years equaled the sum of the planned expenditures for each of the projects noted in that year's memorandum. S/GAC officials had not prepared such a memorandum for FY 2011 as of June 30, 2012, because the withholding for that year had not been finalized.

Limitation on Size of U.S. Government Contribution

For each of the years reviewed, S/GAC was required to withhold from the U.S. Government's contribution to the Global Fund any funding that would cause the total U.S. Government contribution to exceed 33 percent of the total amount contributed from all sources. While the U.S. Government's contribution represented a significant proportion of contributions to the Global Fund from all sources, that proportion did not exceed the 33 percent limitation. As a result, no withholding was required to comply with this requirement, and none was taken.

Global Fund Administrative Expenses

Each year, the Department is required to withhold an amount to offset the amount by which the Global Fund's administrative expenses exceed 10 percent of the fund's overall expenses for the two preceding years. For FYs 2009–2011, OIG determined that S/GAC appropriately withheld no funding for this requirement because the Global Fund's administrative expenses were below the 10 percent threshold each year.

Section 7060 Certification

For FY 2009, the only year that this requirement was in effect, S/GAC was required to either certify that the Global Fund was meeting two grants management benchmarks for performance¹² or withhold 10 percent of the amounts designated for contribution to the Global

¹²To release funds for FY 2009, S/GAC had to certify to the Appropriations Committees that the Global Fund (1) was releasing incremental disbursements only if grantees demonstrated progress against clearly defined

UNCLASSIFIED

Fund in the Department's and USAID's appropriations for the year. This withholding could have been as much as \$70 million. OIG found that S/GAC appropriately withheld no funding under this requirement because S/GAC determined and certified that the Global Fund had complied with the two required grants management benchmarks.

Lantos-Hyde Certification

Beginning in FY 2010, the Department has been required to either certify that the Global Fund met 11 conditions noted in the requirement or withhold 20 percent of the amounts designated for a contribution to the Global Fund in the Department's and USAID's Global Fund-related appropriations each year. Among other things, the Department is required to assess whether the Global Fund is publishing a variety of oversight documents on its public Web site; is maintaining an independent, well-staffed Office of Inspector General; has established and is publicly reporting on standard indicators for all program areas; and is maintaining its status as a financing institution focused on programs directly related to HIV/AIDS, malaria, and tuberculosis. This withholding could have been approximately \$210 million for each year reviewed. OIG found that S/GAC did not withhold any funding for either year reviewed because S/GAC certified that the Global Fund had met each of the conditions noted in the law.

Global Fund Salaries

In addition to the five withholding requirements and one optional authority noted in Table 2 that were in effect during FYs 2009–2011, OIG determined that S/GAC continued to consider an additional withholding requirement for three fiscal years after the requirement had expired. For FYs 2008 and earlier, the United States Code¹³ required that S/GAC withhold an amount to offset the total by which any Global Fund employee's salary exceeded the salary of the Vice President of the United States. OIG determined that for FYs 2009 and 2010, S/GAC officials used salary information provided by the Global Fund to determine whether any withholding was required. For FY 2009, S/GAC officials concluded that no withholding was necessary. However, for FY 2010, S/GAC officials withheld \$74,274 after reviewing the Global Fund's information. For FY 2011, S/GAC officials withheld \$150,000 on a provisional basis pending the receipt of salary information from the Global Fund. OIG identified this oversight during its audit and advised S/GAC officials of the error, enabling them to correct the contributions for both years. OIG is not making a recommendation on this issue because the withholdings for FYs 2010 and 2011 were corrected and S/GAC's most recent authorization memoranda, which related to contributions of funding for FYs 2011 and 2012, correctly omitted any consideration of this lapsed requirement.

performance indicators and (2) was implementing a reporting system that broke down grantee budget allocations by programmatic activity.

¹³22 U.S.C. § 7622(d)(4)(A)(v).

