



AUDIT

OF

UNDP MALI

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

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

From 26 August to 6 September 2013, the Office of Audit and Investigations (OAI) conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 84293 and 85760 [HIV]), managed by the UNDP Country Office in Mali (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 November 2012 to 30 June 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$11 million. This was the first audit of the Office’s Global Fund-related activities conducted by OAI.

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 **satisfactory**, which means “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.” 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 | Satisfactory | | | |
| 1.2 Staffing | Satisfactory | | | |
| 1.3 Capacity development and exit strategy | Not Assessed | | | |
| 2. Programme management | | | | |
| 2.1 Project approval and implementation | Satisfactory | | | |
| 2.2 Monitoring and evaluation | Satisfactory | | | |
| 2.3 Grant closure | Not Applicable | | | |
| 3. Sub-recipient management | | | | |
| 3.1 Selection, assessment and contracting | Satisfactory | | | |
| 3.2 Funding | Not Assessed | | | |
| 3.3 Reporting | Partially Satisfactory | | | |
| 3.4 Oversight and monitoring | Partially Satisfactory | | | |
| 3.5 Audit | Not Assessed | | | |

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

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|---|---|------------------------|--|--|
| 4. Procurement and supply management | | | | |
| 4.1 | Quantification and forecasting | Partially Satisfactory | | |
| 4.2 | Procurement of health products | Satisfactory | | |
| 4.3 | Quality assurance of health products | Partially Satisfactory | | |
| 4.4 | Procurement of other goods and services | Satisfactory | | |
| 4.5 | Supply management (inventory, warehousing and distribution) | Partially Satisfactory | | |
| 4.6 | Asset management | Satisfactory | | |
| 4.7 | 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

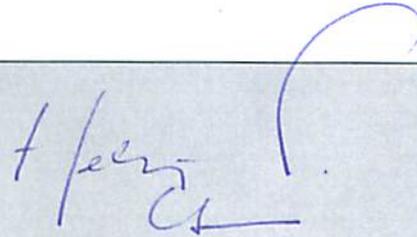
The audit raised 6 issues and resulted in 5 recommendations, of which 2 (40 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

The high priority recommendations are as follows:

| | |
|--|--|
| <p>Quantification and forecasting (Issue 3)</p> | <p><u>Weaknesses in quantification and forecasting processes.</u> OAI noted a lack of control over the health products budget. The Programme Management Unit used the estimates submitted by the Government to finalize its Procurement Supply Management Plan (health products, e.g. reagents, diagnostic technologies and supplies, etc.), without having performed quality control procedures to determine the reasonableness of the data. As of the end of June 2013, there was a budget deficit of \$1.1 million for reagents and supplies, which meant that the Office would be unable to re-order reagents for the third and fourth quarters of 2013. Further, the Quantification and Forecasting Committee had not met on a regular basis, and changes were made to the national treatment protocol without considering the stock on hand. OAI recommends that the Office strengthen controls over the quantification and forecasting processes by: (a) ensuring that the Quantification and Forecasting Committee meets on a regular basis; and (b) liaising with the national health authorities in order to consider distribution of the stock on hand before discontinuing the use of any medicine from the national treatment protocol.</p> |
| <p>Supply management (inventory, warehousing and distribution) (Issue 6)</p> | <p><u>Inadequate control over health product stocks.</u> A number of the recommendations and activities included in the Procurement and Supply Management Plan had not been implemented. The more critical ones related to the monitoring of the stock. No field verifications of stock and no physical inventory counts were performed by the Programme Management Unit. OAI recommends that the Office ensure that the activities included in the Procurement Supply Management Plan are implemented in a timely manner by: (a) organizing and conducting joint field visits each semester that include participation by the responsible national partner; (b) periodically following up with the responsible Sub-recipient to ensure the timely submission of accurate inventory reports; and (c) ensuring that mid-year and end-year inventories are performed at the central and regional warehouses.</p> |

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 26 August to 6 September 2013, OAI conducted an audit of two grants from the Global Fund (Project Nos. 84293 and 85760 [HIV]) managed by UNDP Mali 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 November 2012 to 30 June 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$11 million. This was the first audit of the Office's Global Fund-related activities conducted by OAI.

