



**AUDIT**

**OF**

**UNDP HAITI**

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

**Report No. 1267**

**Issue Date: 15 April 2014**

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

The UNDP Office of Audit and Investigations (OAI), from 25 November to 6 December 2013, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 77761 [TB]) and 77895 [HIV]) managed by UNDP Haiti (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to:

- (a) governance and strategic management (organizational structure, staffing, cooperation and coordination with Country Coordinating Mechanism and other stakeholders, and capacity building and exit strategy);
- (b) programme management (project approval and implementation, conditions precedent and special conditions of the grant agreements, monitoring and evaluation, and grant closure);
- (c) Sub-recipient management (selection, assessment, and contracting, funding, reporting, oversight and monitoring, and audit);
- (d) procurement and supply management (procurement of health products, quality assurance of health products, procurement of other goods and services, supply management, asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the activities of the Office from 1 April 2012 to 30 September 2013. The Office recorded Global Fund-related expenditures totalling \$26 million. The last audit of the Office's Global Fund-activities was conducted by OAI in June 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office's management of the 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 the incorrect granting and reporting of cash advances, and deficiencies in the supply chain of pharmaceutical products.

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

**Key recommendations:** Total = 7, high priority = 2

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Incorrect granting and reporting of cash advances  
(Issue 4)

Advances for nationally-implemented projects were granted to Sub-recipients before 80 percent of the previous advance, and/or 100 percent of all earlier advances had been fully liquidated.

Recommendation: Strengthen the management and reporting of cash advances to Sub-recipients by: (a) discontinuing the further granting of advances when significant amounts of invalidated expenditures are claimed by Sub-recipients; (b) establishing a quarterly deadline for Sub-recipients to submit the supporting documentation to justify the expenditures; and (c) reflecting in the aging report the dates when cash advances are actually granted.

Deficiencies in supply chain of pharmaceutical products  
(Issue 5)

Products labelled “to be stored below 25 degrees Celsius” were stored in a section of the warehouse that was not temperature controlled. In addition, the total value of expired pharmaceutical products at two warehouses amounted to \$260,000 as of 31 October 2013.

Recommendation: Improve storage conditions and monitoring of expiration dates of pharmaceutical products by: (a) reviewing procedures for receipt and storage of pharmaceutical products at the national warehouse and taking corrective actions; (b) enhancing the capacity building of the Sub-recipients so they can improve storage conditions of pharmaceutical products at the site level; (c) closely monitoring the expiration dates of pharmaceutical products to ensure that products are distributed and used prior to the expiration date; and (d) using temperature logs for the pharmaceutical products to ensure that the required temperature is not compromised at any point in the supply chain.

**Implementation status of previous OAI audit recommendations:** Report No. 1035, 19 October 2012.

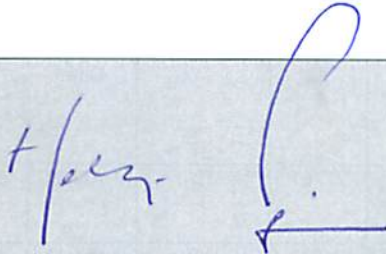
Total recommendations: 4

Implementation status: 100 percent

**Management comments and action plan**

The Resident Representative of UNDP Haiti, and the Deputy Cluster Leader/Senior Programme Advisor of the Partnership with The Global Fund to Fight AIDS, Tuberculosis and Malaria, HIV, Health and Development Group, of the Bureau for Development Policy, accepted all of the recommendations in the areas of governance and strategic management, Sub-recipient management, procurement and supply management and financial management and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is written over a light blue rectangular background.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. Profile of Global Fund grants managed by UNDP Haiti

Since 2011, UNDP has been the Principal Recipient of Global Fund grants in Haiti (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds received as of 30-Sep-13 (in \$ '000)	Implementation Rate	Expenditures as of 30-Sep-13 (in \$ '000)	Global Fund rating at 30-Sep-13
HTI-911-G08-T	77761	TB	1-Apr-11	31-Mar-16	21,661	12,624,851	90%	6,562	A2
HTI-102-G09-H	77895	HIV	1-Jan-11	31-Dec-14	62,273	44,738,820	53%	19,852	A2

## II. Audit results

Satisfactory performance was noted in the following area:

**Programme Management.** The Programme Management Unit was focused on ensuring the integration of capacity development across the programme spectrum of Sub-recipients, by being engaged in quarterly meetings with them and by conducting group visit by its key sections, Monitoring and Evaluation, Finance and Procurement. The 'Grant Performance Reports' showed that the overall performance ratings of both the TB and HIV grants was A2 (meeting expectation), as of 30 September 2013.

