



**AUDIT**

**OF**

**UNDP GUINEA-BISSAU**

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

**Report No. 1315**  
**Issue Date: 12 December 2014**

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## Report on the audit Guinea-Bissau Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 8 to 19 September 2014, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Output Nos. 87240 [TB] and 87241 [Malaria]) managed by UNDP Guinea-Bissau (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> 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 the activities of the Office from 1 January 2013 to 31 July 2014. The Office recorded Global Fund-related expenditures totalling \$6.8 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." This rating was mainly due to weaknesses in programme management, quality assurance, and financial management.

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<sup>1</sup> The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

**Key recommendations:** Total = 8, high priority = 3

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. All high (critical) priority recommendations are presented below:

Lack of quality review and assurance of data (Issue 2)	<p>The Monitoring and Evaluation Plan requires the National Institute of Public Health (National Institute) to conduct periodic reviews of the quality and completeness of data collected by the health centres. OAI noted that the National Institute had not been able to conduct periodic reviews since the beginning of 2014 due to financial constraints. As such, programmatic data used by the Office for Global Fund reporting purposes was not reviewed for quality and therefore may have been inaccurate.</p> <p><u>Recommendation:</u> Reassess and strengthen the mechanism in place for data validation by establishing a contractual agreement with the National Institute with a funding mechanism to support the implementation of activities; otherwise, consider alternative options for data validation of programmatic information from other institutions in the Country that provide similar services.</p>
Inadequate quality assurance of pharmaceutical products (Issue 4)	<p>As Principal Recipient, UNDP is required to ensure that pharmaceutical products are tested upon initial receipt in-country, and along the supply chain. OAI noted that these tests had not been conducted despite the fact that several batches of pharmaceutical products were received and distributed to patients. Moreover, conditions at the periphery levels were not appropriate for the storage of pharmaceutical products. The Project Management Unit explained that this was attributable to the fact that a Global Fund approved quality assurance plan was not in place.</p> <p><u>Recommendation:</u> Test pharmaceutical products upon receipt in-country and at different points in the supply chain as per Global Fund requirements.</p>
Weaknesses in management of project cash advances and non-compliance with Zero Cash Policy (Issue 6)	<p>The Office committed to the Global Fund that it would apply a Zero Cash Policy to Sub-recipients, meaning that no funds would be advanced to the Sub-recipients for the implementation of activities. In order to process cash payments under the Zero Cash Policy, the Office created a dummy vendor. Cash advances to this vendor were directly expensed. This practice made it difficult to oversee and monitor the cash advances. OAI further noted that cheques assigned to the dummy vendor were subsequently cashed by a UNDP staff member and/or service contractors for a total of \$424,000, of which \$110,000 was outstanding for at least four months as of September 2014.</p> <p><u>Recommendation:</u> Strengthen the management of the disbursements of funds from Global Fund grants by: (a) reconciling and closing the outstanding cash advance made via the local bank and to staff of Sub-recipients; (b) utilizing third party services, including mobile cash partners, to make payments for project activities so as to minimize the need for using UNDP personnel to effect such payments; (c) disbursing funds based on finalized payment lists that are not subject to change after issuance; and (d) making payments to final beneficiaries and eliminating payments to staff of Sub-recipients for implementation of programmatic activities.</p>

### **Management comments and action plan**

The Resident Representative accepted all of the recommendations 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 this 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/Guinea-Bissau

Since 2013, UNDP has been the Principal Recipient of Global Fund grants in Guinea-Bissau (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 19 Sept 2014 (in \$ '000)	Implementation Rate	Expenditures as of 19 Sept 2014 (in \$ '000)	Global Fund Rating at 19 Sept 2014
GNB-913-G13-T	87240	Tuberculosis	1 Jul 2013	31 Oct 2015	8,183	2,951	20.24	\$1,115,604	B1
GNB-M-UNDP	87241	Malaria	1 Jul 2013	30 Jun 2015	10,479	8,480	20.31	\$5,663,745	B1

## II. Audit results

Satisfactory performance was noted in the following area:

Organizational structure. OAI reviewed the organizational structure and noted that reporting lines and segregation of duties were consistent with the Internal Control Framework of the Office.

