



AUDIT

OF

UNDP DEMOCRATIC REPUBLIC OF THE CONGO

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

Report No. 1190
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Report on the audit of UNDP Democratic Republic of the Congo Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 17 to 28 June 2013, the Office of Audit and Investigations (OAI) conducted an audit of four grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 53596 [TB Round 5], 63527 [HIV Round 7], 73867 [HIV Round 8], and 74247 [Malaria Round 8]) managed by the UNDP Country Office in the Democratic Republic of the Congo (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 August 2012 to 30 April 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$6.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

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

Audit rating

OAI assessed the Office's management of Global Fund grants as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in the programme management, Sub-recipient management, procurement/supply management and financial management areas. 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	Not Applicable			
1.2 Staffing	Not Applicable			
1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Not Applicable			
1.4 Capacity building and exit strategy	Not Applicable			
2. Programme management				
2.1 Project approval and implementation	Not Applicable			
2.2 Conditions precedent to disbursement and special conditions	Not Applicable			
2.3 Monitoring and evaluation	Not Applicable			
2.4 Grant closure	Partially Satisfactory			

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

3. Sub-recipient management			
3.1 Selection, assessment and contracting	Not Applicable		
3.2 Funding	Unsatisfactory		
3.3 Reporting	Not Applicable		
3.4 Oversight and monitoring	Satisfactory		
3.5 Audit	Not Applicable		
4. Procurement and supply management			
4.1 Procurement of health products	Partially Satisfactory		
4.2 Quality assurance of health products	Satisfactory		
4.3 Procurement of other goods and services	Partially Satisfactory		
4.4 Supply management (inventory, warehousing and distribution)	Satisfactory		
4.5 Asset management	Partially Satisfactory		
4.6 Individual contractors	Satisfactory		
5. Financial management			
5.1 Revenue and accounts receivable	Not Applicable		
5.2 Expenditures	Partially Satisfactory		
5.3 Reporting to the Global Fund	Satisfactory		

Key issue/s and recommendations

The audit raised 6 issues and resulted in 6 recommendations, of which 3 (50 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:

- | | |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding
(Issue 2) | <u>Lack of documentation to support liquidation of advances to Sub-recipients.</u> OAI’s reconciliation of the advances outstanding from August 2012 indicated that there was an unliquidated advance balance of at least \$111,900 relating to the Malaria Round 8 grant. In some instances, the amount liquidated over the life of the grant for a given Sub-recipient exceeded the amount advanced, forcing the Office to record Sub-recipient refunds directly against expense accounts rather than against the advance account. In other instances, the Office liquidated entire Sub-recipient advances without reviewing the underlying financial reports and supporting documents to determine eligibility of the related expense. To ensure proper liquidation of advances to Sub-recipients, OAI recommends that the Office: (a) review and reconcile all journal vouchers relating to the liquidation of advances to Sub-recipients made from 1 August 2012 and ensure that they are backed with appropriate supporting documentation; and (b) follow up on any advances which remain unjustified to either obtain supporting documentation or refunds from Sub-recipients. |
| Procurement of health products
(Issue 3) | <u>Inadequate management of outstanding liabilities.</u> In June 2011, test kits with a value of \$0.4 million were stolen from a holding cell at the airport prior to reaching the freight forwarder’s warehouse. The freight forwarder denied any responsibility for replacing or repaying the value of the stolen test kits. While the Office has been working with the various parties in order to recover the disputed amount, more than two years have passed without an agreement between the parties on accountability. To facilitate grant closure, OAI recommends that the Office work with the Legal Support Office and explore all possible means to manage the outstanding liability. |

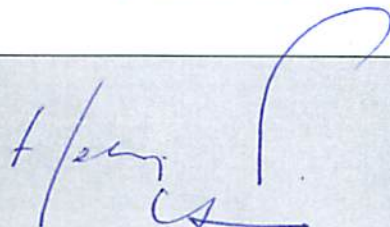
Asset
management
(Issue 5)

