



**AUDIT**

**OF**

**UNDP CHAD**

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

**Report No. 1293**

**Issue Date: 20 June 2014**

## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>Profile of Global Fund grants managed by UNDP Chad</b>	<b>1</b>
<b>I. Audit results</b>	<b>1</b>
<b>A. Governance and strategic management</b>	<b>2</b>
1. Staffing	2
<b>B. Programme management</b>	<b>3</b>
1. Monitoring and evaluation	3
<b>C. Sub-recipient management</b>	<b>4</b>
1. Assessment	4
2. Funding	5
3. Reporting	6
4. Oversight and monitoring	7
<b>D. Procurement and supply chain management</b>	<b>8</b>
1. Quality assurance	8
2. Supply chain management and distribution	9
<b>E. Financial management</b>	<b>10</b>
<b>Definitions of audit terms - ratings and priorities</b>	<b>13</b>

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

The UNDP Office of Audit and Investigations (OAI), from 7 to 23 April 2014, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project No. 82056 [Malaria]), managed by UNDP Chad (the Office) as the Principal Recipient. This grant was 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 the following areas and sub-areas:

- (a) governance and strategic management (organizational structure, staffing, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], 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 January to 31 December 2013. 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 2013.

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 **unsatisfactory**, which means "Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised." The previous OAI audit report that was issued in November 2013 (Report No. 1142) and that covered the activities for the period January 2011 to December 2012 also concluded that the management of Global Fund grants was "unsatisfactory." As such, OAI noted that the implementation of the recommendations raised in the previous audit report was very low (9 percent of recommendations implemented). Out of eight high risk recommendations included in the previous OAI audit report, implementation had not started for four (or 50 percent), the implementation for three (38 percent) was in progress, and one had been implemented.

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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.

Furthermore, weaknesses were noted in Sub-recipient management, procurement and supply chain and financial management. Finally, OAI was concerned with the fact that the Office disregarded the zero cash policy instituted by the Global Fund.

**Key recommendations:** Total = 8, high priority = 6

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:

Non-compliance with Global Fund zero cash policy (Issue 4)

The Office provided cash advances amounting to \$70,000 to national Sub-recipients from November to December 2013, based on agreements signed with the Sub-recipients in 2013 that provided for 50 percent of advances upon signature. This was contrary to the zero cash policy applicable to Sub-recipients that was instituted by the Global Fund in 2012. The issue of handling cash advances to Sub-recipients had already been raised in the previous OAI audit report of November 2013 (Report No. 1142).

Recommendation: Respect and implement the zero cash policy.

Lack of reporting by Sub-recipients and no on-site check on assets by Project Management Unit (Issue 5)

In 2013, no Sub-recipient had filed any programmatic and financial reports on a quarterly basis for 2013, and no reports on assets at hand were submitted on a six-month basis. In addition, the Project Management Unit did not perform on-site visits to check on assets in the custody of Sub-recipients. The reporting weaknesses were similar to issues raised in the previous OAI report of November 2013 (Report No. 1142).

Recommendation: Obtain from the Sub-recipients all reports required in the agreements signed with them and conduct site visits to validate assets acquired with funds from Global Fund grants.

Expenditures reported as ineligible after audit of Sub-recipients (Issue 6)

Following the audit of Sub-recipients for the years 2010 to 2012, \$1.3 million was deemed ineligible mainly due to the absence of supporting documents. The Global Fund requested the Office to claim these funds from the Government and to be refunded for whatever amount is recovered. Further to that audit, the Government was able to provide additional supporting documents which were submitted to the audit firm for validation. As a result, the amount of ineligible expenditures was reduced to \$850,000. Since the previous OAI audit report of November 2013, some progress was noted and the amount of ineligible expenditure has been reduced. Nonetheless, this issue is still not fully resolved.

Recommendation: Follow-up and obtain the reimbursement from the Government of ineligible expenditures amounting to \$850,000 that has been charged to the Global Fund grant.

Inadequate quality assurance for pharmaceutical products (Issue 7)

OAI confirmed that pharmaceutical products were tested as required upon receipt in the Country. However, no further periodic testing took place for pharmaceutical products at different sites in the Country. For example, a batch of Artesunate and Pharmaceutical products were tested as required upon receipt in the Country. However, no further periodic testing took place for pharmaceutical products at different sites in the Country. The Project Management Unit indicated that it was not able to perform the required tests in 2014 due to the lack of capacity (there were more than 1,000 health centres in the Country).

