UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP SOUTH SUDAN

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

Report No.1400

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Table of Contents

United Nations Development Programme
Office of Audit and Investigations

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

The UNDP Office of Audit and Investigations (OAI), from 10 to 21 November 2014, conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 81101 [HIV], 81102 [HIV/TB], 81103 [TB] and 81104 'Health Systems Strengthening' [HSS]) managed by UNDP South Sudan (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.[1] 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, grant closure);

(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 July 2013 to 30 June 2014. The Office recorded Global Fund-related expenditures totaling $13.4 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 **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 programme management, Sub-recipient management, procurement and supply management, and financial management.

Key recommendation(s) Total = **4**, high priority = **1**

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

The four recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 2, 4); (b) effectiveness and efficiency of operations (Recommendation 1); (c) safeguarding of assets (Recommendation 3).

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. The high (critical) priority recommendation is presented below:

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Weaknesses in inventory and warehousing management (Issue 3)	Weaknesses were noted with respect to the UNDP-managed warehouse, mainly absence of formal segregation of duties for receipt and distribution on inventory and lack of independent verification of stock counts. Further, the Quality Assurance Plan procedures were not strictly adhered to regarding the monitoring of temperature sensitive inventory. The small size of the warehouse also negatively impacted the proper storage of the items. Recommendation: Strengthen inventory management procedures at the UNDP managed warehouse by: (a) formally delegating responsibilities for receiving, recording and distribution functions; (b) obtaining an independent inventory verification team during physical inventory count; (c) strengthening inventory count procedures by assigning a dedicated refrigerator for newly arrived cool chain items; (d) exploring possibilities to negotiate more warehouse space; (e) enforcing the procedures documented in the Quality Assurance Plan for monitoring temperature sensitive inventory.

Implementation status of previous OAI audit recommendations: Report No. 1188, 19 December 2013.
Total recommendations: 5
Implementation status: 100%

Management comments and action plan

The Resident Representative accepted all four recommendations and is in the process of implementing them.
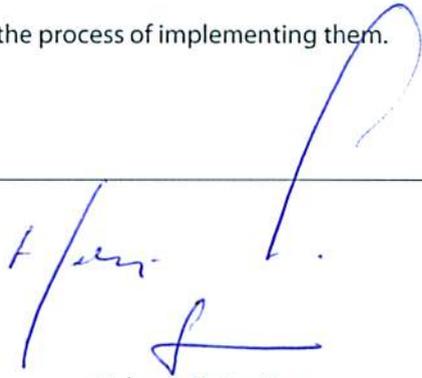
Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP South Sudan

Since 2004, UNDP has been the Principal Recipient of Global Fund grants in South Sudan (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Lifetime Budget (in $'000)	Funds Received as of 30 June 2014 (in $ '000)	Implementation Rate	Expenditures as of 30 June 2014 (in $ '000)	Global Fund Rating at 30 June 2014
SSD-405-G05-H	81101	HIV Prevention and Care Program for South Sudan	1/8/2006	30/06/2015	46,834,369	40,097,515	86%	36,613,127	A1
SSD-506-G06-T	81102	Tuberculosis and HIV Collaborative Programme	1/10/06	28/02/2015	23,151,237	22,836,756	99%	22,250,469	A1
SSD-708-G11-T	81103	Improving and expanding Tuberculosis Control in Southern Sudan	1/1/2009	31/12/2015	22,072,232	17,398,451	79%	15,093,861	B1
SSD-910-G13-S	81104	Strengthening Health System in Southern Sudan	1/10/2010	30/09/2015	47,315,332	40,244,424	85%	25,824,064	B1 *Financial Closure
Totals					**139,373,170**	**120,577,146**	**87%**	**99,781,524**	

II. Audit results

Satisfactory performance was noted in :

Governance and strategic management. Based on the Project Management Unit structure, the Coordinator was reporting to the Team Leader for Human Development and Inclusive Growth Programme, and to the Deputy Country Director for Programme. Although this arrangement was different than structures in other countries of similar size and complexity where UNDP was Principal Recipient, the Office maintained this structure in light of recent gains in communication with the Government counterparts.

OAI made one recommendation ranked high (critical) and three recommendations ranked medium (important) priority.

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

High priority recommendation:

   (a)   Strengthen inventory management procedures (Recommendation 3).

