



AUDIT

OF

UNDP CHAD

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

Report No. 1142

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

From 24 April to 10 May 2013, the Office of Audit and Investigations (OAI) conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 69747, 79718, 82056 [Malaria]), managed by the UNDP Country Office in Chad (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 January 2011 to 31 December 2012. The audit did not cover closure activities as they were not relevant to the project. During the period reviewed, the Office recorded Global Fund-related cumulative expenditures totalling \$28 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 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.

Background information provided by various sources, indicated that the Office faced challenges implementing Global Fund grants from the beginning. These challenges included weak Sub-recipient capacity, ineffective oversight mechanisms, complex processes for grant consolidation, as well as inadequate staffing of the Global Fund Programme Management Unit Support Team in the Office. Several field missions have been conducted by UNDP’s Bureau for Development Policy/Global Fund Partnership Team since September 2012 to support the Office in restructuring the Programme Management Unit. A mission by the UNDP Management Consultants Team took place in February 2013 to specifically review and recommend appropriate changes and restructuring of the Global Fund Programme Unit, including as it relates to the structure and organization of the Office itself.

Audit rating

OAI assessed the Office’s management of Global Fund grants as **unsatisfactory**, which means “Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.” This rating was mainly due to use of the incorrect accounts to record disbursements to Sub-recipients, poor oversight over Sub-recipients’ financial and programmatic activities, weak control over project cash advances, and weak oversight in the procurement and supply management area. 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 The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

1.1	Organizational structure	Partially 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	Satisfactory		
2.	Programme management			
2.1	Project approval and implementation	Partially Satisfactory		
2.2	Conditions precedent to disbursement and special conditions	Satisfactory		
2.3	Monitoring and evaluation	Unsatisfactory		
2.4	Grant closure	Not Applicable		
3.	Sub-recipient management			
3.1	Selection, assessment and contracting	Satisfactory		
3.2	Funding	Unsatisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Unsatisfactory		
3.5	Audit	Unsatisfactory		
4.	Procurement and supply management			
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)	Unsatisfactory		
4.5	Asset management	Partially Satisfactory		
4.6	Individual contractors	Satisfactory		
5.	Financial management			
5.1	Revenue and accounts receivable	Satisfactory		
5.2	Expenditures	Unsatisfactory		
5.3	Reporting to the Global Fund	Satisfactory		

Key issues and recommendations

The audit raised 14 issues and resulted in 11 recommendations, of which 8 (73 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.”

The high priority recommendations are as follows:

Monitoring and evaluation (Issue 3) Inadequate programme monitoring and evaluation. The delay in approving and implementing the Monitoring and Evaluation Plan and the absence of key monitoring activities such as field visits negatively impacted national counterpart’s capacity building efforts as well as the quality of programmatic reporting. Additionally, the Programme Management Unit did not use Atlas as a programme management and resource tool. OAI recommends that the Office strengthen its programme monitoring and evaluation by: (a) implementing the newly approved Monitoring and Evaluation Plan; and (b) ensuring that all Atlas activity logs and outputs are maintained and monitored regularly.

Funding (Issue 5) Weaknesses relating to Sub-recipient cash advances and direct payments. The Office made advances to Sub-recipients totalling approximately 2 million euros until June 2012. Inconsistencies were noted, such as: recording of advances as direct expenses; advancing funds based on anticipated activities for the year rather than for the next quarter as per

UNDP policies; advances disbursed to Sub-recipients totalling approximately \$2.4 million were recorded using the Office's implementing agent code in Atlas, rather than using the respective Sub-recipient's code; and processing of advances through purchase orders. OAI recommends that the Office strengthen financial management control procedures by ensuring that Sub-recipients are recorded as implementing agents rather than vendors in Atlas and further, ensuring that transactions are recorded under the correct implementing agent code.

Oversight and
monitoring
(Issue 7)

Inadequate oversight of Sub-recipient finances. The Office did not communicate the minimum supporting documentation that Sub-recipients should keep and submit to the Office with funding requests or upon submission of financial reports. The Office did not enforce controls to ensure timely submission of supporting documents for expenditures of Sub-recipients in order to ascertain that expenditures were in line with the agreed work plan. OAI recommends that the Office validate all outstanding advances and seek reimbursement of any amounts which remain unjustified or inadequately documented.

Audit
(Issue 8)

No follow-up of recommendations from the audit of Sub-recipients. The reports issued in March 2013 for audits of Sub-recipients identified significant weaknesses both in terms of financial statement accuracy as well as the adequacy of the Internal Control Framework. Adverse/disclaimers of opinions were given for the financial statements, and the audit firm reported approximately \$2 million in expenditures deemed to be ineligible. OAI recommends that the Office follow up on the audit recommendations contained in the audit reports covering Sub-recipients. Further, the Office should review the supporting documents relating to the \$2 million deemed ineligible and request reimbursement for any remaining unsupported amounts.

Supply
management
(Issue 11)

Inadequate management of stock inventory. OAI noted that the Office contracted a Sub-recipient to distribute Global Fund's anti-malarial products, to undertake inventory monitoring at the district level and to provide quarterly updates on stock levels. OAI was not able to confirm that inventory counts of medical products had been undertaken every quarter as required, as there was no coherence in the opening and closing balances of the reports provided. Moreover, during the period under review, the Project Management Unit did not perform any inventory counts covering all levels of the medical supply inventory. OAI recommends that the Office strengthen its management of stock inventory by: (a) ensuring that the Sub-recipient responsible for the distribution of anti-malarial products complies with its contractual responsibility for monitoring and reporting on the stock balances; and (b) ensuring that if the Sub-recipient cannot meet its obligations, an alternative mechanism is put in place to ensure the timely collection and analysis of stock movement data from the point of distribution.

