



AUDIT

OF

UNDP MALI

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

Report No. 1571

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Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Mali	1
II. Audit results	1
A. Governance and strategic management	2
1. Organizational structure	2
2. Capacity development and exit strategy	3
B. Programme management	4
1. Project approval and implementation	4
2. Monitoring and evaluation	5
C. Procurement and supply management	6
1. Quality assurance of health products	6
2. Inventory, warehousing and distribution	7
3. Asset management	9
D. Financial management	10
1. Expenditure	10
Definitions of audit terms - ratings and priorities	13

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

The UNDP Office of Audit and Investigations (OAI), from 10 to 26 February 2016, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 84293 [HIV]) managed by UNDP Mali (the Office) as the Principal Recipient. This grant was managed under the Global Fund's Additional Safeguard Policy.¹ The Office also managed Output No. 85760 (Country Coordinating Mechanism [CCM]) as the CCM Funding Recipient.² 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, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (oversight and monitoring);
- (d) procurement and supply management (procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management); and
- (e) financial management (expenditures, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 February 2015 to 31 January 2016. The Office recorded Global Fund-related expenditures of approximately \$13.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2015.

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 **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 governance and strategic management, programme management, procurement and supply management, as well as financial management.

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

² Since the CCM is not a legally incorporated body and cannot receive funds, it designates a CCM Funding Recipient to be responsible for receiving funds on its behalf.

Key recommendations: Total = 8, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Reliability and integrity of financial and operational information	7	Medium
Effectiveness and efficiency of operations	3, 5	High
	2, 4, 8	Medium
Safeguarding of assets	6	Medium

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 recommendations are presented below:

Gaps in monitoring and evaluation processes (Issue 4) Monitoring and evaluation remained a challenge in 2015 with delayed reporting, sub-optimal quality of reports, weakness in the implementing partners' monitoring and evaluation systems and data quality reviews not conducted in accordance with plan.

Recommendation 3: The Office should strengthen project monitoring.

Inadequate inventory management information system (Issue 6) The monthly stock reports were inadequate for the purposes of tracking pharmaceutical products throughout the supply chain. Also, the Project Management Unit did not receive reports of stocks from health centres, which meant that it had no visibility of stock levels at the service delivery points. Lastly, the Project Management Unit did not have a mechanism to detect expired products at the service delivery points.

Recommendation 5: The Office should strengthen the inventory management information system to track and monitor pharmaceutical products throughout the supply chain.

Implementation status of previous OAI audit recommendations: Report No. 1432, 20 May 2015.

Total recommendations: 5

Implemented: 1

In progress: 4

The pending recommendations pertain to governance and strategic management, programme management, as well as procurement and supply management.

Management comments and action plan

The Resident Representative accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Mali

Since 2012, UNDP has been the Principal Recipient of the Global Fund grant in Mali (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 January, 2016 (in \$ '000)	Implementation Rate (during the audit period)	Expenditures as of 31 January 2016 (in \$ '000)	Global Fund Rating at 31 January 2016
MAL-812-G09-H	84293	Fighting HIV/AIDS in Mali	1 Nov 2012 (phase 2)	31 Dec 2015 (phase 2)	79,807 (phase 2)	54,960	46%	36,900	B1 ³

The audited grant expired on 31 December 2015. A new grant agreement (with a new grant number) was subsequently signed between the Global Fund and the Office on 23 February 2016, for \$48.3 million (€43 million). The new grant also operated under the Additional Safeguard Policy. The old grant operated under a Zero Cash Policy for Sub-recipients, whereas this condition had been lifted under the current grant agreement. The old grant was implemented through three government Sub-recipients and two non-governmental organizations.

II. Audit results

OAI made two recommendations ranked high (critical) and six recommendations ranked 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 project monitoring and evaluation processes (Recommendation 3).
- Strengthen the inventory management information system to track and monitor pharmaceutical products throughout the supply chain (Recommendation 5).