Medium priority recommendations, arranged according to significance:

   (a)   Get project implementation back on track (Recommendation 1).
   (b)   Improve monitoring of quarterly financial reports (Recommendation 2).
   (c)   Exercise due diligence when processing payments (Recommendation 4).

The detailed assessment is presented below per audit area.

A. Programme Management

   Issue 1   Delays in project implementation

The 'UNDP-Global Fund Operations Manual for Projects financed by the Global Fund' requires planned project activities to commence as scheduled and delayed activities to be rescheduled in order to meet programme objectives. For an effective monitoring of projects, the monitoring and evaluation plan is required to measure programme results at various levels to provide a basis for accountability and informed decision making. The plan is required to be a working document that can be amended as needed.

The prevailing security situation in the Country caused delays in the implementation of project activities across all three grants (Tuberculosis, HIV and Health Systems Strengthening). Discussions with management and minutes of meetings showed that some mitigating measures had already been taken. Those included the development of an acceleration plan with some activities being rescheduled to the next phase of the project. However, some of these activities continued to lag behind the rescheduled plan. The following delays were noted:

   ▪   Maintenance of 13 hematology laboratories (budgeted at $22,300) was due to start in the third quarter of 2013 and be completed in the first quarter of 2014. However, at the time of the audit, 7 out of 13 laboratories had been completed and work was still ongoing for the remaining five. Management commented that many of the hematology laboratories were in conflict-affected locations where security situation would not permit travel to carry out maintenance.

   ▪   Development of the national TB guidelines and policy (budgeted at $41,000), the TB diagnostic treatment and service provision at one facility (budgeted at $35,800) and the renovation of the TB laboratory (budgeted at $565,000), all of which were due to start in the first quarter of 2014 were yet to commence at the time of the audit. Management stated that, with regard to the drafting of the guidelines, the recruitment of a consultant to lead the process was underway with selection scheduled for mid-December 2014. The selection process was delayed due to the unrest that occurred at the end of 2013.

   ▪   Community development services which were due to be implemented in both the HIV/AIDS and Health Systems Strengthening projects in the first and third quarter of 2014, respectively, (under a combined budget of $570,529), were yet to commence as the selection of the responsible Sub-recipient had not been concluded. The nominated Sub-recipient was in the process of strengthening operational procedures and controls before approval could be granted.

- Project monitoring was fragmented, as there was no consolidated plan for monitoring activities of all grants. The Office used separate grant monitoring and evaluation plans approved by the Global Fund that did not reflect the timing of the activity planned. There was also no tracking tool for monitoring and evaluation activities and therefore, no trail on whether planned activities had been completed.

The Office stated that Global Fund had been kept fully informed of the implementation challenges, risks and insecurity and they were open to reprogramming options, where necessary.

Weak monitoring plans may result in not timely detecting and addressing delays in planned project activities, and thus programme objectives may not be achieved on time.

Priority	Medium (Important)
Recommendation 1: Get project implementation back on track by: (a) continuing to regularly inform Global Fund of the implementation challenges caused by the on-going security situation so that funds can be reprogrammed as necessary; (b) considering engaging another Sub-recipient with the capacity and experience and has received approval from Global Fund to implement community development services; (c) including information on time on monitoring and evaluation plans to be updated regularly for activities planned and/or rescheduled.	
Management action plan: The Office will continue to engage with Global fund regarding challenges caused by the ongoing security situation in the Country. It had already suggested to Global Fund the option to engage alternative Sub-recipient to implement community development services. Also, action to address monitoring and evaluation plans has been put in place. **Estimated completion date:** July 2015	

B.   Sub-recipient management

Issue 2   Inadequate monitoring of Sub-recipient quarterly financial reports

The 'UNDP-Global Fund Sub-recipient Management Implementation Toolkit' requires review of quarterly financial and progress reports submitted by the Sub-recipient to UNDP, as well as regular site visits to the Sub-recipients. The Project Cooperation Agreements signed between the Sub-recipients and UNDP also state that the Sub-recipient undertakes to have a separate dedicated bank account for Global Fund disbursements and submit copies of agreed documentation together with the quarterly financial reports.
The review of 12 quarterly financial reports submitted by the Sub-recipients during the audit period showed the following weaknesses:

- There was no evidence of initial check to ensure that all required documents were submitted as part of the financial progress reporting. Three financial reports did not include bank statements and eight statements were submitted in copies that did not bear the stamp of the respective banks where the accounts were held.
- In five cases, the quarterly cash book and bank statement opening balances did not agree with the previous quarter's closing balances.
- In one case, the review of the bank statements submitted by one Sub-recipient (implementing both TB and HIV projects) showed balances of funds coming from other sources and not only from UNDP.
- In two instances, the financial reports were accepted without the signature of the authorizing officer and in both these instances the bank reconciliation was done by UNDP and not the Sub-recipient as required by the signed agreement (Refer also to issue 4).

Onsite visits and verification of supporting financial documents were not adequately done. For the period June 2013 to November 2014 two onsite visits were undertaken. One was completed in June 2013 and covered expenditure reported between January 2013 and June 2013. The next onsite visit and verification of supporting financial documents was completed in September 2014 for expenditure reported between July 2013 and June 2014. Reports prepared by the Office, for both June 2013 and September 2014 visits, showed poor quality of Sub – recipient reporting, which entailed missing bank statements and invoices, financial data entered incorrectly or omitted in the books of accounts and no follow-up on the issues raised from previous onsite visits. Given the weaknesses noted in the reports and the lack of follow-up, the annual onsite verification exercises were not frequent enough for the effective review of the particular Sub-recipients.

Inadequate due diligence in monitoring financial reports from Sub-recipients might lead to unauthorized and/or fraudulent expenditure not being detected and low frequency of onsite verification visits might lead to delays in addressing weaknesses within the Sub-recipients' processes.

Priority	Medium (Important)
Recommendation 2: Improve monitoring of quarterly financial reports by: (a) Developing a checklist that will be used to ensure that all required supporting documents to financial progress reports are received and accurate and that the sub-recipient are notified immediately if documentation is incomplete. (b) Increasing the frequency of onsite verifications to at least two per year.	
Management action plan: The Project Management Unit will: (a) Further strengthen the existing financial checklist to ensure effective analysis by evaluating risks, performance, financial health, and future prospects of the Sub-recipients. (b) Increase the frequency of onsite verification of Sub Recipients to twice a year and in-house financial training of Sub-Recipient staff on Global Fund financial management policies and procedures, budgeting and budgetary controls, reporting requirements and processes. **Estimated completion date:** 28 February 2015.	

C. Procurement and Supply management

Issue 3 Weaknesses in inventory and warehousing management

The Principal Recipient and its Sub-recipients are required by the Standard Terms and Conditions of Global Fund Grants to comply with the World Health Organization guidelines for adequate storage and distribution practices of pharmaceutical products. To this effect, a Quality Assurance Plan is developed that should be adhered to and revisited if necessary.

Weaknesses due to oversight were noted with respect to the UNDP-managed warehouse, as follows:

- There was no formal and continued segregation of duties for receiving, recording and distribution of inventory. The warehouse personnel rotated on these functions based on operational day-to-day needs. There was a risk of accountability being compromised.

- The physical count of inventory was carried out twice a year, however, the results of the count were not independently verified as required by stock taking procedures. Without independent verification, losses might go undetected.

- The receiving, quarantine and dispatch areas were not adequately separated as required by supply chain management best practices due to the small size of the warehouse. Management stated that plans were already under way to construct an additional warehouse through the Round 9 cycle of all Grants. Inadequate separation of inventory areas might lead to errors in the classification and distribution of medicines.

- The Quality Assurance Plan procedures for the monitoring of temperature sensitive inventory were not strictly adhered to. There was no backup generator to prevent power interruptions at the warehouse, which placed cool/cold chain items at risk of spoilage. Also, the refrigerated truck used to transport cool/cold chain items in the capital was out-of-service since April 2014 due to difficulties encountered with it being locally repaired. As an alternative, regular vehicles equipped with cooler boxes and ice packs were used to transport cool/cold chain items with no recording and monitoring of temperatures during road transportation. Management explained that the Office was in the process of procuring a new backup generator. There was a risk that temperature-sensitive items could be spoiled.

