



**AUDIT**

**OF**

**UNDP SOUTH SUDAN**

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

**Report No. 1017**  
**Issue Date: 10 April 2013**

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## Report on the audit of UNDP South Sudan Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 22 August to 7 September 2012, the Office of Audit and Investigations (OAI) conducted an audit of four grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project IDs: 81101 [HIV], 81102 [HIV and TB], 81103 [TB] and 81104 [Health System Strengthening]) managed by the UNDP Country Office in South Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> The audit covered all Global Fund-related activities of the Office during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$24.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

### Audit rating

OAI assessed the Office's management of 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 delays in the official handover and use of completed structures and delay in the financial closure of operationally closed grants. Ratings per audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>1. Governance and strategic management</b>				
1.1 Organizational structure	Satisfactory			
1.2 Staffing	Satisfactory			
1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Satisfactory			
1.4 Capacity building and exit strategy	Not Applicable			
<b>2. Programme management</b>				
2.1 Project approval and implementation	Partially Satisfactory			
2.2 Conditions precedent to disbursement and special conditions	Satisfactory			
2.3 Monitoring and evaluation	Satisfactory			
2.4 Grant closure	Partially Satisfactory			
<b>3. Sub-recipient management</b>				

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

3.1	Selection, assessment and contracting	Satisfactory		
3.2	Funding	Satisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Satisfactory		
3.5	Audit	Satisfactory		
<b>4.</b>	<b>Procurement and supply management</b>			
4.1	Procurement of health products	Satisfactory		
4.2	Quality assurance of health products	Partially Satisfactory		
4.3	Procurement of other goods and services	Partially Satisfactory		
4.4	Supply management (inventory, warehousing and distribution)	Partially Satisfactory		
4.5	Asset management	Satisfactory		
4.6	Individual contractors	Satisfactory		
<b>5.</b>	<b>Financial management</b>			
5.1	Revenue and accounts receivable	Satisfactory		
5.2	Expenditures	Satisfactory		
5.3	Reporting to the Global Fund	Satisfactory		

### Key issues and recommendations

The audit raised five issues and resulted in five recommendations, of which two (40 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

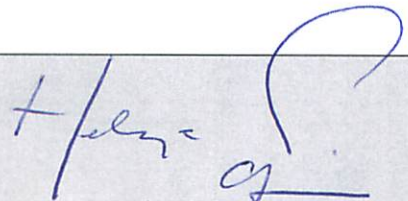
Among the five issues raised, one was noted to be caused by factors beyond the control of UNDP (Issue 2).

**Project approval and implementation (Issue 1)**      Delay in the handover of health facilities. Only one of the 19 completed health facilities had been officially handed over to the Government counterpart. OAI recommends that the Office formally provides the Government with a list of completed facilities and agree on a schedule for their handover as soon as possible.

**Procurement of other goods and services (Issue 4)**      Inadequate contract management for civil works. Nine cases involving variation orders and cost increases of \$352,000 were not adequately approved. Eighteen signed contracts incorrectly contained a six-month defects liability period instead of the standard period of 12 months. OAI recommends that the Office improves management of civil works contracts by, for example, ensuring that additional contract work is approved by an appropriate manager and that contracts contain a 12-month defects liability period.

### Management comments and action plan

The Resident Representative accepted all five of the recommendations and is in the process of implementing them.



Helge S. Osttveiten  
Director  
Office of Audit and Investigations

## I. Introduction

From 22 August to 7 September 2012, OAI conducted an audit of five grants from the Global Fund (Project IDs: 81101 [HIV], 81102 [HIV and TB], 81103 [TB] and 81104 [Health System Strengthening]) and managed by UNDP South Sudan as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

### Audit scope and objectives

OAI Global Fund audits assess the effectiveness of risk management, and the adequacy and effectiveness of controls and the governance processes, in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, including the accuracy of financial reports submitted to the Global Fund; effectiveness and efficiency of operations; safeguarding of assets; and compliance with legislative mandates, regulations and rules, and policies and procedures, including grant agreements signed with the Global Fund. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas related to the Office management of Global Fund grants: governance and strategic management, programme management, Sub-recipient management, procurement and supply management and financial management. The audit covered all relevant activities during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$24.3 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2010.