Recommendation: After the initial testing that is done upon the receipt of pharmaceutical products in the Country, perform tests every six months as per the Global Fund requirements.

Deficiencies in supply chain of pharmaceutical products (Issue 8)

OAI noted that there was inadequate monitoring of the supply of pharmaceutical products as well as inadequate storage conditions for these products.

Recommendation: Improve the reporting on health products by the Sub-recipient, and improve storage at the district and periphery levels by ensuring that World Health Organization storage guidelines are complied with.

Weaknesses in management and disbursement of project funds (Issue 9)

There were several weaknesses in the management and disbursements of funds from Global Fund grants, namely: non-compliance with policy on cash advances; unauthorized project expenditures; incorrect accounting and reconciliation of pre-payments; and inappropriate handling of direct payments to Sub-recipients. Issues of a similar nature had already been identified in the previous OAI audit report of November 2013.

Recommendation: Strengthen the management of disbursements of funds from Global Fund grants.

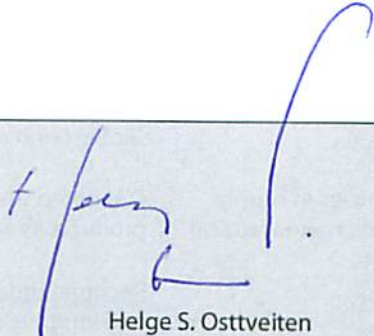
**Implementation status of previous OAI audit recommendations:** Report No. 1142, 26 November 2013.

Total recommendations: 11  
Implementation status: 40 percent

### Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into 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.



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## Profile of Global Fund grants managed by UNDP Chad

Since 2009, UNDP has been the Principal Recipient of the Malaria Global Fund grant in Chad (the Country).

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of <b>31 Dec 2013</b> (in \$ '000)	Expenditures as of <b>31 Dec 2013</b> (in \$ '000)	Global Fund Rating at <b>31 Dec 2013</b>
TCD-M-UNDP	82056	Malaria	1 Jul 2011 (Phase 1)	31 Dec 2014 (Phase 1)	8,599 (Phase 1)	16,212 (from the beginning of the grants that have been consolidated in one – Single Stream of Funding)	6,403	B1 <sup>1</sup>

<sup>1</sup>B1: Rating provided by the Global Fund equivalent to 'Adequate'

### I. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management/Organizational structure. Controls were in place with respect to the organizational structure of the Project Management Unit, and the relationships with external and internal stakeholders were evaluated as satisfactory.
- Procurement and quantification and forecasting/Procurement of health products. Controls were in place in these sub-areas of procurement and supply management and the areas were assessed as satisfactory.
- Management of revenues and accounts receivable. This area was assessed as satisfactory as all disbursements of grants from the Global Fund were timely and accurately recorded in Atlas.

OAI made eight 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:

- Respect and implement the zero cash policy (Recommendation 3).
- Obtain from the Sub-recipients all reports required in the agreements signed with them and conduct site visits to validate assets acquired with funds from Global Fund grants (Recommendation 4).
- Follow-up and obtain the reimbursement from the Government of ineligible expenditures amounting to \$850,000 that has been charged to the Global Fund grant (Recommendation 5).
- Strengthen the management of disbursements of funds from Global Fund grants (Recommendation 8).
- Improve the reporting on health products by the Sub-recipient, and improve storage at the district and periphery levels by ensuring that World Health Organization storage guidelines are complied with (Recommendation 7).
- After the initial testing that is done upon the receipt of pharmaceutical products in the Country, perform tests every six months as per the Global Fund requirements (Recommendation 6).

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

- (a) Initiate the monthly meetings with the Sub-recipients (Recommendation 1).
- (b) Establish and implement a work plan in close consultation with concerned Sub-recipients for the implementation of recommendations (Recommendation 2).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Staffing

#### **Issue 1**      Insufficient justification for Procurement Specialist position

The UNDP 'Operations Manual for Projects Financed by the Global Fund' provides that Country Offices should determine Project Management Unit resource needs by viewing the grant in terms of its life cycle. The Office should undertake a critical review of its capacity to manage the grant in light of the original Global Fund proposal to determine the size and structure of the Global Fund Project Management Unit and associated events, and should be aware that human resources required for grant implementation and management may change over time.