OAI made eight recommendations 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 recommendations**, arranged according to significance:

- Strengthen the management of disbursements of funds (Recommendation 7).
- Test pharmaceutical products upon receipt in-country and at different points in the supply chain (Recommendation 4).
- Reassess and strengthen the mechanism in place for data validation (Recommendation 2).

**Medium priority recommendations**, arranged according to significance:

- Comply with the Monitoring and Evaluation Plan and Work Plan by conducting routine monitoring and evaluation visits (Recommendation 3).
- Recover amount overpaid to vendor and develop a proper system of archiving documents to support payments (Recommendation 8).
- Implement a logistics management information system to track and monitor pharmaceutical products through the supply chain (Recommendation 5).
- Distribute health products to the health centres in accordance with the distribution plans (Recommendation 6).
- Develop a capacity-building action plan and request approval from the Global Fund to use a portion of the budget savings for capacity-building (Recommendation 1).

The detailed assessment is presented below, per audit area:

### III. Detailed assessment

#### 1. Governance and strategic management

##### Issue 1 Limited capacity development budget and lack of capacity development plan

The UNDP Operations Manual for Projects Financed by the Global Fund requires UNDP Country Offices to assess national capacities during the project formulation stage, in order to determine Sub-recipient strengths/weaknesses and to document how UNDP can assist with capacity-building. While serving as interim Principal Recipient, UNDP is responsible for developing the capacity of national entities so that they may take over the role of Principal Recipient. The objective of any capacity-building plan is to strengthen the Sub-recipient's role in programming, finance, procurement, and monitoring and evaluation. The Global Fund strongly recommends that grant funds (5 percent to 10 percent of the total grant budget) be spent on strengthening national monitoring and evaluation systems.

OAI noted that out of the two grants, only the malaria grant had a capacity development budget of approximately \$34,000 or 0.33 percent of the grant budget of \$10 million. This was below the Global Fund recommendation of 5 to 10 percent of the grant budget that should be reserved for capacity-building. In July 2013, and prior to contracting the National Programme Malaria and the National Programme Tuberculosis (National Programmes) as Sub-recipients, the Office conducted an evaluation of their capacities. Both Sub-recipients were rated as moderate in terms of risk. The evaluation identified a number of challenges, particularly in human resource capacity. The Office reported that in approximately 70 percent of health facilities, only one individual was available to perform the administrative, clinical and pharmaceutical functions. The evaluation recommended that the Project Management Unit, in collaboration with the National Programmes, develop a plan to strengthen Sub-recipient capacities.

The Project Management Unit acknowledged the need to develop a comprehensive capacity development plan for its Sub-recipients and reported that a Monitoring and Evaluation System Strengthening Tool<sup>2</sup> was approved by the Global Fund after the audit fieldwork. The tool was expected to be validated by all stakeholders involved in monitoring activities before the end of 2014. Based on the Monitoring and Evaluation System Strengthening Tool, the monitoring and evaluation budget needed to strengthen data verification, and data quality control alone was estimated to cost approximately \$240,000 per year and the overall capacity-building budget requirement for the grants was \$1.9 million. The Office reported that it approached the Global Fund Secretariat with a request for additional funding to strengthen monitoring and evaluation activities in October 2014. The Global Fund advised the Project Management Unit that no revisions could be made to the existing budget, as budget revision negotiations typically required approximately six months. As such, there was not enough time left since the malaria grant was scheduled to end on 30 June 2015, while the TB Grant was scheduled to end on 31 October 2015. Hence, it was not possible and realistic to develop and submit a capacity-building plan and budget within the existing grant life cycle.

The Project Management Unit informed OAI that after the audit, a further analysis of their budget identified available funds resulting from savings from activities not undertaken. The Project Management Unit indicated that in consultation with the UNDP Bureau for Policy and Programme Support, it would seek approval from the Global Fund to use about \$180,000 of the available funds for capacity-building.

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<sup>2</sup> The Monitoring and Evaluation Systems Strengthening Tool is designed as a generic tool by the Global Fund to assess the data collection, reporting and management systems to measure indicators of programme and project success. This tool addresses primarily the monitoring and evaluation plan and systems that need to be in place to collect and aggregate data into relevant indicators for programme management and reporting.

The lack of a capacity-building plan and the limited funds available hindered the efforts to strengthen the capacities of the implementing partners.

