

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP SUDAN

GRANTS FROM THE GLOBAL FUND

Report No. 1761
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Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Sudan	1
II. Audit results	1
A. Programme management	2
1. Project approval and implementation	2
B. Sub-recipient management	3
1. Funding	3
C. Procurement and supply management	4
1. Quality assurance of health products	4
2. Warehouse management (inventory, warehousing and distribution)	5
3. Individual contracts	7
Definitions of audit terms - ratings and priorities	8

Report on the Audit of UNDP Sudan Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 29 January to 9 February 2017, conducted an audit of three grants from the Global Fund (Output Nos. 93712 [Malaria], 93713 [HIV], and 93714 [Tuberculosis]) managed by UNDP Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ 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 Global Fund-related activities of the Office from 1 January to 31 December 2016. The Office recorded Global Fund-related expenditures of approximately \$60 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 / major improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to the low implementation rate and delays in implementing grant activities, and the delays in liquidating advances to Sub-recipients.

Key recommendations: Total = 5, high priority = 2

The five recommendations aim to ensure the following:

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

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1, 2	High
	3, 4	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	5	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:

Low implementation rate and delays in implementing grant activities (Issue 1) As of 31 of December 2016, the implementation rate of the Global Fund grants in Sudan was at 50 percent. The low implementation rate was mainly due to delays in (a) implementing the activities of grants at the level of the Principal Recipient and at the level of the Sub-recipients, (b) contracting the Sub-recipients, and (c) liquidating advances given to the Sub-recipients.

Recommendation: The Office should set up an implementation plan during 2017 to achieve its grant targets.

Delays in liquidating advances to Sub-recipients (Issue 2) At the time of the audit, the Project Management Unit (PMU) had advanced \$3.8 million to nine Sub-recipients, covering 2015 and 2016. Of this amount, the PMU had liquidated and recorded expenditures amounting to \$2.1 million in 2016. The remaining \$1.7 million had not been liquidated by Sub-recipients. OAI found that there was a considerable variance in the number of workdays it took the PMU to liquidate the advances after they received the supporting documentation from the Sub-recipients, ranging from 5 to 155 days.

Recommendation: The Office should prioritize the liquidation of advances given to Sub-recipients and ensure that the Finance Unit is adequately staffed.

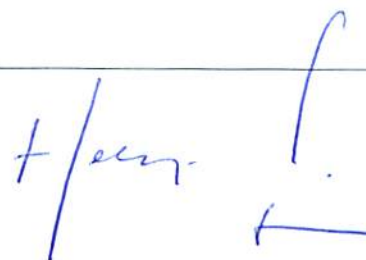
Implementation status of previous OAI audit recommendations: Report No. 1450, 17 July 2015.

Total recommendations: 8
Implemented: 7
Withdrawn: 1

Management comments and action plan

The Resident Representative accepted all five 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.

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is enclosed within a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Sudan

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in Sudan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Board Approved Budget (in \$'000)	Budget as of Dec 2016 (in \$ '000)	Expenditures as of Dec 2016 (in \$ '000)	Budget Implementation Rate	Board Approved Budget Implementation rate	Global Fund Rating at Dec 2016*
					[a]	[b]	[c]	[d=c/b]	[e=c/a]	
SDN-M-UNDP	00093 712	Malaria	Apr 2015	Dec 2017	116,280	77,556	63,251	82%	54%	A2
SDN-H-UNDP	00093 713	HIV	Jul 2015	Dec 2017	20,871	14,895	8,924	60%	43%	C
SDN-T-UNDP	00093 714	TB	Jul 2015	Dec 2017	20,392	13,961	6,900	49%	34%	B1
Total					157,543	106,412	79,075	74%	50%	

* A2 – meets expectation, B1 – adequate, and C – unacceptable

II. Audit results

OAI made two recommendations ranked high (critical) and three 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:

- (a) Set up an implementation plan during 2017 to achieve grant targets (Recommendation 1).
- (a) Prioritize the liquidation of advances given to Sub-recipients and ensure that the Finance Unit is adequately staffed (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen controls in quality assurance testing of pharmaceutical products by establishing a system to track the movement of samples (Recommendation 3).
- (b) Coordinate with the government counterpart to develop a plan to improve inventory management and storage conditions (Recommendation 4).
- (c) Adhere to the UNDP policy on the use and issuance of individual contracts (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and implementation

Issue 1 Low implementation rate and delays in implementing grant activities

According to the framework agreement signed with the Global Fund, “the Principal Recipient will be responsible and accountable to the Global Fund for all resources it receives under the relevant Grant Agreement and for the results that are to be accomplished.”

