UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP TURKMENISTAN

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

Report No. 1410

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Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 8 to 15 September 2014, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 60163 [TB]) managed by UNDP Turkmenistan (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);

(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 Global Fund-related activities of the Office from 1 January 2013 to 30 June 2014. The Office recorded Global Fund-related expenditures totalling $4.7 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 the Global Fund grants as **satisfactory**, which means, "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."

Key recommendations: Total = **4**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are four medium (important) priority recommendations, which means, "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." These recommendations include actions to address the sustainability of the grant activities; the difficulties in operating the ventilation system in the bacteriological laboratory; the delays in installing laboratory equipment; and the weak stock management and storage conditions.

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
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I. Profile of Global Fund grants managed by UNDP Turkmenistan

Since 2010, UNDP has been the Principal Recipient of Global Fund grants in Turkmenistan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of 30 June 2014 (in $ '000)	Implementation Rate	Expenditures as of 30 Jun 2014 (in $ '000)	Global Fund Rating at 30 Jun 2014
TKM-910-G01-T	00060163	TB	Oct 2010	Sept 2015	16,357	14,826	60%	9,800	A2

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. Project approval, implementation, monitoring and evaluation were functioning adequately. The implementation of the grant activities was carried out with adequate monitoring and supervision.

(b) Sub-recipient management. There were three Sub-recipients, comprised of one government entity, one non-governmental organization, and one United Nations agency. The selection, assessment, contracting, funding, oversight and monitoring of the Sub-recipients were adequate.

(c) Financial management. The internal control processes for financial management were established and functioning well. Reporting to the Global Fund Secretariat was done in a timely manner and with no noted delays.

OAI made four recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

(a) Develop a transition strategy/sustainability plan (Recommendation 1).
(b) Coordinate with the national counterpart to clearly define the responsibilities for maintenance of the laboratory equipment (Recommendation 2).
(c) Install laboratory equipment in a timely manner and address bottlenecks in the delivery of goods and services. (Recommendation 3).
(d) Implement proper stock management procedures (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Capacity development and exit strategy

Issue 1 Grant activities not sustainable

The Office was appointed as the grant Principal Recipient by the Country Coordinating Mechanisms in the Country, consisting of governmental and non-governmental entities, academic institutions, United Nations agencies, and People Living with Diseases. While the Office is accountable for the management of the TB grant, the overall ownership of the Global Fund grant activities rests with the Government.

Implementation of the Global Fund grants in the Country resulted in several achievements, including introducing multi-drug resistant treatments, and improving diagnosis capacity by building and renovating TB laboratories. However, the achievements of the previous four years were at risk due to the heavy reliance on the Office as well as on external funding. The existing TB grants were scheduled to end in September 2015 with the possibility of being extended until the end of 2018, when the Office might be appointed again as the Principal Recipient. However, there were no clearly documented transition plans to make the grant activities sustainable at the end of the Global Fund grant.

In this regard, OAI noted the following areas that required capacity building and better collaboration with different stakeholders:

- construction and renovation of laboratories (refer to Issue 2);
- installation of laboratory equipment (refer to Issue 3);
- stock management and storage capacity (refer to Issue 4); and
- forecasting and distribution – there was heavy reliance on the Office for quantification, despite the fact that the national counterpart was responsible for these activities through a national committee. This committee should be capable of carrying out the quantification and forecasting of the finished pharmaceutical products independently at the end of the Global Fund grant.

The Office acknowledged the risk of the limited capacity of national counterparts and explained that it had a specific budget line for capacity development. As such, capacity development was envisaged only to some extent in the existing work plan (budgeted $10,000 per year) but without an exit strategy. The Office further explained that despite the low utilization of the budget line, the Office implements all activities through adopting a capacity development approach, which is a standard process in all projects. The Office recently made accelerated efforts in all projects to involve counterparts at every stage of project planning, implementation and monitoring.

Not having a transition plan in place may result in certain activities not being sustainable after the end of the grant.

Priority	Medium (Important)

Recommendation 1:

Develop a transition strategy/sustainability plan which specifies:

(a) activities to be taken over by the Government at the end of the Global Fund grant; and
(b) required capacity development of the national counterpart for taking over these activities and sustaining them.

Management action plan:

An explicit capacity development plan will be developed in 2015. The new grant will then support the plan's implementation and will be designed with a clearer exit strategy. The following key actions have already started or will start soon:

(a) support in organizing WHO assessment of national TB surveillance system;
(b) support in development of new TB strategy in collaboration with WHO;
(c) support a Country Coordinating Mechanism assessment that would be done by the Global Fund Local Fund Agent;
(d) follow-up with the Government on the intentions to submit a new proposal;
(e) organize a mission of the Global Fund Partnership Team;
(f) support the Country in preparation of the New Funding Model concept note; and
(g) support to participation of key national staff in capacity development events.

Estimated completion date: September 2015

B. Procurement and supply management

1. Procurement of health products

Issue 2 Difficulties in operating ventilation system in bacteriological laboratory and defining responsibilities of different stakeholders

According to the grant agreements and the work plan, as part of its responsibility as a Principal Recipient of the Global Fund grant, UNDP manages the construction and renovation of buildings and laboratories. When managing construction and renovation, it is crucial to adapt the equipment to the existing infrastructure and local conditions to ensure optimal operation.

