



AUDIT

OF

UNDP DEMOCRATIC REPUBLIC OF THE CONGO

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

Report No. 1066
Issue Date: 16 May 2013

Table of Contents

Executive Summary	i
I. Introduction	1
II. Profile of Global Fund grants managed by UNDP Democratic Republic of the Congo	1
III. Detailed assessment	2
1. Governance and strategic management	2
1.1 Organizational structure	2
1.2 Staffing	4
1.3 Cooperation and coordination with Country Coordination Mechanism and other stakeholders	4
1.4 Capacity building and exit strategy	4
2. Programme management	4
2.1 Project approval and implementation	5
2.2 Conditions precedent to disbursement and special conditions	5
2.3 Monitoring and evaluation	5
2.4 Grant closure	5
3. Sub-recipient management	6
3.1 Selection, assessment and contracting	7
3.2 Funding	7
3.3 Reporting	8
3.4 Oversight and monitoring	8
3.5 Audit	9
4. Procurement and supply management	9
4.1 Procurement of health products	9
4.2 Quality assurance of health products	10
4.3 Procurement of other goods and services	10
4.4 Supply management (inventory, warehousing and distribution)	10
4.5 Asset management	10
4.6 Individual contractors	12
5. Financial management	12
5.1 Revenue and accounts receivable	12
5.2 Expenditures	12
5.3 Reporting to the Global Fund	13
ANNEX I. Definitions of audit terms - Ratings and Priorities	14

Report on the audit of UNDP Democratic Republic of the Congo Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 17 to 28 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 Nos. 53596 [TB], 63527, 73867 [HIV] and 74247 [Malaria]) managed by the UNDP Country Office in the Democratic Republic of the Congo (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 August 2011 to 31 July 2012. In view of the fact that the Office was phasing out of its role as Principal Recipient of Global Fund grants by 30 June 2013, the audit did not cover the areas relevant to the initial stages of grants management. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$21.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 weaknesses in organizational structure, programme management and Sub-recipient management with respect to Global Fund grant closure activities. The ratings per audit area and sub-areas are summarized below:

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

¹ 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	Not Applicable
3.2	Funding	Partially Satisfactory
3.3	Reporting	Satisfactory
3.4	Oversight and monitoring	Partially Satisfactory
3.5	Audit	Satisfactory
4.	Procurement and supply management	
4.1	Procurement of health products	Satisfactory
4.2	Quality assurance of health products	Satisfactory
4.3	Procurement of other goods and services	Satisfactory
4.4	Supply management (inventory, warehousing and distribution)	Satisfactory
4.5	Asset management	Partially Satisfactory
4.6	Individual contractors	Satisfactory
5.	Financial management	
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 six issues and resulted in four recommendations, all of which 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.”

Organizational structure (Issue 1)	<u>Absence of a human resources action plan for the closure activities.</u> There was no documented exit strategy for human resources of the Programme Management Unit during the closure phase. This period requires that operations be supported by adequate staff members and personnel with expertise and motivation. In view of the fact that the grants were closing, most of the programme personnel and staff members were already searching for alternative employment. Furthermore, as of October 2012, validated commitments to Sub-recipients amounted to \$3.5 million and outstanding amounts disputed from past rounds amounted to \$1 million, the clearance of which would require competent and available staff members. OAI recommends that the Office establish a human resources strategy which identifies the resources needed to adequately and effectively implement the closure activities and to mitigate the risks stemming from the closure plan requirements and the high project personnel turnover. Specifically, the human resources strategy should tackle issues of contract duration, amended terms of reference for key project personnel, support for existing project personnel in the search for new opportunities and the creation of a pool of candidates that the Office could refer to in case of a staffing shortage.
Funding (Issue 4)	<u>Outstanding advance payments to Sub-recipients.</u> OAI noted delays of more than six months in clearing advances made to Sub-recipients, a practice not compliant with UNDP policies and procedures. Outstanding advances at the time of the audit amounted to \$246,000 for the HIV R3 project that ended in 2010. OAI recommends that the Office follow up with Sub-recipients on the settlement of long-outstanding cash advances totalling more than \$0.2 million
Oversight and monitoring (Issue 5)	<u>Insufficient capacity to handle financial obligations relating to closure activities.</u> According to UNDP policies, Sub-recipients have up to 12 months after the operational closure of a project to submit their financial reports and invoices for payment. For Global Fund projects, the operational closure dates for various projects were 30 September 2011 for TB R6, 31 December 2012 for Malaria R8 and 30 June 2013 for HIV R7 and R8. Thus, financial closure for the last grant (HIV R7) will be due on 30 June 2014 and requests for payments may continue to be received until that date. OAI also noted that long-

outstanding disputed amounts between the Office and Sub-recipients from past rounds amount to \$1 million. However, closure plans provided for staffing only up to 30 June 2013, thus not ensuring adequate staff capacity of the Finance Unit for financial closure activities up to June 2014. OAI recommends that the Office ensure that finance staff capacity and resources remain available after the operational closure of the grants in order to adequately perform all outstanding tasks, including the clearance of any remaining commitments to Sub-recipients. In this regard, the Office should also closely follow up with Sub-recipients on the submission of supporting documentation within a short time-frame after the operational closure of the grants, as well as the timely clearance of all disputed amounts from past rounds.