The implementation status of previous Global Fund audit recommendations (Report No. 766, 6 April 2011) was also validated. All five recommendations were noted to be fully implemented.

## II. Profile of Global Fund grants managed by UNDP South Sudan

Since 2004, UNDP has been the Principal Recipient of Global Fund grants in South Sudan (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$'000)	Implementation Rate	Expenditures* (in \$'000)	Global Fund Rating*
SSD-405-G05-H	81101 <sup>2</sup>	HIV/AIDS Prevention and Care in South Sudan	1 Aug 2006 (Phase 1)	30 Nov 2013 <sup>3</sup> (Phase 2)	26,935	26,780	99%	6,095	A2 <sup>4</sup>
SSD-506-G06-T	81102	Tuberculosis and HIV	1 Oct 2006	30 Nov 2013 <sup>5</sup>	21,614	19,991	92%	5,576	A1 <sup>6</sup>

<sup>2</sup> During the period under review, the project IDs were changed twice. In June 2011, the project IDs were changed and created under a new business unit when the Country became independent. In January 2012, the Office re-entered all projects into Atlas in line with the South Sudan development pillars and the new Country's development plan. All projects were given new Project IDs.

<sup>3</sup> The grant ended on 31 July 2011 and received a no cost extension until 30 November 2011. The grant received a Continuity of Services for two years ending 30 November 2013

<sup>4</sup> Global Fund A2 rating = Meets expectations

<sup>5</sup> The original grant end date was 30 September 2011. The grant received a no cost extension until 31 March 2012. The grant also received a Continuity of Services ending 30 November 2013

Grant No.	Project ID	Description	Start Date	End Date	Lifetime Budget (in \$'000)	Funds Received* (in \$ '000)	Implementation Rate	Expenditures* (in \$ '000)	Global Fund Rating*
		Collaborative Program in South Sudan	(Phase 1)	(Phase 2)					
SSD-708-G11-T	81103	Improving and Expanding Tuberculosis Control in South Sudan	1 Jan 2009 (Phase 1)	31 Dec 2013 (Phase 2)	11,173	8,779	79%	3,342	A1
SSD-910-G13-S	81104	Health Systems Strengthening in South Sudan	1 Oct 2010 (Phase 1)	30 Sep 2012 (Phase 1)	22,056	16,312	74%	9,280	B1 <sup>7</sup>
<b>Total</b>					<b>81,778</b>	<b>71,862</b>		<b>24,293</b>	

\* As of 30 June 2012

### III. Detailed assessment

#### 1. Governance and strategic management

**Satisfactory**

##### 1.1 Organizational structure

**Satisfactory**

The organizational structure of the Office's Global Fund Programme Management Unit included a Global Fund Coordinator assisted by a team of six international staff members responsible for finance and administration, monitoring and evaluation, a Pharmaceutical Specialist in charge of the procurement and supply management and three Project Managers in charge of the different grants. Service Contract holders and international United Nations Volunteers supported these staff members. Some posts were vacant and the Office explained that a number of these posts may not be needed in the future and would be cancelled to align capacity with operational needs. However, these changes had not yet been made on the organizational chart, which the Office had committed to updating. There were no other issues identified.

##### 1.2 Staffing

**Satisfactory**

At the time of the audit, the Global Fund Programme Management Unit had a total of 50 personnel comprised of 31 Service Contract holders, 3 staff with international Fixed-term Appointments and 16 international United Nations Volunteers. A National Officer was "standing in" for the Global Fund Coordinator position. OAI reviewed the recruitment of nine Service Contract holders and three staff with Fixed-term Appointments and identified no reportable issues.