Asset
management
(Issue 12)

Inadequate management of assets. OAI noted that the Office did not register in Atlas any of the assets purchased using Global Fund resources. OAI was unable to confirm the accuracy or completeness of the asset list provided by the Office. With the exception of the vehicles and motorcycles, none of the UNDP asset tag numbers assigned to the assets matched the tag numbers listed in the asset list. OAI recommends that the Office improve the management of assets by ensuring: (a) that all assets are properly tagged and registered in Atlas; (b) that any lost or stolen assets are reported and investigated in a timely manner in liaison with OAI and that the recommendations of the investigation report are completed; and (c) that periodic physical counts are performed and reconciled with the asset records in Atlas, with appropriate follow-up of any discrepancies noted.

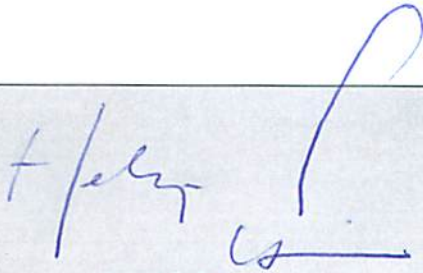
Expenditures (Issue 13) Inadequate financial management control procedures. OAI noted that the internal control procedures for processing payments were not enforced consistently in order to ensure segregation between the commitment, reviewer and disbursing authorities. The Office had not obtained and did not maintain a list of officers from the Implementing Partners/Sub-recipients that were authorized to initiate requests for funds from UNDP. Unplanned activity totalling \$47,000 to facilitate a Management Consulting Team mission to assess the programme's Internal Control Framework in February 2013, was charged to the programme budget without prior approval from the Global Fund. OAI recommends that the Office strengthen financial management control procedures by: (a) formally designating a project manager for each project and ensuring adequate segregation between the commitment, reviewer and disbursing authorities; (b) obtaining and maintaining a list of officers from the Implementing Partners/Sub-recipients that are authorized to initiate financial funding requests for the project; and (c) ensuring adequate controls are in place to assure that only planned/budgeted activities are funded/paid from the programme budget.

Issue 14 Inadequate monitoring and oversight of project cash advances. There were weaknesses in the internal controls relating to management of cash advances made to project personnel to carry out project activities. As a result, an advance of \$227,000 was incorrectly recorded as expenditure and OAI could not determine whether an advance of \$28,000 was used to execute project activities. OAI recommends that the Office strengthen its monitoring and oversight of cash advances to projects by: (a) putting in place an adequate monitoring system to ensure that cash advances are promptly liquidated, including the recovery and timely deposit of any remaining balance (this includes following up on the unjustified cash advances); and (b) ensuring that all cash advances are recorded in Atlas account 16007 only.

The implementation status of previous Global Fund audit recommendations (Report No. 779, 14 April 2011) was also validated. All 18 recommendations were noted to be fully implemented.

Management comments and action plan

The Resident Representative accepted all 11 recommendations and is in the process of implementing them.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Introduction

From 24 April to 10 May 2013, OAI conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Project Nos. 69747, 79718, 82056 [Malaria]), managed by UNDP Chad as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.² 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 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's 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 31 December 2012. During the period reviewed, the Office recorded Global Fund-related cumulative expenditures totalling \$28 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. 779, 14 April 2011) was also validated. All 18 recommendations were noted to be fully implemented.

II. Profile of Global Fund grants managed by UNDP Chad

Since 2008, UNDP has been the Principal Recipient of the Global Fund Malaria Grants in Chad (the Country). Two other institutions were the Principal Recipients for the HIV/AIDS and Tuberculosis Grants.

Grant No.	Project ID	Description	Start Date (Phase I)	End Date (Phase I)	Lifetime Budget (in \$'000)	Funds Received as of 31.12.2012 (in \$'000)	Implementation Rate	Expenditures as of 31.12.2011 (in \$'000)	Global Fund Rating at 31.12.2011
TCD-708-G03-M	00069747	PALAT	01.03.2009	30.06.2011	9,110	9,110	100%	28,428 ³	N/A
TCD-910-G08-M	00079718	PELAT	01.12.2010	30.11.2012	25,556	22,815	89%	0.00	B2
TCD-M-UNDP	00082056	Scale up of the Anti-malaria Program in Chad	01.07.2011	31.12.2013 ⁴	8,599	0.00	0%	0.00	C
Totals					43,265	31,925		28,428	

² The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

³ Aggregate expenditures covering Grants TCD-708-G03-M and TCD-910-G08-M under the Single Stream of Funding principle

⁴ As of February 2013 the Global Fund authorized a no cost extension up to 31.12.2014

III. Detailed assessment

1. Governance and strategic management

Satisfactory

The Office was Principal Recipient for the two Malaria Grants (Round 7 and Round 9) that have been consolidated under the Single Stream of Funding modality since July 2011. In February 2013, the Global Fund Secretariat provided a no-cost extension for the performance of the activities of the Grant until December 2014. The Consolidated Grant was still in Phase I during the audit fieldwork. Phase II of the Grant was scheduled to start in June 2013 and last until December 2014.