Asset
management
(Issue 6)

Inadequate preparations for the transfer of assets. The Office had not yet submitted a list of Global Fund assets, valued at approximately \$11 million, and a plan for their use, transfer and/or disposal to the Country Coordination Mechanism for its endorsement and subsequent submission to the Global Fund Secretariat. The last inventory count was performed in November 2010. OAI recommends that the Office adequately prepare for the transfer of assets in compliance with grant closure requirements by: (a) ensuring that the action plan for the transfer of asset ownership is endorsed by the Country Coordination Mechanism and submitted to the Global Fund; and (b) completing the physical inventory to facilitate effective, timely and accurate transfer of assets in line with the closure plan.

Management's comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 17 to 28 September 2012, OAI conducted an audit of four grants from the Global Fund (Project Nos. 53596 [TB], 63527, 73867 [HIV] and 74247 [Malaria]) managed by UNDP Democratic Republic of the Congo as the Principal Recipient. These grants were managed under the 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 plan and perform 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 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 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 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 August 2011 to 31 July 2012. Given that UNDP was phasing out of the Global Fund grants management in the Country by 30 June 2013, the audit did not cover the areas relevant to the initial stages of grants management. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$21.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in September 2011.

The implementation status of previous Global Fund audit recommendations (Report No. 868 issued July 2012) was also validated. All four recommendations were noted to be fully implemented.

II. Profile of Global Fund grants managed by UNDP Democratic Republic of the Congo

Since 2003, UNDP has been the Principal Recipient of Global Fund grants in the Democratic Republic of the Congo (the Country). Details of the grant portfolio during the audit period are shown in the table below

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Jul 2012 (in \$ '000)	Implementation Rate	Expenditures as of 31 Jul 2012 (in \$ '000) Cumulative	Global Fund Rating at 31 Jul 2012
ZAR-506-G04-T	00053596	TB	(Phase I & II R5) 1 Dec 2006	(Phase I & II R5) 30 Sep 2011	(Lifetime Budget) 36,359	32,840	95%	27,616	B1
ZAR-708-G06-H	00063527	HIV	(Phase I & II R7) 1 Dec 2008	(Phase I & II R7) 30 Jun 2012	(Lifetime Budget) 41,265	34,159	86%	34,282	C
ZAR-809-G10-H	00073867	HIV	(Phase I R8) 1 Jan 2010	(Phase I R8) 30 Jun 2012	(Lifetime Budget) 70,591	31,299	86%	46,472	B2
ZAR-810-G09-M	00074247	Malaria	(Phase I R8) 1 Mar 2010	(Phase I R8) 30 Jun 2012	(Lifetime Budget) 25,027	16,403	99%	16,200	A2
Totals					173,242	114,701		124,570	

III. Detailed assessment

1. Governance and strategic management

Partially Satisfactory

The Global Fund and UNDP agreed to the phasing out of the Office as Principal Recipient for Global Fund grants in the Country and to transfer related activities to other Principal Recipients by the end of June 2013.

The Office was the only Principal Recipient for HIV R7 (2008-2012), TB R5 and R6 (2010-2011) and was co-Principal Recipient for HIV R8 (2010-2012) and Malaria R8 (2010-2012). All activities under the HIV Programme under grants ZAR-708-G06-H and ZAR-809-G10-H were to be transferred to other Principal Recipients. In addition, the Global Fund intended to transfer all activities under grant number ZAR-810-G09-M to another Principal Recipient, which had co-managed the grants, and to the Ministry of Health which would be a new Principal Recipient for Malaria R10 (Malaria R10 would be consolidated with Malaria R8). The final close-out of the grants was anticipated on 30 November 2012 for Tuberculosis R5, 31 December 2012 for Malaria R8 and 30 June 2013 for HIV R8.

The Programme Management Unit had undergone various phases of organizational changes as human resources capacity had been an issue of concern throughout the handling of the grants by the Office. During the audited period, the Programme Management Unit structure had been amended three times due to personnel turnover and grant phase-out requirements. The Office was examining different options for staffing and the human resources structure, which had not been documented. As more personnel turnover is expected and as proper human resources allocation is critical for the successful closure, the Office needs to place greater effort on identifying needs and projecting the future volume of work.

