



OIG Report

Thematic Review of Fraud Reporting

By Four International Non-Governmental Organizations

GF-OIG-17-015

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Geneva, Switzerland

 **The Global Fund**

Office of the Inspector General

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The Office of the Inspector General (OIG) safeguards the assets, investments, reputation and sustainability of the Global Fund by ensuring that it takes the right action to end the epidemics of AIDS, tuberculosis and malaria. Through audits, investigations and advisory work, it promotes good practice, reduces risk and reports fully and transparently on abuse.

Established in 2005, the OIG is an independent yet integral part of the Global Fund. It is accountable to the Board through its Audit and Finance Committee and serves the interests of all Global Fund stakeholders. Its work conforms to the International Standards for the Professional Practice of Internal Auditing and the Uniform Guidelines for Investigations of the Conference of International Investigators.

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1. Executive Summary

This report does not conclude on the outcome of an actual investigation by the OIG. Rather, it reflects the outcome of a Thematic Review by the OIG Investigation Unit of the fraud¹ reporting mechanisms in place at four partner International Non-Governmental Organizations (INGOs): Catholic Relief Services; Population Services International; Save the Children Federation, Inc. / Save the Children International; and World Vision International. This review is part of the OIG's proactive assessments of the quality of fraud controls in the Global Fund's grant portfolio.

INGOs are important stakeholders for the Global Fund in its provision of services to prevent, treat and provide care to millions of people living with HIV, tuberculosis (TB) and malaria. Only through such partnerships can the Global Fund achieve the collective vision of a world free of the burden of the three diseases.

This review examines INGO fraud reporting compliance, areas of best practice, gaps and inconsistencies. Whilst its focus was on the four INGOs, the report also makes recommendations that can be adopted by other Global Fund implementers. In doing so, the review also aims to encourage reporting from other implementers which could assist the Global Fund in preventing and disrupting wrongdoing that compromises grant impact.

The review identified that all the four INGOs had strong anti-fraud policies and procedures in place, with only a few examples of historical under-reporting, which have since been rectified through the implementation of improved procedures. Furthermore, whilst fraud reporting channels were in place in all the INGOs, not all such mechanisms currently provide for online anonymous reporting. Some gaps and inconsistencies in the implementation of INGO fraud reporting policies and procedures were also found at country level.

Whilst recognizing the INGOs' own capacity to respond to fraud reports, the review found that a coordinated approach with the OIG can benefit both parties. All INGOs recognized that good fraud awareness and training assist in the prevention and early disruption of fraud.

2. Context

The four INGOs covered in this review are responsible for implementing more than 30 active Global Fund grants totaling over US\$1.2 billion in countries categorized as 'extreme' or 'high' risk' by the Global Fund.

Catholic Relief Services was founded in 1943 to serve World War II survivors in Europe. It has since expanded with a global reach of more than 107 million people in 101 countries on five continents. Headquartered in Baltimore, USA, it had, as of 2014, over 5000 employees and revenues of US\$733m.

Population Services International was founded in 1970 as a global non-profit health organization headquartered in Washington DC with programs targeting malaria, child survival, HIV, and reproductive health. Population Services International operates across 60 countries and employs over 8,900 staff. Its revenues in 2015 were just over US\$652m.

Save the Children Federation, Inc. was founded in 1932 and is headquartered in Fairfield, USA. Save the Children International was founded in 1977 and is a worldwide non-profit organization comprising 30 member organizations. Headquartered in London, UK, it has over 14,000 employees. Its combined revenues in 2015 of over US\$ 2.1 billion were used to reach around 62 million children in over 120 countries. Save the Children Federation, Inc. is the Principal Recipient for all current Global Fund grants; however, the grants are implemented by Save the Children International, which acts as a sub-recipient under the grant agreements.

¹ Throughout this report 'fraud' refers to all types of wrongdoing that should be reported by implementers to the Global Fund, including corruption, conflicts of interest, etc. Refer to footnotes 3 and 4 of this report.