Background information provided to OAI, by the Office, by the Bureau for Development Policy and by the Global Fund Portfolio Manager, indicated that from the outset the Office had faced challenges in implementing the Grants. These challenges included weak Sub-recipient capacity, ineffective oversight mechanisms, complex processes for grant consolidation, as well as inadequate staffing of the Global Fund Programme Management Unit in the Office.

No reportable issues were identified in this area.

1.1 Organizational structure

Partially Satisfactory

The Programme Management Unit consisted of nine staff members and personnel as follows:

- One fixed-term appointment, international staff (Programme Coordinator);
- Four United Nations Volunteers (Finance Officer, two Monitoring and Evaluation Specialists, and one Administrative Associate);
- One service contract (Finance Associate);
- One national officer (Pharmacist); and
- Two drivers.

Issue 1 Weaknesses in ensuring adequate capacity in the Programme Management Unit

According to the UNDP Global Fund Operations Manual for Projects Financed by the Global Fund, UNDP's role as Principal Recipient to Global Fund grants requires it to have the technical and administrative capacity to assume the responsibility for mobilizing and applying effectively the required inputs to reach the expected outputs.

The Office had not ensured adequate capacity in the Programme Management Unit through the timely hiring of key staff, including a Finance Specialist, a Monitoring and Evaluation Specialist, and a Procurement Specialist.

- The former Procurement Specialist (temporary appointment) left in January 2012 and had not been replaced.
- The Monitoring and Evaluation Specialist (service contract) resigned in April 2012. The post was vacant for seven months until two United Nations Volunteers came on board in November 2012.
- The Finance Specialist (United Nations Volunteer) who had been part of the Unit from the inception of the Office's management of the Grants, left in November 2012. He was replaced in December 2012 by another United Nations Volunteer. Additionally, a Finance Associate was also hired (service contract).
- The Programme Manager's contract was terminated in May 2013 and no action had taken place to ensure a quick replacement.

A Global Fund mission report of November 2012, stressed that the capacity of the Programme Management Unit remained weak and cited the delays in filling vacant positions. It also highlighted that important positions remained vacant (e.g. Procurement and Supply Management Specialist) and that the Office had hired United Nations Volunteers while it should have opted for hiring professional staff for which the budget had already been allocated.

As a result of the high turnover, vacancies in key positions and the inability to access Atlas, weaknesses were noted in the areas of oversight and financial management of Sub-recipients and in monitoring of the programme activities.

The Office management had indicated that starting in January 2013, it had temporarily (to end in June 2013) reinforced the Programme Management Unit with three qualified operations staff and personnel, in response to the negative assessment presented in the Global Fund's November 2012 report.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen the capacity of its Programme Management Unit as soon as possible by seeking the support of the Global Fund Partnership and the Bureau for Development Policy in filling all vacant positions.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
As of October 2013, all key recruitment processes were fast tracked. The Finance Officer is already on board. The Procurement officer has been recruited and is scheduled to report to work 8 November 2013. For the Coordinator position the recruitment process is completed, and the identified professional is waiting for the letter of appointment. Meanwhile, an experienced senior officer has been Acting Coordinator under a four month consultancy agreement, resulting in an improved overall rating of the Malaria program.	

1.2 Staffing

Satisfactory

OAI reviewed the files of seven staff members and personnel of the Programme Management Unit in order to evaluate the completeness, as well as to assess the transparency of the hiring process and the Office's adherence to UNDP procedures and policies governing the different types of appointment.

No reportable issues were identified.

1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders

Satisfactory

OAI met with the Country Coordinating Mechanism Secretary, who provided positive feedback regarding the Office's performance as Principle Recipient.

No reportable issues were identified.

1.4 Capacity building and exit strategy

Satisfactory

Issue 2 Absence of capacity building activities

The UNDP Global Fund Operations Manual for Projects Financed by the Global Fund states that “capacity development is an integral part of all UNDP programmes, including those financed through the Global Fund.” As part of its role as Principal Recipient of Global Fund grants, the Office should prepare for the eventual handover of this role to national institutions. To this effect, the Office should identify the existing national capacities during the project formulation stage (through a Sub-recipient assessment), determine strengths and weaknesses, and determine how UNDP can assist in increasing existing capacities and in building new ones.

The Office had not implemented the recommendations of the capacity assessment of Sub-recipients, which was conducted in April 2012. These recommendations included the conduct of quarterly meetings with Sub-recipients to discuss identified obstacles hindering project implementation, and improved funds management as well as the conduct of joint monitoring visits to Sub-recipients.

OAI noted that although some meetings had taken place during the audit period, this activity had not been formalized. According to the Office, the monitoring visits were not conducted for reasons beyond the control of the Office (there was a strike at the Ministry of Health that had lasted for four months).

The Office indicated that while the Grant Agreement contains the standard requirements for capacity building of sub-recipients, the associated budget did not include adequate resources to permit capacity building activities and plans to this effect have not been developed. It is expected that the Office will increase its capacity building activities in the forthcoming year.

Considering that the reasons for the issues noted were beyond the control of the Office, OAI has not raised a recommendation with regard to this issue.

2. Programme management

Unsatisfactory

The rating of the Consolidated Single Stream of Funding Grant, according to the latest Global Fund assessment was ‘C’, which is the lowest rating possible. The rating was partly attributable to weaknesses relating to monitoring and evaluation, capacity development of national counterparts and the conditions precedent that could not be met.