<b>Priority</b>	Medium( important))
<b>Recommendation 1:</b>	
Develop a capacity-building action plan and request approval from the Global Fund to use a portion of the budget savings for capacity-building.	
<b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>	
The Office is seeking the approval of the Global Fund to use the available funds for capacity-building.	
<b>Completion date:</b> November 2014	

## 2. Programme management

The Office became Principal Recipient of the TB and malaria grants in July 2013. The total budget consisted of \$8 million for the TB grant and \$10 million for the malaria grant. The malaria and TB grants are implemented through three government Sub-recipients and two non-governmental organizations.

OAI noted two issues in the review of the programme management of the grants, which are detailed below.

### 2.1 Project approval and implementation

From November 2013 to July 2014, the Office assisted the Government in organizing a mosquito net distribution campaign. The Office explained that the campaign was a key element in securing the role of UNDP as Principal Recipient for the existing malaria grant and the \$22 million New Funding Model grant that was scheduled to start in July 2015.

#### **Issue 2**      Lack of quality review and assurance of data

According to the Monitoring and Evaluation Plan, the National Institute (an autonomous health sector data management, quality control, reporting and research entity under the umbrella of the Ministry of Health) must conduct periodic reviews of the quality and accuracy of data collected by the health centres.

OAI noted that the National Institute had not been able to conduct periodic reviews since the beginning of the year. A representative of the National Institute indicated that this was due to financial constraints.

The Project Management Unit acknowledged the National Institute's failure to ensure timely and routine data quality reviews and analysis, and further explained that the issue was more systemic rather than functional because the National Institute was not adequately funded and lacked adequate staffing. The strengthening of the National Institute was necessary for the collection and validation of data and required more resources than the existing

capacity-building budget available to the Principal Recipient (see Issue 1) allowed for. The lack of a data validation mechanism hindered the Project Management Units' ability to provide reliable information to the Global Fund. Although the root cause of the issue was beyond UNDP's control, OAI is of the opinion that there are actions that the Office could take to mitigate the impact of the above issue.

OAI further noted that the Principal Recipient did not have a contractual agreement with the National Institute for the validation of data. As a result, there was no established mechanism to hold the National Institute accountable for conducting quality reviews of the data for the Global Fund grants on behalf of the Principal Recipient. The lack of a contract or agreement made it difficult for UNDP to evaluate the National Institute's performance. The Office explained that due to the budget gap of \$1.9 million (referenced in Issue 1 above), a contract with the National Institute could not be established.

Subsequent to the audit fieldwork, the Project Management Unit reported that since October 2014, it contracted two staff from the National Institution to work with the Monitoring and Evaluation Team as part of on the job training, which resulted in better quality data. Global Fund policies require that Principal Recipients not establish parallel monitoring and evaluation systems, but be willing to invest in the existing systems. The Project Management Unit, by taking on the role of the National Institute in collecting and validating data, may have inadvertently created a parallel monitoring and evaluation system, a system that would not be sustainable when the grants are transferred to a national institution or a designated Principal Recipient in the future.

Priority	High (Critical)
<b>Recommendation 2:</b>  Reassess and strengthen the mechanism in place for data validation by establishing a contractual agreement with the National Institute with a funding mechanism to support the implementation of activities; otherwise, consider alternative options for data validation of programmatic information from other institutions in the Country that are providing similar services.  <b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  The Office will take the following actions: <ul style="list-style-type: none"> <li>(a) Implement a Sub-recipient agreement with the National Institute by March 2015.</li> <li>(b) Monthly data quality assurance will be undertaken by the three UNDP Monitoring and Evaluation Field Associates, together with the National Institute and the staff from the Ministry of Health's central warehouse, as of January 2015.</li> <li>(c) Quarterly data quality assurance at the central level will be undertaken by UNDP, National Institute, and the two National Programmes as of March 2015.</li> </ul> <b>Estimated completion date:</b> March 2015.	

## 2.2 Monitoring and evaluation

### Issue 3 Lack of routine monitoring

UNDP's Operations Manual for Projects Financed by the Global Fund defines monitoring as "the tracking of the key elements of project performance, through adequate record keeping, regular reporting and surveillance systems, as well as undertaking health facility observation and client surveys." Further, the job description of the Programme Manager requires the incumbent to undertake monitoring and evaluation of the Global Fund projects, to identify programmatic, operational and financial problems as well as to develop and implement solutions to address them. According to the draft Monitoring and Evaluation Plan and Work Plan, routine monitoring and evaluation visits for data collection and validation of programmatic information are supposed to be done, at a minimum, on a quarterly basis.