World Vision International is a global Christian relief, development, and advocacy organization dedicated to working with children, families and communities to overcome poverty and injustice. Its predecessor was originally founded in the US in 1950, and World Vision International now comprises offices in 90 countries with headquarters in London, UK, Monrovia, CA, USA, and other locations. The combined revenues for the World Vision global partnership in 2016 amounted to around US\$2.7 billion and it has approximately 41,000 staff members.

3. Genesis and Scope

In 2016, the OIG undertook a Thematic Review of the risk and assurance mechanisms of four large INGOs with a specific focus on their fraud reporting procedures and practices and their investigations protocols.

The OIG selected Catholic Relief Services; Population Services International; and Save the Children Federation, Inc. / Save the Children Federation, Inc. and World Vision International for this proactive work due to their high-value operations in challenging countries.

The OIG undertook the review to proactively assess fraud reporting processes and systems, which are a mandatory requirement in Global Fund contracts and grant agreements. The INGOs who participated in this review are important partners for the Global Fund to achieve impact. It included a review of the INGOs' policies and procedures at a central level, and also in a small sample of countries in which the INGOs operate to assess their implementation at a country level.

This proactive assessment of the effectiveness of anti-fraud measures taken by its key partners provides the Global Fund with the following: increased assurance on compliance with fraud mitigation and reporting requirements embedded in grant agreements with these key implementers; promotion of good practices that other implementers can learn from; and recommendations to address any gaps or inconsistencies that are identified.

All Global Fund implementers are encouraged to read this report and adopt the recommendations, as appropriate. To further assist implementers to understand, identify, manage and respond to wrongdoing, and as part of its 'I Speak Out Now!' initiatives, the OIG has created an Anti-Fraud and Anti-Corruption Tool Kit for Implementers available at <http://www.ispeakoutnow.org/resources-en/>.

The scope of the review included an assessment of the four INGOs':

- policies and procedures relevant to fraud prevention, reporting and response;
- implementation of these policies and procedures at country level;
- contractual obligations with regards to fraud reporting to the Global Fund; and
- fraud reports to the Global Fund.

To achieve this, the OIG:

- reviewed relevant documents;
- spoke with senior employees of the INGOs responsible for fraud reporting and response at central level;
- conducted meetings and calls with a sample of country level INGO employees;
- analyzed fraud reports received by the Global Fund from the INGOs; and
- benchmarked the findings against good practice in fraud reporting and response.²

² For example, Transparency International's Preventing Corruption in Humanitarian Operations, 2014.

4. Findings

4.1. INGOs have policies and procedures to report fraud to the Global Fund

As Global Fund Principal Recipients, INGOs must comply with the Global Fund's Grant Regulations, which require them to, "*notify the Global Fund promptly in writing of any audit, investigation, probe, claim or proceeding pertaining to the operations of the Principal Recipient or any of its Sub-recipients or Suppliers*".³ The OIG confirmed all four INGOs were aware of their contractual obligations.

The Grant Regulations also require INGOs to comply with the Global Fund's Code of Conduct for Recipients, which states that "*Recipients shall notify the Global Fund (including, as appropriate, through the Global Fund Secretariat and/or through the anonymous third-party reporting services of the OIG) as soon as they have knowledge of any integrity concern involving or affecting Global Fund resources, or any breach of this Code*".⁴ Therefore, as part of its review, the OIG sought to establish the extent to which the INGOs had complied with these contractual obligations.

Catholic Relief Services reported all of the seven fraud reports relating to Global Fund resources over the last two years to the Global Fund Secretariat, and therefore complied with its reporting obligations. Similar to the procedures used by the other INGOs, Catholic Relief Services' Fraud Allegation Management procedure stipulates that upon receipt of the preliminary report, the country office should confer with regional and headquarters staff regarding the communication of the report to the Global Fund. It also recommends that the country office ask the Global Fund Secretariat whether they would prefer that the report be passed directly to the OIG.

Example of Good Practice

Population Services International has adopted an approach of 'parallel reporting' to both the OIG and the Global Fund Secretariat. This approach ensures that the Global Fund responds appropriately to all fraud reports it receives.