During its audit fieldwork, OAI received positive feedback from key partners, such as the Country Coordination Mechanism and other Principal Recipients, on the improvement of communication with the Office, as well as the initiatives undertaken by the Programme Management Unit relating to the exit activities. The Office informed OAI that monthly transfer coordination meetings with the incoming Principal Recipients had been formalized since January 2012 and that meetings with the various bodies of the Country Coordination Mechanism had been held regularly.

1.1 Organizational structure

Partially Satisfactory

Issue 1 Absence of a human resources action plan for the closure activities

According to the UNDP Guide on Grant Closure, staffing needs must be carefully considered to ensure adequate capacity to manage the activities and reporting that will only occur after the Programme ending date. The agreement reached with the Global Fund to phase out the Principal Recipient role of UNDP by December 2012 and the extension of operational activities for the HIV R8 until June 2013 had negatively impacted the Programme Management Unit structure. Most programme personnel and staff members were engaged in job searching activities, as funding from the Global Fund was scheduled to be reduced starting in 2013. OAI noted the following:

- The approved budget from October to December 2012 included funding for 42 positions. Yet, during fieldwork, the audit team noted that four staff members and six support personnel were either being transferred to other units or had already left.
- The approved budget for the period from January to June 2013 included only 11 positions (down from 42 in 2012), of which two were already vacant due to resignations at the time of the audit. Procurement and supply chain management activities for HIV R8 were expected to continue until 30 June 2013, and there was a concern as to whether the Office could adequately carry-out countrywide distribution in the

absence of a Pharmacist. At the time of the audit, the approved national Pharmacist position was vacant as the incumbent had resigned and there was no plan to replace him.

- The Finance Unit was involved in making direct payments to Sub-recipients and in oversight activities to facilitate settlement of pending amounts to Sub-recipients of about \$3.5 million for the current rounds. Outstanding disputed amounts with various Sub-recipients from past rounds amounted to \$1 million (refer to Issue 5). Settlement of these commitments would require ongoing financial oversight. However, the Operations Specialist supervising the Finance Unit had already left, which may have impacted the effective review and settlement of pending obligations.
- The Office was unable to present a human resources strategy document during the audit fieldwork, thus, there was no evidence of a clear vision of needs or whether targets would be achieved or not.

The Office management commented, subsequent to the audit fieldwork, that the development of the HIV and Malaria Grant Closure Plans and Budgets in May 2012 and their subsequent negotiation with the Global Fund involved planning, budgeting and negotiating the human resources required during the closure period. Different staffing scenarios had been discussed and agreed upon internally before the plans were submitted to the Global Fund. In addition, the Principal Coordinator visited the Procurement Support Office in Copenhagen and the Global Fund Headquarters in Geneva in May 2012 to discuss, among other items, the staffing needs and the flexibility required from the Global Fund in the management of the Programme Management Unit work force.

Priority	High (Critical)
Recommendation 1:	
<p>The Office should establish a human resources strategy which identifies the resources needed to adequately and effectively implement the closure activities and to mitigate the risks stemming from the closure plan requirements and the high turnover of personnel. Specifically, the human resources strategy should tackle issues of contract duration, amended terms of reference for key project personnel, support for existing programme personnel in the search for new opportunities and the creation of a pool of candidates that the Office could refer to in case of a staffing shortage.</p>	
<p>Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>The additional information provided by management had been reflected in the audit observation.</p> <p>The Office management expressed that the turnover of programme staff members and personnel requires constant re-planning of human resources allocations and redistribution of personnel and staff member functions. To that end, following the audit, a Human Resources Action Plan, which included contract duration and amended roles and responsibilities, was submitted to the Global Fund on 4 October 2012 and was subsequently approved.</p> <p>A second plan was submitted on 11 November 2012, which took into account further needs created by both personnel and staff member turnovers and delays in implementing the closure plans. This plan was also approved by the Global Fund, giving the Office sufficient leeway to implement the closure plans. The Global Fund has agreed to grant the Office flexibility in managing its human resources budget, as long as it remains within the agreed limit.</p> <p>References and support for existing staff members and personnel to search for new opportunities has been provided by the Principal Coordinator to both national and international staff members and programme personnel on an ongoing basis.</p>	

Therefore, the Office management indicated that the audit recommendation has been addressed.

1.2 Staffing

Satisfactory

The programme consisted of 42 personnel, of whom 12 were on fixed-term contracts and 30 were under service contracts. The contracts of 28 personnel were to expire in December 2012. OAI tested a sample of five service contracts, leave records and personnel files.

No reportable issues were identified.