As of 31 of December 2016, the implementation rate of the Global Fund grants in Sudan (actual expenditures totaling \$79 million divided by the approved amount totalling \$157.5 million by the Global Fund Board) was at 50 percent. The low implementation rate was mainly due to delays in (a) implementing the activities of grants at the level of the Principal Recipient and at the level of the Sub-recipients, (b) contracting the Sub-recipients, and (c) liquidating advances given to the Sub-recipients (Issue 3).

Further, the Office explained that the restructuring that was carried at the level of the Sub-recipients in 2015 and 2016 impacted the implementation of grants.

The low implementation rate might lead to not achieving the grant targets by the end of the programme period (31 December 2017), which could result in a decrease in the amount that will be allocated to the Country in the next programme cycle.

Priority	High (Critical)
Recommendation 1:	
The Office should set up an implementation plan during 2017 to achieve its grant targets.	
Management action plan:	
<p>The Office submitted a reallocation request for three grants in February 2017 to utilize all accumulated savings to ensure timely and effective utilization of available resources.</p> <p>The Office will continue responding to the low implementation rate and delayed implementation of grant activities through the following management actions:</p> <ul style="list-style-type: none"> ▪ updating the acceleration plan for the HIV, TB and Malaria grants’ key activities in collaboration with the government implementation partner, other United Nations agencies and civil society organizations; ▪ reviewing the need for direct implementation by the Office to ensure timely completion of activities, overcome the weak absorption capacity at the Sub-recipient level and reduce the risks of low implementation rates in 2017; ▪ increasing the role of well performing implementing partners and Sub-recipients and initiating innovative partnerships with banking institutions for enhanced grant delivery; and ▪ continuous mentoring and capacity-building for key Sub-recipients on key programmatic and financial aspects. 	
Estimated completion date: June 2017	

OAI response:

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.

B. Sub-recipient management

1. Funding

Issue 2 Delays in liquidating advances to Sub-recipients

The 'UNDP Programme and Operations Policies and Procedures' and the 'Sub-recipient Management Toolkit for UNDP County Offices' states that the granting of an advance to a Sub-recipient is subject to verification by the Project Management Unit (PMU) to confirm that at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated. In addition, no new advance should be granted to a Sub-recipient if there is a cash advance outstanding for more than one year. Sub-recipients are granted cash advances for expenses and commitments to be made in support of activities agreed upon with the Principal Recipient. Funds advanced to the Sub-recipients are under their responsibility and must only be used for the related activities, and must follow UNDP's policies and procedures. The PMU has the obligation to be diligent in comparing the supporting documents to the recorded expenditures presented by the Sub-recipients.

At the time of the audit, the PMU had advanced \$3.8 million to nine Sub-recipients, covering 2015 and 2016. Of this amount, the PMU had liquidated and recorded expenditures amounting to \$2.1 million in 2016. The remaining \$1.7 million had not been liquidated by Sub-recipients. The Finance Unit had developed a chain of custody and inventory templates to track the submission of the documents submitted by the Sub-recipients, which helped to establish the date when some or all documents were received for review. However, OAI found a considerable variance in the number of workdays it took the PMU to liquidate the advances after they received the supporting documentation from the Sub-recipients, ranging from 5 to 155 days.

The reasons for the delays in recording expenditures included incomplete submissions (i.e., not liquidating 80 percent of the previous advance), requests for clarification of specific expenditures, and incomplete documentation. In addition, the finance staff in the PMU had competing priorities, such as having to go on-site to verify the work of Sub-recipients and assist them due to issues with technical capacity. At the same time, the finance staff were attending to other tasks, such as reviewing other financial documents sent to the PMU.

