

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP SAO TOME AND PRINCIPE

GRANTS FROM THE GLOBAL FUND

Report No. 1758
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(REDACTED)

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Report on the Audit of UNDP Sao Tome and Principe Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 27 February to 10 March 2017, conducted an audit of four grants from the Global Fund (Output Nos. 97419 [Malaria], 80294 [Malaria], 81638 [HIV], and 95983 [TB]) managed by UNDP Sao Tome and Principe (the Office) as the Principal Recipient. The Office also managed Output No. 97365 (Country Coordinating Mechanism) as the Funding Recipient¹, which was outside the scope of the audit.

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 (quantification 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 July 2015 to 31 December 2016. The Office recorded Global Fund-related expenditures of approximately \$5.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

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 / some improvement needed** which means "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." This rating was mainly due to weaknesses in the inventory management and record keeping of pharmaceutical products, and poor management and accounting of assets.

¹ Since the Country Coordinating Mechanism is not a legally incorporated body and cannot receive funds, it designates a Funding Recipient to be responsible for receiving funds on its behalf.

Key recommendations: Total =4, high priority = 2

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives/ Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium
Reliability and integrity of financial and operational information/Safeguarding of assets	4	High
Effectiveness and efficiency of operations	2	High
	3	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. All high (critical) priority recommendations are presented below:

Weaknesses in
inventory management
(Issue 2)

Site visits to the central warehouse, two district health facilities, and one district pharmacy indicated inadequate monitoring of temperature-sensitive pharmaceutical products and weak record keeping of expired products. More specifically, at the district pharmacy level, the audit found evidence of HIV/AIDS medicines issued to patients after the expiry date.

Recommendation: The Office should strengthen inventory management procedures by: (a) working with government partners to ensure that temperature-sensitive items are stored within acceptable temperature ranges; (b) avoiding commingling of information on stock cards for similar items with different batch numbers and expiry dates; and (c) recording all pharmaceutical movements on the stock cards at all storage facility levels.

Poor asset management
and accounting
processes (Issue 4)

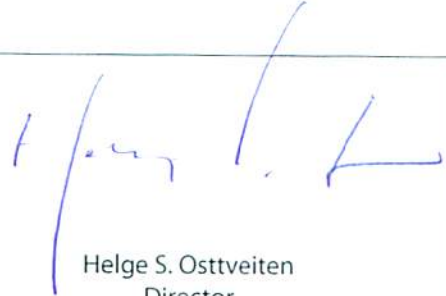
The 2016 year-end certification had not yet been finalized at the time of the audit fieldwork. The Atlas Assets In Service Report as at 31 December 2016 was inaccurate and incomplete. Inaccuracies in the Assets In Service Report led to depreciation charges being posted for the wrong assets, and to long closed grants and incorrect projects' Chart of Accounts. There were also delays in finalizing the annual physical verification of Global Fund Programme Management Unit and Sub-recipient assets.

Recommendation: The Office should improve asset management and accounting by: (a) immediately opening cases with the Global Shared Services Centre to remove / add assets wrongly included or omitted in the Atlas Assets In Service Report; (b) completing the transfer of assets in the Atlas Assets In Service Report and all outstanding asset related closure procedures for closed grants, as well as getting assistance from UNDP Headquarters to clean up and rectify depreciation charges posted in error; and (c) completing the UNDP Global Fund Programme Management Unit and Sub-recipients' physical verifications within the UNDP prescribed target dates.