II. Profile of Global Fund grants managed by UNDP Mali

Since November 2012, UNDP has been the Principal Recipient of HIV Global Fund grants in Mali (the Country).³

| Grant No. | Project ID | Description | Start Date | End Date | Budget (in \$'000) | Funds Received as of 30 Jun 2013 (in \$'000) | Implementation Rate | Expenditures as of 30 Jun 2013 (in \$'000) | Global Fund Rating at 30 Jun 2013 |
|-------------------|------------|-------------|-----------------------|------------------------|----------------------|--|---------------------|--|-----------------------------------|
| MAL-812-G09-H | 00084293 | HIV | 1 Dec 2012 (Phase II) | 31 Oct 2015 (Phase II) | 75,968.45 (Lifetime) | 20,225.34 | N/A | 11,143.14 | N/A |
| MAL-812-G09-H-D01 | 00085760 | HIV | 1 Oct 2011 (Phase II) | 30 Sep 2013 (Phase II) | 159.37 | 65.7 | N/A | – | N/A |
| Totals | | | | | 76,127.82 | 20,291.04 | | 11,143.14 | |

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

³ Information provided by the Office as of 31 August 2013.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

UNDP was selected as Principal Recipient of the HIV Global Fund grants, Phase II, starting 1 November 2012 through 30 October 2015.

1.1 Organizational structure

Satisfactory

The Office established a Programme Management Unit and had completed the recruitment of most staff and personnel by the end of April 2013. OAI assessed the existing staffing level to be adequate for the implementation of the programme.

The Global Fund programme was managed under a zero cash policy, which implies that nearly all expenditures are handled directly by UNDP.

No reportable issues were noted.

1.2 Staffing

Satisfactory

The Programme Management Unit comprised of four international staff members under fixed-term appointments and included the Programme Coordinator, Monitoring and Evaluation Specialist, Financial Management Specialist and Procurement and Supply Management Specialist. A total of 12 service contract holders were recruited to assist in the monitoring and evaluation, the financial management and the procurement and supply management activities.

At the time of the audit, the Office was recruiting an Operations Manager and an International Consultant for capacity development activities.

The files of all staff and personnel were reviewed for completeness and no issues were noted.

1.3 Capacity development and exit strategy

Not Assessed

At the time of the audit, UNDP had been Principal Recipient for only 10 months. Therefore, issues related to capacity development have been dealt with in the sections relating to Programme management and Sub-recipient monitoring. Similarly, the exit strategy was not yet relevant to the management of the grants by the Office and was not assessed.

2. Programme management

Satisfactory

The grants were signed in November 2012, at the beginning of Phase II of Round 8 HIV, with a duration of three years. All clearances from the Legal Support Office and the Bureau for Development Policy were obtained.

2.1 Project approval and implementation

Satisfactory

The Office signed a grant agreement with the Global Fund for Phase II of Round 8 HIV grant on 19 November 2012. The absorption rate of the fund was low (16 percent) and the Global Fund had not yet assigned a rating to the grant.

The Project Document was initially submitted for review to the Local Project Appraisal Committee on 15 August 2012.

According to the Global Fund management letter (dated March 2013), the number of patients under antiretroviral treatment had been overestimated by at least 18 percent. As a result, an onsite data verification mission was conducted in September 2013 with the participation of all partners, including UNDP. The results of this mission would be used as reference data for the next round of quantifications, as well as for the re-evaluation of the grant performance context. Consequently, there is a risk that the programme performance may be negatively impacted since targets may not be reached. Once the results of the onsite data verification are accepted, the Office will need to discuss its results with the Global Fund and agree on a new set of baselines and targets to be achieved. This process is also described in the details of the letter from the Network of People Living with HIV/AIDS in Mali to the Global Fund, dated 3 October 2013.

OAI further noted that the Office implemented six out of eight conditions precedent to disbursement and was endeavouring to implement the remaining two conditions.

2.2 Monitoring and evaluation

Satisfactory

The Monitoring and Evaluation Plan submitted by the Office, was approved by the Global Fund in August 2013 and the Performance Plan for the capacity development of Sub-recipients was approved in October 2013.