1.3 Cooperation and coordination with Country Coordination Mechanism and other stakeholders

Satisfactory

Communications among the Office, the Country Coordination Mechanism and key partners, such as the other Principal Recipients and the Fund Portfolio Manager, had significantly improved since the last audit.

Positive feedback was received by OAI during meetings with the main partners, as well as through review of minutes of meetings and exchange of letters with other Principal Recipients, the Ministry of Health and other partners. The Country Coordination Mechanism Permanent Secretary expressed appreciation regarding the support provided by the Programme Management Unit to the new Principal Recipients through technical meetings held on procurement, Sub-recipient management, monitoring and evaluation, preparation of Phase II grant negotiation documents, inventory and transfer of assets and HIV data collection missions.

No reportable issues were identified.

1.4 Capacity building and exit strategy

Satisfactory

In its previous audit, Report No. 868 issued on 18 July 2012, OAI made a reference to the limitations encountered by the Office to develop a capacity building plan and an exit strategy, mainly due to weak documentation of specific activities carried out by the Sub-recipients and due to the difficult working environment that existed from 2010 to 2011. Subsequently, based on the agreed schedule for phasing-out (with the extension of the HIV R8 finance and procurement activities until June 2013), the Office undertook a series of initiatives which started in January 2012 to ensure adequate knowledge transfer of UNDP experience in: Phase II grant negotiation; Sub-recipient management; procurement; inventory management; and monitoring and evaluation. The Office is encouraged to continue documenting all technical meetings with the new Principal Recipients in order to facilitate the execution and continuation of critical activities.

No reportable issues were identified.

2. Programme management

Partially Satisfactory

The area of programme management related to closure activities was considered high risk in view of the fact that the Office was already in the process of phasing out of the management of all grants by June 2012. The programme management area was rated as partially satisfactory mainly due to delays noted in the exit strategy for the transfer of assets under Office custody, as well as in the implementation of grant activities.

At the time of the audit, the Programme Management Unit was communicating with the other Principal Recipients on the transfer of asset ownership. However, there were delays noted in the transfer of asset ownership with regard to the implementation of the guidance letters issued by the Global Fund as of May 2012.

OAI noted that no plan had been endorsed by the Country Coordination Mechanism as per the UNDP procedures for grant closure activities. Weaknesses were also noted in the internal inventory exercise by the Programme Management Unit, as no inventory had been performed for 2011 (refer to Issue 6).

2.1 Project approval and implementation

Not Applicable

This area was not assessed since it was not relevant to the grant closure phase.

2.2 Conditions precedent to disbursement and special conditions

Satisfactory

OAI reviewed the conditions precedent to disbursement that pertain to all the grants managed by the Office and noted that all conditions have been met.

No reportable issues were identified.

2.3 Monitoring and evaluation

Partially Satisfactory

Issue 2 Inadequate monitoring and evaluation

In its previous audit report issued in July 2012, OAI rated the area of monitoring and evaluation as unsatisfactory. However, audit recommendations were not issued because field visits were not conducted since the Global Fund did not approve the Programme Management Unit budget, which included monitoring and evaluation activities until November 2011. Though disbursement of funds resumed in December 2011, monitoring and evaluation activities continued to be weak, as field visits were only conducted in April-May 2012. This was further confirmed with the Global Fund Manager who indicated that the data collection exercise raised a number of critical data issues (significant differences between reported and validated data) that required further clarification and explanation. Consequently, a combined multi-site visit was performed by the Office with the new Principal Recipients. Data was collected involving 11 regions and covering 200 project sites. The results were reviewed by the Office and the other Principal Recipients and were subsequently submitted to the Country Coordination Mechanism and the Global Fund in June-July 2012.

The Office management commented, subsequent to the audit fieldwork, that when funds were made available in December 2011, the decision for UNDP to withdraw from its Principal Recipient role had already been taken and all HIV and Malaria grants were to be closed by 30 June 2012. With a remaining time span of six to eight months, the Office focused its functions on the closure process, noting that routine monitoring and evaluation activities were no longer relevant during that period. The Office focused on the collection of grant data as part of the closure process and transfer of data to incoming Principal Recipients. The Office further reported that a lessons-sharing session took place with incoming Principal Recipients in January-February 2012. In addition, the Office supported incoming Principal Recipients in developing the performance framework of HIV R7 and R8.

OAI has not issued a recommendation, as many of the factors for the weaknesses noted in the monitoring and evaluation activities were beyond the control of the Office and, also, it was not expected to continue these activities beyond December 2012. The Office may wish to continue to transfer to the Principal Recipients, the tools and methodologies for collecting and validating data, specifically for the HIV R8 project, as the Principal Recipients will need to continue to perform these critical activities in order to manage the Sub-recipients.