Medium priority recommendations, arranged according to significance:

- Strengthen project implementation (Recommendation 2).
- Develop and implement a fully justified testing plan that focuses on products and locations with the greatest quality risks throughout the supply chain (Recommendation 4).
- Improve financial management controls (Recommendation 7).
- Improve the management of advances to the local bank (Recommendation 8).
- Prepare and obtain the required sign off from the authorized Sub-recipients (Recommendation 6).
- Optimize the use of the focal points by assigning programming responsibilities (Recommendation 1).

The detailed assessment is presented below, per audit area:

³ Global Fund assigned rating: B1 is equivalent to adequate

A. Governance and strategic management

1. Organizational structure

Issue 1 Staffing not commensurate with workload of project

In Audit Report No. 1432 issued in May 2015, OAI raised an issue (Issue 1) with respect to staffing at the Project Management Unit. The audit noted that the prevailing staffing complement was not aligned with the workload of the units and that not all personnel were being used to their optimum capacity. The audit recommended that the staffing of the Project Management Unit be optimized subsequent to a workload study.

The audit noted that the Office did not undertake the workload study recommended in order to determine the appropriate staffing complement. Nevertheless, in preparation for the new grant, the Project Management Unit had already been restructured, resulting in some posts being eliminated and new ones being created. The basis and analysis leading to the restructuring decisions taken were not documented and thus OAI did not have a basis to determine the adequacy of the resulting staffing compliment. Thus, the internal analysis was still necessary in order to ensure that the Project Management Unit was appropriately resourced. However, OAI is not issuing a recommendation with regard to the lack of a workload study, as Recommendation No. 1 contained in Report No. 1432 is still in progress. OAI will continue to monitor the implementation of this recommendation as part of its regular desk follow-up.

In the current audit, the audit team identified the sub-optimal utilization of the Sub-recipient focal points. The Project Management Unit had three Sub-recipient focal points whose key role was to assist in the implementation of the grants. This entailed contributing to “formulation and recommendation of practices to improve governance and quality of services, through monitoring and communication.” During the period reviewed, the audit team noted that the main task of the focal points had been centred on processing and following up on financial requests of the Sub-recipients to the Principal Recipient.⁴ This limited the focal points’ role to a financial management function. Monitoring and oversight visits, which were core functions of the focal points, were not conducted. These visits would have allowed the Project Management Unit to reinforce procedures, introduce new concepts, and detect implementation delays and take quick remedial actions. The audit noted that the Terms of Reference of the focal points had been updated in 2015, giving the latter more financial responsibilities and less programme implementation support and oversight responsibilities.

Additionally, at the time of the audit fieldwork, the Monitoring and Evaluation Unit had only one individual, down from three authorized by the Global Fund. This was due to the departure of the head of the unit and the Monitoring and Evaluation Officer who left in July and May 2015, respectively. This left a vacuum in the unit, resulting in a number of scheduled activities that remained unexecuted in the last half of 2015 (refer to Issues 3 and 4). The Office did not take any actions to fill the vacancies. The Project Management Unit reported that other competing priorities, such as the drafting of the concept note for the new grant, delayed the execution of planned activities.

⁴ In accordance with the Zero Cash Policy Standard Operating Procedure, the Sub-recipients are required to submit a financial request to the Principal Recipient before undertaking activities.

Priority	Medium (Important)
Recommendation 1	
The Office should optimize the use of the focal points by assigning programming responsibilities, such as monitoring and oversight, to them.	
Management action plan:	
The Office will continue implementing its management action plan for Recommendation No. 1 contained in Report No. 1432. In addition, the Project Management Unit will ensure that focal points are involved in the implementation of the Monitoring and Evaluation Plan.	
Estimated completion date: September 2016	

2. Capacity development and exit strategy

Issue 2 Challenges in implementing capacity-development activities

As Principal Recipient, UNDP is responsible for developing the capacity of national partners. The objective of the capacity-building plan is to strengthen the Sub-recipient's role in programming, finance, procurement, and monitoring and evaluation.