Five approved positions were vacant, consisting of the Pharmaceutical Specialist, the Finance and Administration Specialist, the Waste Management Specialist, the Technical Specialist and a Civil Engineer. The Office explained that the Technical Specialist post was no longer needed because the Ministry of Health was already receiving necessary support from another organization. The Waste Management Specialist position would be changed from a full-time post to a temporary appointment. The Office also decided not to replace the Civil Engineer position with an international engineer but instead would recruit a number of national engineers to be deployed in hard to reach project sites to enable regular supervision. Recruitment for the Pharmaceutical Specialist had started in February 2012 but was stalled due to the concerns raised by the Chair of the Country

<sup>6</sup> Global Fund rating A1 = Exceeds expectations

<sup>7</sup> Global Fund rating B1 = Adequate

Coordination Mechanism. The recruitment process resumed after discussions with the Ministry of Health and Global Fund. The recruitment of the Finance and Administration Specialist was also ongoing.

**1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders** **Satisfactory**

OAI met with the current Chair of the Country Coordination Mechanism who assumed this role in May 2012 and was previously a member of this body. He indicated that although there had been challenges in communications with UNDP, there had been improvement. The Country Coordination Mechanism was recruiting a secretariat, and planned to have an orientation retreat to facilitate the establishment of technical working groups. No reportable issues were identified.

**1.4 Capacity building and exit strategy** **Not Applicable**

The grants do not contain a requirement for capacity building or an exit strategy. Hence, this area was not applicable to the audit. However, in the view of OAI, the Principal Recipient needs to work with the Global Fund Secretariat and the Country Coordination Mechanism to include capacity building provisions in the next grants to allow for the orderly exit of UNDP.

**2. Programme management** **Partially Satisfactory**

**2.1 Project approval and implementation** **Partially Satisfactory**

**Issue 1** Delays in the handover of completed health facilities

The Round 9 Health Systems Strengthening Project (Project ID 81104) aimed to renovate, rehabilitate, build and equip health facilities. To achieve these objectives, health facilities needed to be prepared and then transferred to the Government counterpart.

A number of completed health facilities and teaching institutions have not been handed over to the Government and were still under UNDP custody. The facilities had been completed during the periods shown below:

Month of completion	Number of facilities	Details
July 2011	2	One facility was in use although not officially handed over.
August 2011	5	One facility was equipped and in use although not officially handed over. One facility was in use but awaiting equipment.
September 2011	8	One facility was handed over but not operational. One facility was use but awaiting equipment.
June 2012	3	The facilities were not handed over and not operational.
July 2012	1	Facility was not handed over and not operational.
<b>Total</b>	<b>19</b>	

Of the 19 facilities that had been completed, only one which was not fully operational at the time of the audit had officially been handed over to the Government counterpart. Of the remaining 18 facilities, four were being used by local authorities although not officially transferred to the Ministry of Health. The 14 remaining completed facilities were not yet operational. The Office explained that the delay occurred because the Government had not yet provided the Office with the dates on which the handover was to take place and some

facilities were waiting to receive equipment. In some cases, the facilities were not operational because the Government was waiting for official handover ceremonies to be carried out before the facilities could be used.

Failure to hand over fully operational health facilities may affect the achievement of the grant objectives, and expose the Office to potential liabilities if the facilities are not formally transferred to the Ministry of Health.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
Office management should follow up with the Government about the list of all completed facilities, and agree on a handover schedule as soon as possible.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Based on the comments received, OAI has revised the observation and recommendation accordingly.	
The Office also commented that they had formally provided the Government with a list of all completed facilities, however, the hand over schedule was not yet agreed upon because the new Country Coordination Mechanism decided to conduct additional site visits to verify the status of completion of facilities before the handover could take place. The additional site visits started on Monday, 21 January 2012. The handover was to be arranged once the site visits were completed within the first quarter of 2013.	