2.4 Grant closure

Partially Satisfactory

Issue 3 Delays in the close-out process

According to the UNDP Guide on Grant Closure, following the Local Fund Agent review of the Grant Close-out Plan and Budget, the Global Fund will carry out its review within a period of two months. Once the Global Fund has approved the Grant Close-out Plan, it will notify the Office with an Implementation Letter: 'Approval of the Grant Closure Plan'. This letter will confirm the grant closure date and provide any comments on the Grant Close-out Plan and Budgets. The Implementation Letter will also list the documents that the Office is requested to submit to the Global Fund by the date specified in the letter. It will also contain information relating to any potential refund of grant monies due to the Global Fund.

(a) HIV R7/R8: The Global Fund issued the formal Implementation Letters approving the Close-out Plans and Budgets in September 2012, while the initial plans and budgets had been submitted for all diseases in May 2012. According to the Global Fund Portfolio Manager, the approval of the HIV R7/8 closure budgets was tentatively provided to the Office on 26 June 2012, pending finalization of the Implementation Letter agreement. The Global Fund indicated that they had requested that the Office obtain the Country Coordination Mechanism's endorsement providing final approval. Once the Country Coordination Mechanism approval had been obtained and clarification was received on subsequent changes to the budget, the Global Fund gave its final approval and issued the formal Implementation Letter for HIV R7 on 14 September 2012 and for HIV R8 on 27 September 2012. The Global Fund indicated that they approved a 12-month closure period to ensure the final delivery of drugs until 30 June 2013.

Based on information provided to OAI by the Programme Management Unit on 1 October 2012, the outstanding disbursements from the Global Fund relating to HIV R7 and R8 were \$11 million.

(b) Malaria R8: The phase-out process was delayed because of the late approval of the Implementation Letter. According to the Global Fund, the delayed approval of the budget was a result of the same issues mentioned above for the HIV grants. Given the date when the Implementation Letter was issued (on 27 September 2012), the Close-out Plan for Malaria, which was to be implemented from July to December 2012, had to be implemented in three months (October to December 2012). This shortening of the implementation period by three months may have negatively impacted the fulfillment of activities and conditions outlined in the work plan and the Implementation Letter. In particular, it was unlikely that Sub-recipient activities were completed, including the much-awaited therapeutic evaluation of Artemisinin-based Combination Therapy (or ACTs). Also, the external evaluation of Malaria R8 may also not have been feasible. Payment of top-up salaries had to be completed within this shortened timeframe.

Subsequent to the audit field work, the Office management indicated that the Global Fund agreed to a request for a no-cost extension and a new Implementation Letter was issued and signed in January 2013, extending the Malaria closure period by an additional three months (until 31 March 2013). However, the Global Fund Portfolio Manager indicated to OAI that even with the three-month extension, the therapeutic evaluation of Artemisinin-based Combination Therapy was not completed by 31 March 2013. The Office requested an additional three-month extension from the Global Fund, which was not approved. The responsibility for the finalization of the evaluation was transferred to another Principal Recipient.

(c) TB R5: The Global Fund Portfolio Manager noted that the TB R5 grant had received two closure extensions, the most recent through 30 November 2012. The purpose of each previous extension was to ensure that all drug distributions could be completed and other remaining activities could be covered by the grant.

OAI has not issued a recommendation, as all of the Implementation Letters had already been issued by the Global Fund and the Close-out Plans and Budgets were accordingly approved.

3. Sub-recipient management

Partially Satisfactory

OAI has been conducting (through outsourcing) a complete financial review of two Sub-recipient financial reports along with supporting documents, as a result of an initial assessment which indicated widespread fraud.

Consequently, since November 2011, the Programme Management Unit has implemented the following additional safeguards:

- use of direct payment modality and direct reimbursement for expenses related to Sub-recipient activities;
- validation of submitted documentation by two dedicated staff members in the Finance Unit acting as Controllers; and
- follow-up and monitoring of implementation of audit recommendations.

The advance payments recorded under account 16005 were tested for completeness of documentation, including related programmatic and financial reporting. The audit team reviewed all advances settled during the period amounting to about \$0.5 million. No discrepancies were noted between reports submitted by the Sub-recipients and supporting documentation maintained in the files.

OAI noted that there were outstanding advances to Sub-recipients of about \$246,000, as well as disputed amounts from past rounds amounting to \$1 million (refer to Issue 4).

3.1 Selection, assessment and contracting

Not Applicable

This area was not relevant to this particular phase of closure of all grants.

3.2 Funding

Partially Satisfactory

Issue 4 Outstanding advance payments to Sub-recipients

For accounting purposes, payments made to all Sub-recipients, including government agencies and non-governmental or private sector organizations must be recorded as advances in conformity with corporate policies for national implementation projects.