Since the beginning of the year to September 2014, only one Monitoring and Evaluation field visit was conducted. The Project Management Unit explained that because of the mosquito net campaign organized by the Ministry of Health and for which the Office was responsible, it was difficult to schedule monitoring and evaluation visits because there were no staff available at the Project Management Unit and implementing partner's level. There was no contingency plan to cover monitoring and evaluation activities during the campaign. OAI acknowledged the role that the Project Management Unit played in the mosquito net campaign; however, some routine monitoring and evaluation should have been scheduled, taking into account that the National Institute was not able to validate the programmatic data that the Project Management Unit submits to the Global Fund. The Project Management Unit reported that monitoring and evaluation visits were to resume in November 2014.

The Project Management Unit acknowledged this issue and reported that corrective measures were envisaged to strengthen the monitoring and evaluation system. The measures included the recruitment of three Monitoring and Evaluation Field Officers who in collaboration with the Sub-recipients' staff will be responsible for performing monitoring and evaluation field visits two weeks every month.

The lack of routine monitoring and evaluation visits hindered the Project Management Unit's ability to timely identify programmatic and financial challenges impacting the successful implementation of the grants.

Priority	Medium (Important)
<b>Recommendation 3:</b>  Comply with the Monitoring and Evaluation Plan and Work Plan by conducting routine monitoring and evaluation visits as scheduled. Contingency planning should be done during campaigns to ensure monitoring and evaluation activities are undertaken.  <b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  In October 2014, a new Monitoring Plan was prepared for 2015 to strengthen the monitoring and evaluation activities. The plan also includes the capacity development of the National Institute. This would be done through the training of two staff from the National Institute (paid by UNDP) that will work with the Monitoring and Evaluation Team three days per week. Monitoring activities will also be reinforced with the hiring of three Monitoring and Evaluation Field Associates (the posts were budgeted but the recruitment was	

not finalized at the time of the audit fieldwork). The National Programmes, based upon the Ministry of Health priorities and availability, will be included. If the Ministry of Health is unable to attend field monitoring and evaluation visits, reports will be shared, and findings will be shared during the monthly monitoring and evaluation meetings with the two Sub-recipients.

**Completion Date:** March 2015

### 3. Procurement and supply management

During the period from 1 January 2013 to 31 July 2014, the Office issued 384 purchase orders valued at approximately \$6.1 million. Of these, 21 purchase orders accounting for 68 percent of the procurement expenditure were for medical supplies. OAI selected a sample of 5 purchase orders for medical products worth \$3.8 million and 25 non-medical purchase orders worth \$877,000 for review and testing.

#### 3.1 Quality assurance

##### **Issue 4**      Inadequate quality assurance of pharmaceutical products

The Global Fund Quality Assurance Policy for Pharmaceutical Products requires that the Principal Recipient ensure that pharmaceutical products are tested upon initial receipt in-country, and along the supply chain thereafter for any products that remain unused. In addition, it recommends the use of the WHO guidelines for the storage of medical products.

The Project Management Unit received several batches of pharmaceutical products that had not been tested either upon arrival in the Country or along the procurement supply chain. Moreover, conditions at the periphery levels were not appropriate for the storage of pharmaceutical products. In particular, climate control and monitoring instruments were not in place outside of the central warehouse, nor was a backup power supply system available to run climate control equipment (where they exist) during the long and frequent power outages. When pharmaceutical products are not stored at the appropriate temperatures, there is an increased risk that these products will be rendered useless.

The Project Management Unit explained that the above was attributable to the fact that a Global Fund approved quality management plan was not yet in place. The Global Fund provided its most recent comments to the draft plan in October 2014 and the Project Management Unit was preparing responses to those comments for resubmission to the Global Fund.

Subsequent to the audit fieldwork, the Project Management Unit informed OAI that it had started sampling of six malaria and six TB drugs, which were to be sent to a WHO certified laboratory for testing in November 2014. Samples were drawn from the central warehouse, three regional warehouses and eight health facilities.