OAI proposes seven recommendations ranked high (critical) and medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

**High priority recommendations**, arranged according to significance:

- (a) Strengthen the management and reporting of advances to Sub-recipients (Recommendation 4).
- (b) Improve storage conditions and monitoring of expiration dates of pharmaceutical products (Recommendation 5).

**Medium priority recommendations**, arranged according to significance:

- (a) Enhance oversight over inventory taking and management of stocks (Recommendation 6).
- (b) Ensure the recovery of all direct project costs from the Global Fund (Recommendation 7).
- (c) Institute procedures for adequate funding and timely recruitment of key posts (Recommendation 1).
- (d) Consider the 'UNDP Guidance Note on Global Fund Local Fund Agent's Access to Information' (Recommendation 2).
- (e) Improve the records management system (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Staffing

#### Issue 1 Lack of budget for staff retention and delays in recruitment of key posts

With the closure of the HIV grant expected at year end 2014, and delays encountered in 2013 with the recruitment of key posts, it was evident to OAI that there was a need to provide funding for the retention of staff whose contracts were expiring in 2014. However, at the time of the audit, no budget was provided to fund the extensions of the key international positions of Operations Manager and Monitoring and Evaluation Specialist in the Programme Management Unit. The Project Coordinator indicated that the funding would likely be obtained from 2013 year end savings in procurement; however, there was no assurance that this would be the case.

In addition, a review of the timeline of recruitment processes conducted in 2013 showed the following:

- (a) It had taken eight months to recruit and select the Capacity Development Officer, who was scheduled to take up his/her post in February 2014. In the interim, the Project Coordinator assumed the responsibilities of the post.
- (b) Recruitment of the Finance Officer post was stalled due to lack of knowledge of the online testing requirements/materials, which caused delays in completing the testing and short listing of candidates. A staff member with finance experience was identified and selected to temporarily fill in, but this process was also protracted due to delays in obtaining the visa required to enter the Country.

Delays in filling key vacant posts could place additional burdens on Programme Management Unit staff, as they assume the roles and responsibilities of these vacant posts. This also puts at risk the timely execution of Global Fund projects.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Institute procedures for adequate funding and timely recruitment of key posts by:	
<ol style="list-style-type: none"> <li>(a) providing the budget to fund these posts through year end 2014; and</li> <li>(b) consulting with the Bureau for Development Policy and the Office of Human Resources to ensure adequate coverage of key responsibilities during a transition period.</li> </ol>	
<b>Management action plan:</b>	
<ol style="list-style-type: none"> <li>(a) The budget to fund the two key positions (Operations Manager and Monitoring and Evaluation Specialist) was included in the revised 2014 budget for the two grants and approved by the Global Fund.</li> <li>(b) Management is coordinating with the Bureau for Development Policy and the Office of Human Resources to expedite the recruitment of the Finance Specialist and to ensure that in the future, the recruitment of key personnel is carried out within the stipulated timeframe.</li> </ol>	

**Estimated completion date:**

- (a) 30 June 2014.
- (b) 30 April 2014 (the latest date the incoming Finance Specialist is expected to start).

**Issue 2**      Global Fund Guidance Note not considered

The 'UNDP Guidance Note on Global Fund/Local Fund Agent's Access to Information' specifies which Atlas reports can be provided to the Local Fund Agent for their verification of expenditures and that communication between the Local Fund Agent with UNDP should be coursed through the Project Coordinator.