OAI noted delays of more than six months in clearing advances made to Sub-recipients, a practice not compliant with UNDP policies and procedures. Outstanding advances at the time of the audit amounted to \$246,000 for the HIV R3 project that ended in 2010. OAI noted that the Programme Management Unit was working toward the settlement of this amount, which was outstanding because the Sub-recipients had not provided complete supporting documentation on time.

Priority	High (Critical)
Recommendation 2:	
The Office should follow up with Sub-recipients on the settlement of long-outstanding cash advances totalling more than \$0.2 million.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office management stated that the Programme Management Unit continued following up on outstanding cash advances to Sub-recipients, part of which was being settled. The bulk of these advances were made to the National Malaria Programme. Measures have been taken to ensure the gradual settlement of advances by the Sub-recipient, which has committed to submitting its final claim by 31 March 2013.	

3.3 Reporting

Satisfactory

Programmatic and financial reporting was tested on a sample basis for the Sub-recipients that received advances during the audit period under review. No exceptions were noted.

3.4 Oversight and monitoring

Partially Satisfactory

Issue 5 Insufficient capacity to handle financial obligations relating to closure activities

According to UNDP policies, Sub-recipients have up to 12 months after the operational closure of a project to submit financial reports and invoices for payment.

However, OAI noted that existing plans provided for finance staff capacity and resources only until 30 June 2013, whereas the financial closure of the grants may have lasted until June 2014. For Global Fund projects, the operational closure dates for various projects were 30 November 2012 for TB R5 and R6 Phase II (with the initial closure date on 31 March 2012 and extended by six months), 31 December 2012 for Malaria R8 and 30 June 2013 for HIV R7. Based on the operational closure date for projects HIV R7 and R8, the financial closure target date is June 2014. Thus, request for payments may be received until 30 June 2014.

Finance personnel had been validating invoices and financial reports received from Sub-recipients and were in the process of contacting Sub-recipients to confirm remaining activities and required budget in order to avoid bottlenecks toward the end of the grant closure. With the support of the Legal Support Office, the Office initiated a new process whereby it was obtaining signed confirmation from the Sub-recipients that the UNDP estimate of the final outstanding amount was accurate. The target date to send the confirmation letter had not been decided at the time of the audit fieldwork. Though this initiative may have helped the Office assess the amount of its commitments, it would not have addressed the issue of validating all financial reports to be submitted after the operational closure, when most of the Programme Management Unit staff members and personnel would have left the programme.

As per information provided by the Finance Unit of the Programme Management Unit as of 1 October 2012, there were long-outstanding amounts of approximately \$1 million from past rounds, specifically TB R5 and R6 (since 2009 and 2010), Malaria R3 and HIV R3 (since 2010), that were disputed between the Office and Sub-recipients. These cases were being handled by the Office with the cooperation of the Legal Support Office.

Insufficient capacity to handle financial obligations could have an adverse impact on the timely and proper completion of the grant closure activities

Priority	High (Critical)
Recommendation 3:	
The Office should ensure that finance staff capacity and resources remain available after the operational closure of the grants in order to adequately perform all outstanding tasks, including the clearance of any remaining commitments to Sub-recipients. In this regard, the Office should also closely follow up with Sub-recipients on the submission of supporting documentation within a short time-frame after the operational closure of the grants, as well as the timely clearance of all disputed amounts from past rounds.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office management fully agreed with the audit recommendation and indicated that actions have been taken to anticipate potential issues. All subcontract closure timelines and procedures have been communicated to Sub-recipients in writing. A provision has been made which requires the signatures of the	

Sub-recipient and the Office on final financial statements. Further, the provision requires that the Sub-recipient submit an updated status of assets and a statement of renouncement of any further demand after final payment by UNDP.

3.5 Audit

Satisfactory

OAI followed up on the status of implementation of the audit recommendations from Sub-recipient audits. A sample test was performed in order to identify high risk recommendations still pending from the audit performed in 2011. No exceptions were noted.

4. Procurement and supply management

Partially Satisfactory

The Office's procurement of health products was in line with UNDP policies and procedures. Based on discussions with the Procurement Support Office during the planning phase, as well as with the Procurement Unit of the Programme Management Unit during audit fieldwork, Long Term Agreements were used to procure medical supplies and equipment, as described in the Global Fund Operations Manual. All purchases of medicine were carried out using the Long Term Agreements.