Based on the organogram of the Project Management Unit, a procurement sub-unit was composed of a Procurement Specialist (P4 level international staff) and a service contractor. Furthermore, 80 percent of the cost of the P4 position was charged to the Global Fund, and 20 percent was charged to the Office's budgets. The cost of the service contractor position was fully charged to the Global Fund budget.

During the audit fieldwork, the Procurement Specialist was authorized to go on a two-month assignment to support another UNDP office. No explanation was provided as to why this position was left vacant for two months while the cost of the post for that period was continuously charged against the Global Fund budget.

Maintaining a high level professional post that is no longer required for grant implementation and management does not provide value for money, and constitutes an inappropriate use of grant funds.

The Office subsequently informed OAI that the reassignment of the Procurement Specialist did not affect the operations of the project because the end of its life cycle was approaching and all main programmatic procurement activities had been undertaken. The Office explained that all the planned procurements for 2014 were undertaken at the end of 2013 to replenish the buffer stock that was depleted because of the increase in malaria cases in 2013. These procurements were in the distribution stage and distribution plans had been shared with the recipient health centers. The remaining procurement activities did not require the physical presence of the Procurement Specialist, who effectively supported the Project Management Unit remotely. In addition, OAI was informed that the detailed assignment of the Procurement Specialist to support another Country Office was facilitated by Human Resources Unit of the Regional Bureau of Africa, and was common practice among Country Offices in the region.

Evidence was provided to OAI that the other country office had already provided its Chart of Accounts to reimburse all incurred costs for the period of assignment.



**Comment:**

Since the Office recovered the Procurement Specialist’s salary portion of his detailed assignment and recovered funds have been credited to the Global Fund grant, OAI is not making a recommendation. OAI also confirmed with the Office that the position of Procurement Specialist will be phased out as early as August 2014.

**B. Programme management**

**1. Monitoring and evaluation**

**Issue 2**      Monthly meetings with Sub-recipients not conducted as required

The UNDP ‘Monitoring and Evaluation Toolkit’ requires the Principal Recipient and the Sub-recipients to hold monthly monitoring meetings to assess the efficiency of interventions, verify the completeness of data, update the indicators in place and make decisions on execution of activities.

The required programme monthly meetings were not held with Sub-recipients. The Project Management Unit stated that this was due to the unavailability of the national counterparts. However, there was no communication indicating that the Unit followed up to ensure that these monthly meetings were conducted as required.

Not conducting monthly meetings at the project level may impede the Office’s ability to assess the efficiency of interventions as well as to verify the accuracy of data and other indicators that are required to be reported to the Global Fund.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
Initiate the monthly meetings with the Sub-recipients in order to validate and verify the accuracy of data and to assess the efficiencies of interventions.	
<b>Management action plan:</b>	
Monthly meetings will be held with the national counterpart in order to collect and validate data.	
In the event that the national counterpart is not available, alternate procedures will be established to ensure the monthly meetings continue.	
Agendas and records of monthly meetings will be documented, circulated among all partners, and agreed upon by them.	
<b>Estimated completion date:</b> July 2014	

## C. Sub-recipient management

### 1. Assessment

#### **Issue 3** No follow-up of recommendations on assessment and strengthening of Sub-recipients' capacities

The 'UNDP Operations Manual for Projects Financed by the Global Fund' requires UNDP Country Offices to conduct technical and financial capacity assessments of the proposed Sub-recipient(s) and to adopt appropriate measures to address any weaknesses before accepting them as Sub-recipients.

Following the previous OAI audit and the information provided by the Office, an independent capacity evaluation of Sub-recipients was performed in April 2012. A number of recommendations were raised but the Project Management Unit did not follow up on their implementation. Major recommendations covered weak financial capacities of national counterparts who work with the Office as Sub-recipients.