Scope and Methodology

The Office of Inspector General (OIG), Office of Audits, conducted this audit between March and July 2012 in Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on its audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To accomplish the audit objective, OIG interviewed officials from the Department of State (Department), Office of the U.S. Global AIDS Coordinator (S/GAC). In addition, OIG obtained information from the Department's Bureau of Legislative Affairs and from the Global Fund's Office of Inspector General, which has its headquarters in Geneva, Switzerland. OIG reviewed documents relating to the Department's compliance with the oversight and reporting requirements for FYs 2009–2011, including the following: Global Fund annual reports (each of which included its own set of the Global Fund's audited financial statements), oversight information reports, the Global Fund Board's decision points and supporting documents, authorization memoranda from S/GAC to release funds to the Global Fund, documentation for tracking flows of contribution funds, certification and waiver memoranda provided to Congress by S/GAC, correspondence relating to the Global Fund sent to Congress from the Bureau of Legislative Affairs, and audit reports published by the Global Fund's Office of Inspector General.

OIG reviewed relevant laws governing withholding and reporting requirements, Office of Management and Budget guidance, the *Foreign Affairs Manual*, the *Foreign Affairs Handbook*, and the Government Accountability Office's *Standards for Internal Control in the Federal Government*. OIG reviewed cables prepared by Department officials related to the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). Finally, OIG requested and received assistance from its Office of General Counsel and Office of Inspections.

This audit was included in a joint PEPFAR oversight plan, dated September 2011 and covering FY 2012, developed by the Offices of Inspector General of the Department of State, the U.S. Agency for International Development, and the Department of Health and Human Services. OIG coordinated its efforts with those other Offices of Inspector General to keep appropriate officials informed of the audit team's work and to ensure there was no duplication of effort.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG interviewed Department officials to assess the control environment and evaluated written policies and procedures to comply with withholding and reporting requirements for U.S. Government contributions to the Global Fund. OIG also reviewed control steps involved in moving funds from Department accounts to Global Fund accounts. OIG

UNCLASSIFIED

determined that the lack of formal procedures, including reporting deadlines and interim benchmarks for meeting reporting requirements, constituted an internal control deficiency, and this deficiency was therefore reported in this audit report. In addition, the review of financial data before being posted on a public Web site was not adequate to identify inaccurate and duplicative data.

Review of Prior Reports

OIG reviewed audit reports that pertained to the Global Fund and PEPFAR from OIG, the Government Accountability Office, and the Congressional Research Service. The following reports were reviewed:

- *Audit of Construction and Transfer of Ownership of the President's Emergency Plan for AIDS Relief (PEPFAR) Overseas Construction Projects* (AUD/IP-11-14, June 2011). U.S. Department of State, Office of Inspector General, Office of Audits.
- *Audit of Sources and Uses of Global HIV/AIDS Initiative Global Health and Child Survival Funds Related to the President's Emergency Plan for AIDS Relief (PEPFAR) for FYs 2007 and 2008* (AUD/SI-11-10, December 2010). U.S. Department of State, Office of Inspector General, Office of Audits.
- *Trends in U.S. Spending for Global HIV/AIDS and Other Health Assistance in Fiscal Years 2001-2008* (GAO-11-64, October 2010). Government Accountability Office.
- *Global Fund to Fight AIDS, [Tuberculosis,] and Malaria Has Improved Its Documentation of Funding Decisions but Needs Standardized Oversight Expectations and Assessments* (GAO-07-627, May 2007). Government Accountability Office.
- *The Global Fund to Fight AIDS, Tuberculosis, and Malaria: Issues for Congress and U.S. Contributions from FY 2001 to the FY 2012 Request* (Congressional Research Service Report for Congress R41363, July 1, 2011). Congressional Research Service.

Use of Computer-Processed Data

OIG did not use computer-processed data as part of the audit methodology. However, OIG did examine hard-copy documentation in lieu of computer-processed data to support U.S. Government amounts contributed to, or withheld from, the Global Fund, including authorization memoranda from S/GAC to release funds.