Issue 1 Weaknesses in the project set-up in Atlas

OAI noted weaknesses in the project set-up in Atlas. Although the project budget was entered in Atlas, all the programmatic parts were still missing, including the following:

- Output and activity details
- Output targets and results
- Activity Plan Results and assessment
- Project Monitoring set up
- Risk log, monitoring log, and issue log
- Outputs attributes (Gender Marker)
- Project was not linked to Programme Tree and not linked to the Office's Integrated Work Plan

Poor monitoring of the project in Atlas increases the risk that issues that may negatively impact the project and outcomes may not be identified and resolved in a timely manner.

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| Priority | Medium (Important) |
| Recommendation 1: | |
| The Office should incorporate all programmatic data into Atlas, and link the project to the Office's Programme Tree to facilitate monitoring of the project through the system. | |
| Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed | |
| All programmatic data was being integrated into Atlas. | |

2.3 Grant closure

Not Applicable

The section was not applicable to the audit, as the Office's management of the grants had an expected completion date of October 2015.

3. Sub-recipient management

Partially Satisfactory

Five Sub-recipients were contracted by the Office as follows:

- Three governmental institutions, one of which represents the national HIV programme at the Ministry of Health, the second being responsible for the supervision of the collection of data in the field and for the distribution of medicine to treatment sites from the district warehouses, and the third being the national warehouse responsible for the storage of medicine and its distribution to the districts and regions.
- Two non-governmental organisations, one in charge of HIV therapy and communication with the patients and the other providing training and acting in a supervisory role.

OAI visited four Sub-recipients to discuss the programme activities and other challenges faced in implementing the programme.

3.1 Selection, assessment and contracting

Satisfactory

The preliminary procedures, as per the UNDP's Global Fund Operations Manual grants managed by UNDP, for assessing, contracting and signing the agreements with the Sub-recipients were reviewed by OAI. No reportable issues were identified.

3.2 Funding

Not Assessed

The Global Fund programme is being implemented using the zero-cash policy, and therefore, there were no transfers of funds to Sub-recipients. As such, this area was not applicable to the audit and has not been assessed.

3.3 Reporting

Partially Satisfactory

OAI sampled three quarterly progress reports (one for each of the three governmental Sub-recipients) submitted by each Sub-recipient, between January and April 2013. The quality of the programmatic sections could be improved, as discussed in section 3.4 below. In addition, the Sub-recipients were also submitting in a timely manner their annual reports, in line with the grant agreements.

3.4 Oversight and monitoring

Partially Satisfactory

Issue 2 Weaknesses in Sub-recipient monitoring

As per the UNDP Global Fund Operations Manual, Sub-recipient oversight and monitoring should be performed through quarterly joint field visits with national partners and reports should include results and any issues requiring further monitoring.

OAI noted that only one quarterly joint mission had been conducted by the Office. The lack of monitoring impacted the production of reliable and qualitative Progress Update/Disbursement Request (refer also to Financial management, section 5). The Global Fund indicated to OAI that the programmatic section of the Progress Update/Disbursement Request needed improvement, and that consequently, not all of the progress made in the implementation of the Global Fund programme was reflected in the Grant Performance Report maintained by the Global Fund. The Office stated that the missions were not conducted because the national partners considered the Daily Subsistence Allowance paid by the Office to be too low. The Office further indicated it had officially contacted the Ministry of Health on 12 September 2013 to alert them to this situation and to explain that it may jeopardize the implementation of the project, and consequently the attainment of its objectives and financing by the Global Fund which is based on performance achieved.

OAI was informed that the Network of People Living with HIV/AIDS in Mali had made a complaint to the Global Fund about the insufficient number of treatment centres available. On 3 October 2013, the Global Fund provided a response to this complaint, indicating that going forward, meetings would be held with Sub-recipients every 15 days in order to confirm that all treatment centres were functioning properly. Once confirmed, new treatment centres would be opened.

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| Priority | Medium (Important) |
| Recommendation 2: | The Office should conduct quarterly joint missions as stipulated in the Monitoring and Evaluation Plan. |
| Management comments and action plan: | <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed |
| | The Office was engaged in discussions with the Government on the implementation of the project activities using the initially agreed upon Daily Subsistence Allowance, and as approved by the Global Fund. |

3.5 Audit

Not Assessed

The total expenditures per Sub-recipient in 2012 did not exceed the threshold of \$300,000 and therefore, did not require an audit of expenditure.