Inadequate management of assets. The Programme Management Unit had not conducted the annual physical inventory verification since 2010, and the majority of Sub-recipients had not reported their assets certification on a six-month basis, as required by the agreement with the Global Fund. This lack of control and oversight had resulted in the loss of, damage to and/or stolen assets which had not been detected in a timely manner. The 2013 physical inventory conducted by the Office in conjunction with the new Principal Recipients determined that 7 vehicles were not inventoried, 8 were not physically located although they were reported as existing, 2 vehicles were sold by Sub-recipients without authorization from UNDP, and 2 generators could not be traced. As of 30 June 2013, the Office had only collected 97 out of 326 vehicle license plates issued by the Government to UNDP and subsequently provided to Sub-recipients. To facilitate the timely closure of the Global Fund grants, OAI recommends that the Office: (a) determine all lost/stolen items, prepare and submit the Request for Asset Disposal and Theft for submission to the Contracts, Assets and Procurement Committee for review to facilitate the removal of the lost assets from the asset register; and (b) obtain confirmation from the appropriate ministry that all license plates for which UNDP is responsible have been cancelled or revoked.

The implementation status of previous Global Fund audit recommendations (Report No. 1066, 16 May 2013) was also validated. Of the 4 recommendations, 1 was fully implemented and 3 were in progress.

Management comments and action plan

The Resident Representative/Resident Coordinator and the Programme Manager of the HIV/AIDS Group of the Bureau for Development Policy accepted all six recommendations and are in the process of implementing them.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Introduction

From 17 to 28 June 2013, OAI conducted an audit of four grants from the Global Fund (Project Nos. 53596 [TB Round 5], 63527 [HIV Round 7], 73867 [HIV Round 8], and 74247 [Malaria Round 8]) managed by UNDP Democratic Republic of the Congo 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 grant closure activities related to the Office's management of Global Fund grants in the following areas: programme management, Sub-recipient management, procurement and supply management and financial management. The audit covered activities during the period from 1 August 2012 to 30 April 2013. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$6.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The implementation status of previous Global Fund audit recommendations (Report No. 1066, 16 May 2013) was also validated. Of the 4 recommendations, 1 was fully implemented and 3 were in progress.

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

Since 2003, UNDP has been the Principal Recipient of Global Fund grants in the Democratic Republic of the Congo (the Country).

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

Grant No	Project ID	Description	Start Date	End Date	Lifetime Budget (In \$'000)	Funds Received As of 30 Apr 2013 (In \$ '000)	Expenditures As of 30 Apr 2013 (In \$ '000)	Implementation Rate	Global Fund Rating at 30 Apr 2013
ZAR-506-G04-T	53596	TB	(Phase I & II R5) 1 Oct 2006	(Phase I & II R5) 30 Sept 2011	32,009	29,007	29,003	99%	B1
ZAR-708-G06-H	63527	HIV	(Phase I & II R7) 1 Dec 2008	(Phase I & II R7) 30 Jun 2012	38,344	38,214	35,184	92%	C
ZAR-809-G10-H	73867	HIV	(Phase I R8) 1 Oct 2010	(Phase I R8) 30 June 2012	56,363	51,421	48,416	94%	C
ZAR-810-G09-M	74247	Malaria	(Phase I R8) 1 Mar 2010	(Phase I R8) 30 June 2012	19,822	18,010	17,838	99%	A2
Total					146538	136652	130441	95%	

III. Detailed assessment

1. Governance and strategic management

Not Applicable

The Office was the only Principal Recipient for HIV Round 7 (2008-2012), TB Round 5 and Round 6 (2010-2011) and was co-Principal Recipient for HIV Round 8 (2010-2012) and Malaria Round 8 (2010-2012). All activities under the HIV Programme under grants ZAR-708-G06-H (HIV Round 7, Phases 1 & 2) and ZAR-809-G10-H (HIV Round 8, Phase 1), were to be transferred to new Principal Recipients. In addition, the Global Fund intended to transfer all activities under grant number ZAR-810-G09-M (Malaria Round 8, Phase 1) to another Principal Recipient, which had co-managed the grants, and to the government ministry which would be the new Principal Recipient for Malaria Round 10 (Malaria Round 10 would be consolidated with Malaria Round 8). The final close-out of the grants was originally anticipated on 30 November 2012 for Tuberculosis Round 5, 31 December 2012 for Malaria Round 8 and 30 June 2013 for HIV Round 8. However, at the time of the audit, final close out for all grants was set for 30 June 2013.