## 2.2 Conditions precedent to disbursement and special conditions

**Satisfactory**

OAI assessed the fulfilment status of the conditions precedent to disbursement and the special conditions pertaining to the agreements for the grants managed by the Office as Principal Recipient and noted that all those related to the Round 9 grant had been met, but two conditions under the Round 7 grant were still outstanding. However, the Office subsequently submitted the required documents to the Global Fund and was awaiting its response.

## 2.3 Monitoring and evaluation

**Satisfactory**

OAI found that the Office's monitoring and evaluation systems were in place and functioning. The Monitoring and Evaluation Unit was headed by a Specialist who was assisted by two Monitoring and Evaluation Officers based in the Office and three international United Nations Volunteers, who were assigned to three states where the Global Fund projects were implemented.

The Office had a plan for carrying out field visits on a quarterly basis. Monitoring visits are normally performed with the Ministry of Health and the Sub-recipient to verify data at the health facility level. Project managers and analysts also participate in field visits. Terms of reference are developed before each visit and include a standard checklist for support supervision.

The Monitoring and Evaluation Specialist noted that one of the challenges faced by the Office was a delay in the submission of reports by the health facilities. This was especially true during the rainy season, resulting in the exclusion of data from these facilities in the final report submitted to the Global Fund through the Local Fund Agent. This data was included in the subsequent period report.



## 2.4 Grant closure

Partially Satisfactory

### Issue 2 Late financial closure of grants

UNDP Financial Regulations and Rules stipulate that financial closure of a project must take place within 12 months of its operational closure.

Since the Office was designated as Principal Recipient, four grants had been operationally closed. OAI noted that these grants had not been financially closed within 12 months of operational closure due to various reasons as shown in the table below.

**Table 1: Issues contributing to delays in the financial closure of grants**

Round	Grant	Operational closure date	Outstanding issues
2	Malaria	31 Sept 2010	Awaiting Global Fund approval of the list of obsolete items for disposal.
2	TB	31 March 2010	Grant closure plan had not yet been approved by Global Fund.
4	HIV	30 Nov 2011	Grant closure plan was approved in the implementation letter dated 2 August 2012.
5	HIV/TB	31 Mar 2012	Grant closure plan was approved in the implementation letter dated 13 November 2012.

OAI acknowledges that in some cases the delay was caused by factors beyond the Office's control as it needed to obtain necessary approvals from the Global Fund before proceeding.

Projects that are not promptly closed financially may be at risk of being charged with unauthorized expenses, requiring UNDP to reimburse the Global Fund.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should seek to resolve outstanding issues preventing financial closure of operationally closed grants by requesting the Global Fund Secretariat to expedite the approval of grant closure plans and ensure that the Office and the Global Fund agree on project ending budget balances as soon as possible.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Round 2 Malaria: The financial closure of this grant will take place as soon as the Global Fund approves the disposal of obsolete items. The list of items to be disposed of was sent to the Global Fund in early 2011 but had not yet been approved. This issue was on the agenda of the Global Fund's mission to South Sudan from 4-8 February 2013.	
Round 2 TB: Once the grant closure plan is approved and the implementation letter has been issued, the Office will carry out the grant closure plan activities as per the agreed upon timelines.	
Round 4 HIV/AIDS and Round 5 TB/AIDS: The grant closure plans were approved and the Office is on track to implement grant closure activities as per the agreed upon timelines.	

With a new Portfolio Management Team in place as well as increased Country visits, the Office anticipates there will be no delays in approving grant closure documents. The Office will actively follow-up with the Global Fund on approval of these documents to ensure timely closure of grants.

### 3. Sub-recipient management

**Satisfactory**

The Office implemented the grants through eight Sub-recipients, three government entities, two international non-governmental organizations, one local non-governmental organization and two United Nations agencies (WHO and UNICEF).