Procurement activities with respect to drug distributions were expected to continue until the end of June 2013, based on the guidance letters issued by the Global Fund. Communication with the new Principal Recipient and the national health system representatives provided positive feedback on the expertise of the Programme Management Unit in handling stock and distribution needs even in difficult situations in terms of funding. The Programme Management Unit had an internal control mechanism in place to effect a quarterly reconciliation of physical stock with the electronic inventory records. This mechanism allowed adjustments to be made to the electronic inventory record to ensure reconciliation with the physical stock in the warehouse.

The rating attributed to this section stems from the weaknesses noted in the asset management area in relation to the grant closure activities (Issue 6).

4.1 Procurement of health products

Satisfactory

In view of UNDP phasing out as Principal Recipient of the Global Fund grants in the Country, TB R5 was scheduled to close in November 2012 after the last supplies had been distributed from the central level and no new supplies were expected. The last procurement per the supply plan was in July 2010 and was, therefore, outside the scope of this audit. No issues were raised for the last purchases that were performed in December 2011. The R8 HIV plan only included non-medical items and the Office did not procure drugs under Malaria R8 as the role was under the new Principal Recipient.

In April 2012, UNDP and the new Principal Recipients agreed, in the presence of the Local Fund Agent (representing the Global Fund Secretariat in the countries), to allocate all HIV procurement functions to UNDP for a period of one year starting from 1 July 2012 and ending on 30 June 2013. This agreement was accepted in May 2012 by the Global Fund which then agreed to extend the HIV R7/8 closure process by six months (i.e., until 30 June 2012). Consequently, the Office placed its order for HIV R7/8 in June 2012 and continued to perform its customs clearance, storage, transport and distribution functions through its service providers and Project Supply Management staff members and personnel.

In 2010-2011, at the N'Djili international airport, the Programme Management Unit faced a series of thefts of HIV test kits, blood bags and drugs for opportunistic infections. The total value of these thefts has been estimated at \$340,800. The provider of these medical products, which is a United Nations agency, has agreed to replace some of the HIV test kits with other kits amounting to \$40,000 in value. The Office was holding the freight forwarder responsible, though the latter declined any responsibility for the loss. In its previous audit report, OAI

recommended to cover all gaps in insurance for pharmaceutical and non-pharmaceutical products from shipment to reception in the warehouse. The Programme Management Unit implemented the recommendation by extending the insurance coverage to products in transit, thus mitigating the risk of unclear responsibility for goods in transit. The Programme Management Unit indicated that the theft incident was handled by the local police and provided documentation with regard to the Office communication about the issue with the warehouse as well as with the national authorities. The outcome of the police investigation was not known at the time of the audit.

4.2 Quality assurance of health products

Satisfactory

All health products procured by the Office were classified as type A and B in compliance with the requirements of the Global Fund. In addition, there was a well-designed and functional process for sampling and testing health supplies throughout the supply chain.

No reportable issues were identified.

4.3 Procurement of other goods and services

Satisfactory

OAI reviewed 28 purchase orders totalling \$2 million related to procurement of goods and services.

No reportable issues were identified.

4.4 Supply management (inventory, warehousing and distribution)

Satisfactory

During a visit to the main warehouse where health products were stocked, OAI performed sample counts and noted a variance for one of five items tested.

The quantity on hand was determined to be 242 boxes against 238 boxes recorded in the inventory system (1.6 percent higher than expected). This was an operational error arising from the fact that the warehouse personnel did not reconcile the inventory system with the post-inventory count at the end of the month. A control mechanism was in place at the Programme Management Unit level to effect a quarterly reconciliation of electronic inventory records following a physical stock count. This mechanism allowed adjustments to be made to the electronic inventory record to account for differences between the inventory system and the physical stock in the warehouse; therefore, no issues have been raised.

4.5 Asset management

Partially Satisfactory

Issue 6 Inadequate preparations for the transfer of assets

The UNDP Guide on Grant Closure provides that the Grant Close-out Plan must explain how non-cash assets will be dealt with after the programme ending date. Three options exist: (a) retain ownership; (b) transfer ownership to another entity; and (c) sell the assets. Also, according to the phasing out letter issued by the Global Fund in March 2012 and the Global Fund Grant Closure Guidelines, a critical activity was the exhaustive inventory of Global Fund assets under the accountability of UNDP as Principal Recipient. UNDP accountability for these assets ends when the grants come to a close. At that point, the Office would have to transfer the assets to the entities designated by the Global Fund.

OAI identified inadequacies in the process leading to the transfer of ownership of Global Fund assets under UNDP custody. Based on the Global Fund Grant Closure Guidelines of 7 May 2012, the Office was required to submit to the Global Fund, by 1 June 2012, a list of all non-cash assets procured during the time of the grant with an estimated value of \$11 million. Also, a plan for the use, transfer and/or disposal of all the items specified in the

list of health and non-cash assets was to be submitted to the Global Fund by 1 June 2012. This plan had to be endorsed by the Country Coordination Mechanism prior to submission to the Global Fund. The Office informed OAI that following the initial deadline for closure of all grants in December 2012 and after discussions on HIV procurement-related issues in April 2012, the Global Fund agreed in May 2012 to extend the HIV deadline by another six months in order to allow sufficient transition time with the incoming Principal Recipients.