The Project Management Unit indicated that the lack of action to implement the recommendations to strengthen the capacity of Sub-recipients was due to the transformation of the project management team in 2013, and the resulting loss of institutional memory. The Unit informed OAI that in January 2014, the Procurement Supply Management Team Leader visited all the Sub-recipients involved in procurement supply management. The visit's main objective was to reassess the capacity of the partners in handling their functions as per the projects' expectations and discuss with partners the areas and internal possible improvement vis-à-vis the Project Management Unit. At the end of the visit, updated recommendations were made with a list of concrete actions to implement them. The field visit mission report was issued and shared with all project staff. The recommended actions to reinforce the Sub-recipients' capacity were integrated in the project budget for 2014.

Absence of timely follow-up by the Office to address known weaknesses in Sub-recipient capacity may put at risk the effective implementation of projects.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Establish and implement a work plan in close consultation with the concerned Sub-recipients for the implementation of the recommendations of the existing capacity assessment reports.	
<b>Management action plan:</b>	
The Office started to implement the recommendation. The Project Management Unit organized a training session for Sub-recipients on financial and administrative management. The session was supported remotely by the Procurement Supply Management Team Leader. A follow-up session was scheduled for July 2014.	
At the suggestion of the Project Management Unit, the Global Fund agreed to upgrade the facilities that store medical products. The Global Fund also agreed to provide a vehicle for each of the Sub-recipients, in order to increase distribution capacity and to support health programmes even after projects end.	
<b>Estimated completion date:</b> September 2014	

### OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

## 2. Funding

### Issue 4 Non-compliance with Global Fund zero cash policy

In August 2012, the Global fund instituted a zero cash policy and it was no longer possible to provide advances to Sub-recipients. Instead, direct payments became the modality to use for covering expenditure incurred by Sub-recipients.

#### Agreements signed with some Sub-recipients

The Office provided cash advances amounting to \$70,000 to national Sub-recipients from November to December 2013, based on agreements signed with them in 2013 that provided for 50 percent of advances upon signature. There was no indication that the Unit discussed with the Global Fund the advance payments provided for in the agreements before these were signed. OAI raised the issue with Legal Support Office, which did not confirm having given the legal clearance on the agreements.

OAI noted that the Global Fund acknowledged the disbursement of the advances at a later stage. The Global Fund seemed to consider the agreements as service contracts and not as Sub-recipient Agreements, as had initially been stipulated between the Office and the Sub-recipients. The Project Management Unit stated that those Agreements were to be used as contracts for delivery of services. However, the Office did not sign professional service contracts as it did not wish to follow a competitive process. Furthermore, the Project Management Unit believed that it would be unproductive to change the contract modality as the project life cycle was approaching its end. Instead, they were in discussions with the Sub-recipients on how they could improve the implementation of the existing contract to facilitate implementation of project activities.

#### Liquidation of cash advances transferred to Sub-recipients

The review of advances amounting to \$70,000 granted to the national counterparts revealed that \$35,000 was not supported by any documentation up to the date of the audit fieldwork.

The Project Management Unit explained that this was due to the very weak financial capacity of national counterparts. The Unit also informed OAI that they had arranged for working sessions covering the treatment of advances and the UNDP procedures for accepting and liquidating advances to Sub-recipients.

Non-compliance with the zero cash policy and the direct payment modality due to the weak financial capacity of Sub-recipients could expose UNDP to financial and reputational risks.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
Respect and implement the zero cash policy by:	
<ul style="list-style-type: none"> <li>(a) determining the appropriate modality on the agreements that were used as basis for granting 50 percent cash advances;</li> <li>(b) taking immediate action to fully liquidate with full documentation those advances granted to the concerned Sub-recipients; and</li> <li>(c) ensuring that the remaining disbursements are made under the direct payment modality.</li> </ul>	
<b>Management action plan:</b>	
No more advance payments other than the partner's fee will be granted or processed to Sub-recipients. Direct payments will be the preferred payment modality.	
Sessions have taken place to settle the unjustified advanced amounts. The Administrative and Finance Officers of the concerned Sub-recipients met with the Project Management Unit Finance Specialist on 6 May 2014 and discussed the missing justification documents. It is expected that full documentation to justify the use of advanced amounts will be provided to Project Management Unit.	
For the remaining period of the project life cycle, only direct payment will apply for all programmatic activities.	
In conclusion: points (a) and (b) are under review and settlement – (c) accepted and will be implemented.	
<b>Estimated completion date:</b> December 2014	

### 3. Reporting

#### **Issue 5** Lack of reporting by Sub-recipients and no on-site check on assets by Project Management Unit

The Sub-recipient Management Toolkit for UNDP Country Offices requires that Sub-recipient progress reports, containing both financial and programmatic data, and other agreed upon documentation, must show satisfactory management and use of Global Fund resources before UNDP Country Offices can provide the funds requested. The amount of funding that the UNDP Country Offices approve will depend on the information provided in the progress report. As part of the Sub-recipient agreement, the Sub-recipient is required to maintain a separate and accurate record of all property and equipment acquired with Global Fund funds. The Sub-recipient should report, every six months, to the Principal Recipient on inventory at hand.