#### 3.1 Selection, assessment and contracting

**Satisfactory**

During the period under review, only one new Sub-recipient was selected and contracted under the Round 7 grant. The Office carried out a capacity assessment of the Sub-recipient that was reviewed by the Global Fund which made recommendations requiring action by the Sub-recipient. OAI followed up on the implementation of the Global Fund recommendations during its visit to the Sub-recipient and confirmed that they had been implemented. No reportable issues were identified.

#### 3.2 Funding

**Satisfactory**

OAI reviewed funding which involved the Office's disbursement of \$6.9 million to the Sub-recipients based on their funding requests. No reportable issues were identified.

#### 3.3 Reporting

**Satisfactory**

OAI reviewed a sample of reports from the Sub-recipients and noted that they were reporting both financial and programmatic data to the Office on a quarterly basis. The Office provided support to the Government Sub-recipient in preparing the reports to ensure they were finalized on time.

#### 3.4 Oversight and monitoring

**Satisfactory**

The Sub-recipients were regularly visited by the Programme Management Unit staff to discuss programmatic and financial aspects of programme implementation. Sub-recipients were visited regularly as they were in the same location as the Global Fund Programme Management Unit within the Ministry of Health premises.

#### 3.5 Audit

**Satisfactory**

Three awards (Round 4 [Project No. 81 101], Round 5 [Project No. 81 102] and Round 7 [Project No. 81103]) from the Global Fund were audited as part of the non-governmental organization/national implementation (NGO/ NIM) audit plan for the financial year 2011. Eight of the nine implementing partners received unqualified opinions. No reportable issues were noted.

### 4. Procurement and supply management

**Partially Satisfactory**

During the audit period, the Office processed 2,184 purchase orders totalling about \$26 million for the purchase of both health and non-health products under the Global Fund grants. OAI reviewed the procurement process by interviewing the Office staff assigned to the Global Fund grants and testing a sample of 55 purchase orders

valued at about \$12.3 million or 47 percent of the total value of purchase orders issued during the audit period. Based on the issues elaborated below this area was rated “partially satisfactory.”

**4.1 Procurement of health products**

**Satisfactory**

From the sample of 55 purchase orders, OAI reviewed seven purchase orders with a total value of \$877,355 that pertained to the procurement of health products under existing long-term agreements with the assistance of the Procurement Support Office. No reportable issues were noted.

**4.2 Quality assurance of health products**

**Partially Satisfactory**

**Issue 3**      Lack of a quality assurance plan

According to the Global Fund Quality Assurance Policy for Pharmaceutical Products and article 18 of the grant agreement, Principal Recipients must ensure that random samples of finished pharmaceutical products are obtained at different points in the supply chain, from initial receipt of the finished pharmaceutical products in-country to delivery to end-users/patients. Such samples must be tested for compliance to applicable quality standards by a WHO prequalified laboratory, or one accredited in accordance with ISO Standard 17205: Calibration and Testing Laboratories, or a laboratory contracted by the Global Fund.

The Office did not have a quality assurance plan during the period under review. OAI received a copy of a September 2011 draft plan which the Office indicated had been revised to incorporate the substantive input provided by the pharmaceutical directorate in the Ministry of Health based upon discussions subsequent to their review of the plan. However, the revised draft plan had not been finalized at the time of the audit. OAI was informed that in March 2012, a visiting advisor from the UNDP Procurement Support Office suggested the possibility of convening a Quality Assurance Workshop in Juba where facilitators from the UNDP Global Procurement Unit and WHO could provide training on various aspects of quality assurance, review the draft plan and validate it for finalization. Although the Ministry of Health was receptive to this proposal, it had requested more time for internal discussion and planning in respect of overall quality assurance for the Country and establishing a Quality Assurance Directorate within the Ministry of Health.

As a result, quality assurance activities were not adequately carried out. During the period under review, quality control of finished pharmaceutical products along the supply chain was conducted only once in June 2011, instead of twice in the year with samples selected from five different states each time as required.