Population Services International has made ten reports to the Global Fund since 2012, all of which were received by both the OIG and Global Fund Secretariat. With one exception in 2014, all the reports were made to the Global Fund in a timely manner. Population Services International has therefore also complied with its fraud reporting obligations.

Population Services International reported to both the Global Fund Secretariat and to the OIG. This 'parallel reporting' approach ensured that the Global Fund responded appropriately to all the reports it received from Population Services International.

During the review, in late 2016, Save the Children Federation, Inc. informed the OIG of five Global Fund related fraud investigations worldwide that have taken place since 2012. None of the cases were reported at the time. Save the Children agreed that the cases should have been reported, and told the OIG that they may have been reported to the Global Fund by Save the Children International country level staff. The OIG could only confirm that one of these cases had been disclosed to the Global Fund Secretariat.

Due to the organization's lack of recordkeeping on reporting to donors prior to 2015, at the time of the review, Save the Children Federation, Inc. could not state with certainty whether and to whom these cases had been reported. However, since the review, Save the Children Federation, Inc. has made multiple fraud reports to the Global Fund and is therefore now in compliance with its reporting obligations.

Save the Children Federation, Inc. explained that it began using a case management system to track fraud allegations, investigations and to store related communications to donors in October 2015. According to its own records, it considers that it has complied with its reporting obligations to the

³ Grant Regulations 2014, Article 7.7

⁴ Code of Conduct for Recipients of Global Fund Resources, Section 3.3.2.

Global Fund since then. Save the Children International is in the process of upgrading to a web-based case management system with a go-live date of mid-2017.

Global Fund grant agreements require that Principal Recipients report knowledge of any integrity concern to the OIG. The OIG acknowledges the impractical implications of reporting every integrity concern relating to Global Fund resources. However, it is important that organizations have a robust process in place to collate and initially assess these concerns for their materiality and potential impact.

As an example of such a process, Save the Children International's policy states that country office staff must immediately report any suspicion of fraud to the Country Director. In turn, on receipt of a report, the Country Director must immediately report the suspicions to Save the Children International's global fraud team. After assessing the report, the global fraud team also determines whether or not an investigation is opened.

World Vision has a fraud policy which encourages initial reports to be made to management. Consequently, reports are usually made through business reporting channels. However, for third parties or employees who would like to report in confidence, they can do so through World Vision's hotline. Investigation logs for each case have been kept in World Vision's integrated case management system since this system was implemented in 2010.

During its examination of compliance with central level policies and procedures at World Vision International, the OIG identified one unreported case of fraud that had been investigated by World Vision but not reported to the Global Fund. This was due to an internal lack of clarity regarding who was responsible for reporting this matter to the OIG, which has been subsequently resolved. With this exception, World Vision has also been in compliance with its reporting obligations.

All four INGOs have developed fraud reporting policies and procedures. Additionally, they have professional investigation resources at their disposal. Although they have mechanisms in place to track all reports received by a country, or other office, the OIG recommends that the INGOs fully record the decision whether or not to investigate the matter and the reasons.

Recommendation 1: For INGOs and other implementers with fraud reporting policies and procedures and professional investigation resources, record *all* allegations and suspicions of fraud received, both at Country and HQ level. The subsequent assessment and the rationale for taking the decision to investigate/not investigate must always be fully recorded. For implementers without such fraud reporting policies and procedures and professional investigation resources, *all* reports must be relayed directly to the Global Fund.

4.2. Fraud reporting mechanisms should offer anonymous reporting and whistle-blower protection

All four INGOs have whistle-blowing or counter fraud policies, which require their employees to report suspected fraud. All the INGOs also provide the option of reporting via line management or confidentially/anonymously. At the time of the review, Save the Children did not have a centralized hotline or web-based mechanisms for anonymous reports. However, by mid-2017, Save the Children International will introduce a new web-based global channel for anonymous reporting.

All the INGO policies make provisions to ensure that the identity of employees who make reports in good faith are, where relevant, kept confidential, to prevent any form of retaliation. Some of the INGO policies additionally specify that if retaliation were identified, there would be an internal investigation resulting in disciplinary action.