The Local Fund Agent requested supporting documentation (invoices, and payment vouchers) that they were not intended to have access to, as mentioned in the Guidance Note. Because of the unsatisfactory results of the 2012 audit of the Sub-recipients, the Local Fund Agent requested to review all the disbursements made by the Principal Recipient to the Sub-recipients since the beginning of both grants and all of the Sub-recipients reported expenditures that were validated by the Programme Management Unit.

OAI reviewed the 2013 Local Fund Agent calendar of activities and also requested communication exchanges between the Global Fund, Local Fund Agent, Bureau for Development Policy, and the Programme Management Unit in regard to this latest Local Fund Agent's verification request, yet no documented evidence was available. Furthermore, OAI noted that for the audit period reviewed, there was direct communication between the Local Fund Agent and the Finance Officer, the Monitoring and Evaluation Specialist and/or other project personnel, rather than with the Project Coordinator.

The practice of providing the Local Fund Agent with access to additional information and documents, and/or performing additional tasks on their behalf, may present additional burdens for the Programme Management Unit staff.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	Consider the 'UNDP Guidance Note on Global Fund/Local Fund Agent's Access to Information' and channel all communication from the Local Fund Agent through the Project Coordinator.
<b>Management action plan:</b>	The Global Fund Portfolio Manager for Haiti, and the Local Fund Agent have been notified and the 'UNDP Guidance Note on Global Fund/Local Fund Agent Access to Information' was sent to them for information and compliance.
<b>Estimated completion date:</b>	By next Progress Update and Disbursement Request, August 2014



**Issue 3**      Inefficient records management practices

The 'Programme and Operations Policies and Procedures' stipulate that UNDP documents and records, in all forms, are the property of the organization. Records management involves the designation of a specific area for archiving that is secure at all times, the classification of files by subject matter for easy retrieval, and a master list for archived documents along with their anticipated disposal date.

There were weaknesses in records management practices, as follows:

- (a) There was no system in place for the classification, handling and retention of records. For example, each section within the Programme Management Unit maintained their own respective files, and project personnel from other sections did not have access to those files. Whenever a file was needed, it had to be requested from the specific individual who handled and retained it. In his or her absence, no other individual could access the required documentation. This contributed to delays in obtaining required documentation during the audit.
- (b) A hard copy of the Sub-recipient contract was attached to every voucher relating to a cash advance, even though this key document was readily accessible and retrievable from the share drive.
- (c) There were a significant number of reports, among other documents, that were printed single-sided, as the printer did not have the capability of double-sided printing.

These record management practices resulted in the Programme Management Unit incurring increased costs on paper, ink, and filing spaces, etc.

Without an efficient system of records management, concerned staff members are unable to access relevant information that is needed for timely well-informed decision-making, which could result in inefficient and costly internal/external reviews.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Improve the records management system by: (a) establishing a centralized archiving mechanism that is accessible to all authorized personnel to facilitate the retrieval of key documents; and (b) upgrading the Unit's printer.	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) A proper records management system will be put in place. A short-term consultant (2 months) will be recruited to set up a record management system at the Programme Management Unit and to train all staff on the same.</li> <li>(b) A budget for a new printer will be included in the new funding request that will be submitted to the Global Fund in May 2014.</li> </ul>	
<b>Estimated completion date:</b>	
<ul style="list-style-type: none"> <li>(a) The consultant will be onboard by May 2014. The filing system will be put in place, and staff will be trained by September 2014.</li> <li>(b) Approval of the budget is expected by December 2014.</li> </ul>	

## B. Sub-recipient management

### 1. Funding

#### Issue 4 Incorrect granting and reporting of cash advances

The 'Sub-recipient Management Toolkit for UNDP County Offices' states that the granting of an advance to a Sub-recipient is subject to the verification by the Programme Management Unit in order to confirm that at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated. In addition, if a Sub-recipient has cash advances that have remained outstanding for more than one year, no new advance should be given to that Sub-recipient for any of the projects they are implementing, until the cash advance in question is fully liquidated and accounted for.