Subsequent to the audit, the Office explained that in addition to the quality control conducted in June 2011, another quality control exercise was conducted in the last quarter of 2012, whereby samples were collected from 11 health facilities. These samples were sent to the testing facility at the end of October 2012 and results were expected in January/February 2013.

Quality assurance of health products may not be adequately carried out in the absence of a quality assurance plan, which could adversely affect the users of these products.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office, in collaboration with the Special Advisory Team of the Procurement Support Office, and the Government should finalize and implement a quality assurance plan which complies with the Global Fund quality assurance policy requirements.	

**Management comments and action plan:**     Agreed     Disagreed

Going forward, the Office, in collaboration with the Special Advisory Team of the Procurement Support Office, and pending government deliberation will finalize a quality assurance plan, which complies with the Global Fund quality assurance policy requirements by 30 June 2013. The quality assurance plan will be implemented in the third quarter of 2013.

#### 4.3 Procurement of other goods and services

**Partially Satisfactory**

From the sample of 55 purchase orders, OAI reviewed 48 purchase orders totalling about \$11.4 million and pertaining to the procurement of all goods and services during the audit period, representing 44 percent of the total value.

The purchase orders reviewed relating to other goods and services, consisted mainly of prefabricated structures and other building construction items, representing 49 percent of total value, and machinery and equipment, which accounted for 22 percent of the total.

OAI noted good practices which included: a prequalification exercise conducted in April 2012 for civil works contractors intended to improve solicitation processes from a pool of pre-qualified vendors; and the introduction of a compendium of generic specifications in August 2012 for routinely procured goods to facilitate faster turnaround when compiling specifications and to encourage standardization.

During the period under review, the Office purchased COBAS Amplicor Analyzer machines used for amplification and detection for Polymerase Chain Reaction (PCR) testing, valued at \$52,760. The purchase was made with the assistance of the Procurement Support Office, using a long-term agreement for laboratory and medical equipment. After delivery, the Office found the machines to be obsolete and placed them in storage. The Office explained that it was working with the Procurement Support Office to resolve the issue and that the manufacturer was in discussion with the parties to achieve an agreeable resolution. Since this issue was being resolved, no recommendation is being made at this time.

#### **Issue 4**        Inadequate civil works contract management

As the Principal Recipient, the Office must comply with UNDP Financial Regulations, Rules and Procedures and the Internal Control Framework and only use model UNDP contracts with standard general terms and conditions.

OAI reviewed 31 out of 45 civil works contracts representing 69 percent of the total number of civil works contracts for Global Fund awarded projects during the audit period. The selection was focused on higher value purchase orders issued during the audit period.

OAI noted the following incidents of non-compliance and inadequate contract management:

- a) Irregular approval of nine cases of additional work with cost increases of \$352,190 (under clause 48.II of UNDP model contract standard general terms and conditions): The additional work was requested by UNDP Global Fund Engineers (international United Nations Volunteers) and cleared by the Project Manager (a Service Contract holder) without obtaining prior authorization from the Country Director who had the delegated procurement authority at that time. When the irregular approvals came to management's attention, *post facto* contract amendments were prepared. Four of the nine cases, each valued at more than \$30,000 were presented *post facto* to the Contracts Assets and Procurement Committee. The Office issued written warnings on 20 February 2012 to the concerned international United Nations Volunteers and Service Contract holders as they were not authorized to request and clear the additional work.

