

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP CHAD

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

Report No. 1732

Issue Date: 13 January 2017

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

The UNDP Office of Audit and Investigations (OAI), from 3 to 13 October 2016, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output No. 82056 [Malaria]) managed by UNDP Chad (the Office) as the Principal Recipient. This grant was 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 2014 to 31 December 2015. The Office recorded Global Fund-related expenditures of approximately \$10.5 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2015 as a follow-up to a 2014 audit.

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 **unsatisfactory**, which means, "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." This rating was mainly due to the use of an incorrect agreement modality, weak oversight of direct payments, lack of capacity in the Programme Management Unit, inadequate quality assurance over finished pharmaceutical products, and control weaknesses within inventory management and distribution (stock-outs).

Key recommendations: Total = 9, high priority = 6

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
Achievement of the organization's strategic objectives	2, 3	Medium
Reliability and integrity of financial and operational information	4	High
Effectiveness and efficiency of operations	5	Medium
	1, 8, 9	High
Compliance with legislative mandates, regulations and rules, policies and procedures	6, 7	High

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 capacity in Programme Management Unit (Issue 1)

Under the signed "New Funding Model" (NFM) grant agreement, 5 new positions were created (i.e., 1 Programme Advisor, 1 Logistician Officer, 2 Monitoring and Evaluation (M&E) Officers, and 1 Financial Analyst). However, at the time of the audit, the Office had not completed the recruitment of the five positions created under this grant. This situation was mainly due to inadequate supervision in the Office.

Recommendation 1: The Office should finalize the recruitment of vacant positions without delay.

Incorrect agreement modality (Issue 4)

The Office signed a Letter of Agreement with a government institution instead of using the standard Sub-recipient agreement as required by the the 'UNDP Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria'. Important provisions in the Sub-recipient agreement were not included in the Letter of Agreement, such as audit requirements, maintenance of books and records, and submission of supporting documents with the quarterly reports

Recommendation 4: The Office should comply with the 'UNDP Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria' by committing to use the standard Sub-recipient agreement template when contracting Sub-recipients in the future.

Weak oversight of direct payments (Issue 6)

The audit team reviewed three cases of direct payments amounting to \$68,427 and noted that there were inadequate supporting documents. Specifically, required supporting documents, such as advertisements, offers received, contracts and evaluation criteria, in order to assess the appropriateness of the request for payment were missing. Further, only pro-forma invoices from three vendors were used in the evaluation and selection of the vendor for the procurement of catering services. Lastly, a non-competitive process was followed for the selection of a vendor for the rental of seminar facilities

Recommendation 6: The Office should coordinate with the Bureau for Policy and Programme Support on the development and the implementation of the

standard operating procedure related to the oversight and processing of the payments on behalf of the Sub-recipients.

Inadequate quality assurance over finished pharmaceutical products (Issue 7)

During the audit period, the pharmaceutical products were tested upon receipt in the Country at the levels of the central and regional warehouses. However, no further periodic testing took place for pharmaceutical products at the different health centres.

Recommendation 7: The Office should improve the quality assurance of pharmaceutical products by finalizing and implementing a quality assurance plan that includes testing throughout the supply chain.

Weaknesses within inventory, distribution, and warehousing of pharmaceutical products (Issue 8)

The review of records disclosed that 484 out of 1,225 (or 40 percent) of health centres reported stock-outs of pharmaceutical products in 2014. Similarly, 671 out of 1,273 (or 53 percent) of health centres reported stock-outs of pharmaceutical products in 2015. The audit team noted that the stock-out cases were mainly caused by weak management of the distribution of the pharmaceuticals from the regional warehouses to health centres.

The audit team also visited one central warehouse, two regional warehouses and three health centres and noted discrepancies between the stock logs and actual inventory counts, along with poor storage conditions.

Recommendation 8: The Office should coordinate with the national partners to develop a plan to improve inventory management in order to monitor the stock levels and the timely distribution of pharmaceutical products throughout the supply chain on a monthly basis.

Recommendation 9: The Office should improve inventory management and storage conditions by: (a) conducting refresher training to ensure accurate recording of inventory items; and (b) visiting the central warehouse, regional warehouses and health centres on a regular basis to ensure good storage conditions.

Implementation status of previous OAI audit recommendations: Report No. 1293, 20 June 2014.

Total recommendations: 8

Implemented: 8

Management comments and action plan

Management accepted the nine recommendations and is in the process of implementing them. Comments and/or additional information have been incorporated into the report, where appropriate.

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



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