OAI also reviewed the attendance records of the Finance Unit to determine staffing and workload management and found that, during the period under review, there were two staff that had concurrent periods of extended leave. However, the Office did not establish measures to ensure adequate capacity in the Unit.

Further, by not liquidating the advances to Sub-recipients on time, the Office was not able to grant new advances to the Sub-recipients. Also, the Office took over 41 activities (covering approximately \$10 million) that were initially supposed to be implemented by the Sub-recipients.

Failure to liquidate advances made to Sub-recipients in a timely manner raises the risk that the full amount allotted for the grants will not be expended by the end of the grant period. Furthermore, the Global Fund may

ask the Office to reimburse the amount that the Sub-recipients failed to liquidate in cases where those entities are not again selected as Sub-recipients in the next programme cycle.

Priority	High (Critical)
Recommendation 2:	
The Office should prioritize the liquidation of advances given to Sub-recipients and ensure that the Finance Unit is adequately staffed.	
Management action plan:	
The Office will:	
<ul style="list-style-type: none"> ▪ establish a timeline for verification and recording to track performance and to enable management follow-up; ▪ review the NIM aging report generated from Atlas (enterprise resource planning system of UNDP) each month to ensure follow-up of long-outstanding advance balances; ▪ strictly adhere to the corporate requirements not to issue any new advances to Sub-recipients who have not liquidated 80 percent of the previous advance payment and 100 percent of all earlier advances; ▪ continue training the Sub-recipients' finance staff on issues on cash advances; ▪ review the adequacy of staff capacity of Sub-recipients; ▪ prepare an annual leave plan to ensure availability of critical staff for activities linked to quarterly and annual financial reporting. 	
Estimated completion date: May 2017	

C. Procurement and supply management

1. Quality assurance of health products

Issue 3 Inadequate controls in quality assurance testing of pharmaceutical products

The Global Fund quality assurance policy requires that random samples of pharmaceutical products be obtained at different points in the supply chain and tested for compliance with the applicable quality standards by a laboratory that is accredited by WHO and certified in accordance with the International Organization for Standardization (No. 17205: Calibration and Testing Laboratories), or by a laboratory that has been contracted by the Global Fund. The results of the quality tests should be received in a timely manner to enable effective decision-making.

The PMU developed a plan to perform random testing of pharmaceutical products procured during the year. According to the envisioned schedule for 2016, the samples selected for testing should have been sent to the laboratory during the fourth quarter. However, at the time of the audit, the PMU had no evidence that the laboratory had received the samples and tested them.

The Office explained that shipping was centralized and that the PMU was not involved in the shipment of the samples – the Office did not share the airway bills with PMU. The audit team noted inadequate controls in ensuring that samples reached the laboratory and in ensuring proper testing was done in a timely manner. In the communications shared with OAI, the PMU was requesting the laboratory to liaise with the shipping company to track the sample packages. Therefore, the PMU could not ensure that quality assurance testing on pharmaceutical products was carried out.

Failure to obtain the results of quality tests carried out on the pharmaceutical products in a timely manner may prevent the Office from removing sub-standard drugs identified during the quality testing. This could put patients' lives and the Office's reputation at risk.

Priority	Medium (Important)
Recommendation 3:	
The Office should strengthen its controls in quality assurance testing of pharmaceutical products by establishing a system to track the movement of samples to ensure that testing is performed in a timely manner and that any anticipated delays in obtaining test results are immediately addressed.	
Management action plan:	
The Office will:	
<ul style="list-style-type: none"> (a) Strengthen tracking of the movement of the samples and ensure receipt of the samples by the intended quality control laboratory. (b) Regularly track quality control samples and follow up with the quality control laboratory to address any deviations or delays in a timely manner. 	
Estimated completion date: June 2017	

2. Warehouse management (inventory, warehousing and distribution)

Issue 4 Weaknesses in stock management

The Principal Recipient is required to ensure that Sub-recipients establish and maintain reliable stock management systems. The 'UNDP Operations Manual for Projects Financed by the Global Fund' recommends the use of WHO guidelines for the storage of medical products.