- b) Inadequate control and management of contract milestone “contingency and provisional sums”: This milestone was designed to allow some flexibility for additional work or variations deemed necessary by the Engineer or Project Manager without increasing the cost of the contract (clause 48.I of UNDP model contract standard general terms and conditions). In 6 of the 48 purchase orders reviewed, the contingency milestone was certified as completed and funds totalling \$242,000 were disbursed without a comparison of the UNDP Engineer’s estimate versus the claims of the contractor for reasonableness. For all six completed construction projects, contractors claimed 100 percent of the contingency provision. OAI concluded that inadequate control was exercised over the certification of the milestone for “contingency and provisional sums”. No evidence was found that the additional work was verified as required by the project or that prices charged were reasonable.
- c) Deviations from the standard defects liability period (per clause 47.1 of UNDP model contract standard general terms and conditions) of 12 months: Eighteen signed contracts valued at \$1, 667,148 contained 6-month instead of 12-month defects liability periods. In three contracts, differing defects liability periods were mentioned on the same page.
- d) Inadequate tracking of expected versus actual completion dates of contracts: Six contracts had an expected completion date of May 2011, but were certified by the Engineer as completed in October 2011. No written record of communication with contractors regarding their performance, justifications for delays or renegotiated time schedules were made available to the auditors.

Inadequate contract management was caused by the unclear assignment of contract management roles and responsibilities in the Office and the incorrect interpretation of the General Conditions of Civil Works contract clauses. These weaknesses were rectified by the Office by sending out a circular and meeting with individuals concerned. The Office reorganized roles and responsibilities for contract management to fall under procurement, and was in the process of changing the structure in the Procurement Unit, to have a dedicated focal point managing contracts and increased capacity to handle the large volume of civil works contracts.

Although about 70 percent of the additional work reviewed was justified due to the terrain or unforeseen construction challenges, the remainder was due to inadequate planning. For example, important aspects of a structure like a guardrail on three storage buildings were left out and black boards were omitted from the designs of teaching institutions, but were added later. Further changes were required from end user clients, effectively expanding the scope of the project after commencement.

The issues discussed above may have precluded the Office from achieving best value for money. Also, UNDP may not benefit from the appropriate coverage under the defects liability period provided in some contracts.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
The Office should:	
<ul style="list-style-type: none"> <li>(a) ensure that future additions and variations of work that result in cost increases are approved in advance and contract amendments are authorized by the appropriate manager with the delegated procurement authority;</li> <li>(b) require that the contract milestone for “contingency and provisional funds” be subject to justification and approval by the Engineer, Project Manager and the Head of the Global Fund project rather than relying on a clause which is triggered automatically without verification. Management should also implement controls to ensure the amounts claimed under contingency and provisional sums are reasonably priced and well justified by requiring a comparison between the Engineer’s estimate and the contractor’s claim;</li> </ul>	

- (c) ensure that contracts contain the standard defects liability period of 12 months; and
- (d) improve contract management by implementing a systematic contract management timeline tracking tool to monitor expected versus actual completion dates, communicating with contractors regarding their performance and obtaining written justifications for delays or renegotiated time schedules.

**Management comments and action plan:**     Agreed     Disagreed

The Office has taken steps to implement all of the above recommendations, including improvements in project management and oversight, and in the Country Office Procurement Unit. In August 2012, in consultation with the Regional Bureau for Africa, the Office engaged a former UNDP staff member to review the procurement structure with a view to sharpen the focus of procurement on cost effective delivery, promote integration and centralization of procurement activities into one chain and to make it more strategic. After consultation with all stakeholders, the new structure for the Procurement Unit has been approved, and implementation, including filling the vacant posts will be finalized by end of March 2013.

#### 4.4 Supply management (inventory, warehousing, and distribution)

**Partially Satisfactory**

##### Issue 5      Weakness in the storage of health products

According to article 19 of the grant agreement, the Office was responsible for safeguarding and accountability for all goods and services procured with Global Fund resources.