OAI noted weaknesses in programme management, including a delay in the implementation of the Monitoring and Evaluation Plan and lapses in the maintenance of the Atlas project data and risk monitoring logs.

2.1 Project approval and implementation

Partially Satisfactory

OAI noted delays in the signature of the Consolidated Grant Agreement. The Grant Agreement for the consolidated management of the Malaria Grant, Rounds 7 and 9, was not signed until March 2012, even though the Grant had been operational since July 2011. The Office reported that the documents for signature had not been received from the Global Fund until six months after the initiation of the Grant.

In addition, the Grant Agreement and annexes had not been cleared by the Legal Support Office/Bureau of Management before their signature. The Legal Support Office and the Bureau for Policy Development informed OAI that the Grant Agreement contained inappropriate staggered commitments which are applicable to a grant

renewal and not to a grant consolidation. The Agreement also contained 20 conditions precedent to disbursement out of which 18 were reported as pending in the quarterly Periodic Update Disbursement Reports submitted by the Office, covering the activity up to August 2012. The Bureau for Development Policy also indicated that the Office would be reported to the Organizational Performance Group in the next update of Offices that did not seek required clearance from Legal Support Office/Bureau of Management for non-standard conditions included in grant agreements.

OAI did not issue a recommendation as the new Performance Plan approved by the Global Fund in February 2013 reduced the number of conditions precedent to disbursements and a no-cost extension was granted until December 2014 to facilitate the execution of activities. Further, the Global Fund Portfolio Manager indicated that the Office was in the process of addressing the new conditions and did not anticipate any difficulty in meeting the remaining conditions.

2.2 Conditions precedent to disbursement and special conditions

Satisfactory

Following a new Performance Framework signed with the Global Fund in February 2013, conditions precedent to disbursement were reduced from 20 to 10, thus reducing the reporting burden and facilitating the implementation of the activities of the Grants.

No reportable issues were identified.

2.3 Monitoring and evaluation

Unsatisfactory

Issue 3 Inadequate programme monitoring and evaluation

According to the UNDP Global Fund Operations Manual for Projects Financed by the Global Fund, the Principal Recipient must submit a Monitoring and Evaluation Plan that covers the specific Global Fund disease programme no later than 90 days after the programme start date or as per the negotiated grant agreement. Furthermore, the Work Plan for the grant should include all activities related to the Monitoring and Evaluation of the grant.

Delay in approving and implementing the Monitoring and Evaluation Plan - OAI noted that the new Monitoring and Evaluation Plan governing the activities of the Consolidated Grant was completed by the Programme Management Unit in November 2012 and received approval from the Global Fund in April 2013. The delay in obtaining approval was due to several rounds of clarification on various issues between the Office and the Global Fund Secretariat. The delayed approval resulted in delayed implementation of the Monitoring and Evaluation Plan which negatively impacted the quality of programmatic reporting.

Weaknesses in the recording of project logs and outputs - The Office is required to update issue and risk logs in Atlas to ensure continuous and methodical monitoring of projects by the programme team. Moreover, all activities included in the Project budget should be approved and planned for. The Programme Management Unit did not use Atlas as a programme management and resource tool. OAI noted that the issues and risk logs for the new Malaria Round 5 Project (82051) had not been completed and updated in the system. The issues and risk logs for the new project which started in January 2013 were recorded under the existing Project 69747.

Erroneous recording of activities to the programme budget in Atlas - OAI noted that the Malaria Round 9 activity of 'Purchase of Mosquito Nets for Mass Coverage (Achat des Moustiquaires pour Couverture Universelle)' had been incorrectly recorded as a sub-activity of Project 69747 under the Malaria Round 7 Grant, instead of a separate

activity under project 82051, the Malaria Round 9 Grant. OAI noted that the Office subsequently made the required corrections to record the transactions under the proper project. This resulted in an unwarranted increase in workload to correct the numerous transactions that had been erroneously recorded.

Priority	High (Critical)
Recommendation 2:	The Office should strengthen its programme monitoring and evaluation by: (a) implementing the newly approved Monitoring and Evaluation Plan; and (b) ensuring all Atlas activity and output logs are updated and monitored regularly.
Management comments and action plan:	<input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed
	Management indicated that a risk management strategy was developed by the team management. Monitoring and evaluation activities were strengthened and the Project rating has improved so far.

2.4 Grant closure

Not Applicable

The sections related to grant closure were not relevant to the Grants managed by the Office, as the Grants were supposed to be operational until December 2014.

3. Sub-recipient management

Unsatisfactory

During the period under review, the Office had contractual arrangements with three Sub-recipients, all of whom were government entities. Each Sub-recipient was charged with the implementation of one of the following domains under the Grants:

- the collection, validation and submission of data on malaria demographics and statistics to be reported to the Global Fund;
- the distribution of mosquito nets in the Country for the 2011 campaign (Mosquito Nets Distribution (MILD); and
- the storage of anti-malaria drugs procured by the Office. This particular Sub-recipient collaborated with regional warehouses that were contracted as Sub-sub-recipients.