Failure to test pharmaceutical products at different points in the supply chain may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patients' lives and the reputation of the Office and UNDP at risk.

<b>Priority</b>	High (Critical)
<b>Recommendation 4</b>	
Test pharmaceutical products upon receipt in-country and at different points in the supply chain as per Global Fund requirements.	
<b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>	
Management will take the following actions:	
<ul style="list-style-type: none"> <li>(a) Conclude the November 2014 process of laboratory quality control testing (under the Quality Assurance Framework) of six malaria and six TB drugs from the 12 central, regional and peripheral health facilities.</li> <li>(b) Finalize responses to comments by the Global Fund to the Procurement Supply Management Quality Assurance Plan and submit to the Global Fund on 12 November 2014, for final review and approval (the Quality Assurance Plan also has implications on pharmaceutical waste management, through the procurement of a \$110,000 pharmaceutical waste incinerator that was not originally budgeted in the two UNDP grants).</li> <li>(c) Future pharmaceutical products arriving in the Country will be sampled randomly according to a sampling plan prepared by the Project Management Unit and included in the quality assurance plan.</li> </ul>	
<b>Completion Date:</b> 31 October 2015	

### 3.2 Supply management (inventory, warehousing and distribution)

#### Issue 5 Weak procurement supply chain system

The UNDP Operations Manual for Projects Financed by the Global Fund states that the Principal Recipient is required to ensure that the Sub-recipients establish and maintain reliable stock and logistics management information systems. A reliable stock management information system monitors the level and movement of stock at central and regional warehouses as well as at health centres. It uses manual or electronic stock cards which should be updated after every stock movement. The central level should have a mechanism to receive and consolidate data from the periphery so as to have a countrywide view of the stock status.

At the time of audit, the Project Management Unit had not implemented a logistics management information system to track and monitor pharmaceutical products through the supply chain. Thus, UNDP as Principal Recipient had limited control on the accountability and safeguarding of the stocks in the field.

Based on discussions with the Project Management Unit and as noted on monitoring and evaluation visit reports, some stock-outs had been reported at the health centre level for some of the commodities; however, the extent of the stock-outs could not be validated in the absence of a functional logistics management information system as it would warrant visits or contact with all the 114 health centre areas, 9 regional warehouses and the central warehouse.

In an effort to improve the supply chain system, the Project Management Unit had started to develop logistics management information system tools, and standard operating procedures for supply chain management in

addition to recruiting two national Logisticians. After the audit fieldwork, the tools and procedure documents had been reviewed by the Global Fund and the Project Management Unit was preparing its responses to the comments from the Global Fund.

Additionally, OAI noted that the central warehouse had been charging the regional warehouses a token fee for the Global Fund procured Artemisinin-based combination therapies. The regional warehouse in turn had transferred the cost to the health centres, which subsequently passed the cost to the patients. As a result, the regional warehouses could only procure drugs from the central warehouse based on availability of funds to pay for the token fee. The practices described above meant that the central warehouse was not adhering to the distribution plan issued by the National Programmes as required by the Sub-recipient agreement.

Priority	Medium (Important)
<b>Recommendation 5:</b>  Implement a logistics management information system to track and monitor pharmaceutical products through the supply chain and consult with key stakeholders to eliminate the charges for the supply of Artemisinin-based combination therapies.  <b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  Management will take the following actions: <ul style="list-style-type: none"> <li>(a) Revise the Supply Chain Management Standard Operating Procedures and submit to Global Fund on 12 December 2014.</li> <li>(b) Establish a working group incorporating procurement and supply chain management partners to develop and implement a pilot plan. The partners will validate health centre stock management reports and requests for new health products by 31 December 2014. Further, the pilot will be evaluated and if feasible will be expanded to all products by 30 April 2015.</li> <li>(c) Initiate discussions with the Ministry of Health on a policy to ensure co-payment for Artemisinin-based combination therapies (as part of the Ministry of Health plan to ensure sustainability of Artemisinin-based combination therapies after Global Fund grants conclude in 2017) by 31 December 2014, which conflicts with the new Government decree of 19 August 2014 to ensure free treatment for: <ul style="list-style-type: none"> <li>▪ Pregnant women</li> <li>▪ Children under 5 years old</li> <li>▪ People above 60 years old</li> </ul> </li> <li>(d) Change the national strategy from revolving debit fund (the current system) to a revolving credit fund (discussed on 11 November 2014) with the Ministry of Health, and continue discussions with Ministry of Health in December 2014.</li> </ul> <b>Estimated completion date:</b> 30 April 2015	