Reporting Requirements for FYs 2009–2011

Requirement	Source	Details
Annual Reports	22 U.S.C. § 7622(c)	Submit an annual report to the Appropriations Committees regarding contributions pledged to and received by the Global Fund, projects funded by the Global Fund, and mechanisms established for transparency and accountability in the grant-making process.
Global Fund Board Decision Points and U.S. Government's Views and Votes Regarding These Decisions	22 U.S.C. § 7622(d)(6)	Publish, on S/GAC's public Web site, the Global Fund Board's decisions and the U.S. Government's votes and views on these decisions following each Board meeting.
Congressional Requests	22 U.S.C. § 7622(g)	Make four categories of information such as the following: (1) all financial and accounting statements for the Global Fund, (2) reports provided to the Global Fund by organizations contracted to audit fund recipients, (3) project proposals submitted to but not funded by the Global Fund, and (4) progress reports submitted to the Global Fund by grantees available to Congress within 30 days of a request.
Reports Regarding Oversight Information	Annual appropriations acts and/or related legislative reports	Provide a report to the Appropriations Committees not later than 120 days after enactment of this act that contains the most recent Global Fund audit information, commitment and disbursement data, and a summary of the recipient and sub-recipient expenditures.

Note: The text of some of these requirements refers to authorities granted to both the President and the Secretary of State. For each of the years reviewed, these authorities had been formally delegated to the U.S. Global AIDS Coordinator.

Sources: United States Code and annual appropriations acts and/or legislative reports.

Withholding Requirements for FYs 2009-2011

Requirement	Source	Details
Limitation on Size of U.S. Government Contribution	22 U.S.C. § 7622(d)(4)(A)(i)	Withhold an amount to ensure that U.S. Government contributions to the Global Fund do not exceed 33 percent of the total amount contributed from all sources.
State Sponsors of Terrorism	22 U.S.C. § 7622(d)(4)(A)(ii)	Withhold an amount to offset Global Fund transfers to any country, the government of which is a state sponsor of terrorism.
Administrative Expenses	22 U.S.C. § 7622(d)(4)(A)(iii)	Withhold an amount to offset the amount by which the Global Fund's administrative expenses exceed 10 percent of the fund's overall expenses for the two preceding years.
Section 7060 Certification	Pub. L. No. 111-8, Division H, Section 7060(b)—applied to FY 2009 only	Certify to the Appropriations Committees that the Global Fund is releasing incremental disbursements only if grantees demonstrate progress toward performance indicators, or withhold 10 percent of the amounts designated for contribution to the Global Fund as a part of the Department's and USAID's appropriations.
Lantos-Hyde Certification	22 U.S.C. § 7622(d)(5)—applied beginning in FY 2010	Certify to the Appropriations Committees that the Global Fund has complied with 11 conditions meant to strengthen its oversight, or withhold 20 percent of the amounts designated for contribution to the Global Fund as a part of the Department's and USAID's appropriations.
Optional Authority	Source	Details
Technical Assistance	Annual appropriations acts: FY 2009: Pub. L. No. 111-8 FY 2010: Pub. L. No. 111-117 FY 2011: Pub. L. No. 112-10	Withhold up to 5 percent of amounts designated for contribution to the Global Fund in the Department of State and USAID appropriations for use on technical assistance projects related to implementation of Global Fund grants.

Note: The text of some of these requirements refers to authorities granted to both the President and the Secretary of State. For each of the years reviewed, these authorities had been formally delegated to the U.S. Global AIDS Coordinator.

Source: United States Code and annual appropriations acts.



United States Department of State

Washington, D.C. 20520

MEMORANDUM

October 5, 2012

TO: OIG – Harold W. Geisel

FROM: S/GAC – Ambassador Eric Goosby

A handwritten signature in blue ink, appearing to be 'EG', written over the name 'Ambassador Eric Goosby'.

