UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP UZBEKISTAN

GRANTS FROM THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

Report No. 1241

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Report on the audit of UNDP Uzbekistan
Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 14 to 25 October 2013, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 61668, 64003, and 70898, all relating to HIV) managed by the UNDP Country Office in Uzbekistan (the Office) as the Principal Recipient. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure, staffing, capacity development and exit strategy);

(b) programme management (project approval and implementation, monitoring and evaluation, grant closure);

(c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);

(d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and

(e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered all Global Fund-related activities of the Office during the period from 1 January 2012 to 30 September 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling $14.7 million. This was the first audit of the Office's Global Fund-related activities.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of Global Fund grants as **partially satisfactory**, which means "internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity."

Key recommendations: Total = **3**, high priority = **1**

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

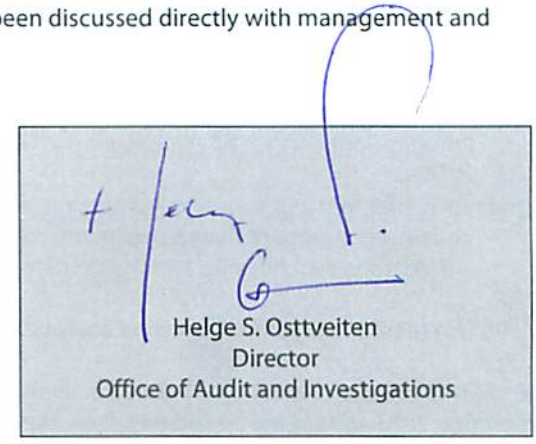
Ineffective stock management of health products (Issue 3)	The Office had not established an appropriate stock management monitoring system to ensure that at least minimal quantities of health products were available at each "trust point" location. Also, there was no effective reporting system in place to ensure early detection and corrective action when trust points were without stocks of health products.

Recommendation: (a) Further build the Sub-recipient's capacity, particularly with regard to demand-based distribution of health products; (b) in collaboration with the Sub-recipient, review the in-country supply chain and inventory management systems relating to health products to ensure the availability of health products at each trust point; and (c) improve the reporting on health products by the Sub-recipient for better monitoring of stock levels at each trust point.

Management comments and action plan

The Resident Representative accepted all the recommendations in the areas of programme management, quality assurance of health products, and supply management and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Issues with less significance (not included in the report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Uzbekistan

Since 2011, UNDP has been the Principal Recipient of Global Fund grants in Uzbekistan (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of 30 Sep 2013 (in $ '000)	Implemen-tation Rate	Expenditures as of 30 Sep 2013 (in $ '000)	Global Fund Rating
UZB-311-G06-H	61668	Continuing scale up of the response to HIV in Uzbekistan	1 Jan 2011	31 Dec 2013	$ 6,983	$ 6,983	100%	6,675	B1[1]
UZB-H-UNDP	64003 70898	Scale up the response to HIV	1 Jan 2012	31 Dec 2013	$ 22,719	$ 18,117	81%	14,700	A1[2]

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and general management. The organizational structure of the Office was adequate. Review of sample service contract recruitment cases showed that the process was competitive, transparent and adequately documented. The Office conducted annual performance evaluations of all Project Management Unit personnel. OAI's analytical review of salary, benefits and bonus payments did not result in any reportable issues. Further, the review of the Office's activities relating to assessing and building the capacity of Sub-recipients and the Country Coordination Mechanism also resulted in no reportable issues.

(b) Programme management. The monitoring and evaluation of the Global Fund projects was adequate. The Office had developed detailed site visit plans. After each site visit, the monitoring and evaluation team issued reports, including recommendations, which were shared with relevant implementing partners. The Office agreed with OAI's suggestion to aggregate all issues, recommendations, and action plans resulting from site visits.

(c) Sub-recipient management. The Office implemented the grants through 23 Sub-recipients, which included 1 United Nations agency (UNICEF), 7 governmental agencies, and 15 non-governmental agencies. OAI reviewed the Office's compliance with the policies and procedures for selecting, assessing, and contracting Sub-recipients, as well as for funding, reporting and oversight and monitoring and identified no reportable issues.

[1] Adequate

[2] Exceeds expectations

(d) Procurement. The review of the procurement process, including testing of a sample of 24 purchase orders valued at about $6.2 million, or 45 percent of the total value of purchase orders ($13.7 million) issued during the audited period disclosed that the controls relating to procurement were adequate. Furthermore, the asset management process and documentation, including the annual asset inventory, asset custody and recording of assets worth $33,000 were found to be adequate. The review of a sample of 9 out of 172 contracts, representing 53 percent of the total contract value, disclosed no reportable issues.