Therefore, this area was not assessed.

4. Procurement and supply management

Partially Satisfactory

During the period under review, the Office issued 688 purchase orders valued at approximately \$9.3 million. The total procurement of health products amounted to \$8.3 million (89 percent of total procurement), while the procurement of non-health products was around \$1 million (11 percent of total procurement).

4.1 Quantification and forecasting

Partially Satisfactory

Issue 3 Weaknesses in the quantification and forecasting processes

As per the UNDP Global Fund Operations Manual “Quantifying drug needs is one of the most important parts of the procurement and supply chain. If drug needs are underestimated, it could lead to insufficient supply and interruption of patients’ treatment. If drug needs are overestimated, resources may be wasted, as pharmaceuticals have a limited shelf-life.”

OAI noted the following weaknesses regarding the quantification and forecasting process:

(a) Lack of control over the health products budget

As per the UNDP Global Fund Operations Manual “the Procurement and Supply Management budget should be reviewed by the Principal Recipient before transmission to the Local Fund Agent and the Global Fund including the necessity for the Principal Recipient to confirm the reasonableness of quantities and unit prices.”

The Programme Management Unit used the estimates submitted by the Government to finalize its Procurement and Supply Management budget (health products, e.g. reagents, diagnostic technologies and supplies etc.). OAI noted that no quality control was performed on the data submitted by the national partners to ensure reasonableness. This resulted in a budget deficit of \$1.1 million at the end of June 2013 and the Office did not have funds to re-order reagents for the third and fourth quarters of 2013. The subsequent analysis performed by the Programme Management Unit revealed that the budget overrun was due to the fact that national partners used a unit price that was too low when preparing the 2013 budget. The Office further confirmed to OAI that the budget deficit for reagents was due to a mistake on the unit cost and that the deficit was communicated by the Project Management Unit to all partners before the launch of Phase II.

Inadequate quality control over the data submitted by the national partners can affect the Office’s ability to meet the programme outputs effectively and efficiently due to the potential for shortages and overstocks, and may also affect the credibility of UNDP as Principal Recipient.

OAI did not raise a recommendation as the issue was beyond the control of the Office and was not expected to re-occur.

(b) Quantification and Forecasting Committee had not met on a regular basis

A Quantification and Forecasting Committee was set up to coordinate and ensure adequate performance of quantification and forecasting activities and to follow up and evaluate all activities related to procurement and supply management. As per the Procurement and Supply Management Plan, UNDP should lead the Quantification and Forecasting Committee.

According to the Terms of Reference of the Quantification and Forecasting Committee, quarterly meetings should take place and the technical group (part of the Quantification and Forecasting Committee) should meet monthly to provide recommendations to the Committee. OAI requested the minutes of the Committee meetings and only received the minutes for the fourth quarter of 2012. No meetings took place in 2013.

The lack of meetings contributed to the weaknesses noted in the procurement process which resulted in shortages of health products (ARV Tenofovir + lamivudine [150+300] mg during the first quarter of 2013, and tests of diagnostic and reagents during the first and second quarters of 2013) and losses due to expired products. The Office informed OAI that the National Committee for Quantification was reactivated and a meeting was scheduled to take place on 6 November 2013.

(c) Changes on national treatment protocol without consideration of stock on hand

According to the Procurement Supply Management Guidelines, the Principal Recipient is accountable “from product selection to the rational use of medicines.”

In April 2011, as a result of clinical tests, the National Scientific Committee recommended giving priority to the procurement of two more efficient new medicines and downgrading the medicine formerly used (Etravirine) as a last resort. On that basis, the national authorities decided unilaterally to stop the distribution of the Etravirine medicine already purchased but not yet expired even though the stock level was very high and amounted to \$140,000. The Etravirine had an expiry date of December 2013 and this decision resulted in an overall loss estimated to be around \$140,000. However, OAI noted that the recommendation from the National Scientific Committee was only referring to new procurements and did not take into account the stock on hand and did not prohibit the use of the available Etravirine in stock. The Programme Management Unit explained that these stocks were purchased by the national authorities using government funds. OAI was concerned that such a scenario may occur again in the future for health products purchased by UNDP.

The Office indicated that the national partner had initiated the changes in treatment protocols and the procurement of the new medicines in 2011, and prior to the start of the current programme at the end of 2012.