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. Ostveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Sao Tome and Principe

Since 2005, UNDP has been the Principal Recipient of Global Fund grants in Sao Tome and Principe (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Life time Budget (in \$'000)	Funds Received as of 31 Dec 2016 (in \$ '000)	Implementation Rate	Expenditures as of 31 Dec 2016 (in \$ '000)	Global Fund Rating at 31 Dec 2016
STP-M-UNDP (SSF)	80294	Consolidating Malaria control efforts for Malaria elimination in Sao Tome et Principe	1-Feb-11	31-Dec-15	9,666	9,666	100	1,609	A2 ²
STP-M-UNDP (NFM)	97419	Investing for Malaria elimination in Sao Tome	1-Jan-16	31-Dec-17	4,362	2,827	65	2,261	Not available
STP-011-G05-H	81638	Strengthening the HIV/AIDS epidemic response among vulnerable groups and Most-at-risk population in Sao Tome and Principe	1-Jan-12	31-Dec-16	1,882	1,882	100	663	Not Available
STP-T-UNDP	95983	Reduction of TB prevalence by 6% by 2017	1-Jul-15	31-Dec-17	1,568	1,084	82	748	A2
Totals					17,478	15,459		5,281	

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management: Project approval, implementation, and monitoring and evaluation activities were carried out with appropriate monitoring and supervision.
- (b) Sub-recipient management: Sub-recipient agreements were up to date, and disbursements were made to the Sub-recipients according to UNDP rules and regulations. Programmatic and financial reports were received from the Sub-recipients without delays.
- (c) Financial management: Payments reviewed had adequate supporting documents. Reporting to the Global Fund Secretariat was completed within the stipulated deadlines.

OAI made two recommendations ranked high (critical) and two recommendations ranked medium (important) priority.

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

² Global Fund Rating A2 – Meets expectations

High priority recommendations, arranged according to significance:

- (a) Strengthen inventory management procedures (Recommendation 2).
- (b) Improve asset management and accounting (Recommendation 4).

Medium priority recommendations, arranged according to significance:

- (a) Continue to coordinate with the Country Coordinating Mechanism and the Global Fund and finalize the draft transition strategy document (Recommendation 1).

[REDACTED]

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Exit strategy and transition plan

Issue 1 Transition strategy for grants management not finalized

Since 2005, the Office has been the Principal Recipient for Global Fund grants in the Country and has been implementing the grants through the direct implementation modality. The 'UNDP Programme and Operations Policies and Procedures' indicate that national implementation is the standard modality for programme activities, while direct implementation is an optional modality in situations where national institutions, United Nations agencies, or civil society organizations have limited capacity to implement the programme activities. Offices should establish an exit strategy and transition plan at the design stage of any directly implemented project.

UNDP has been the Principal Recipient for the current funding cycle for the three disease grants (HIV, Malaria and TB) scheduled to end on 31 December 2017. During the period of the grants management, UNDP had focused on developing a capacity-building plan and recruited a Capacity Development Officer to support the implementation of the plan. The Global Fund had requested a transition strategy to be formulated by the Office by the end of 2016, in coordination with the Country Coordinating Mechanism. The Office shared with the audit team a draft transition plan and exit strategy, prepared in the last quarter of 2016 and updated in January 2017, which was yet to be discussed with the Country Coordinating Mechanism at the time of the audit fieldwork, as it was still an internal document.

At the time this report was being drafted, the Country Coordinating Mechanism decided to designate UNDP as Principal Recipient for the next consolidated grant management. However, this had not been officially approved by the Global Fund.

Any delays in the implementation arrangements of the new funding cycle and in finalizing a transition strategy may affect the future success of the active grants.

Priority	Medium (Important)
Recommendation 1:	
The Office should continue to coordinate with the Country Coordinating Mechanism and the Global Fund on the implementation arrangements for the new funding cycle starting on 1 January 2018 and finalize the draft transition strategy document.	
Management action plan:	
<p>The Office considers that UNDP's Expression of Interest for the Principal Recipient role for the next allocation period (2018-2020) is in essence its transition strategy. The key elements of the strategy are: (a) the implementation of learning approaches, through additional skills transfer strategies between UNDP and national entity staff; (b) the reinforcement of existing management systems at the national entity, in order to respond to the conclusions and recommendations jointly formulated by UNDP and the national entity in June 2016; and (c) the development of the manual of administrative and financial procedures (regarding human resources management, administrative, financial, accounting, monitoring and evaluation activities of the organization).</p> <p>The Office will carry out all the necessary action and advocacy for the Country Coordinating Mechanism to submit to the Global Fund the present proposal, separately, by 20 May 2017, at the latest.</p>	
Estimated completion date: May 2017	