In the previous OAI audit, capacity-building was raised as an issue and the related recommendation was still in progress as of the audit fieldwork date. Capacity-building remained a challenge in 2015. The audit further noted that efforts to systematically strengthen the implementation capacities of government and local implementing partners were undermined by the inadequate staffing of the Monitoring and Evaluation Unit during the second half of the year (refer to Issue 1). This situation was also due to the lack of opportunities for the Sub-recipient focal point to undertake field visits to strengthen or reinforce procedures and make recommendations to improve the governance and the quality of services.

The current Principal Recipient's contractual obligation ends in 2017 and it will be critical for the Principal Recipient to step up capacity-building efforts in 2016 and 2017.

Comment

OAI is not issuing a recommendation on the implementation of capacity-development activities, as the previously raised recommendation in Report No. 1432 (Recommendation 2) is still in progress. OAI will continue to monitor the implementation of this recommendation as part of its regular desk follow-up.

B. Programme management

1. Project approval and implementation

Issue 3 Challenging operating context and complex relationships with Sub-recipients

According to the 'UNDP Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria', a positive working relationship with Sub-recipients and other partners responsible for the implementation of programmatic activities is key to the successful implementation of grant activities. Thus, the extent to which the Principal Recipient is attuned to and addresses operational barriers increases the likelihood that programmatic activities will be implemented and that project targets will be met.

The Office, as Principal Recipient, was operating in a complex environment characterized by security challenges across the Country and challenges in the relationship with Sub-recipients. Despite these challenges, the Principal Recipient along with its partners continued to provide treatment to people living with HIV all over the Country without any reported interruptions. At the time of the audit fieldwork, the Global Fund rated the grant as B1 (adequate).

The audit identified the following factors that impacted the performance rating of the grant:

- Difficulties in the application of the Zero Cash Policy: The review of the 2015 implementation of programmatic activities by Sub-recipients showed that key activities such as training, monitoring and oversight under the key Sub-recipient and its Sub-sub-recipients were not conducted. The Sub-recipients explained that the main reason for the non-execution of the activities was the different interpretation and application of the Zero Cash Policy procedures by the Principal Recipient. This resulted in Sub-recipients not submitting financial requests to the Principal Recipient and not conducting several project activities, such as training, monitoring and oversight. Furthermore, implementing partners perceived the *per diem* rates granted to them as too low, which impeded them from conducting monitoring and evaluation visits. The audit noted that a new and more favorable *per diem* rate was adopted in 2015. The non-implementation of programme activities affected the budgetary implementation rate, which stood at 46 percent from the beginning of the grant in 2012. The Office as Principal Recipient was mainly focused on resolving these relationship issues with the Sub-recipients within the context of the Zero Cash Policy.
- Lack of an established mechanism to hold non-performing partners accountable: There were contractual agreements between the Principal Recipient and its Sub-recipients and where applicable, agreements between the Sub-recipients and their Sub-sub-recipients. Despite the existence of contractual agreements among the stakeholders, there was no established recourse mechanism for the Principal Recipient or the Sub-recipient to hold a non-performing partner accountable for not implementing activities. Consequently, when an activity was not conducted by a stakeholder, regardless of whether it was justified or not, it was reprogrammed to subsequent periods, until the responsible partner chose to implement the activity. As highlighted above, key activities such as training, monitoring and oversight were not conducted and there was no evidence that the non-performance of the partners was escalated to higher levels within the Principal Recipient and Sub-recipient management or reporting authority or the Country Coordinating Mechanism.