The following deficiencies on advances were identified:

- Advances were granted before 80 percent of the previous advance and/or 100 percent of all earlier advances had been fully liquidated.
- As of 30 September 2013, the outstanding advances totalled \$1.38 million for the HIV grant, and \$191,000 for the TB grant (which included an amount of \$110,000 corresponding to pending advances from 2011 and 2012 that were carried forward to 2013).
- The advances from 2011 and 2012 carried forward to 2013 corresponded to expenses incurred by the Sub-recipients that were not accepted as valid expenses by the Programme Management Unit, since they were not directly related to project implementation. These were pending receipt of valid and acceptable supporting documentation from the Sub-recipients.
- The liquidation of advances was treated in lump sum without relating to individual advances.
- Because of how liquidations were treated, aging reports were inaccurate. For example, some advances were shown as outstanding only between 1 to 3 months when in fact they had been pending for years (i.e., since 2011).

In response to the draft report, management commented that:

- Currently, for the two grants managed by UNDP rated A2, there have not been cases of treatment interruption, and the risk head map prepared recently by the Global Fund showed that UNDP has good systems in place to mitigate the operational risks.
- Due to the particularity of this Global Fund project (Health), a balance should be sought between the mitigation of the financial risk, and the risk of discontinuing the services to the beneficiaries and the performance of the grant.
- The project has in place a quality assurance procedure and due diligence process to verify and certify Sub-recipients' financial reports, and any unauthorized and unjustified transactions are rejected or sent back for additional information and/or clarification before any further disbursement.
- During the Sub-recipient financial report review period, some key activities cannot be discontinued, and therefore UNDP has to do a partial disbursement to ensure the continuity of services.

When cash advances remain outstanding for extended periods, there is a risk that they may not be used for their intended purposes, as agreed upon by UNDP and the Sub-recipients. In addition, there is a risk that information included in the financial reports may not be accurate.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
Strengthen the management and reporting of advances to Sub-recipients by:	
<ul style="list-style-type: none"> <li>(a) discontinuing the further granting of advances when significant amounts of invalidated expenditures are claimed by Sub-recipients;</li> <li>(b) establishing a quarterly deadline for Sub-recipients to submit the supporting documentation to justify expenditures; and</li> <li>(c) reflecting in the aging report the dates when cash advances are actually granted.</li> </ul>	
<b>Management action plan:</b>	
Management disagrees with the priority level of the recommendation. Noting that this is a well-known issue by the Office, several mitigation measure had already been put in place to reduce the financial risk for UNDP:	
<ul style="list-style-type: none"> <li>(a) UNDP advances funds to Sub-recipients on a quarterly basis and they submit monthly and quarterly financial reports. Most of the time, before any further disbursement, the Principal Recipient conducts a review and validation of these expenditures.</li> <li>(b) UNDP issues a "verification report" to the Sub-recipient, which comprises of allowed and rejected costs.</li> <li>(c) With this verification report, the Sub-recipient produces another report (rapport FACE) that takes into account all the disallowed expenditures.</li> <li>(d) The Programme Management Unit and the Sub-recipient, during a meeting called by the Programme Management Unit, agreed on the reimbursement of the disallowed transaction. So far, most of the Sub-recipients have complied with this request for reimbursement.</li> <li>(e) At the end of each quarter, the balance not used by the Sub-recipient is considered as the advance for the next quarter, thereby reducing the cash flow at the Sub-recipient level.</li> <li>(f) Sub-recipients with pending rejected expenditures (from 2011 and 2012) will be required to reimburse by the end of June 2014.</li> <li>(g) At the termination of the contract with Sub-recipient, the Principal Recipient requests a full refund of the unused balance according to the agreement signed between the Principal Recipient and Sub-recipient.</li> </ul>	
<b>Estimated completion date:</b> In progress, July 2014.	
<b>OAI Response</b>	
OAI acknowledges the initiatives already taken by the Office. The recommendation does not aim to negatively impact the continuity of services to the beneficiaries and the performance of the grant, but to ensure that funds are used for the purposes for which they are granted.	
OAI retains the priority level of this recommendation as high. This is because of the risks involved in the non-	

resolution of long-outstanding cash advances and the inaccurate reporting of the actual status of these advances, as well as being non-compliant with the 'Programme and Operations Policies and Procedures'.