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>  Distribute health products to the health centres in accordance with the distribution plans.  <b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  (a) The Project Management Unit designated the two Logisticians (one for malaria products and the other for TB products) as focal points between programmes and the central warehouse so that they can prepare distribution plans, follow-up on distribution practices of the central warehouse and monitor stock availability at all levels to avoid stock-outs and over-stocking. (b) The Project Management Unit will continuously monitor the stock status (per central warehouse reports, with actual cross checking), effective April 2014.  <b>Completion Date:</b> 31 October 2015	

#### 4. Financial management

The Office processed 1,363 vouchers during the period under review for a total of \$6.8 million. OAI selected a sample of 24 vouchers valued at approximately \$4.5 million for review and testing.

##### 4.1 Expenditures

###### **Issue 6**      Weaknesses in management of project cash advances and non-compliance with Zero Cash Policy

The 'Programme and Operations Policies and Procedures' governing the management of funds from Global Fund grants stipulate that cash advances can only be granted to staff and service contractors. The maximum advanced amounts that can be authorized locally and without approval from the Treasurer are \$25,000 for staff members and \$1,000 for service contractors. Cash advances are not to be made to United Nations Volunteers.

###### (a) Management of project cash advances

While negotiating for grants, the Office committed to applying a Zero Cash Policy to Sub-recipients, meaning that no funds would be advanced to the Sub-recipients for the implementation of activities. The restriction on making advances to Sub-recipients coupled with the large volume of payments during the mosquito net campaign and the need for the Office to demonstrate that it was respecting the policy on project cash advances, resulted in a number of weaknesses as indicated below.

A dummy vendor was created by the Office to process project cash advances that were directly expensed. This practice made it difficult to oversee and monitor the cash advances. Further, the cheques assigned to the dummy vendor were subsequently cashed by UNDP staff and/or service contractors for a total of \$424,000, of which \$110,000 was outstanding for at least four months as of September 2014. The entire outstanding amount was due

from two service contractors, and no authorization was obtained from the UNDP Treasurer for these cash advances as required by the 'Programme and Operations Policies and Procedures.'

In an effort to find an alternate secure method of making some of the required cash payments to volunteers identified by the Sub-recipient to assist in the distribution of mosquito nets, the Project Management Unit engaged a local bank to disburse the funds on its behalf. These project cash advances had not been reconciled even though the bank provided accounts for the use of the funds it received. Preliminary analysis showed an estimated overpayment of \$11,200 against the funds advanced for two regional health centres. The overpayment arose because the payment requests from the Sub-recipient were processed without finalized lists. The list of payments was subject to change by the Regional Directors of the Sub-recipient even after it was received by the bank.

(b) Non-compliance with Zero Cash Policy to Sub-recipients

The Project Management Unit did not comply with the Zero Cash Policy to Sub-recipients and issued cash advances to staff and service contractors who subsequently transferred those funds to individuals employed by the Sub-recipients. Of four vouchers reviewed amounting to \$178,000, there was \$66,000 transferred to Sub-recipient staff. As of September 2014, these advances had been outstanding for more than six months. UNDP policies require that advances to Sub-recipients be advanced directly to the bank accounts of Sub-recipients, but not directly to staff.

The lack of a framework for the implementation of the Zero Cash Policy defining what is expected of both the Project Management Unit and the Sub-recipients was the cause of the issues noted above. In this context, the Project Management Unit was forced to make payments beyond its human resource capacity to cover the activities of the Sub-recipients. According to the Office, this pressure forced the Project Management Unit to advance funds to staff of the Sub-recipients to implement project activities, thereby disregarding the Zero Cash Policy to Sub-recipients.

By not adhering to the Zero Cash Policy, UNDP may not be able to recover unused funds for project activities paid directly to staff of Sub-recipients.