OAI noted significant weaknesses with regard to Sub-recipient management in the areas of funding, monitoring and liquidation of advances, reporting, oversight, and monitoring of programmatic activities. Furthermore, the 2012 National Implementation audit of Sub-recipients, which covered the period from October 2010 to December 2012, revealed significant internal control weaknesses and inadequate justification/support for financial transactions totalling \$2 million. In April 2013, the Global Fund Secretariat requested that the Office recover these funds from the Sub-recipients and reimburse the Global Fund. However, no progress was noted at the time of OAI's audit fieldwork.

OAI was informed that from January 2013, the Office was only working with the Sub-recipient responsible for the collection, validation and submission of data on malaria demographics and statistics, and that it had contracted the former Sub-recipient responsible for the storage and distribution of drugs as a service provider. Furthermore,

the Office signed a new contract with a United Nations agency as a Sub-recipient in order to mitigate some of the risks related to the untimely collection and validation of data from the field.

3.1 Selection, assessment and contracting

Satisfactory

The selection of Sub-recipients is a critical component of effective programme implementation and risk mitigation. As part of the selection process, the Office must conduct technical and financial capacity assessments of the proposed Sub-recipients and adopt appropriate measures to address any identified weaknesses in capacity. The results of the capacity assessments are then reviewed by the Local Project Advisory Committee which then issues a final recommendation to the Resident Representative

Issue 4 Lapses in Sub-recipient capacity assessment

During the period under review, the Office partnered with a Sub-recipient, whose capacity assessment had revealed poor financial management capacity and inadequate internal controls.

Based on information received from the Office, the Sub-recipient's capacity was reviewed by a joint team, consisting of Office staff and a representative of the Local Fund Agent on behalf of the Global Fund. However, the proceedings of this review were not documented. Furthermore, there was no evidence that the Local Project Advisory Committee had reviewed and subsequently recommended the acceptance of the Sub-recipient.

OAI did not raise a recommendation since new Sub-recipients are not envisaged.

3.2 Funding

Unsatisfactory

Cash advances were made to Implementing Partners until June 2012, when the Global Fund imposed a zero cash policy, requiring the direct payment modality. Under direct payment modality, no cash advances are made to Implementing Partners. Instead, the suppliers are paid directly by the Office based on requests submitted to the Office by the Implementing Partners.

Issue 5 Weaknesses relating to Sub-recipient cash advances and direct payments

The UNDP Global Fund Operations Manual for Projects Financed by the Global Fund, states that for accounting purposes, advances should be made to all Sub-recipients. Such advances to government and NGO partners should be sufficient to cover only a single three-month period and should be recorded in account 16005.

The Unit made advances totalling 2 million euros to Sub-recipients and incorrectly recorded them under account 16015. These advances were based on anticipated activities for the whole year rather than on the basis of a work plan for the quarter. Furthermore, advances totalling \$2.4 million were recorded in Atlas under the Office's implementing agent code (#1981 – UNDP implementation) rather than the code of the corresponding Sub-recipients responsible for the execution of activities. These expenditures should have been recorded under each Sub-recipients respective implementing agent code. This was not possible however, as the three Sub-recipients were inappropriately registered in Atlas as vendors rather than as implementing agents. Finally, a total of \$1.2 million was incorrectly processed using purchase orders as opposed to the direct vouchers required when processing advance or direct payments to/for Sub-recipients.

These weaknesses were mainly attributable to inadequate knowledge of the Programme and Operations Policies and Procedures and weak oversight by the Office.

The practice of not recording the advances under the proper account did not allow the Office to monitor advances through an ageing report to ensure proper and timely liquidation. As a result, the Office did not track the amount of advances disbursed to Sub-recipients or determine the amount of outstanding advances that should be reconciled. In addition these practices impacted the accuracy of the expenditure amounts shown in the Combined Delivery Report.

Priority	High (Critical)
Recommendation 3:	The Office should strengthen financial management control procedures by ensuring that Sub-recipients are recorded as implementing agents rather than vendors in Atlas and further, ensuring that transactions are recorded under the correct implementing agent code.
Management comments and action plan:	<input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed Management indicated that corrective actions have been taken to ensure proper control procedures.

3.3 Reporting **Satisfactory**

Issue 6 Lapses in quarterly reporting

According to the UNDP/Sub-recipients agreement, the Sub-recipient is required to submit a financial report along with a programme report by the end of each quarter (31 March, 30 June, 30 September, and 31 December). The report should reflect all financial transactions that took place during the quarter.

OAI noted that none of the three Sub-recipients had submitted any of the quarterly reports required (4 each) for the period.

The inadequate reporting was attributable to the lack of oversight by the Office of the Sub-recipients' operations and compliance with the terms of the agreements which subsequently resulted in a portion of the amounts disbursed being deemed as unallowable or ineligible.

The Office had subsequently implemented the direct payment modality and was no longer relying on Sub-recipients (refer to issue 5). The controls for this new arrangement will be assessed in the next audit.

3.4 Oversight and monitoring **Unsatisfactory**

Issue 7 Inadequate oversight of Sub-recipients finances

Global Fund disbursements depend on accurate reporting by the Office, which, in turn, depends on accurate Sub-recipient reporting. The accuracy of the Sub-recipient reporting is verified through review of the supporting documentation, therefore it is important that the Office and the Sub-recipients agree on the minimum supporting documentation required and that this requirement be specified in an annex to the Sub-recipients Agreement.

The Office did not communicate to the Sub-recipients the minimum supporting documentation that they should keep and provide to the Office when submitting the funding request or upon submission of the financial reports. Moreover, controls were not enforced to ensure the timely submission of financial reports and supporting documents to permit the Office to ascertain that expenditures were in line with the agreed work plan.