B. Procurement and supply management

1. Supply management (inventory, warehousing and distribution)

Issue 2 Weaknesses in inventory management

The Principal Recipient and its Sub-recipients are required by the Standard Terms and Conditions of Global Fund Grants to comply with the WHO guidelines for the adequate storage and distribution practices of pharmaceutical products. Expired pharmaceuticals should be managed and disposed of in accordance with the 'WHO Guidelines for the Safe Disposal of Unwanted Pharmaceuticals'.

The Country has 38 health facility sites, which include main hospitals, district hospitals, and health posts. These sites are supervised by the respective ministry, and the Office is responsible for the proper storage and distribution of the products purchased with funding from the Global Fund, as part of the implementation of the grants management.

Site visits were carried out at the central warehouse, two district health facilities, as well as one district pharmacy. The following exceptions were noted during the site visits:

- (a) Inadequate monitoring of temperature-sensitive pharmaceutical products:

- Temperature displays on three out of the four refrigerators inspected were out of order, and there were no thermometers in place to monitor temperatures.
- At the main warehouse level, logs showed several instances of out of range temperature spikes from 15°-25°C to higher than 30°C. The explanation provided was that temperature spikes were caused by power failures occurring when no staff were on duty to switch on the generator.
- At the district pharmacy level, the air-conditioner was out of order, causing high room temperatures with no thermometers in place to monitor the correct temperature range.

(b) Inadequate record keeping of expired products:

Random test counts and verification of stock cards were carried out on expired products removed from the shelves, but not yet destroyed. The following exceptions were noted:

- At the district pharmacy level, the audit found evidence of 60 tablets of HIV/AIDS medicines issued to patients after the expiry date.
- Eight instances of discrepancies were noted between stock cards, batch numbers and expiry quantities, as a result of commingling of information and inadequate recording of movement of expired items between peripheral, district, and central level storage facilities.

There is a risk that weak supervision of inventory and use of expired medicines could cause harm to end-users/patients and damage UNDP's reputation.

Priority	High (Critical)
Recommendation 2: The Office should strengthen inventory management procedures by: <ul style="list-style-type: none"> (a) working with government partners to ensure that temperature-sensitive items are stored within acceptable temperature ranges; (b) avoiding commingling of information on stock cards for similar items with different batch numbers and expiry dates; and (c) recording all pharmaceutical movements on the stock cards at all storage facility levels. 	
Management action plan: The Office has carried out the following actions to strengthen the monitoring of temperatures: <ul style="list-style-type: none"> ▪ The purchase of 40 ambient thermometers and thermometers for the refrigerators of all sanitary units was reprogrammed in the TB budget. UNDP is awaiting the delivery of the quotation by suppliers. ▪ Two thermometers were donated to UNDP in the framework of partnership with the Reproductive Health Programme, for the two refrigerators in the central warehouse of the National Medicines Fund, which were installed in 20 April 2017. ▪ UNDP has updated the record (with UNDP stamp) to register the temperature, which must be filled at the arrival and departure of the person in charge of the warehouse. For periodic verification, the same should be sent to UNDP as an annex of the trimestral report. ▪ In the reprogramming, the quantity of diesel per generator has increased. UNDP has directed the government warehouse directorate to change the generator mode from manual to automatic to ensure 	

that the power failure will end in a few seconds, ensuring that the product will maintain its temperature.

- With support from the Procurement Support Office in Geneva, the operational procedure for temperature was updated, which contains clear guidelines and measures to be taken immediately to avoid and overcome situations of temperature peaks. The operational procedure has been valid since 20 April 2017.
- Supervision is exercised and steps have been taken to ensure that the warehouse maintains a suitable temperature for the products stored there, and taking into account that the products must be at temperatures below 25°C. To do this, the temperature register has been put in place.
- The temperature control tab is visible for analysis.
- Maintenance of air conditioning was done.