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

1.1 Organizational structure

Not Applicable

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

1.2 Staffing

Not Applicable

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

1.3 Cooperation and coordination with Country Coordinating Mechanism and other stakeholders

Not Applicable

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

1.4 Capacity building and exit strategy

Not Applicable

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

2. Programme management

Partially Satisfactory

The area of programme management related to closure activities was considered medium risk, as the Office was already in the process of phasing out of the management of all grants by June 2013. The programme management area was rated as “partially satisfactory” mainly due to inaccurate estimates of project cash balances that negatively affected the implementation of grant closure activities.

2.1 Project approval and implementation

Not Applicable

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

2.2 Conditions precedent to disbursement and special conditions

Not Applicable

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

2.3 Monitoring and evaluation

Not Applicable

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

2.4 Grant closure

Partially Satisfactory

Issue 1 Inaccurate project cash balances

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

The adjustments to the cash balances noted in the management letters from the Global Fund following its review of the Progress Update/Disbursement Requests had not been consistently factored into the opening grant balances of the subsequent reporting period by the Office. For example, TB grant staff salaries amounting to \$30,420 were incorrectly reported as Malaria grant staff salaries for the July 2011 to February 2012 reporting period and were highlighted in the adjusted cash balance reported by the Global Fund in their management letter for the Malaria Round 8 grants issued on 26 Sept 2012. For the HIV Round 7 grant, the Global Fund management letter of 22 October 2012 indicated that ineligible amounts totalling \$167,140 had been factored into the Global Fund adjusted cash balance for the period under review. The Office did not make the necessary adjustments to the cash balances nor had it made the appropriate corrections in Atlas in either of these instances. As such, the cash balance for both the TB and the HIV grants were inaccurate and needed to be corrected to account for all adjustments made by the Global Fund through the various management letters from the inception of the grants. This would likely result in delays in the grant closure process.

The final Progress Update report for the Malaria Round 8 grant reported an opening cash balance of \$2,200,672 while the closing balance for the previous period was \$586,174. In addition, a disbursement of \$1,606,825

released on 26 September 2012 was not reflected in the Progress Update report. This Progress Update report had been submitted to the Global Fund and would need to be corrected, which would also likely delay grant closure.

Only six staff remained to carry out the financial closure of the grants. Thus, it was not clear how the Office would be able to comply with similar requests for support documentation from the Local Fund Agent regarding the outstanding Progress Update reports relating to the three other grants without causing delays.

Priority	Medium (Important)
Recommendation 1:	
To facilitate timely grant closure, OAI recommends that the Office review and revise the cash balances for all grants, ensuring that all necessary adjustments are taken into account.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The following action has been taken to implement the recommendation:	
After reviewing the various Progress Update Reports/Enhanced Financial Reports, the Project Management Unit has revised the cash balances since the audit field work. These revisions will be reflected in the submission of final financial reports.	

3. Sub-recipient management **Partially Satisfactory**

The grant agreements were implemented using the zero-cash policy since November 2011, meaning no cash advances were provided to Sub-recipients. Nevertheless, there were cash advances that had been issued prior to November 2011 and which remained outstanding at the time of the audit.

3.1 Selection, assessment and contracting **Not Applicable**

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

3.2 Funding **Unsatisfactory**

Since November 2011, the Office had been using the direct payment and direct reimbursement modality for expenses related to Sub-recipient activities.

The Finance Unit was responsible for the validation of documents submitted in support of direct payment requests from Sub-recipients. It was also responsible for the review of documents submitted to support liquidation of outstanding advances.

Issue 2 Lack of documentation to support liquidation of advances to Sub-recipients

Advances made to all Sub-recipients must be recorded under the advance account 16005 and must be liquidated within three months based on the Office’s review of the monthly reports and supporting documentation submitted by the Sub-recipient.

Though the Office reported that all Sub-recipient advances had been fully liquidated, OAI’s review of the Malaria Round 8 advances outstanding since August 2012 indicated that there was an outstanding balance of at least \$111,900 for this grant alone. In some instances, the total amount liquidated in Atlas over the life of the grant for a given Sub-recipient exceeded the amount recorded as advanced, forcing the Office to record refunds from the Sub-recipient directly against expense accounts rather than against the advance account 16005. This was the case for two refunds in the amount of \$9,923 and \$5,025 from two different Sub-recipients. In other instances, the Office had liquidated entire advances to Sub-recipients without first reviewing the financial reports and supporting documents to determine the eligibility of the related expenses. For example, an advance of \$115,119 (voucher 162679) was liquidated to zero long before the financial report documenting the use of the funds advanced was received. This situation arose because the Office did not systematically liquidate Sub-recipient advances against the quarterly report and supporting expenditure documentation relating to the specific advance.