Recommendation 2: Clarify in whistle-blowing policies that any acts of retaliation against whistle-blowers will be taken seriously and could potentially lead to disciplinary action.

4.3. Some gaps and inconsistencies at country level in implementation of central level fraud policies and procedures

Example of Good Practice

Catholic Relief Services has put in place a Fraud Allegation Management procedure specific to its overseas operations that complements its whistle-blower policy. This procedure sets standards for regulating the actions that must be taken when fraud allegations are reported. A simplified version of the procedure is also available, which summarizes in a single page the ten steps that must be taken, by whom, with deadlines, as well as links to relevant forms and guidance.

The OIG examined a limited sample of countries in which the INGOs have active grants to establish whether their central level fraud reporting policies and procedures are embedded at country level. Although the OIG found that this is largely the case, there were some gaps and inconsistencies.

Similar to the other INGOs, Catholic Relief Services Guinea office confirmed that all new joiners receive policies and training on fraud reporting. It also stated that it manages fraud allegations based on Catholic Relief Services ten-step simplified Fraud Allegation Management procedure.

The OIG also found that two of Catholic Relief Services Guinea's NGO sub-recipients had a fraud reporting policy, whereas three government sub-recipients had no formal fraud reporting or response mechanisms. Although the three government sub-recipients were under a 'zero cash' policy, which reduces fraud risk, implementers should communicate fraud reporting obligations to all their sub-recipients.

Recommendation 3: Communicate clearly to sub-recipients their contractual obligations concerning fraud reporting and response to ensure that they meet their obligations under the Standard Terms and Conditions of the grant and the Code of Conduct for Implementers.

Two Population Services International country offices reviewed had implemented central-level fraud reporting policies and procedures. However, while the systems, guidance, and procedures regarding fraud reporting were designed adequately, one country office had not implemented them consistently.

Population Services International's fraud policy requires that actual or suspected fraud should initially be reported to Senior Management, the Director of its Global Internal Audit and Investigation (GIA), or via its hotline. Population Services International in the Democratic Republic of Congo (DRC) initially reports fraud allegations to its Provincial Head who, after obtaining enough information, reports it to Population Services International's GIA in line with policy. Similarly, in its Guinea office, its Country Representative was aware of the requirement to report fraud to central-level management. Population Services International Guinea also made staff aware of the hotline.

On receipt of a report, Population Services International DRC completes a fraud management template provided by GIA in which all information relating to a fraud allegation must be recorded. The review found that its Guinea Office had not implemented the use of this fraud management and reporting template. Implementers should therefore take steps to ensure their central level fraud reporting policies and procedures are embedded at local level.

Recommendation 4: Be clear in guidance and procedures to country offices, similar to the Fraud Allegation Management procedure applied to Catholic Relief Services overseas operations, on how to report and respond to fraud reports in compliance with their central level policies and procedures.

Similar to the other INGOs, Save the Children International policies and procedures are in place in its Nepal office. Save the Children International Nepal also provides fraud reporting guidance and training in Nepali and English to its staff, which includes definitions and examples of red flags and fraud schemes.

As Save the Children International will soon introduce a centralized web-based, global channel for anonymous reporting, it told the OIG that it currently tailors its anonymous reporting mechanisms to what it considers feasible and culturally appropriate within the specific localities in which it operates. Consequently, staff in the Nepal office were aware of the requirement to report fraud and the reporting lines available, including the option of making anonymous reports via a local mechanism.

Furthermore, while Save the Children International informed the OIG that copies of its fraud policy are widely and regularly disseminated in the course of its local fraud trainings, some local staff indicated unfamiliarity with Save the Children International's anti-retaliation policy.

In Mozambique, World Vision staff were aware of the different ways to report fraud; via business reporting channels to line management, or anonymously via its hotline. Staff are also regularly trained on fraud risk identification and mitigation.

Recommendation 5: Implement anonymous reporting mechanisms at a country level, including training and awareness of the complementary whistle-blower anti-retaliation policies.