The 2012 Sub-recipient audit identified large amounts of prior advances that were deemed unjustified. The Office did not take into consideration the previous results of these audits which had highlighted significant weaknesses in financial management and which the Office should have taken as an indicator of the need to enforce strict controls over expenditures, such as requiring support documentation for verification.

Subsequently, OAI tested a sample of advance disbursements totalling \$500,000 for one Sub-recipient relating to the Mass Campaign for Mosquito Nets Distribution (the campaign) undertaken for Malaria Round 9 and noted that \$300,000 was disbursed from this Sub-recipient to two individuals and to another Sub-recipient without supporting documentation.

The lack of an adequate monitoring and oversight mechanism for Sub-recipients exposes the Office to elevated risks of financial loss, failure to attain intended outputs and outcomes, and reputational damage.

Priority	High (Critical)
Recommendation 4:	The Office should validate all outstanding advances and seek reimbursement of any amounts which remain unjustified or inadequately documented.
Management comments and action plan:	<input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed
	All outstanding advances to Sub-recipients will be cleared though complementary audits organized by the Office and reimbursements sought as appropriate.

3.5 Audit

Unsatisfactory

The Office contracted an independent audit firm to conduct audits of the three Sub-recipients and the Sub-sub-recipient for the period from 1 October 2010 to 31 December 2012. The same audit firm had conducted the previous audit of the Sub-recipients. The audit resulted in an “unsatisfactory” rating, which was attributed to severe weaknesses with respect to the Sub-recipients’ financial statement accuracy and internal control framework.

Issue 8 No follow-up on recommendations from the audit of Sub-recipients

As part of its oversight of Sub-recipients, the Principal Recipient must prepare an audit plan which ensures that for all programs financed by the Global Fund, all Sub-recipients are audited annually. Starting in 2013, the Bureau for Development Policy has centralized this process and signed Long Term Agreements with audit firms to conduct the audits of Sub-recipients). Copies of the Sub-recipient audit reports are to be provided to the Global Fund upon request.

OAI noted that the Sub-recipient audit reports issued in March 2013 identified significant weaknesses. Specifically, the audit reports mentioned the lack of adequate financial management capability to ensure proper management of the funds received. The audit firm gave an adverse/disclaimer opinion on the Sub-recipients financial statements and reported ineligible expenses totalling \$2 million due to weak support documentation. The Office indicated that it had documentation to support some of the expenditures which had been deemed unjustified. However, there was no evidence that any of the transactions noted as ineligible had been reviewed and matched with any available supporting documentation by the Office.

In April 2013, the Global Fund Secretariat addressed a letter to the Office requesting that the Office submit a claim to the Sub-recipients requesting repayment of the \$2 million of ineligible expenditures and to reimburse the repayments to the Global Fund.

In addition, the audit firm followed up on the recommendations contained in the 2009 Sub-recipient audit reports, and indicated that the majority of the recommendations had not been implemented: 88 percent for the Sub-recipient in charge of the national warehouse; and 93 percent for the Sub-recipient in charge of implementation of the anti-malaria programme.

The lack of proper monitoring and follow-up on audit results may expose the Office to significant reputational and financial risks.

Priority	High (Critical)
Recommendation 5:	
The Office should ensure follow-up on the audit recommendations contained in the Sub-recipient audit reports. Further, the Office should review any supporting documents relating to the \$2 million deemed ineligible and request reimbursement for any remaining unsupported amounts.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is pushing forward to finalize the Sub-recipient audit report by obtaining the commitment by the government on the complementary audit exercise to complete the financial record verifications. The Office is now putting together the information and will implement the recommendations as soon as they are validated.	

4. Procurement and supply management

Partially Satisfactory

During the period from 1 January 2011 to 31 December 2012, the Office issued 123 purchase orders valued at approximately \$2.6 million. Seven of these purchase orders accounting for 26 percent of the procurement expenditure were for anti-malaria drugs and bed nets.

4.1 Procurement of health products

Satisfactory

The Office's procurement of health products worth \$725,000 was in line with UNDP policies and procedures. All procurement for drugs and bed nets was undertaken through UNICEF with the assistance of UNDP's Procurement Support Office. Long Term Agreements were used to procure medical supplies and equipment, in line with the Global Fund Operations Manual.

No reportable issues were identified.

4.2 Quality assurance of health products

Partially Satisfactory

Issue 9 Inadequate insurance over medical supplies throughout the supply pipeline

Sound medical supply management requires that medical supplies should be insured from source through to the warehouses at the destination country.

The Office did not ensure that medical supplies transiting from the airport to the central warehouse, to the regional warehouses, and to the district level were insured. The contract signed between the Office and a Sub-recipient for distribution of medical supplies from the central warehouse to the periphery level did not include a clause requiring the Sub-recipient to take freight insurance to cover the medical supplies.

To secure continuity of insurance coverage in the central warehouse and the four regional warehouses, the Office must submit to the insurance company the value of the insured inventory on a monthly basis (within 10 days from the beginning of the month being reported). The Office had not submitted the required reports since May 2011, resulting in the warehouse and stored medical supplies being un-insured effective June 2011. In addition there was no insurance coverage beyond the regional warehouses, i.e. in the district centers and so on.

Inadequate insurance coverage for medical supplies exposes the Office to the risk that the monetary value of medical supplies will not be reimbursed in the event of a loss and would have to be covered by UNDP.