The lack of accountability mechanisms may affect the successful implementation of the grants, especially going forward with the new grant agreement effective February 2016 when some of the Sub-recipients and/or Sub-sub-recipients will have a more important role to play in the implementation of programmatic activities.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project implementation by: <ul style="list-style-type: none"> (a) adopting a risk management approach to make sure that the Sub-recipient will be trained on UNDP financial rules and regulations; and (b) establishing a mechanism to hold non-performing partners accountable, including documenting instances of non-performance and reporting them to the appropriate authority. 	
Management action plan: The Office will implement the recommendation above. Further, the Sub-recipient and the project team will be trained on UNDP financial rules and regulations in the context of Direct Implementation Modalities. The Principal Recipient, based on the new grant modality, will be providing restricted cash policy advances to the Sub-recipients. Additionally, the Office will establish a mechanism of evaluating Sub-recipient programmatic and financial performance on a quarterly basis and report to senior management, to the Sub-recipients' authoritative bodies, the Country Coordinating Mechanism, and the donor.	
Estimated completion date: October 2016	

2. Monitoring and evaluation

Issue 4 Gaps in monitoring and evaluation processes

According to the Global Fund approved Monitoring and Evaluation Plan, the Sub-recipients must conduct periodic visits to the regions to supervise the delivery of services by Sub-sub-recipients, to collect data, and to provide training on the use of data collection tools. The Principal Recipient is responsible for the overall monitoring and evaluation of the grants.

From the review of the Programme Management Unit's work plan and functions, it was noted that monitoring and evaluation remained a challenge in 2015. Illustrative examples of identified weaknesses are described below:

- Delayed reporting. In accordance with the agreement signed between the Principal Recipient and its partners, the latter were expected to report to the Principal Recipient on a quarterly basis. During the audit period, three out of four Sub-recipients submitted their reports late, with delays from 2 weeks to 1 ½ months. At the time of the audit fieldwork, the one Sub-recipient that was responsible for approximately 40 percent of the people living with HIV had yet to submit the 4th quarter programmatic report, which was due on 15 January 2016.
- Sub-optimal quality of reports. A key objective of monitoring and evaluation is to enable the Principal Recipient to obtain data for decision-making. Although informative, the quality of the narrative reports received from the Sub-recipients fell short of providing a root-cause analysis of the issues encountered. This hindered the Principal Recipient's ability to utilize the information and ensure that sustainable processes were implemented to remedy shortfalls.

- Weakness in the implementing partners' monitoring and evaluation systems. The national Monitoring and Evaluation Plan formally designated two technical groups to contribute to the oversight and data validations at the national and regional levels. During the period under audit, these technical groups were not operational. The Office explained that due to financial constraints the technical groups were not functioning; however, with the approval of the new grant this shortcoming has been remedied.
- Data quality reviews not conducted in accordance with plan. Two out of the four planned Programme Management Unit monitoring visits, including the Routine Data Quality Audit and the Routine Service Quality Audit, were not conducted. The Programme Management Unit explained that due to competing priorities, such as writing the concept notes, the team had not had an opportunity to conduct all the planned monitoring visits. Further, since May 2015, the Monitoring and Evaluation Unit had one staff compared to three in 2014. The Office explained that they had to restructure the unit based on the organization chart of the New Fund Modality grant.

Gaps in monitoring and evaluation activities hindered the Principal Recipient's ability to ensure adequate monitoring of data and quality of services provided and oversight of the management of medicaments at the regional and service delivery area (refer to Issue 7).

Priority	High (Critical)
Recommendation 3:	
The Office should strengthen project monitoring by revisiting or reassessing the technical groups' ability to perform their monitoring and evaluation tasks with the objective of holding them accountable.	
Management action plan:	
The Office will implement the recommendation. Further, the project personnel in charge of partnerships and monitoring and evaluation will be trained on principles and processes applied to monitoring and evaluation. The Office will also support financially the quarterly meeting of the technical groups.	
Estimated completion date: November 2016	

C. Procurement and supply management

1. Quality assurance of health products

Issue 5 Inadequate quality control testing plan documentation

The Global Fund quality assurance policy for pharmaceutical products stipulates that the quality of pharmaceutical products procured with Global Fund grant funds must be monitored. The guidance on in-country quality monitoring of pharmaceutical products in Global Fund supported programmes states that the "quality control testing should focus on the products and locations with the greatest quality risks." Moreover, it states that in defining the testing plan, "supply chain-related risks as well as product-related risks should be considered and that the number of batches to test, both on receipt and in the supply chain should be defined."