No Sub-recipient had filed any programmatic and financial reports on a quarterly basis for 2013. In 2013, Sub-recipients did not provide a report, at the six month mark, of assets financed from the Global Fund grant and belonging to UNDP. Furthermore, the Project Management Unit did not perform on-site visits to check on Sub-recipient assets.

The Project Management Unit explained that such activities did not take place in 2013 due to the lack of capacity and unavailability of the Sub-recipients.

The lack of Sub-recipient reporting to the Project Management Unit exposes the Office to the risk of financial loss and the inability to take timely and corrective actions.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	Obtain from the Sub-recipients all reports required in the agreements signed with them and conduct site visits to validate assets acquired with funds from Global Fund grants.
<b>Management action plan</b>	Management will follow up on the submission of reports by Sub-recipient. Quarterly visits will be organized for each warehouse to check the status and management of stock.
<b>Estimated completion date:</b>	September 2014

#### 4. Oversight and monitoring

##### **Issue 6** Expenditures reported as ineligible after audit of Sub-recipients

One of the key elements of the 'UNDP-Global Fund Grant Agreement' is that Sub-recipients are to be audited and that these audits are to be organized by UNDP under the national implementation modality. UNDP shall submit an audit plan of Sub-recipients to the Global Fund, and upon request, shall share the relevant audit reports with the Global Fund (Article 7d).

The audit of Sub-recipients for the years 2010 to 2012 identified \$1.3 million of ineligible expenditure mainly owing to the unavailability of supporting documents. The Global Fund requested the Office to claim the reimbursement of this amount of funds from the Government and to refund it for whatever was reimbursed. Subsequently, the Government was able to provide additional supporting documents which were submitted to the audit firm for validation. As a result, the amount of ineligible expenditures was reduced to \$850,000.

The Office communicated the results of the revised audit both to the Global Fund and to the relevant government ministry and held a meeting with the latter in February 2014 to discuss the reimbursement of the funds. Following the meeting with the relevant government ministry on February 26, 2014, the Resident Representative met with the government representative on 23 May 2014 to follow up on the matter.

Delays in following up and obtaining the reimbursements of outstanding ineligible expenditures, especially when the project is approaching the end of its life cycle, may result in financial liability to the Global Fund and reputational risks for UNDP.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
Follow-up and obtain the reimbursement from the Government of ineligible expenditures amounting to \$850,000 that has been charged to the Global Fund grant.	
<b>Management action plan:</b>	
The close monitoring of this reimbursement is the Office's priority with the aim to clear it out by the end of the year.	
The Resident Representative/Resident Coordinator and the Country Director are in contact with the Portfolio Management in the relevant government ministry for assistance.	
<b>Estimated completion date:</b> December 2014	

## D. Procurement and supply chain management

### 1. Quality assurance

#### **Issue 7**      Inadequate quality assurance for pharmaceutical products

The 'Global Fund Quality Assurance Policy for Pharmaceutical Products' and the approved 'Procurement and Supply Management Plan' require that the Principal Recipient ensure that pharmaceutical products are tested at different points in the supply chain, from initial receipt in-country, and every six months thereafter for any products that remain unconsumed.

OAI confirmed that pharmaceutical products were tested as required upon receipt in the Country. However, no further periodic testing took place for pharmaceutical products at different sites in the Country. For example, a batch of Artesunate and Amodiaquine compliments received in the Country in May 2013 was still available in at least one of the regional warehouses as of December 2013. This batch should have been subjected to the subsequent six-month test prior to distribution, but was not. In addition, there were pharmaceutical products from the same or earlier orders in the district centres and at the health centres (as of December 2013) that should have been subjected to testing, but were not.