OAI visited the warehouse in Juba and noted the following weaknesses:

- The stock cards at the warehouse did not contain information about the maximum stock level, minimum stock level or re-order stock level for the various items. The M-Supply stock management system was not able to provide average monthly consumption data necessary for forecasting the procurement timing and quantity.
- The cold chain stock which is supposed to be stored within the temperature range of between 2 degrees Celsius and 8 degrees Celsius (according to instructions on the manufacturer’s packaging) was kept in a freezer which at the time of the OAI visit indicated a temperature reading of -5 degrees Celsius.
- The Office was renting a warehouse in Juba but planned to move the warehouse operations into a government-owned warehouse (the Riverside warehouse) after renovating it as agreed with the Global Fund. The Global Fund team had visited the Riverside warehouse in June 2012, and requested that the Office ensure that the warehouse renovations be completed by the end of August 2012. OAI visited the new Riverside warehouse on 28 August 2012, and noted that it was not ready for use. Although warehouse shelves and air conditioners had been installed, there was no electricity or generator at the site. Other work to be done included the borehole, internet connection (Vsat), firefighting equipment installation and wash rooms. The area outside the warehouse was surrounded by bushes and there was no entry gate on the fence. The Office explained that renovation of the warehouse had been delayed because the Government was late in removing items they had stored there which were preventing completion of the renovation.

Subsequent to the audit mission, the Office communicated that the Riverside warehouse had been completed and would be verified by the Local Fund Agent and Global Fund in February 2013.

**Priority**      Medium (Important)

##### **Recommendation 5:**

The Office should: (a) review the current maintenance of stock records and ensure that the stock management system (M-Supply) is customized to provide all relevant information about stock levels and the consumption of items such as drugs; and (b) ensure that the completed Riverside warehouse meets suitable

storage conditions and minimum operating security standards, and is managed in line with acceptable stock management standards.

**Management comments and action plan:**     Agreed     Disagreed

The Office had been in communication with the M-Supply services provider who was working on customizing the system to provide Average Monthly Consumption data. It is estimated that the M-Supply system will be customized by 31 March 2013. The newly recruited Pharmaceutical Technical Specialist had started compiling this information manually, and ensuring that stock cards contained all the necessary information. Cold chain items are no longer kept in freezers but rather kept in refrigerators with appropriate temperature controls.

#### 4.5 Asset management

**Satisfactory**

OAI reviewed the asset management process, including the annual asset inventory, asset custody and recording of assets. Weaknesses in asset management had been highlighted in the previous OAI audit report (Report No. 766 issued on 6 April 2011). As a result, the Office recruited an Asset Focal Point in May 2011, who reviewed purchase documents and compiled a list of assets from these documents in order to facilitate verification of the completeness of asset records. At the time of the audit, asset verification had been carried out in six of the ten states where the assets were located. These verifications were carried out by the Asset Focal Point in three states (Western Equatoria, Eastern Equatoria and Central Equatoria) and by the Monitoring and Evaluation Officers in the other three states (Northern Bahr el Ghazal, Western Bahr el Ghazal and Lakes State). The Asset Focal Point planned to resume the assets verification in the remaining four states during the dry season when these states would be accessible again. Since the Office was already working towards addressing asset management weaknesses, OAI did not raise an issue or recommendation.

#### 4.6 Individual contractors

**Satisfactory**

During the period under review, the Office hired 23 Individual Contractors. OAI reviewed five individual contracts (22 percent) and noted that the Office had generally complied with the existing requirements. No reportable issues were identified.

### 5. Financial management

**Satisfactory**

#### 5.1 Revenue and accounts receivable

**Satisfactory**

The OAI review of Global Fund disbursements to the Office identified no reportable issues, as all disbursements were accounted for by the Office.

#### 5.2 Expenditures

**Satisfactory**

OAI reviewed a sample of 88 vouchers with a total value of \$5.2 million out of a total expenditure of \$25.6 million. No reportable issues were identified.

#### 5.3 Reporting to the Global Fund

**Satisfactory**

OAI reviewed the process for reporting to the Global Fund by interviewing Office staff and reviewing the reports submitted to the Global Fund Secretariat, and identified no reportable issues.

## ANNEX. Definitions of audit terms - Ratings and Priorities

### A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in 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.