4.4. Response to fraud reports needs to be coordinated with the OIG

The OIG review identified some instances where Catholic Relief Services and Population Services International had made reports to the OIG when their own investigative teams had already been deployed to the field or an investigation had already been concluded. Although the OIG was provided with full details of the investigation scope and outcome, the OIG reserves the right, in all cases, to conduct its own investigation.

The OIG recognizes that many INGOs have investigative capacity. Isolated instances of fraud perpetrated by an individual, resulting in minor losses, can and must be dealt with by the organization, without the immediate involvement of the OIG. Indeed, such cases are often identified through day to day operational risk management.

However, where the loss amounts could be material, or when the issue is identified as potentially systemic, involving one or more individuals over time, then the OIG should be alerted immediately. Where an implementer does not possess adequate investigative capacity, the OIG should always be alerted immediately.

There are benefits in coordinating early with the OIG. Some INGOs have a relatively limited number of permanent investigators. Having an early conversation with the OIG offers the opportunity to discuss, advise and agree on approach, scope and timelines. This can provide assurance to both parties that the investigation is proportionate and timely. This will prevent the need for the OIG to re-investigate issues and provides assurance as to the robustness of the investigative process.

Recommendation 6: Notify the OIG prior to starting investigative fieldwork so that it can provide input to Terms of Reference and consider undertaking a joint investigation, where warranted.

After the conclusion of an investigation, currently only Population Services International routinely provides copies of its internal investigation reports to the Global Fund OIG. This demonstrates a clear commitment to transparency on the part of Population Services International, as it enables the Global Fund and the OIG to ensure that appropriate timely steps are being taken during the investigation and in the form of follow-up risk mitigating actions.

Recommendation 7: Provide the Global Fund and OIG with copies of internal investigation reports relating to Global Fund resources as well as any recommended remedial actions to mitigate the risk of similar future occurrences of fraud.

4.5. INGOs recognize the importance of fraud awareness training to assist in the prevention and early disruption of fraud

All INGOs communicate their fraud awareness and reporting policies and procedures to their central and country level employees during on-boarding, as well as providing additional annual or biannual online and face-to-face training on fraud reporting processes.

Examples of Good Practice

Save the Children International provides its fraud training materials in local languages.

Population Services International's GIA publishes a bi-monthly newsletter called 'The Red Flag Reporter'. This highlights recent cases of fraud and provides 'quick win' guidance on how to identify red flags of fraud and implement controls to prevent or detect it. Reminders about reporting obligations and a link to the Ethics Point Hotline are included in every issue.

For example, Catholic Relief Services and Population Services International also provide additional counter-fraud training to country level management during Headquarters and regional events. They also both require their country offices to display fraud reporting posters prominently in staff common areas.

In addition to displaying its anti-fraud hotline posters in country offices and publishing a newsletter called the 'Red Flag Reporter', Population Services International has also developed an 'Anti-Fraud Roadmap' which it distributes to its field offices. This contains information relating to various business process areas in which fraud has been identified. Each process area includes a description of the fraud schemes found, the 'red flags' associated with the scheme and the internal controls that can prevent these schemes from occurring.

As further examples, Save the Children in Nepal provides fraud training materials to its employees in both English and Nepali, and defines red flags and examples of different types of fraud and abuse. World Vision

International displays posters informing staff in its country offices of its fraud reporting procedures, as well as providing training of fraud risk identification.

4.6. The view from the INGOs

The OIG asked the four INGOs for their views of the importance of implementing measures to identify and address the risk of fraud. Their responses are set out below.

Catholic Relief Services

"Fraud and integrity risks are a long-term challenge in the locations that The Global Fund programming is most needed. Consequently, anti-fraud efforts that are practical and systematic tend to enable robust stewardship of financial resources. Cooperation across stakeholders, and shared innovation to reduce fraud and integrity risk is an opportunity to further strengthen successful program implementation."