The audit team visited four national warehouses in Khartoum and two state-level ministry warehouses in Gezira.

The following exceptions were noted in the Khartoum warehouses:

- The warehouse focal point did not have a warehouse floor plan for medical equipment. It was difficult to identify specific stocks of medicines, because the warehouse also had stocks of medicines procured separately by the Government.

- The unit item reference, which is a product identifier, was not used to label the actual inventory, making the identification of stock cumbersome.
- Of the 8 sampled items for spot checks, 3 items were missing and 1 item had a significant variance in stock. Specifically, the inventory file maintained by the PMU showed 20 items in stock. However, the actual total number was 63,000. The warehouse focal point did not have the inventory reports of incoming stocks to explain the variance.

The PMU explained that the warehouse where these inconsistencies were found was a temporary holding place pending the completion of the National Medical Supplies Fund warehouse. However, for temporary or long-term storage, the deficiencies that were noted posed a risk of misplacement or loss of medical supplies.

In addition, at the Khartoum TB management units and malaria centre, there were no stock logs. The units issued quarterly stock reports based only on TB drug consumption recorded in the patient logs. The lack of stock logs could lead to stock-outs or overstock of TB drugs.

The following exceptions were noted in Gezira warehouses:

- There were inconsistencies in the stock balance listed on the stock cards, which did not match the balance in the stock report within the computerized system.
- For one pharmaceutical product (item #6021004), the lot number and expiry date were incorrectly recorded. For another pharmaceutical product (item# 6011016), its content was recorded as a 100 ml bottle instead of 240 ml because there was no new product code for 240 ml bottles.

These above-mentioned weaknesses may lead to difficulties, such as equipment that cannot be found, delivery of spoiled drugs, and errors in the quantification and forecasting of stock levels.

Priority	Medium (Important)
Recommendation 4:	
The Office should coordinate with the government counterpart to develop a plan to improve inventory management and storage conditions.	
Management action plan:	
The issue of inadequate storage conditions was observed in the temporary storage facility. After the audit, a permanent solution was implemented and products have been moved to a new storage facility. The new storage facility was constructed by the National Medical Supplies Fund and it meets international standards for good storage practices and inventory management systems.	
Estimated completion date: December 2017	
OAI response:	
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.	

3. Individual contracts

Issue 5 Incorrect use of individual contracts

Under the UNDP individual contract policy, individual contractors are to be retained for the provision of services that are time bound and results-oriented, involving tasks aimed at delivering clear and quantifiable outputs, which must be clearly identified in the contract and directly linked to payment.

The audit team reviewed a sample of seven individual contracts and found the following:

- Incorrect use of contractual modality

The PMU had retained the services of a driver for two months (for the annual asset verification) under an individual contract. The contract was renewed twice, first for four months and then for a full year. The driver was performing recurring functions, which was not in compliance with the policy related to individual contract modality. The Office indicated that it had not initiated a recruitment process for drivers, given the anticipated size reduction of the staff, which was set to occur at the end of 2017. In addition, the Office signed an individual contract with no deliverables agreed upon in the contract, other than a specification indicating "to cover daily work."

Failure to use the individual contract modality for its intended purposes and to follow the contractual agreement can undermine the principles of best value for money. In addition, not using the individual contract modality can affect decision-making and prevent fair competition, and are not in the best interests of UNDP.

Priority	Medium (Important)
Recommendation 5: The Office should adhere to the UNDP policy on the use and issuance of individual contracts by ensuring that: <ul style="list-style-type: none"> (a) all individual contracts provide time-bound deliverables for each payment; and (b) extensions are either cost-neutral to UNDP or at a cost that is competitive, and include additional deliverables that are time-bound and measurable. 	
Management action plan: The Office will ensure the proper implementation of the individual contracts policy as per UNDP policies and procedures.	
Estimated completion date: April 2017	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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.