(e) Financial management. The review of 24 purchase order-based and 11 non-purchase order-based disbursement vouchers with an aggregate value of $7.2 million (or 56 percent of total vouchers for the audited period), as well as a review of relevant financial reports and expenditure documents disclosed no reportable issues and indicated that the financial management arrangements were adequate. The review of revenue and accounts receivable disclosed no reportable issues. The latest combined delivery reports for the Global Fund projects showed the expenses to be reasonable and classified correctly. The General Management Support charges were found to be correctly established at 7 percent. The Office was also assessed as being ready to deal with the implementation of the International Public Sector Accounting Standards with regard to reporting to the Global Fund.

OAI proposes three recommendations that are ranked high (critical) and medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

High priority recommendation

(a) Further build the Sub-recipient's capacity to ensure availability of health products at each "trust point" (Recommendation 3).

Medium priority recommendations, arranged according to significance:

(a) Revise the quality assurance plan to ensure random testing of finished pharmaceutical products (Recommendation 2).
(b) Obtain approval for using the National Salary Supplementation and Payment Schemes (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and implementation

Issue 1 Lack of approved salary supplementation and salary distribution to government officials

Direct payments to government officials for additional work on development projects may be acceptable in well-defined exceptional circumstances, provided that specific conditions are met, as stipulated in the UNDP Policy and Procedures for Engagement on National Salary Supplementation Schemes and National Salary Payment Schemes. Making such payments must be approved by the Office of the Administrator and the Regional Bureau concerned.

During the audit period, the Office disbursed about $600,000 to government officials as salary supplementation,

with monthly rates ranging from $60 to $200. The project concerned contributed to these payments. The Office also made payments to government officials with monthly rates ranging from $200 to $800. The project was responsible for fully paying these amounts. However, the Office had not sought prior approval of this payment scheme from the Office of the Administrator and the Regional Bureau for Europe and the Commonwealth of Independent States.

In order to facilitate implementation of programme activities, the Office engaged medical workers and other staff members of state medical facilities, who were the only personnel authorized to perform certain activities and who had access to relevant information. As claimed by the Office and validated by OAI, the salary supplementation paid to these government employees was in line with the additional activities and hours spent over and above their regular working hours. Further, the conditions set by the Global Fund were met, in that the payment scheme was results-based, did not duplicate existing responsibilities and was approved by the Country Coordinating Mechanism.

However, the lack of a properly approved supplemental payments could increase the risk that rates might not be applied fairly, which could result in the improper use of funds and reputational risk to the Office and UNDP.

Priority	Medium (Important)
Recommendation 1: Obtain approval from the Office of the Administrator and the Regional Bureau for Europe and the Commonwealth of Independent States for using the National Salary Supplementation and Payment Schemes, by clearly indicating the mechanism for calculating the level of salary supplements in order to continue with the payment scheme. If approval is not obtained, discontinue the existing payment scheme.	
Management comments and action plan: While management claimed that the Office acted in accordance with the suggested process proposed to implement Global Fund grants and ensured that consultants engaged in the project were released from their principal jobs for the period of assignment with UNDP, it also acknowledges that, in the future, the Office should get the necessary approval through the Regional Bureau prior to engaging national specialists within the National Salary Supplementation and Payments Schemes. The Office understood that this issue will be addressed by UNDP corporately for all Global Fund-related projects in the future. **Estimated completion date:** June 2014	

B. Procurement and supply management

1. Quality assurance of health products

Issue 2 Inadequate quality assurance of finished pharmaceutical products

The Global Fund's Quality Assurance Policy requires that random samples of finished pharmaceutical products be obtained at different points in the supply chain and tested for compliance with the applicable quality standards. Testing must be done by a laboratory that is accredited by WHO and certified in accordance with the

ISO 17205 (Calibration and Testing Laboratories) and approved by the Global Fund, or by a laboratory that has been directly contracted by the Global Fund.

The Office had a Quality Assurance Plan that was approved by the Global Fund in July 2013. According to this plan, samples should be taken of finished pharmaceutical products that have been stored for longer than nine months after their date of entry into the Country. However, this provision does not fully comply with the Global Fund's quality assurance policy, which stipulates that the "principal recipient must ensure that random samples of finished pharmaceutical products are obtained at different points in the supply chain – from initial receipt of the finished pharmaceutical products in-country to delivery to end-user/ patients."

In response to the draft report, management commented that the Office and the Global Fund have agreed to introduce a capacity building plan to strengthen the procurement supply management capacities of national authorities, which will further ensure that random samples of finished pharmaceutical products will be obtained at different points of the supply chain.