The Project Management Unit indicated that it was not able to perform the required tests in 2014 due to the lack of capacity (there were more than 1,000 health centres in the Country). The Unit informed OAI that it would perform the tests in the future according to the approved 'Procurement and Supply Management Plan'.

Failure to test pharmaceutical products at different points in the supply chain by a pre-qualified laboratory may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patients' lives and the reputation of the Office at risk.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
After the initial testing that is done upon the receipt of pharmaceutical products in the Country, perform tests every six months as per the Global Fund requirements.	
<b>Management action plan:</b>	
A quality assurance plan is being implemented for all pharmaceutical products that arrived in the Country under this project in 2014.	
The first tests took place in March/April 2014. The second tests for the pharmaceutical products that will not be fully distributed to end-users within a six-month period will occur in September/October 2014.	
The movement of pharmaceutical products from main stocks to end-users will be regularly monitored to confirm quantities of pharmaceutical products that will be in stock six months after their first laboratory test.	
In accordance with the 'Procurement Supply Management Plan' approved by the Global Fund, the sampling will be done every six or eight months to ensure the quality of medical products.	
<b>Estimated completion date:</b> November 2014	

## 2. Supply chain management and distribution

### Issue 8 Deficiencies in supply chain of pharmaceutical products

The 'UNDP Operations Manual for Projects Financed by the Global Fund' states that the Principal Recipient is required to ensure that the Sub-recipients establish and maintain reliable stock management systems. In addition, it recommends the use of the World Health Organization guidelines for the storage of medical products.

OAI noted the following:

#### Inadequate monitoring of the supply of pharmaceutical products

Monthly reports showing the quantity of pharmaceutical products at the district health facilities and at health centres were not shared by the responsible Sub-recipient with the Principal Recipient in 2013 and 2014. Moreover, periodic inventory counts to validate the data reported in the stock cards were not being conducted as required. As such, the Office did not have the data that is necessary for its reporting through the quarterly Periodic Update Disbursement Request. To this effect, in August 2013 and January 2014, the Office had to organize workshops with the focal points in order to construct the data. In addition, it was not possible for the Project Management Unit to determine if some areas were experiencing stock-outs or overstocking.

Inadequate reporting of stock status impedes the ability of the Project Management Unit to proactively determine stock-out and overstocking conditions in the supply chain and may result in the unavailability of pharmaceutical products when needed, or unusable products due to expiration dates.

Inadequate storage conditions for pharmaceutical products:

The facilities used for storing medicines were not adequate throughout the supply chain. Based on a monitoring report prepared by the Project Management Unit in January 2014, one district health facility was not appropriately sealed to control the temperature/humidity. In addition, this facility as well as an additional district site in another region did not have thermometers to monitor the temperature in the warehouse.

OAI visited two health centres (periphery level below the district stores in the supply chain) and conducted a visual inspection of these facilities. The air conditioners in the facilities were not functional, either because there was no fuel for the generator or the solar panels used to power the air conditioning units were not functional. OAI observed temperatures of 39°C in these facilities, even though one of the pharmaceutical products stored therein should have been stored in temperatures below 30°C, as per the manufacturers' recommendation.

If pharmaceutical products are not stored according to the manufacturer's requirements, they are susceptible to early deterioration and may render them unfit for use.

<b>Priority</b>	High (Critical)
<b>Recommendation 7:</b>	Improve the reporting on health products by the Sub-recipient, and improve storage at the district and periphery levels by ensuring that World Health Organization storage guidelines are complied with.
<b>Management action plan:</b>	<p>A new reporting mechanism was established to improve the quality and timeliness of reports submitted to the Principal Recipient back from the last destination health centers. It will be implemented during the 2014 distribution schedule</p> <p>Discussions took place between Sub-recipients to improve storage conditions, including regular monitoring of temperature and humidity. Accessories like thermometers will be purchased and delivered to project funded pharmaceuticals storage facilities and throughout the whole supply chain.</p> <p><b>Estimated completion date:</b> December 2014</p>

## E. Financial management

### Issue 9 Weaknesses in management and disbursement of project funds

The policies governing the management and disbursement of funds from Global Fund grants stipulate the following:



- Cash advances can only be granted to staff and service contractors. The maximum amounts that can be authorized locally, without approval from the Treasurer, are \$25,000 for staff members and \$1,000 for service contractors. United Nations Volunteers are not to handle cash advances.
- The Project Management Unit operates on the basis of a budget approved by the Global Fund. Expenditures for activities not provided for in the budget must be approved by the Global Fund on an exceptional basis.
- When prepayments are made, they must be recorded in account 16065 (Prepaid Voucher Modality) and immediately reconciled upon delivery of prepaid goods and services to ensure that over or under payments are settled in a timely manner.
- When direct payments are made on behalf of Sub-recipients, they must be done only upon receipt of a written request for payment signed by the person duly authorized to initiate payments on behalf of the Sub-recipient.