Population Services International (PSI)

"PSI takes seriously the stewardship of all donor funds, including those of the Global Fund, and values the trust placed in us to properly safeguard those funds. As evidenced by our anti-fraud systems, structures, tools, policies, and practices, PSI treats fraud, corruption, waste, and abuse as a very serious matter and one for which we have zero tolerance. We appreciate the recognition by the Global Fund OIG of PSI's positive practices in this area, and we will also work to implement the relevant recommendations. One improvement already underway in 2017 is the "refresh" and relaunch of our 3rd-party whistleblowing "hotline", EthicsPoint. The updated hotline will be relaunched with a PSI-wide campaign to (re) educate all staff on the importance of "Speaking up for Sara" (i.e., our program beneficiaries) and "It's right to report wrongdoing". The campaign

will include new posters, videos, training materials, and a toolkit for country offices to train local subrecipients on our Anti-Fraud policies and tools.

Save the Children Federation, Inc. / Save the Children International

“Save the Children takes the risk of fraud in countries where we implement programs very seriously and is committed to collaborating with stakeholders, including the Global Fund, to deliver results for children in these challenging environments. Save the Children US (SCUS) and Save the Children International (SCI) have zero tolerance for fraud. We have invested and continue to invest substantial time and resources to ensure that our joint approach to fraud prevention, detection, response, and reporting reflects both existing best practices in the humanitarian and development sector as well as our commitment to continuous improvement—seeking to counter and stay ahead of the dynamic threat to program delivery—and that our approach meets the requirements and expectations of our donors, including the Global Fund. Throughout the remainder of 2017, we plan to continue improving our practices through an updated zero tolerance fraud policy for SCUS, a new web-based portal for anonymous reporting and new case management system for SCI, as well as new training materials for staff at both organizations.

We look forward to working together with the Global Fund OIG in the future to address this area of mutual concern—both to identify areas of fraud risk, as well as to evolving our strategies to manage and respond to those risks.”

World Vision International

“World Vision International takes seriously the findings in this report and is committed to meet its obligations to the Global Fund. World Vision International has policies in place to ensure that it continuously reviews and modifies its processes and procedures, not only to ensure compliance to the Global Fund grant regulations, but also to ensure efficient utilization of all donor resources to achieve the intended objectives.

World Vision International has enhanced its procedures to ensure the timely reporting of fraud incidents to the Global Fund OIG, and in this regard has already implemented quarterly update meetings between Global Fund OIG and the World Vision International Technical Director of Fraud Investigations. We believe that it is noteworthy to mention the implemented quarterly collaboration as an example of a good practice.”

5. Summary of recommendations

The general recommendations that follow are for organizations who are considering putting in place a formal fraud reporting mechanism, or have existing systems, which could benefit from further refinement. To further assist implementers to understand, identify, manage and respond to wrongdoing, the OIG has created an Anti-Fraud and Anti-Corruption Tool Kit for Implementers available at <http://www.ispeakoutnow.org/resources-en/>

Recommendation 1: For INGOs and other implementers with fraud reporting policies and procedures and professional investigation resources, record *all* allegations and suspicions of fraud received, both at country and HQ level. The subsequent assessment and the rationale for taking the decision to investigate/not investigate must always be fully recorded. For implementers without such fraud reporting policies and procedures and professional investigation resources, *all* reports must be relayed directly to the Global Fund.

Recommendation 2: Clarify in whistle-blowing policies that any acts of retaliation against whistle-blowers will be taken seriously and could potentially lead to disciplinary action.

Recommendation 3: Communicate clearly to sub-recipients their contractual obligations concerning fraud reporting and response to ensure that they meet their obligations as Principal Recipients under the Standard Terms and Conditions of the grant and the Code of Conduct for Implementers.

Recommendation 4: Be clear in guidance and procedures to country offices, similar to the Fraud Allegation Management procedure applied to Catholic Relief Services overseas operations, on how to report and respond to fraud reports in compliance with their central level policies and procedures.

Recommendation 5: Implement anonymous reporting mechanisms at a country level, including training and awareness of the complementary whistle-blower anti-retaliation policies.

Recommendation 6: Notify the OIG prior to starting investigative fieldwork so that the OIG can provide input to Terms of Reference and consider undertaking a joint investigation.

Recommendation 7: Provide the Global Fund and OIG with copies of internal investigation reports relating to Global Fund resources as well as any recommended remedial actions to mitigate the risk of similar future occurrences of fraud.