Failure to have finished pharmaceutical products tested at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patient lives and the reputation of the facilities and UNDP at risk.

Priority	Medium (Important)
Recommendation 2: Revise the Office's Quality Assurance Plan to ensure that random samples of finished pharmaceutical products are obtained and tested at different points of the supply chain in order to fully comply with the Global Fund's quality assurance policy.	
Management comments and action plan: The Office has been working with the Global Fund to revise the existing Quality Assurance Plan based on the audit recommendation, and in light of the recently issued Global Fund guidance: "In-country quality monitoring of pharmaceutical products in Global Fund supported programs" (issued in January 2014). The updated Quality Assurance Plan will be submitted to the Global Fund for approval in February 2014, to comply with the revised guidelines. In addition, the Office will sign an agreement with the National Drug Regulatory Authority in the Country to further strengthen the testing of pharmaceuticals in the region. **Estimated completion date:** June 2014	

2. Supply management (inventory, warehousing and distribution)

Issue 3 Ineffective stock management of health products

There are approximately 230 so-called "trust points" in the Country run by a Sub-recipient, where the most at risk populations should have access to health products, such as condoms and syringes. While the Office is responsible for ensuring the availability of health products in the Country, the Sub-recipient must perform daily stock management of health products at each trust point. Effective and efficient stock management is only

possible with reliable reporting and monitoring systems that provide relevant information to ensure effective replenishment.

The Office had not established adequate mechanisms for monitoring the health product stock management system to ensure that at least minimal quantities of health products are available at each trust point. Also, there was no effective reporting system in place to ensure early detection and corrective actions needed to address the lack of health products.

In July 2013, the Office received information about the unavailability of health products at trust points through regular Sub-recipient quarterly reports. After receiving information, the Office requested the Sub-recipient to prepare reports on health product stock levels for specific trust points. However, the Office only started receiving such reports in October 2013.

A Global Fund mission carried out in October 2013 confirmed health product stock-outs in two trust points. In November 2013, OAI visited three trust points and noted the lack of available health products (condoms) in one trust point.

Prior to October 2013, the Office had not prepared any health product consumption reports that would help to identify shortages of health products at each trust point. The distribution of harm reduction items (e.g. condoms and syringes) was captured in a computerized data collection and reporting system. However, this system did not enable report generation for each trust point, limiting the Office's ability to detect stock-outs at trust points.

The Office explained that because the country-wide health product stock level was based on the annual consumption level, the lack of consumption and inventory data for health products at each trust point undermined its ability to quickly detect stock-outs at the three trust points. Further, stock-out problems resulted from a poor redistribution system among trust points.

In response to the draft report, management opined that that the possibility of stock-outs was reflected in the indicators and results framework of the grant agreement. Further, they stated that the Office has been working towards building national capacities in the supply chain management. The data management and reporting mechanisms were paper- based, and the introduction of a comprehensive supply management system was always expected to be gradual.

Priority	High (critical)
Recommendation 3: (a) Further build the Sub-recipient's capacity, particularly with regard to demand-based distribution of health products. (b) In collaboration with the Sub-recipient, review the in-country supply chain and inventory management systems relating to health products to ensure the availability of health products at each trust point. (c) Improve the reporting on health products by the Sub-recipient for better monitoring of stock levels at each trust point.	
Management action plan: The Office initiated the following to implement the recommendation:	

- The Procurement and Supply Management plan has been reviewed immediately after the issue arose, and an action plan was developed and has been approved by the Global Fund and is being implemented. The Action Plan assumes the development of guidance materials on stock management, good storage and distribution practices.

- Capacity building of the mentioned Sub-recipient in procurement and management of stocks will continue in 2014, also ensuring that the early warning system is effectively functioning.

- Already re-distributed more than 2.2 million syringes and 1.9 million condoms among regions and Trust Points.

A comprehensive Management Information System client database was designed in accordance with the donor expectations for monitoring and evaluation of HIV prevention programmes to ensure the quality of services provided to programme clients. The Management Information System software has been correctly revised to address recommendations raised by OAI during the mission, and the software is now able to capture information related to the services provided, allowing for capturing information on trust points and their supply of health products. The Management Information System is able to capture information on every trust point and its supply of health products and its current stock. In case of stock-out of any of health products in trust points, the system will provide a notification of the stock-out, and will also not allow for further reporting on coverage of clients covered through the grant. The data import/export has been time consuming due to issues with internet access in the region, resulting in additional delays in raising the awareness of possible issues. The system has been revised and now allows inputting the information through an on-line mode, which is connected to the central server based in the Project Management Unit.

Estimated completion date: March 2014

ANNEX. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.