Priority	High (Critical)
<b>Recommendation 7:</b>  Strengthen the management of disbursements of funds from Global Fund grants by: <ul style="list-style-type: none"> <li>(a) reconciling and closing the outstanding cash advance made via the local bank and to staff of Sub-recipients;</li> <li>(b) utilizing third party services, including mobile cash partners, to make payments for project activities so as to minimize the need for using UNDP personnel to effect such payments;</li> <li>(c) disbursing funds based on finalized payment lists that are not subject to change after issuance; and</li> <li>(d) making payments to final beneficiaries and eliminating payments to staff of Sub-recipients for implementation of programmatic activities.</li> </ul>	
<b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  Management will take the following actions:	

- (a) Reconcile and close the outstanding cash advance made via the local bank by:
- Initiating reconciliation meetings with the local bank - started on 23 Sept 2014.
  - Closing the mosquito net recruitment accounts with the local bank as per first contract amendment expiring on 31 December 2014.
  - Sending an official UNDP letter to the Ministry of Health requesting two regional health areas to reimburse UNDP the \$10,300 overpaid - 3 October 2014.
- (b) Use of third party payment will be expanded on a pilot basis in February 2015 (through mobile transfer), and continue for the lifetime of the two grants.
- (c) To ensure that payment lists issued to third party services are final and not subject to change after issuance, the Project Management Unit will:
- Send a letter to the Ministry of Health on 3 October 2014, and will follow up on 10 Nov 2014, requesting complete and final lists of volunteers for the mosquito net campaign.
  - Require all partners on whose behalf UNDP is making a payment, to submit complete and final lists with names, ID card numbers, bank accounts where available, telephone, and days of activities, prior to issuing instructions to third parties for payment.
- (d) Going forward, the Project Management Unit will not issue direct payments to staff of Sub-recipients.

**Estimated completion date:** June 2015

**Issue 7**      Weaknesses in payments for customs clearance services and missing supporting documentation

The 'Programme and Operations Policies and Procedures' stipulate that payments must be made based on appropriate supporting documentation and after verification for accuracy and legitimacy.

OAI noted the following weaknesses in the management of payments and prepayments:

- (a) Informal arrangement with third party vendor resulting in overpayment

The Office did not have a contract with a clearing agent for custom clearance of goods and services. There was, however, an informal arrangement with a third party vendor who facilitated the customs clearance for a fee. During the mosquito net distribution campaign, the Project Management Unit ordered \$3.6 million worth of mosquito nets through UNICEF, which were cleared through the services of a third party agent.

OAI noted an overpayment of \$29,000 made to the third party vendor who cleared the mosquito nets received in the Country in the first and second quarters of 2014. The fees paid should have been calculated at the rate of 0.7 percent (the rate recognized in the Country) of the value of the batch received at the port as declared by the Office on the tax invoice. For two different batches mentioned above, the tax invoice prepared by the Office recorded the total value of the purchase order as opposed to the actual values of the product received on the two different dates. By using the value reported on the tax invoice, the agent overcharged the Project Management Unit by \$29,000, or 57 percent. The clearing agent concurred with OAI's analysis regarding the overpayment and committed to refunding the amount overpaid.

(b) Missing supporting documentation

Three payment vouchers amounting to \$55,000 did not have any supporting documents to justify the payments. Without adequate supporting documentation, OAI could not validate the legitimacy of these payments. The Office did not provide an explanation as to what happened to these documents.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>  Recover amount overpaid to vendor and develop a proper system of archiving documents to support payments.  <b>Responsible unit:</b> Project Management Unit	
<b>Management action plan:</b>  (a) A cheque worth \$10,000 (5 million XOF) was received from the customs clearance agent and deposited in the UNDP bank account on 1 October 2014. (b) The Office will continue to follow up with the clearing agent on the balance of \$19,000. With regard to document archiving, the following actions have been undertaken: <ul style="list-style-type: none"> <li>▪ In June and July 2014, four Administrative Assistants were recruited for the mosquito net campaign, to document and archive procurement and financial data of the Project Management Unit.</li> <li>▪ Reviewed and improved workflows and documentation archiving systems initiated in June 2014.</li> <li>▪ As of June 2014, official documents are scanned, emailed and archived.</li> <li>▪ A procurement process initiated in September to secure a heavy duty scanner.</li> </ul>	
<b>Completion date:</b> 30 November 2014	
<b>OAI Response</b>  OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **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

- **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.