The Office will undertake the following actions to improve supervision and monitoring of expired drugs:

- Supervision is to be carried out that includes verification of the records and counting of products. The quality control of the monthly supervision is performed by the pharmacy technician.
- Training action is being developed in each district, in the district warehouse. (Presence list and training content).
- Display on the wall all the operational procedures, about stock records and stock management.
- Supervision for the quality control is to be done monthly by the pharmacy technician.
- Supervision was done by the UNDP technician for the physical verification of all products and respective lots and validities.
- Individual sheets were elaborated for products from different lots.

Estimated completion date: April 2017

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.

[NOTE: Part of this section has been redacted as it is deemed to contain sensitive information.]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[illegible]

Issue 4 Poor asset management and accounting processes

The review of assets management and accounting processes established in the Office identified the following discrepancies:

- (a) The 2016 year-end certification had not yet been finalized at the time of the audit fieldwork. The Assets In Service Report as at 31 December 2016 was inaccurate and incomplete, with a total value of assets as of 31 December 2016 overstated by 85.86 percent, or \$325,155. There should have been only 7 assets on the Assets In Service Report with a total value of \$53,514 (at cost), but instead, the Office reported 31 assets (totalling \$378,670 at cost. The following reporting errors occurred:
- Four assets (totalling \$10,679 at cost) meeting the UNDP asset criteria were omitted from the Assets In Service Report.
 - Only 3 out of the 31 assets (totalling \$42,835 at cost) appearing on the Assets In Service Report met the UNDP criteria for recognition as project assets. The other 28 assets should have been removed, because they were provisionally transferred to government entities (Sub-recipients) and were not used and controlled by the UNDP Office, the Principal Recipient.

- (b) The inaccuracies of the Assets In Service Report led to depreciation charges being posted for the wrong assets, and to long closed grants and incorrect projects' Chart of Accounts. The Office was working on the reversal of these accounting entries. Further, assets valued at a cost value of \$284,785 that were recorded in Atlas under the closing Malaria grant had not been transferred to the new Malaria grant.
- (c) There were delays in finalizing the annual physical verification of the Global Fund Programme Management Unit and Sub-recipient assets. The 2016 physical verification of Sub-recipient assets was due on 31 January 2017, but at the time of audit fieldwork in March 2017, it was still in process. The explanation provided by the Office was that delays were due to the large number of Sub-recipient sites to verify.

There is a risk that the loss of assets or errors in asset reports may not be detected in time, which may also adversely affect financial reporting.

Priority	High (Critical)
Recommendation 4: The Office should improve asset management and accounting by: <ul style="list-style-type: none"> (a) immediately opening cases with the Global Shared Services Centre to remove/add assets wrongly included or omitted in the Atlas Assets In Service Report; (b) completing the transfer of assets in the Atlas Assets In Service Report and all outstanding asset related closure procedures for closed grants, as well as getting assistance from UNDP Headquarters to clean up and rectify depreciation charges posted in error; and (c) completing the UNDP Global Fund Programme Management Unit and Sub-recipients' physical verifications within the UNDP prescribed target dates. 	
Management action plan: The Office identified all of the assets and their locations. The list of assets was produced and the Office is working together with the Global Shared Service Centre, in order to remove all of the assets that should not be in Atlas (Non-UNDP catalogue). For the assets that should be under the control of the Office, but were procured with a non-UNDP catalogue, the Office is working with the Global Shared Service Centre to integrate them in Atlas (Asset Module). This process will be finished at the end of May 2017. In relation to the physical verification of Sub-recipient assets, taking into consideration the workload and unavailability of some partners, and the need to produce a report for the grant closure, the Office had planned to conclude it in the first quarter of year 2017. Estimated completion date: May 2017	
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.	

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.