The Office managed the renovation of bacteriological laboratories in different regions in the Country. In one of these regions, modern ventilation equipment was installed that required stable and abundant power supply. The ventilation systems in a TB laboratory help to reduce the risk of airborne contamination. However, the renovated laboratory was facing a limited and unstable power supply. As a result, not all electrical equipment at the laboratory (ventilation, air conditioner, laboratory equipment) could be used simultaneously. A temporary solution of sequential utilization of the different types of equipment was introduced.

The responsibility for the maintenance of the bacteriological laboratory and the installation of different equipment after finalizing the renovation works was not clearly established. There was no exchange of letter between the Office and the implementing partner to define the responsibility of each stakeholder. Consequently, no national stakeholder had assumed the responsibility of providing timely and adequate maintenance of the ventilation equipment.

This situation resulted in the renovated laboratory not functioning at optimal levels, which exposed the laboratory technicians to unsafe working conditions and increased the risk of airborne contamination of samples.

Priority	Medium (Important)
Recommendation 2: Coordinate with the national counterpart to clearly define the responsibilities for maintenance of the laboratory equipment that includes the ventilation system for all the laboratories that were renovated and on improving the stability of the power supply for the laboratory.	
Management action plan: Management will take the following actions: (a) follow up on the issue of power supply with the Government, reinforcing the fact that the beneficiary and the Government are ultimately responsible for the functioning of the equipment; and (b) propose to the Government and the donor the installation of additional power supply back-up equipment. **Estimated completion date:** September 2015	

Issue 3 Delays in installing laboratory equipment

Timeliness for laboratory renovation and equipment installation according to the grant work plan is crucial in the implementation of different grant activities, as some activities cannot be completed without functioning laboratories.

After the renovation of one of the regional bacteriological laboratories was completed, it took approximately one year before the laboratory was fully operational. This was due in part to a lengthy customs clearance process for the laboratory equipment, which took about five months. Further delays were caused by transporting and installing the heavy laboratory equipment, as one of the implementing partners had difficulties in identifying a local service provider for equipment transportation and installation. In addition, there was little coordination among the different partners, and the roles and responsibilities of each partner were not clearly defined.

The difficulties in transporting and installing equipment, the lengthy customs clearance processes, and the lack of coordination among the partners all led to delays in providing necessary laboratory services to patients.

Priority	Medium (Important)
Recommendation 3: Install laboratory equipment in a timely manner and address bottlenecks in the delivery of goods and services.	
Management action plan: Management will take the following actions: (a) document lessons learned from the delay; (b) the Office will be acting as consignee to avoid long customs clearance processes; (c) will involve a local company for installation of medical equipment; and (d) exchange of letter between the Office and the implementing partner to define the responsibilities of each stakeholder. **Estimated completion date:** September 2015	

2. Supply management

Issue 4 Weak stock management and storage conditions

The UNDP Operations Manual for Projects Financed by the Global Fund recommends the use of the WHO guidelines for the storage of medical products. UNDP as Principal Recipient of the Global Fund grant procures and distributes extensive amounts of pharmaceutical and other health products. It is crucial that the system for inventory and stock management functions properly in order to ensure adequate execution of the Global Fund mandate. The Office was responsible for ensuring that the implementing partner established and maintained reliable storage conditions of the finished pharmaceutical products and different consumables.

OAI reviewed the processes for inventory and stock management and visited the main warehouse and storage facilities in three out of five regions in the Country. The Office was responsible for stock management at the national level, and had not engaged in capacity building with national counterparts in order for stock to be managed by them. OAI also noted that the stock cards maintained in the Office were not regularly updated and that it was not possible to determine the exact stock in the warehouse at a certain point in time.

Furthermore, finished pharmaceutical products were stored in a main storage facility before they were delivered to regional level hospitals. The following weaknesses of the main storage facility were noticed when compared to the WHO guidelines:

- finished pharmaceutical products improperly stacked and stored;
- temperature not monitored on a daily basis;
- finished pharmaceutical products ready for dispatching to regional storages/hospitals and those awaiting for customs clearance were not separated; and
- absence of a fire extinguisher at each storage facility of the finished pharmaceutical products.

Finished pharmaceutical products that are not appropriately stored are at risk of being damaged, lost, or stolen, which could lead to project goals not being achieved.

Priority	Medium (Important)
Recommendation 4: Implement proper stock management procedures by: (a) coordinating with the relevant national counterpart to improve the storage conditions of the main storage facility in accordance with Global Fund and WHO guidelines; (b) maintaining up-to-date stock cards and inventory notes in order to ensure that the correct stock levels are always known at any point in time; and (c) planning to hand over the stock management to the national counterpart.	
Management action plan: Management will take the following actions: ▪ follow up with the Government to use the new location for storage of finished pharmaceutical products procured by the Office under this grant without additional cost; ▪ advocate with the Government to cost-share improvements of any extra storage facilities; and ▪ advocate for introduction of information technology for stock management to be included in the TB strategy. **Estimated completion date:** September 2015	

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.