OAI will assess the progress in implementing the recommendation by end of the third quarter 2014, as well as assess the evidence of the risk mitigation measures taken as indicated by the Office.

## C. Procurement and supply management

### 1. Quality assurance of health products

#### Issue 5 Deficiencies in supply chain of pharmaceutical products

The 'Guidelines for the Storage of Essential Medicine and Other Health Products' issued by WHO, stipulate that pharmaceutical products must be stored according to the manufacturer's recommended storage conditions at all times.

Global Fund pharmaceutical products were stored in two partner managed warehouses. OAI made the following observations:

- (a) During a site visit to one warehouse, products labelled "to be stored below 25 degrees Celsius" were stored in a section of the warehouse that was not temperature controlled. When the temperature was tested during the audit, the reading indicated over 33 degrees Celsius. Management explained that these were stored there temporarily. It was also noted that these pharmaceutical products to be stored under 25 degrees Celsius were received in an area that was not temperature controlled.
- (b) Documentation retained by the Programme Management Unit showed that the total value of expired pharmaceutical products at the two warehouses amounted to \$260,000 as of 31 October 2013.

The following issues regarding pharmaceuticals stored at Sub-recipient facilities were noted:

- (a) OAI reviewed a sample of five back-to-office reports' of monitoring and evaluation visits to Sub-recipients that included a verification of medical storage conditions. All back-to-office reports reviewed indicated that the Sub-recipients did not have adequate temperature controlled storage areas for the pharmaceutical products.
- (b) OAI identified, at one Sub-recipient facility, a fully loaded pallet of pharmaceutical products that had expired in September and October 2013.

These issues were primarily due to lack of supervision of the Programme Management Unit and lack of capacity among the Sub-recipients. Management explained that stock is monitored and analysed by the Programme Management Unit through the monthly stock report submitted by the partners managing the two warehouses. The partners also submit a specific report called 'products to be expired within 3 to 6 months' which is the basis for the Programme Management Unit to prepare, on a monthly basis the, 'drug expiry report'. According to management, since UNDP took over, the volume of expired drugs has been minimal and products that expired were beyond the control of the Sub-recipients. For instance, as indicated in the table of expired products presented to the auditors, of the total amount of pharmaceutical products procured by UNDP that expired, 67 percent were 2 Multi Drug Resistant Tuberculosis drugs (Cycloserine 250mg and Capreomycine 1gr), which

could not be used by two Sub-recipients because the number of enrolled patients during 2012 and 2013 was lower than expected (quantity procured was for 150 patients but only 85 patients were on treatment). Other pharmaceutical products that expired were due to the change in the national quantification and new protocols following the recommendations and guidelines from WHO (Nevirapine 200 mg and Lamivudine/Zidovudine/ Nevirapine).

Management stressed that more than the monitoring issues, the main cause of pharmaceutical products expiring was due to structural problems, which the National Tuberculosis Programme, in collaboration with UNDP and other partners, had been trying to address through the new National Strategic Plan for 2014-2018 and the New Funding Model of the Global Fund.

While OAI understood the challenges faced in monitoring the expiration dates of pharmaceutical products, it remains concerned of the risks. If pharmaceutical products are not stored and used according to the manufacturer’s instructions, they cannot be used for proper treatment, and places the health of intended beneficiaries and the financial position of the Office at risk.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
Improve storage conditions and monitoring of expiration dates of pharmaceutical products by:	
<ul style="list-style-type: none"> <li>(a) reviewing procedures for receipt and storage of pharmaceutical products at the national warehouse and taking corrective actions;</li> <li>(b) enhancing the capacity building of the Sub-recipients so they can improve storage conditions of pharmaceutical products at the site level;</li> <li>(c) closely monitoring the expiration dates of pharmaceutical products to ensure that products are distributed and used prior to the expiration date; and</li> <li>(d) using temperature logs for the pharmaceutical products to ensure that the required temperature is not compromised at any point in the supply chain.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will continue to assess storage conditions and will ensure data loggers are fitted in the warehouses and temperatures in the rooms are controlled through a time sheet. The feedback will be reported in field visit reports. A standard operating procedure for the management of pharmaceutical products has been developed with the support of the County Coordinating Mechanism and is being implemented.</li> <li>(b) The Office will consult and discuss with other UNDP offices, as Principal Recipient of the Global Fund, the possibility of sharing stocks which are close to expiring for timely distribution.</li> <li>(c) Within the quality assurance action plan, temperature logs will be provided to the health centres, and 150 data loggers have been purchased by the Office to be distributed from March 2014 at central and peripheral levels, where the needs have been identified during supervision.</li> </ul>	
<b>Estimated completion date:</b> In progress, July 2014.	