Priority	Medium (Important)
Recommendation 6:	
The Office should ensure that medical supplies are adequately insured against key risks at all levels of the supply chain by: (a) requiring that the Sub-recipient accountable for the distribution and management of medical products to submit a monthly report of the value of medical products in the regional warehouses on a timely basis; and (b) ensuring the timely completion and submission to the insurance company the value of medical products on hand at the regional and national warehouses.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.3 Procurement of other goods and services

Partially Satisfactory

Other goods and services accounted for 50 percent (62 out of 123) of the total purchase orders issued during the period covered by the audit. The audit reviewed a sample of seven purchase orders totalling \$75,600, representing 30 percent of the total (\$250,000) procurement for other goods and services during the audit period.

Issue 10 Inadequate management of the procurement of non-medical products

The Office's procurement activities must be aligned with UNDP's procurement principles: best value for money; fairness, integrity, transparency; effective international competition; and the interest of UNDP. Documentation relating to completed procurement activities must be retained to facilitate future review and audit.

OAI noted that for three procurement activities valued at \$16,000 (Purchase Orders 2304, 2313 and 2640), no documentation of the procurement process had been retained and therefore, it was not possible to determine if the procurements adhered to UNDP policies. Furthermore, bid documents were not retained for two purchase orders worth \$12,000 (Purchase Orders 2369 and 2372); thus, it was not possible to validate if the most competitive bid was selected for these procurement activities. One procurement case valued at \$43,441 (Purchase Order 2287) was not submitted to the Contracts, Asset and Procurement Committee for review as required by UNDP Policies and Procedures.

These weaknesses appear to be attributable in part to personnel turnover and limited knowledge of UNDP procurement procedures.

Weaknesses in procurement processes increase the probability of non-competitive procurement that may not be in the interest of UNDP and increase the risk of impropriety.

Priority	Medium (Important)
Recommendation 7:	
The Office should strengthen its procurement process by ensuring adequate procurement capacity and by maintaining adequate documentation of procurement processes.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.4 Supply management (inventory, warehousing and distribution)

Unsatisfactory

Issue 11 Inadequate management of stock inventory

The Standard Terms and Conditions of the Grant Agreement (article 19) between the Principal Recipient and the Global Fund require proper management of the stock inventory and distribution channel in order to avoid the delivery of perished or expired drugs to end users or the loss of drugs. Additionally, agreements between the Principal Recipient and the Sub-recipient in charge of distribution of the health products for the programme require the Sub-recipient to provide the Office with regular information on stock movement.

The Office contracted a national Sub-recipient to undertake inventory monitoring at the district level and provide quarterly updates on stock levels. With the exception of the July - December 2011 period, no other inventory reports had been provided for the 2011-2012 period by the Sub-recipient. Additionally, OAI's review of the reports for the July-December 2011 period showed that the closing balances for the July-September 2011 period and the opening balances for the October-December 2011 reporting periods differed by significant amounts for all the categories of medical products, and thus calling into question the reliability of the reports. Moreover, during the period under review, the Project Management Unit had not performed inventory counts for medical supplies at any level of the supply chain.

These weaknesses appear to be attributable to inadequate monitoring by the Project Management Unit and inadequate capacity at the Sub-recipient level.

Inadequate oversight over medical supplies could lead to undetected stock-outs, use of expired stock, or the loss and theft of medical supplies. It also affects the Office's ability to provide accurate and timely indicators to the Global Fund.

Priority	High (Critical)
Recommendation 8:	
The Office should strengthen its management of stock inventory by: (a) ensuring that the Sub-recipient responsible for the distribution of anti-malarial products complies with its contractual responsibility for monitoring and reporting on the stock balances; and (b) ensuring that if the Sub-recipient cannot meet its obligations, an alternative mechanism is put in place to ensure the timely collection and analysis of stock movement data from the point of distribution.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.5 Asset management **Partially Satisfactory**

The Programme and Operations Policies and Procedures state that the physical safeguarding of non-expendable assets is the responsibility of the Project Manager, who must ensure that assets are tagged and registered in Atlas as soon as they are received. Lost assets must be promptly investigated, and the Contracts, Asset and Procurement Committee authorize the removal of the assets from the asset list.

Issue 12 Inadequate management of assets

OAI noted that the Office did not register any of the project assets in Atlas. The Office maintained a list of such assets in a separate spread sheet. This list was prone to amendment or modification without any control. OAI was unable to confirm the completeness of the asset list provided by the Office. At least one laptop computer assigned to a Sub-recipient had not been recorded in the list of assets. With the exception of the vehicles and motorcycles, none of the UNDP asset tags assigned to the assets matched the tags on the asset list.

One motorcycle valued at \$3,800 purchased with Global Fund funds could not be accounted for.

A Sub-recipient reported that a theft had occurred on its premises in 2011. The documents provided to OAI regarding this theft did not identify the specific assets that were stolen (thus it is not possible to determine the book value of the asset), but only that a theft had occurred. No follow-up investigations had been undertaken to determine the circumstances under which the items were stolen. Furthermore, no action was taken to investigate and determine which assets were stolen, or to inform the Contracts, Asset and Procurement Committee of the stolen assets to facilitate their removal from the asset list.

These weaknesses appear to be attributable to inadequate oversight and monitoring by the Project Management Unit and the lack of a complete and accurate asset register.