Priority	High (Critical)

Recommendation 3:

Strengthen inventory management procedures at the UNDP managed warehouse by:

(a) Formally delegating responsibilities for receiving, recording and distribution functions and formally documenting a schedule of rotation approved by supervisor to ensure accountability.
(b) Obtaining an independent inventory verification team during physical inventory count.
(c) Strengthening inventory count procedures by assigning a dedicated refrigerator for newly arrived cool chain items awaiting verification and placing expired items in a dedicated quarantined area immediately on removal.
(d) Exploring possibilities to negotiate more warehouse space to facilitate separation of receiving, quarantine and dispatch areas while awaiting construction of the new warehouse.

(e) Enforcing the procedures documented in the Quality Assurance plan for monitoring temperature sensitive inventory to stay within acceptable temperature ranges while in storage and during road transportation.

Management action plan:

(a) A warehouse staff schedule will be created and implemented on a monthly basis and a clear delegation of responsibilities will be formalized for the functioning of the warehouse.
(b) The Country Office will liaise with the supply chain management specialists from the Ministry of Health and other partners to establish an independent team for verification of physical inventory count. Alternatively, project officers within the Project Management Unit will be engaged in a sample verification of the inventory count.
(c) A dedicated refrigerator has been designated for newly arriving cold chain items before verification immediately and Warehouse has already started to implement the recommendation of immediately placing expired items into a quarantined area, in one of the containers within the warehouse premises.
(d) The issue of warehouse space has already been recognized by the Office and shared with the Global Fund, for which reason, construction of an additional warehouse has been approved and preparation entailing selection of a contractor is at an advanced stage. The possibilities of acquiring additional space from the existing Ministry of Health warehouse until the completion of the new warehouse remain slim. This is mainly due to the prevailing inadequacy of warehouse space for government-funded and donor-funded health commodities.
(e) In order to strengthen monitoring of temperature-sensitive items, a backup generator dedicated to maintenance of the cold chain has been purchased and running to maintain the optimal storage conditions for the temperature sensitive items. For the road transportation, the refrigerated truck has been going through a major repair in order to use it for transporting temperature-sensitive items. A staff is already assigned on a rotation basis to follow the procedures in the Quality Assurance Plan for monitoring temperature sensitive items at any time of storage and transportation.

Estimated completion date: April 2015

OAI Response

OAI acknowledges the actions already taken and will review all these as part of the desk follow-up.

D.   Financial management

Issue 4   Weaknesses in Sub-recipient payments processing

UNDP payments processing procedures require payments to be made based on necessary supporting documents. The 'UNDP – Global Fund Sub-recipient Management Implementation Toolkit' requires Sub-recipients' funding requests to be signed by authorized persons and to be reconciled by UNDP Country Offices.

OAI reviewed accounts payable vouchers to the value of $2.1 million representing 23 percent of total vouchers during the audit period and observed the following weaknesses in payments processing:
(a) Five payment vouchers for $57,000 (or 10 percent of total number of sample vouchers) were processed without verification of the proof of physical receipt of goods and certification of work done.

(b)   Two payments for $48,000, of which one was processed without an invoice and the other was based on a copy of the invoice instead of the original.

(c)   Nine vouchers amounting to $482,000 (or 19 percent of the total vouchers reviewed) represented disbursements of advances to Sub-recipients where proper payment procedures were not followed. Three out of the nine payments equivalent to $218,000 were paid supported by unsigned financial reports by the Sub-recipients. Four payments amounting to $736,000 had no evidence that outstanding advances at the time of the disbursement were verified. Two payments of $38,000 were not supported by any financial reports.

Subsequent to the audit, the Office provided copies of signed financial reports and a certificate of work done, stating that the documents were filed in the respective project files. With regard to verification of outstanding advances prior to disbursement, the Office stated that outstanding advances were checked in Atlas although the process was not consistently documented. For the specific four cases identified, there were no outstanding advances.

Lack of diligence when processing payments may lead to errors and fraud.

Priority	Medium (Important)
Recommendation 4: Exercise due diligence when processing payments by ensuring that: (a) Each payment is substantiated with proof of physical receipt of goods or service, original invoice and delivery note/documents and authorized order; (b) Disbursements to Sub-recipients are substantiated with signed financial reports and clearly documented verification of outstanding advances;	
Management action plan: The Office will put in place measures to address the recommendation. **Estimated completion date:** March 2015	

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 <u>not included in this report</u>.