## 2. Supply management (inventory, warehousing, and distribution)

### Issue 6 Weaknesses in overseeing stock management

The Office is required to participate in quarterly inventory counts at the two warehouses where Global Fund pharmaceutical and laboratory products are stored. However, according to officials at one of the warehouses, Programme Management Unit staff had not participated in inventory counts for over a year. Management explained that due to the heavy workload and the limited number of staff in the Procurement Section of the Programme Management Unit, the Office did not participate in all of the quarterly physical inventories.

By not overseeing and participating in quarterly inventory counts, the Programme Management Unit will have limited knowledge in regard to adequacy of inventory and appropriate storage, which may impact the timely procurement and distribution of pharmaceutical products.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
Enhance oversight by the Programme Management Unit on inventory taking and management of stocks by:	
<ul style="list-style-type: none"> <li>(a) participating in quarterly inventory counts;</li> <li>(b) maintaining records of the counts; and</li> <li>(c) addressing any variances found.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) In December 2013, the Programme Management Unit established an inventory control team (an independent team from the Procurement Unit) to perform the stock counting on a quarterly basis. The first physical count was done in January 2014 and the next one is planned for April 2014.</li> <li>(b) All of the reports submitted to Headquarters (IPSAS requirement) will be signed and properly filed.</li> <li>(c) All of the discrepancies will be properly reconciled and recorded.</li> </ul>	
<b>Estimated completion date:</b> In progress, June 2014.	

## D. Financial management

### 1. Expenditure

#### Issue 7 Direct costs not being charged against project accounts

The UNDP 'Operations Manual for Projects Financed by Global Fund to Fight AIDS, Tuberculosis and Malaria' stipulates that direct costs incurred by the Office to support the implementation of projects must be recovered. Cost recovery through the Implementation Support Services is based on the Universal Price List.

OAI observed that direct costs incurred by the Programme Management Unit, such as internet, electrical, and human resource services, were not charged against the project accounts. This was because the Office issued internal invoices which the Local Fund Agent rejected as valid expenditures for reimbursement. The total recoverable costs for both projects, 77761 (TB) and 77895 (HIV), amounted to \$32,000 and \$36,000 in 2012 and 2013, respectively.

Costs directly incurred on behalf of the Global Fund and not recovered leads to the use of the Office’s limited financial resources to subsidize project costs, thereby misrepresenting actual costs of Global Fund projects and negatively impacting the financial sustainability of the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
Ensure the recovery of all direct project costs from the Global Fund by:	
<ul style="list-style-type: none"> <li>(a) charging against project accounts all direct costs incurred by the Programme Management Unit on behalf of Global Fund projects;</li> <li>(b) escalating to appropriate levels the recovery of expenditures that were validated by the Local Fund Agent.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) In the 2014 budget, the Programme Management Unit added a budget to pay all cost recoveries. However, these budget lines were not approved by the Global Fund Secretariat. The Programme Management Unit will escalate the issue to the Bureau for Development Policy so that it may take the issue up with the Global Fund.</li> <li>(b) Once approved by the Global Fund, these costs should not be rejected by Local Fund Agent.</li> </ul>	
<b>Estimated completion date:</b> In progress, July 2014.	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **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.
- **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.
- **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.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.