The Project Management Unit developed a quality control testing plan that covered antiretroviral products only and not medicines for opportunistic infections. The Project Management Unit explained that it did not anticipate the procurement of medicines for opportunistic infections in 2015 and hence did not believe it needed to include these medicines in the testing plan. In accordance with the guidelines, the plan should have covered medicines for opportunistic infections that were in the supply chain of the Country.

The audit could not validate that the plan and subsequent tests adequately focused on the products and locations with the greatest quality risks. With respect to product-related risks, some rationale was provided for including them in the plan; however, the analysis was not sufficient. With respect to the locations from where the sample should be selected, it did not document which warehouse or health centre the products should be drawn from and why.

Additionally, the Project Management Unit did not have visibility of stock levels throughout the supply chain. Therefore, it was not possible to factor in potential slow moving stocks in the plan developed for *ad hoc* testing. For example, there were large batches of two types of medicaments stored at a health centre and a regional warehouse, respectively, throughout 2015. As the Project Management Unit was not aware of the existence of these slow moving stocks or others that may have existed elsewhere in the supply chain, it could not objectively factor these stocks in to the testing plan or reassess and determine the need for *ad hoc* testing throughout the course of the year.

The audit team acknowledged the fact that the plan that was developed by the Office was implemented diligently and that it was in line with the type of products procured, despite its inadequacies.

Failure to prioritize testing of pharmaceutical products and locations with the greatest quality risks may lead to the delivery of sub-standard pharmaceutical products to treatment facilities.

Priority	Medium (Important)
Recommendation 4:	
The Office should develop and implement a fully justified testing plan that focuses on products and locations with the greatest quality risks throughout the supply chain.	
Management action plan:	
The Office will improve the existing testing plan, emphasizing the greatest quality risks throughout the supply chain.	
Estimated completion date: June 2016	

2. Inventory, warehousing and distribution

Issue 6 Inadequate inventory management information system

Article 18 (l) of the standard terms and conditions of the grant agreement between UNDP Country Offices and the Global Fund stipulates that “the Principal Recipient shall implement and ensure that Sub-recipients implement procedures that will avoid the diversion of Programme financed health products from their intended

and agreed-upon purpose.” It further clarifies that such procedures should include the establishment and maintenance of reliable inventory management, among other elements. A reliable inventory management information system monitors the level and movement of stocks 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 country-wide view of the stock status.

The audit reviewed the process related to the management of inventory and noted that the Project Management Unit received a monthly stock report covering the central and the five regional warehouses. However, these reports were inadequate for the purposes of tracking pharmaceutical products throughout the supply chain, as noted below:

- The reports did not record pertinent information including opening stock, new receipts, and stock exits, which rendered it impossible to monitor the movement of stocks or undertake any analysis to detect irrational use of stock.
- The reports did not capture expired products that were removed from subsequent stock status reports without explanation. Since there was no visibility of stocks at health centres, it was not possible to determine the full quantity of expired stocks (refer to Issue 5).

The Project Management Unit did not receive reports of stocks from health centres, which meant that it had no visibility of stock levels at the service delivery points. Thus, it could not proactively detect stockouts at the service delivery level.

The Project Management Unit should receive a quarterly report showing the health centres that experienced stockouts. However, even this compensating control was not effective. Out of 91 active sites, 15 had not reported since the last quarter of 2014 and of those reporting, the average number of sites reporting a stockout stood at 33 percent for each quarter.

Moreover, the Project Management Unit did not have a mechanism to detect expired products at the service delivery points. For example, during visits to a health centre, the audit identified 7550 boxes of slow moving Fluconazole that were due to expire in February 2016 (month of the audit) and which had been at the centre throughout 2015. Since there was no visibility of the stock level at this and at other health centres, the stock that was at risk of expiring had not been timely detected to allow for reallocation to other sites.