OAI noted that the Programme Management Unit had prepared an action plan on the modalities for dealing with the Global Fund assets after closure, which had been communicated to the Principal Recipients. However, at the time of the audit fieldwork, this document had not been submitted to the Country Coordination Mechanism for its endorsement nor had it been communicated to the Global Fund.

Furthermore, OAI noted that the Programme Management Unit had not performed a physical inventory for the year 2011, as the majority of Sub-recipients had not reported their assets condition on a six-month basis, as required by the agreement with the Global Fund. The Office attributed this to the weak financial position of most Sub-recipients on account of the Global Fund freezing of disbursements from May until November 2011. The last inventory was done in November 2010.

The Office management commented, subsequent to the audit field work, that the standard agreements for grant closure (i.e., Implementation Letters) require the organization to submit a list of assets and a plan for their use to the Country Coordination Mechanism for endorsement. However, the Office was not able to comply with these requirements for the following reasons:

- As the last inventory was performed in November 2010, two years prior, there was a need to update its list of assets before submitting it to the Country Coordination Mechanism and the Global Fund.
- For such an update, asset inventory missions were required in order to physically verify the existence and status of critical, sampled assets.
- Missions planned for June-July 2012 were only completed in December 2012 due to several delaying factors, such as: the Global Fund's request in June 2012 to include the incoming Principal Recipient in the conduct of those missions; the Global Fund's request to conduct cross disease/cross grant missions (whereas TB missions were planned in July 2012); and the time taken among the five incoming Principal Recipients to agree on the principles and modalities of asset transfer.

The Office also explained that the Global Fund requested in September 2012 a transfer of assets for the active grants (HIV R7/8; Malaria R8) from the former Principal Recipient to the new Principal Recipients, which does not require Country Coordination Mechanism endorsement. Only the assets purchased under closed grants (TB R5, Malaria R3) involve Country Coordination Mechanism endorsement.

Subsequent to the field audit, the Global Fund Portfolio indicated that the inventory missions were still ongoing and the final report had not yet been submitted as of 4 April 2013. The inventory missions were initially planned to be completed by May 2012 so that the assets could be taken into account during the negotiations with the incoming Principal Recipients. The request from the Global Fund that the incoming Principal Recipients participate in the inventory was attached to two conditions, namely, using the Office calendar and using UNDP inventory methodology.

Priority	High (Critical)
Recommendation 4:	
<p>The Office should adequately prepare for the transfer of assets in compliance with grant closure requirements by: (a) ensuring that the action plan for the transfer of asset ownership is endorsed by the Country Coordination Mechanism and submitted to the Global Fund; and (b) completing the physical inventory to facilitate effective, timely and accurate transfer of assets in line with the closure plan.</p>	
<p>Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>The additional information provided by management has been reflected in the audit observation.</p> <p>The Office management indicated that the audit recommendation is being addressed. The joint inventory missions have been completed, the Programme Management Unit has set up a small working group in charge of bringing the inventory and asset transfer process to a harmonious end in line with UNDP procedures and taking into consideration expectations of the Global Fund, the Country Coordination Mechanism and incoming Principal Recipients.</p>	

4.6 Individual contractors **Satisfactory**

During the audit planning stage, the OAI preliminary review ranked the individual contractors area as low risk. No reportable issues were identified.

5. Financial management **Satisfactory**

Overall controls in the financial area were assessed as satisfactory. The audit team reviewed expenditures, application of cost recovery and the accounting of advances and the audits of non-governmental organizations/national implementation modality Sub-recipients.

5.1 Revenue and accounts receivable **Satisfactory**

OAI reviewed the disbursements made by the Global Fund to the Office. All disbursements were accounted for by the Office. No reportable issues were identified.

5.2 Expenditures **Satisfactory**

OAI reviewed a sample of 39 payments amounting to about \$212,000. No reportable issues were identified.



5.3 Reporting to the Global Fund

Satisfactory

According to the timeline set in the grant agreements, the Principal Recipient was required to furnish to the Global Fund Secretariat periodic reports of all funds and activities financed by the grant. All reports must be channeled through the Local Fund Agent and copies given to the Country Coordination Mechanism. OAI reviewed reports submitted in 2011 and 2012 and noted that all reports were submitted on time.

No reportable issues were identified.

ANNEX I. 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.