Priority	High (Critical)
Recommendation 2:	
To ensure proper liquidation of advances to Sub-recipients, the Office should: (a) review and reconcile all journal vouchers relating to the liquidation of advances to Sub-recipients made from 1 August 2012 and ensure that they are backed with appropriate supporting documentation; and (b) follow up on any advances which remain unjustified to either obtain supporting documentation or refunds from Sub-recipients.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The following actions have been taken to implement the recommendation:	
The Office clarified that the \$111,900 was part of an advance of \$115,119 for one of the Sub-recipients. Subsequent to the completion the audit field work and following a review of relevant supporting documentation submitted totalling \$41,733, the Project Management Unit rejected \$22,463 of the expenditures for lack of supporting documentation and accepted expenditures amounting to approximately \$19,270. Therefore, the balance that the Sub-recipient is expected to refund is \$95,850.	

3.3 Reporting

Not Applicable

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

3.4 Oversight and monitoring

Satisfactory

The review of this area focussed on the implementation of Issue 5, Recommendation 3 from the previous audit report (Report No. 1066). This recommendation covered the implementation of measures to ensure that all financial liabilities were identified and addressed. At the time of audit the Office had made contact with Sub-

recipients in order to determine potential liabilities, however, the process was not finalized. Thus, implementation of the recommendation was noted to be in progress, as documented in the Comprehensive Audit and Recommendation Database System (CARDS).

3.5 Audit

Not Applicable

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

4. Procurement and supply management

Partially Satisfactory

During the period under review, the Office processed 123 purchase orders totalling about \$1.6 million for the Global Fund grants. OAI reviewed the procurement process by interviewing the Office staff assigned to the Global Fund grants and testing a sample of 21 purchase orders valued at about \$0.9 million, or 56 percent of the total value of purchase orders issued during the audited period.

4.1 Procurement of health products

Partially Satisfactory

The Office's procurement of health products was in line with UNDP policies and procedures. Long Term Agreements were used to procure medical supplies and equipment, in line with the Global Fund Operations Manual. During the period under review, the Office procured health products worth \$260,000.

Issue 3 Inadequate management of outstanding liabilities

Article 18 (L) of the standard agreement between the Global Fund and UNDP states that the Principal Recipient "shall ensure that the Sub-recipients implement procedures to avoid the diversion of programme-financed health products from their intended and agreed upon purpose." Furthermore, according to UNDP year-end financial closure guidelines, offices must provide the Office of Financial Resources Management with a list of contingent liabilities annually. It is important for UNDP to be aware of any contingent liabilities associated with contracts, including those relating to claims and disputes that could create future financial liabilities for the organization.

In 2011, test kits amounting to \$0.4 million were stolen from a holding cell at the airport prior to reaching the contracted freight forwarder's warehouse at the same airport. While the Office believed that the freight forwarder was responsible for the test kits, the latter had continuously denied any such accountability. The Office indicated that it was working with the different parties to recover the disputed amount through work sessions, letters and email exchanges, and further stated that the freight forwarder had also filed a lawsuit against a third party to recover the value of the stolen goods. However, in the more than two years that have passed, no agreement has been reached between the parties on accountability and resolution.

Unclear accountability for the theft of the test kits creates potential liability for the Office given that the agreement with the Global Fund holds the Office accountable for the use of funds. However, OAI noted that the Office did not record a contingent liability for the loss as required by the UNDP year-end financial reporting and certification requirements. The Office stated that a high level discussion led by senior management and which included the participation of the Legal Support Office was underway in order to come to an agreement with the Global Fund on all outstanding liabilities. However, no documentation was provided to OAI to support this statement.

Inadequate follow-up, disclosure and settlement of long outstanding liabilities exposes the Office to financial loss and could have a negative impact on the opinion expressed by the Board of Auditors on UNDP financial statements.

Priority	High (Critical)
Recommendation 3:	To facilitate grant closure, the Office should work with the Legal Support Office and explore all possible means to manage the outstanding liability.
Management comments and action plan:	<input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed
	The Office will continue working towards resolution of this issue.

4.2 Quality assurance of health products

Satisfactory

Quality assurance of health products was undertaken throughout the supply chain through periodic sample tests according to a plan approved by the Global Fund. Quality control was done by laboratories pre-qualified by WHO.