The following weaknesses in the management of project funds were noted:

Non-compliance with the policy on project cash advances

Eight vouchers worth \$120,000 of project cash advances were recorded in account 71620 (Daily Subsistence Allowance-Local) and other 7XXXX expense accounts, instead of account 16007 (Project Advances). The custodians for these project cash advances had not been formally nominated by the Deputy Resident Representative (Operations) as Project Cash Advance Custodians. Two of these advances exceeded the threshold of \$25,000 that requires authorization from the UNDP Treasurer. A Project Cash Advance Custodian who was a service contractor was granted two cash advances that exceeded the \$1,000 threshold by \$15,000 and \$25,000, respectively. In addition, two United Nations Volunteers, who should have been excluded from handling cash advances, were granted several cash advances amounting to \$77,742 during the period audited.

The Project Management Unit was not entirely familiar with the policy on project cash advances, which came into effect in mid-2013.

Incorrect accounting of prepayments and unexpended amounts not refunded

The project recorded prepayments amounting to \$3.1 million between January and June 2013, and recorded them in 7XXXX expense accounts instead of account 16065 (Prepaid Voucher Modality). The refund owed from these prepayments amounting to \$137,000 had not been collected at the time of the audit. The Office sent a request for refund of the prepayment to the recipient on 16 April 2014, but the refund had not been received by the end of audit fieldwork. Noting that it was the practice of the project to record prepayments in 7XXXX expense accounts prior to June 2013, OAI reviewed 2012 prepayments recorded in this manner, and noted that an additional refund of \$2,000 had yet to be collected.

Inappropriate handling of direct payments on behalf of Sub-recipients

Ten direct payment vouchers worth \$129,000 were made by the Project Management Unit on behalf of one Sub-recipient for which there was either no written request for payment, or when there was a request for payment, the individual who signed the request was not on the authorized payment list of the concerned Sub-recipient. Additionally, two payment were made directly to the government official who signed the request for payment on government letterhead. The Project Management Unit was not certain of the requirements when making direct payments on behalf of Sub-recipients.

Not adhering to financial management policies and practices could weaken internal controls and expose the Office to risks of fraud or misrepresentation of actual financial status and financial loss.

<b>Priority</b>	High (Critical)
<b>Recommendation 8:</b>	
Strengthen the management of disbursements of funds from Global Fund grants by:	
<ul style="list-style-type: none"> <li>(a) complying fully with the prescribed modalities in the authorization and granting of project cash advances;</li> <li>(b) utilizing third party services, including mobile cash partners, to make payments for project activities so as to minimize the need for using UNDP personnel to effect such payments;</li> <li>(c) ensuring that prepayments are recorded in account 16065 (Prepaid Voucher Modality) and are promptly reconciled with actual expenditures to determine and settle under or over payments; and</li> <li>(d) ensuring that payments on behalf of Sub-recipients are appropriately requested by authorized staff of Sub-recipients.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) Practical measures were taken in regard to project cash advances. They are currently recorded in 16108 account and using solely fixed term open advances. As a follow up, a table is maintained and all cash advances must be cleared within a week. Two out of three advances have been cleared so far.</li> <li>(b) A local Long-term agreement is being signed with a telephone company in order to facilitate the direct payment everywhere in the Country.</li> <li>(c) The purchasing of pharmaceutical products through UNICEF is done using prepayment modality and reconciled as soon as possible with the final invoice. So far, two reimbursements were requested to UNICEF Copenhagen amounting \$195,903.</li> <li>(d) The Office requested all Sub-recipients to designate two officials that would be authorized to sign requests for direct payment on behalf of the institution.</li> </ul>	
<b>Estimated completion date:</b> July 2014	
<b>OAI Response</b>	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

## 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.