- In addition, without reports from other health centres, it was not possible to determine the total value of products that were set to expire.
- Stock cards were not maintained by all sites, as required. For example, one of the hospitals visited did not maintain stock cards for medicines for opportunistic infections. Moreover, inaccuracies were noted for those hospitals that maintained stock cards. In another health centre, corrections were necessary for each of the three stock cards validated at random. In addition, there were movements of medicines between sites outside of the normal distribution system at two of the sites visited. OAI's observations were corroborated by the joint stock validation mission conducted by the Project Management Unit and Sub-recipients in July 2015, which had noted similar issues.

Inadequate inventory management information systems may prevent the Office from determining the stock status at various levels of the supply chain and make it difficult to anticipate issues in the supply chain, including stockouts, expiries and incorrect use of products.

Priority	High (Critical)
Recommendation 5:	
The Office should strengthen the inventory management information system to track and monitor pharmaceutical products throughout the supply chain.	
Management action plan:	
The Project Management Unit will closely follow up on the implementation of the distribution plan through the relevant government ministry, emphasizing the stock inventory management throughout the supply chain, from the central and regional levels to the peripheral level, on a quarterly basis.	
Estimated completion date: June 2016	

3. Asset management

Issue 7 Assets transferred to Sub-recipients without accompanying memorandum of temporary custody

Article 19 of the standard terms and conditions of the grant agreement between Country Offices and the Global Fund stipulates that all goods financed with grant funds will remain property of the Global Fund and that any remaining property at end of the grant shall be transferred back to the Global Fund. To facilitate the implementation of the requirement of this article, and to ensure that the asset titles remain with UNDP through the life of the grant, modalities upon which assets are transferred to Sub-recipients have been developed. These include a memorandum of temporary custody that is used to effectuate the transfer of a particular asset to the Sub-recipients and to clarify the ownership of the asset.

The audit noted that assets worth \$127,000 were transferred to the Sub-recipients in December 2015 without processing and signing the memorandum of temporary custody. An officer of the Sub-recipient organization had signed off on the receipt of the equipment, but nevertheless, the memorandum should have been signed to formalize the terms under which the equipment could be used. This oversight was due to a lack of awareness on the appropriate modalities for the transfer of assets to Sub-recipients.

Failure to process and sign the memorandum of temporary custody when assets are handed over to Sub-recipients may lead to future misinterpretations on their ownership status.

Priority	Medium (Important)
Recommendation 6:	
The Office should prepare the memorandum of temporary custody and obtain the required sign off from the authorized Sub-recipients to acknowledge the temporary assignment of assets to them.	
Management action plan:	
The Office will comply with the above recommendation.	

Estimated completion date: October 2016

D. Financial management

1. Expenditure

Issue 8 Weaknesses in management and oversight of project funds

The 'UNDP Programme and Operations Policies and Procedures' stipulate that when prepayments are made, they must be recorded in account 16065 (Prepaid Voucher Modality) and immediately reconciled upon delivery of prepaid goods and services to ensure that over or under payments are settled in a timely manner. Payment requests should be validated and reviewed before payment to avoid over payments.

The following weaknesses in the management of project funds were noted:

(a) Inadequate management of payments to another United Nations agency

A total of two payments worth \$167,000 made to another United Nations agency in December 2015 were not recorded as advances in the designated account. Instead, they were recorded as expenses in the 7XXXX series accounts resulting in early recognition of expenses and fees for goods that had not been received. Another two prepayments worth \$1.35 million were fully liquidated before the final statements of accounts were received, resulting in early recognition of expenses and fees (procedures indicated that only items received should be liquidated). The final invoices from the agency showing the final expenditures had not been received even though the prepayments were liquidated in October 2015.