Inadequate management of assets could jeopardize achieving the project objectives and exposes the Office to financial risks.

Priority	High (Critical)
Recommendation 9:	
<p>The Office should improve the management of assets by ensuring:</p> <p>(a) that all assets are properly tagged and registered in Atlas;</p> <p>(b) that any lost or stolen assets are reported and investigated in a timely manner in liaison with OAI and that the recommendations of the investigation report are completed; and</p> <p>(c) that periodic physical counts are performed and reconciled with the asset records in Atlas, with appropriate follow-up of any discrepancies noted.</p>	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

4.6 Individual contractors

Satisfactory

This area was considered as low risk during the planning phase. Therefore, no further testing was done.

5. Financial management

Unsatisfactory

Significant weaknesses were noted relating to adherence to the financial management control framework by the Programme Management Unit with respect to commitment control, approval and disbursement, as well as the execution of project cash advances.

5.1 Revenue and accounts receivable

Satisfactory

This area was considered as low risk during the planning phase. Therefore, no further testing was done.

5.2 Expenditures

Unsatisfactory

During the period audited, the Office issued 694 vouchers totalling approximately \$2.9 million. The audit team selected a sample of 28 vouchers representing 62 percent (\$1.8 million) of the total expenditures for testing and noted the issues presented below.

Issue 13 Inadequate financial management control procedures

Section 20.02 of UNDP's Financial Regulations and Rules envisage three critical authorities (project manager or commitment control, approving manager or reviewer control, and disbursing manager) that must be segregated. Specific to advances to government agencies acting as Implementing Partners, the highest authority of the Implementing Partner must clearly designate the project personnel authorized to request advances. Furthermore, the correct use of the Chart of Accounts is critical for accurate financial management and donor reporting. OAI noted several weaknesses in this area as follows:

- The internal control procedures for processing payments were not consistently executed to ensure proper segregation between the commitment, reviewer and disbursing authorities. There was no evidence that 7 of the 15 transactions reviewed (valued at approximately \$82,000) had been processed with adequate adherence to the commitment and reviewer controls, as the only documentation

available was the payment voucher. The payment request form required for non-purchase order vouchers had not been completed or had not been retained.

- The Office did not have a list of officers from the Implementing Partners/Sub-recipients that were authorized to initiate requests for financial funding from the project. It was therefore not possible to determine if the Sub-recipient officers who requested funds were actually authorized to do so.
- Unplanned activity charged on the Programme Budget: OAI noted that a mission conducted by the UNDP Management Consulting Team took place in February 2013 to assess the internal control framework of the Programme Management Unit. The cost of the mission amounting to \$47,000 was charged to the programme budget, although it had not been included in the work plan.
- One project cash advance in the amount of \$15,890 for the project was paid to an individual from a Government agency (voucher 40213). This expenditure could not be linked to budgeted activities. This expenditure is considered unjustified as it had not been duly authorized through the project budget or by special request to the Global Fund and should be recovered from the Government.
- A total of \$741,300 was paid to another United Nations agency for procurement and transportation services in 2012 and was recorded in various 7-series accounts, whereas it should have been recorded in account 16065 'prepaid voucher'.

These weaknesses were mainly attributable to inadequate knowledge of the applicable policies and procedures as well as weak oversight by the Office.

Priority	High (Critical)
Recommendation 10:	
<p>The Office should strengthen financial management control procedures by:</p> <p>(a) formally designating a project manager for each project and ensuring adequate segregation between the commitment, reviewer and disbursing authorities;</p> <p>(b) obtaining and maintaining a list of officers from the Implementing Partners/Sub-recipients that are authorized to initiate financial funding requests for the project; and</p> <p>(c) ensuring adequate controls are in place to assure that only planned/budgeted activities are funded/paid from the programme budget.</p>	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>The Office has identified a Financial Specialist within the Project Management Unit and is currently awaiting issuance of the letter of hire.</p>	

Issue 14 Inadequate monitoring and oversight of project cash advances

To facilitate project activities in remote locations, Country Offices sometimes provide cash advances. In this regard, a new policy was issued on 1 May 2013 to govern the issuance of project cash advances thus increasing the level of project cash on hand. Prior to that date, UNDP guidelines limited cash advances to \$500, requiring that higher limits must be authorized by UNDP Treasury.

OAI noted weaknesses in the internal controls relating to the management of cash advances to carry out project activities which were given to project staff and personnel by the Office. Specifically, OAI noted the following:

- Project cash advances totalling \$227,200 were recorded as direct expenses in various 7-series accounts as opposed to being recorded in the advance account 16007.
- There was no evidence of liquidation of two project cash advances (vouchers 36745 and 36681) amounting to \$27,615. Therefore, OAI could not determine if the funds were used to execute project activities as planned. The individual to whom these funds were paid has since left the Office.

Deficient controls over cash advances could lead to fraud and/or cash not being used for planned and allowable project activities.

Priority	High (Critical)
Recommendation 11:	
The Office should strengthen its monitoring and oversight of cash advances to projects by: (a) putting in place an adequate monitoring system to ensure that cash advances are promptly liquidated, including the recovery and timely deposit of any remaining balance (this includes following up on the unjustified cash advances worth \$27,615); and (b) ensuring that all cash advances are recorded in Atlas account 16007 only.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	

5.3 Reporting to the Global Fund

Satisfactory

OAI's review of this area did not identify any 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.