SUBJECT: Response to the Report, *Audit of Department of State Oversight and Reporting of U.S. Government Contributions to the Global Fund*

Thank you for the opportunity to review and comment on the September 2012 draft *Audit of Department of State Oversight and Reporting of U.S. Government Contributions to the Global Fund*. The Office of the U.S. Global AIDS Coordinator (S/GAC) appreciates the efforts that the Office of the Inspector General (OIG) expended conducting this thorough review.

The requirements specified by the U.S. Leadership Against HIV/AIDS, Tuberculosis and Malaria Act of 2003, as amended in 2008 (the “Leadership Act”); annual appropriations bills; and related legislative reports are a critical component of the U.S. Government’s (USG) oversight of our contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). These reports are one important component of our office’s financial oversight and outreach to Congressional appropriations and authorizing committees, which also includes frequent communication, timely briefings on the outcome of Global Fund Board meetings and other emerging policy developments, and responsiveness to ad hoc Congressional inquiries. S/GAC staff engages continuously with the Global Fund Secretariat to maximize our understanding of Global Fund processes, requirements, and guidelines, further strengthened by USG participation on the Global Fund Board and engagement at the country-level.

S/GAC agrees with the OIG’s recommendation and has undertaken a number of activities to improve the benchmarking and timeliness of our Congressional reporting. As noted in the OIG’s report, several of the required documents included with the oversight report due 120 days after the appropriations bill (e.g. annual audited financial statements, summary of recipient expenditures) are made available to the USG only pending review and a vote of approval by the full Global Fund Board, which typically holds its first meeting of the year in May. S/GAC Congressional Relations staff alerts Congressional appropriators and authorizers to

UNCLASSIFIED

UNCLASSIFIED

UNCLASSIFIED

- 2 -

this limitation and the impact on the timeliness of our reporting. We concur that disseminating formal reports to Congressional committees in a more timely manner would increase the relevancy of the information for their decision-making.

In an effort to expedite the consideration of various requirements, for FY 2012 S/GAC requested that the Global Fund Secretariat submit information on individual withholding and reporting requirements as it becomes available, rather than awaiting a complete package of information. In 2012, the Global Fund has worked to respond to this request. S/GAC has also established internal benchmarks and timelines for the certification of withholding requirements, in an effort to hold ourselves accountable and to improve the predictability of financial contributions and reporting. S/GAC continues to work to balance timely reporting with in-depth due diligence to ensure that the Global Fund is meeting the highest performance, accountability, and transparency standards.

S/GAC is confident that our ongoing efforts will continue to maintain the quality of our fiduciary oversight, a responsibility we take very seriously as the largest donor to the Global Fund. The USG contributions to and engagement with the Global Fund are a central element of our shared strategy for achieving success in the fight against HIV/AIDS, tuberculosis, and malaria. Over the last two years, the USG reinforced our strong political and financial support for the Global Fund with an unequivocal call for urgent implementation of a comprehensive transformation plan intended to strengthen Global Fund operations and enable the Fund to save and improve lives more effectively. The USG continues to demand reforms that will ensure stronger financial oversight over our investment.

Thank you again for the opportunity to provide comments on the Draft Report. S/GAC looks forward to continuing our collaborative efforts with the OIG in the future.

UNCLASSIFIED

Major Contributors to This Report

Richard A. Astor, Director
Contracts and Grants Division
Office of Audits

Mark P. Taylor, Audit Manager
Contracts and Grants Division
Office of Audits

Patrick M. Sampson, Senior Auditor
Contracts and Grants Division
Office of Audits

Cristina G. Ward, Senior Auditor
Contracts and Grants Division
Office of Audits

FRAUD, WASTE, ABUSE, OR MISMANAGEMENT
of Federal programs
and resources hurts everyone.

Call the Office of Inspector General
HOTLINE
202/647-3320
or 1-800-409-9926
to report illegal or wasteful activities.

You may also write to
Office of Inspector General
U.S. Department of State
Post Office Box 9778
Arlington, VA 22219

Please visit our Web site at oig.state.gov

Cables to the Inspector General
should be slugged "OIG Channel"
to ensure confidentiality.

UNCLASSIFIED

UNCLASSIFIED