Moreover, the Project Management Unit did not systematically follow up and validate the statements of accounts received from the agency against the UNDP purchase orders and the agency cost estimates. Prior to March 2015, the Project Management Unit was using a mix of advance payments, which were recorded as advances in Atlas (enterprise resource planning system of UNDP), and of balances as reported in the agency's statements of accounts for the procurement of pharmaceutical products. The reprogramming of prior balances also constituted an advance to the agency that was not reflected in Atlas. A total of 12 advances worth \$12.1 million had been issued via direct fund transfers and most of it had been reprogrammed to procure other pharmaceutical products in line with the procurement plan. The Project Management Unit did not keep a systematic filing of the cost estimates, advances, reprogramming instructions and statements of accounts from the agency. Thus, the Office was not able to provide a reconciliation of all the reprogrammed amounts and all the final statements of accounts. As such, the audit could not independently validate the final balances for each of the advances or the total amount outstanding in respect of the advances to the other United Nations agency.

(b) Payments to bank not backed by formal contract and not recorded as advances in Atlas

The Office established an informal arrangement with its commercial bank to make payments (*per diems* to meeting participants) to third parties on its behalf. The Office made advance payments to the bank, which subsequently provided an accounting for the funds advanced to pay the *per diems*. There was no established contract to govern this relationship. Thus, there were no guidelines as to the level of documentation that the bank needed to provide to UNDP to support the use of funds. In addition, there was no timeline for the bank to liquidate the advances and there was no mechanism to hold the bank accountable for the funds advanced.

These advances were not recorded as prepayments in the designated Atlas account, even though in substance, these transactions were advances to a vendor for future services. The Office had implemented a mechanism outside of Atlas to monitor the advances, which for the time being was working well. However, this mechanism was inadequate as a long-term solution in that it was not in line with the policy on the recording of prepayments. Moreover, the recording of advances as expenses temporarily inflated the financial delivery and fee calculations for payments that were later cancelled or refunded. For the Global Fund project, a total of \$92,573 had been paid in this manner during the audit period and a total of \$10,890 paid out between August 2014 and December 2015 remained outstanding at the time of the audit.

(c) Overpayment of charges for storage of medical supplies

The Office overpaid a vendor contracted to handle, store and transport pharmaceutical products by \$21,173. The overpayment was due to the manner in which the vendor's invoices were raised and processed. The storage fee should have been invoiced on a quarterly basis as a percentage of goods distributed in that quarter. The vendor did not submit the invoices in a timely manner at the end of each quarter and the fees for a given quarter included amounts for products distributed in previous periods. This created an opportunity to double count transactions factored from multiple quarters in different invoices. To avoid double payments, the Project Management Unit needed to validate a given invoice against all prior invoices and its related transactions to ensure that double payments did not occur. This control, however, did not effectively mitigate the risk of double payment.

Weak financial controls expose the project and the Office to the risks of misrepresentation of financial status and financial losses.

Priority	Medium (Important)
Recommendation 7: The Office should improve financial management controls by: <ul style="list-style-type: none"> (a) obtaining and reconciling all advances including reprogrammed amounts to determine and request the final balance, if any, from the agency; (b) systematically recording advances in the correct account; (c) liquidating only those items that have been received; (d) enforcing contractual arrangements related to invoicing; and (e) recovering the amount of \$21,173 identified as an overpayment. 	
Management action plan: The Office will implement the recommendation. The following steps have already been taken: <ul style="list-style-type: none"> (a) The reconciliation of all advances to the agency including reprogrammed amounts and final balances are available. The project has always requested the refund of the cash balance. (b) Advances are currently recorded in the correct account. (c) Mechanisms of liquidating prepayments are in place through Atlas. (d) The contractual arrangements are in place and the project will follow up the implementation. (e) The amount of \$21,173 identified as an overpayment was recovered in deduction of recent invoice. 	

Estimated completion date: September 2016

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Priority Medium (Important)

Recommendation 8:

The Office should improve the management of advances to the local bank by formalizing the relationship with a contract and enforcing the recording of all such advances in the designated account. Alternatively, the Office should obtain the concurrence of the policy owner with respect to the informal relationship with the bank as well as with the recording of advances.

Management action plan:

The Office will comply with the above recommendation.

Estimated completion date: December 2016

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.