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| Priority | High (Critical) |
| Recommendation 3: | |
| The Office should strengthen controls over the quantification and forecasting processes by: (a) ensuring that the Quantification and Forecasting Committee meets on a regular basis; (b) liaising with the national health authorities in order to consider distribution of the stock on hand before discontinuing the use of any medicine from the national treatment protocol. | |
| Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed | |
| The Office initiated actions to implement the recommendation, as follows: | |
| <p>(a) The Office contacted the Ministry of Health to reactivate the National Committee of Quantification. Meetings were organized to this effect under the leadership of UNAIDS. A decree to establish the Committee had been drafted. The Office was following up on its approval and implementation.</p> <p>(b) Measures had been taken in order to avoid similar incidents in the future. In addition, a harmonization of all protocols was being considered by the World Health Organization. Once completed, training will be organized. The Office will ensure that protocols are not changed until existing stock is used.</p> | |

4.2 Procurement of health products **Satisfactory**

The Office issued 300 purchase orders for health products valued at \$8.3 million. OAI tested a sample of 14 purchase orders, valued at approximately \$2.2 million to review for compliance with the UNDP procurement policies and procedures.

All procurement of anti-retroviral drugs and drugs for opportunistic infections 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 issue was noted.

4.3 Quality assurance of health products **Partially Satisfactory**

Issue 4 Weaknesses in quality control process

As per the Global Fund Procurement and Supply Management Guidelines, the Principal Recipient “shall monitor the quality of pharmaceutical products throughout the supply chain system. In collaboration with the relevant national pharmaceutical regulatory authority, recipients shall arrange for testing of random samples of finished pharmaceutical products to be taken at different points in the supply chain, from the point of initial receipt of the products to their eventual delivery to patients.”

OAI noted that quality control operations were conducted at the central warehouse, as each shipment of pharmaceuticals and medical products was physically inspected upon receipt by the national laboratory with the presence of the Programme Management Unit’s Pharmacist. However, quality control operations were not conducted in regional warehouses or at the treatment sites. The Programme Coordinator informed OAI that quality and stock control activities would be conducted beginning in the fourth quarter of 2013.

Inadequate quality control processes expose UNDP to the risk that the health products distributed to patients may not be of acceptable quality to provide the intended treatment result.

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| Priority | Medium (Important) |
| Recommendation 4: | |
| The Office should improve the quality control processes over health products by: (a) ensuring that health products continue to conform to the manufacturer’s established quality specifications during the storage, distribution and use of such products; and (b) undertaking field visits to ensure that products stored in regional warehouses and treatment sites comply with the quality standards required for their intended use. | |
| Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed | |
| The recommendation will be implemented. The Office further added that quality control should be in liaison with the quality assurance plan of the Country which was not available to date and which will require funding once it is made available. However, it was anticipated that assistance from the Bureau for Development Policy would be provided in November 2013 to support the elaboration of this plan. In the meantime, the Office would ensure that the quality control is performed based on the international regulations. | |

4.4 Procurement of other goods and services

Satisfactory

OAI tested a sample of 13 purchase orders amounting \$142,100, representing 14 percent of the total amount of purchase orders issued for non-health products during the audited period. The total amount of non-health products purchased was around \$1 million. No reportable issues were identified.

4.5 Supply management (inventory, warehousing and distribution)

Partially Satisfactory

Issue 5 Inadequate Insurance over medical supplies throughout the supply chain

As per the UNDP Global Fund Operations Manual, "UNDP is required to ensure that an insurance policy, covering the entire supply chain from the supplier to the treatment sites, has been signed prior to any procurement of health products."

The Project Management Unit provided evidence of an insurance policy covering the distribution process from the supplier to the regional warehouses. However distribution from regional warehouses to treatment sites was not covered by an insurance policy. The Project Management Unit stated that they were aware of the problem and had previously initiated negotiations with the insurance company; however, due to the security situation in the Country, the insurer's conditions were very difficult to meet.

Following the audit mission, the Office held a meeting in October 2013 with the national partner. Subsequent to the meeting, the insurance coverage for distribution from the central warehouse to the regions will be contracted for by the national partner and funded by the programme.

As corrective action took place, OAI is not raising a recommendation.