No reportable issues were noted.

4.3 Procurement of other goods and services

Partially Satisfactory

OAI reviewed a sample of 17 purchase orders for a total value of \$0.6 million. The review included an examination of the sourcing of suppliers, procurement methods used, receipt and evaluation of offers, contract awards, and the receipt of and payment for goods and services. OAI noted weaknesses in contract management as described below.

Issue 4 Inadequate contract management

According to the UNDP Programme and Operations Policies and Procedures, a commitment (represented by a purchase order) creates a legal obligation arising from a contract, agreement, or other form of undertaking by UNDP. For contractual arrangements in which goods or services are already received or not expected to be received, appropriate action should be taken to liquidate the commitment and close the purchase order in Atlas.

- (a) The Office did not have a mechanism to properly monitor and liquidate, in a timely manner, outstanding liabilities created when it raised purchase orders for the procurement of goods or services. OAI noted that there were 49 open purchase orders for which the status reflected “partially received” or “not received”, including 31 open purchase orders for which the date of creation was more than six months old. For example, purchase order 17771 was raised for \$10,000 relating to an agreement with a consultant, but had only been partially paid even though the service was fully rendered more than one year earlier. The Office agreed to process the payment due on the pending liability amounting to \$7,000 and to close the purchase order. Another purchase order (18783) had an outstanding balance of \$8,000 for one year. The Office had yet to confirm if service had been rendered or if the purchase order should be closed and the funds released back to the project. This meant that in the final days of the grant

closure, the Office did not have an accurate record of its pending liabilities, and had funds locked by long outstanding purchase orders that were no longer valid.

- (b) One purchase order amounting to \$9,000 was created after the service was rendered and an invoice was received, which means that the required funds were not secured prior to contracting with the vendor. During the closing phase of a grant, it's crucial that the availability of funds be verified and secured by raising purchase orders upon contracting with a vendor. OAI could not ascertain whether there were other liabilities for which a purchase order had not been created.

Long outstanding open purchase orders or purchase orders created after an invoice is received cast doubt on the validity of the liability and could lead to payments for products or services which have not been delivered. Further, the failure to raise a purchase order when the commitment or legal obligation has been made may result in management not having an accurate account of the financial status of the project.

Priority	Medium (Important)
Recommendation 4:	
The Office should review all open purchase orders in order to identify and follow up with any necessary actions to resolve the outstanding liabilities.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will take corrective measures to close all outstanding purchase orders.	

4.4 Supply management (inventory, warehousing and distribution)

Satisfactory

UNDP policies and procedures recommend the use of the WHO storage guidelines for finished pharmaceutical products. These guidelines require that there be adequate storage space that is clean, dry and does not have excessive heat or light exposure. During the audit, OAI visited the main medical supplies warehouse leased from and managed by a commercial vendor, and noted that the storage facility was in compliance with the WHO guidelines. OAI reviewed a sample of five medical supplies from the inventory list and did not note any variance with the physical inventory. No reportable issues were identified.

The Office undertook a physical count of drugs at the main warehouse and at health centers throughout the Country for the purpose of transferring drug inventory to the new Principal Recipients. Following the reconciliation of the inventory data collected, some products were found to be expired, and others had less than six months of remaining shelf life. Some Principal Recipients were therefore reluctant to take over those medical supplies, as it would increase their storage and disposal costs. The Office explained that the agreement with the Global Fund was to transfer the inventory "as is".

No reportable issues were noted.

4.5 Asset management

Partially Satisfactory

OAI reviewed the asset management process and documentation, including the annual asset inventory, asset custody and the recording of assets.

Issue 5 Inadequate management of assets

The Programme and Operations Policies and Procedures provide guidelines on the monitoring and the physical safeguarding of non-expendable assets. Loss of assets must be promptly investigated, and action must be taken to inform the Contracts, Assets and Procurement Committee to facilitate their removal from the asset list. Furthermore, for all cases regarding the disposal of vehicles and heavy machinery, the fair market value must be determined in order to select the appropriate disposal process and approval authority. OAI noted the following weaknesses:

- (a) The Programme Management Unit had not completed an annual physical inventory verification since 2010 and the majority of Sub-recipients had not provided the assets certification report every six months, as required by the agreement with the Global Fund. This lack of control and oversight had resulted in lost, damaged or stolen assets which were not detected or reported on in a timely manner.
- (b) The 2013 physical inventory determined that 7 vehicles were not inventoried, 8 were not physically seen although they were said to exist, 2 vehicles were sold by Sub-recipients without authorization from UNDP, and 2 generators could not be traced. In regard to the vehicles which were sold without proper authorization the Office had requested that investigations be conducted of the ministries without having first contacted OAI, and claimed the net book value as the value of the vehicles sold rather than the fair market value. The Office did not submit a request to the Contracts, Assets and Procurement Committee to facilitate removal of these assets from the asset register.
- (c) The agreement between UNDP and the Government requires the removal of license plates from vehicles purchased for a specific project upon closure of the project. As of 30 June 2013, the Office had only collected 97 out of 326 license plates issued to UNDP. The uncollected license plates could pose a reputational risk to the Office should any of the vehicles which continue to use such plates be used to execute unlawful activities.

Inadequate management and safekeeping of assets exposes the Office to the risk of the loss of assets, which may have to be reimbursed to the Global Fund by the Office.

Priority	High (Critical)
Recommendation 5:	
To facilitate timely closure of the Global Fund grants, the Office should: (a) determine all lost/stolen items, prepare and submit the Request for Asset Disposal and Theft to the Contracts, Assets and Procurement Committee for review to facilitate the removal of the lost assets from the asset register; and (b) obtain confirmation from the appropriate ministry that all license plates for which UNDP is responsible have been cancelled or revoked.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The following actions have been taken to implement the recommendation:	
<ul style="list-style-type: none"> ▪ For contract management, measures have been taken to avoid such risks. ▪ The Global Fund projects were responsible for retrieval of the license plates for 326 vehicles and motor cycles assigned to Sub-recipients, comprised of 126 vehicles and 200 motorcycles. License plates for 62 vehicles (49 percent) and 38 motorcycles (19 percent) have been recovered so far. The Office has requested the assistance of various government departments in efforts to obtain the outstanding license plates. 	

4.6 Individual contractors

Satisfactory

OAI reviewed the management of individual contractors by interviewing the Office staff and examining the contracts. The Office had contracts with four individual contractors during the audited period, of which two had been renewed up to the date of official closure of the grants on 30 June 2013. No reportable issues were identified.

5. Financial management

Partially Satisfactory

5.1 Revenue and accounts receivable

Not Applicable

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

5.2 Expenditures

Partially Satisfactory

The Office processed 886 vouchers during the period under review for a total of \$8.7 million. OAI selected a sample of 32 vouchers totalling approximately \$1.6 million for review and testing.

Issue 6 No reconciliation of payments to third parties via a commercial bank

Sound financial management practices require that the Office ensure that payments are received by the eventual intended recipient. Where the payment is made by a third party payment processor on the Office's behalf, the third party should provide the Office with proof that the payment was made to the intended recipient. Where it was not possible to execute the payment, a refund should be made to the Office.

The Office used a commercial bank to facilitate payment of salary top-ups for Sub-recipient staff in some regions. The Office issued a payment order to the commercial bank with a list of staff and the corresponding amount that should be paid to each staff. During the audit period, the Office issued a total of \$2.2 million to this commercial bank. Since the Office did not perform reconciliations of the disbursements to the commercial bank for payments to Sub-recipient staff salary top-ups, or receive a confirmation of payment from recipients, it was not possible to determine how much of the total payments made to the bank had been released to the intended recipients, or how much if any should be refunded to UNDP. OAI determined that payments amounting to \$30,000 relating to the HIV grants in the Bunia and Goma regions had not been paid out to the intended recipients by the commercial bank, nor had it been refunded to the Office.

Given that grants were in the closure phase, it is important that the Office immediately follow-up with the commercial bank to ensure that any funds that had not been paid out are returned to UNDP.

Priority	Medium (Important)
Recommendation 6:	
To facilitate timely grant closure, the Office should request that the commercial banks provide documentation for, and a reconciliation of the amounts issued to them for payment to third parties, and the amounts actually paid by them to the third parties, ensuring that any unpaid amounts are refunded to the Office.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The following action has been taken to implement the recommendation:	
Following various working sessions with the bank, part of the supporting documentation for the payment of \$159,907 in 2011 was received. There are ongoing discussions to obtain the remaining support documentation.	

5.3 Reporting to the Global Fund

Satisfactory

This area was assessed as low risk during the planning phase and no issues were noted. No further testing was done.

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.