Issue 6 Inadequate control over health product stocks

Two key elements necessary to ensuring that high quality medical products actually reach the intended user are adequate storage and distribution systems.

OAI noted the following:

- (a) Lack of spot checks by the Programme Management Unit - According to the UNDP-Global Fund procedures, the Principal Recipient should conduct spot checks to ensure that the stock levels declared are accurate (mainly the stocks of regional warehouses and treatment sites). OAI noted that during the period under review, the Project Management Unit had not performed spot checks and inventory counts for medical supplies at any level of the supply chain.
- (b) Weaknesses in physical inventory counts - Agreements between the Principal Recipient and the Sub-recipient in charge of the distribution of the programme's health products, requires the Sub-recipient to provide the Office with regular information on stock levels and stock movement. The Programme Management Unit did not ensure that mid-year and end year inventories were performed at the central and regional warehouses. Therefore, the Programme Management Unit was only using the reported stock levels communicated by the Sub-recipient in order to forecast medical orders.

The review of communications between the Global Fund and the Network of People Living with HIV/AIDS in Mali indicated that all distribution issues between UNDP and the respective Sub-recipient were being examined in order to avoid stock-outs or discrepancies.

The Office commented that as the programme was launched in November 2012, the first purchase orders were raised in the beginning of February 2013. Based on the start date for management of the grants and the realization of activities, only one physical inventory should have taken place during the audit period, but was actually performed subsequent to the audit mission.

Inadequate oversight over medical supplies could lead to undetected stock-outs, use of expired stock, or the loss and theft of medical supplies.

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| Priority | High (Critical) |
| Recommendation 5: | |
| The Office should ensure that the activities included in the Procurement Supply Management Plan are implemented in a timely manner by: | |
| <ul style="list-style-type: none"> (a) organizing and conducting joint field visits each semester that include participation by the responsible national partner; (b) periodically following up with the responsible Sub-recipient to ensure the timely submission of accurate inventory reports; and (c) ensuring that mid-year and end-year inventories are performed at the central and regional warehouses. | |
| Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed | |
| Management clarified that the project is at its beginning stage, and that the missions were not conducted because the partners disagreed with the Daily Subsistence Allowance level provided for the execution of the project. Nevertheless, the project requirements have been taken into account and the missions will be organized during the fourth quarter of the year. | |
| The follow-up on reporting by the Sub-recipients will be reinforced as part of the efforts to continuously improve quality and adhere to the deadlines. | |

4.6 Asset management

Satisfactory

For the period under review, the Project Management Unit recorded 39 assets in Atlas with a book value of about \$0.19 million.

OAI selected a sample of 12 assets for physical verification. However, it was difficult to cross-check the assets available in the office and the assets contained in the Atlas list of assets because the list of assets did not show the serial numbers, asset ID and tag numbers recorded in Atlas. This issue was discussed with the Asset Management Focal Point of the Project Management Unit, who took immediate action to address the issues. Thus, OAI did not raise an audit issue.

No other reportable issues were identified.

4.7 Individual contractors

Satisfactory

Three individual contracts were signed during the audit period. The recruitment was done by the Bureau for Development Policy to support the initial stages of the programme. All consultants had already completed their

assignments and the deliverables had been met. The Office provided OAI with copies of the contracts. OAI reviewed these contracts and did not identify any reportable issues.

5. Financial management

Satisfactory

5.1 Revenue and accounts receivable

Satisfactory

Funds received from the Global Fund amounted to \$20 million. Receipts of funds were in accordance with the agreed upon budget. No reportable issues were identified.

5.2 Expenditures

Satisfactory

A sample of non-health product expenditures was reviewed for completeness and correctness. The sample tested amounted to \$142,100, representing 20 percent of the total vouchers processed for non-health products for the period under review. No reportable issues were identified.

5.3 Reporting to the Global Fund

Satisfactory

OAI noted that the Progress Update/Disbursement Requests for the third quarter had not been submitted to the Global Fund, even though the deadline was 15 August 2013. Based on feedback from the Programme Management Unit, the delay was due to the fact that Sub-recipients did not submit their respective reports on time. The Programme Management Unit committed to speeding up its submission, and therefore, OAI did not raise an issue. The report was finally submitted after the fieldwork was conducted. No other reportable issues were identified.

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.