



AUDIT

OF

UNDP ZIMBABWE

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

Report No. 1401

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

The UNDP Office of Audit and Investigations (OAI), from 29 September to 10 October 2014, conducted an audit of five grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 72970 & 88278 [HIV], 72971 [TB], 72973 [HSS], and 82260 [malaria]) managed by UNDP Zimbabwe (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 September 2013 to 31 August 2014. The Office recorded Global Fund-related expenditures totalling \$140 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 procurement and supply management.

¹ 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 = 3, 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. The high (critical) priority recommendation is presented below:

Weak controls and supervision over supply chain management (Issue 2)

The storage and supervision of health-related supplies at facilities was found to be inadequate. In one health facility visited, a refrigerator used to store items such as blood samples had no working external thermometer, and in a second health facility visited, there was no working thermometer at all. In both facilities, expired medicines were stored next to unexpired medicines in the pharmacy area. In addition, at the national warehouse, long-expired medicines had not been disposed of.

Recommendation: Strengthen supervision and controls over supply chain management by: (a) engaging with the relevant stakeholders to correct deficiencies in storage conditions at the national warehouse as well as at the health facilities to conform to the standards defined in WHO guidelines; (b) reconfirming in writing with the responsible parties on the need to maintain acceptable cold chain transportation and storage conditions as per WHO standards and conduct more periodic on-site visits to assess storage conditions; and (c) improving consumption, forecasting and quantification data for essential supplies and medicines required for laboratory equipment to function and stagger deliveries of bulk purchases.

Laboratory equipment not functional (Issue 3)

From the on-site verification of two health facilities and from documents reviewed, OAI noted that: (a) one out of the two white blood cell count machines was not operational; (b) all three chemistry analyzers inspected were not operational and there was 1 microscope out of 10 that was not working; and (c) three out of four chemistry analyzers at two provincial hospitals and one district hospital had not been functioning properly for over three years.

Recommendation: Consider options to improve the maintenance contracts for laboratory equipment in order to include the provision of peripheral equipment and all essential parts and consumables so as to ensure the most effective use of instruments.

Implementation status of previous OAI audit recommendations: Report No. 1238, 10 December 2013.

Total recommendations: 4

Implementation status: 100%

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.

Helge S. Osttveiten
Director
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I. Profile of Global Fund grants managed by UNDP Zimbabwe

Since 2009, UNDP has been the Principal Recipient of Global Fund grants in Zimbabwe (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Aug 2014 (in \$ '000)	Implementation Rate	Expenditures as of 31 Aug 2014 (in \$ '000)	Global Fund Rating at 31 Aug 2014
ZIM-809-G11-H	72970	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2010 (Ph 1)	31 Dec 2013 ² (Ph 2)	238,325	238,325	100	73,471,592	A1
ZIM-809-G12-T	72971	Towards universal access: Improving accessibility to high quality DOTS in Zimbabwe	1 Jan 2010 (Ph 1)	31 Dec 2014 (Ph 2)	53,051	51,929	98	8,165,429	A2
ZIM-809-G14-S	72973	Health System Strengthening Cross-Cutting Interventions	1 Jan 2010 (Ph 1)	31 Dec 2014 (Ph 2)	74,664	74,664	100	8,972,850	A1
ZIM-M-UNDP	82260	Towards achieving pre-elimination in the Southern region scaling up effective malaria control interventions	1 Apr 2012 (Ph 1)	31 Dec 2016 (Ph 1)	41,955	39,943	95	15,885,199	A1
ZIM-H-UNDP ³	88278	Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe	1 Jan 2014	31 Dec 2016	311,217	163,990	53	33,734,154	Not reported

Global Fund A1 rating = Exceeds expectations

Global Fund A2 rating = Meets expectations

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management. The implementation of programme activities was carried out within the stipulated timeframe and with adequate monitoring. Reporting to the Global Fund Secretariat was done in a timely manner and with no noted delays. The close-out plan for the Round 8 malaria and TB grants due to be transferred to the Government at the beginning of 2014 were being finalized for submission to the Global Fund before the 31 October 2014 deadline.
- (b) Sub-recipient management. The selection process and capacity assessments of the newly selected Sub-recipient adhered to recommended guidelines. Financial and progress reporting by Sub-recipients was found to be adequate, with reports received from Sub-recipients on a quarterly basis and reviewed by the Office.
- (c) Financial management. OAI reviewed 26 payment vouchers with a total value of \$1.75 million (39 percent of the total value of vouchers issued during the period under review) and noted that payments were supported with adequate documentation.

OAI made three 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 recommendation, arranged according to significance:

- (a) Consider options to improve the maintenance contracts for laboratory equipment (Recommendation 3).
- (b) Strengthen supervision and controls over supply chain management (Recommendation 2).

Medium priority recommendation:

Improve the process of transferring grants (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Inadequate transfer of the malaria and TB grants

According to the Global Fund guidelines on the transfer of grants from one Principal Recipient to the next, a formal notification must be sent to the outgoing Principal Recipient by the Global Fund. As part of the formal notification, the Global Fund Secretariat requests that the outgoing Principal Recipient compile a close-out plan that will detail programme activities that should be completed, as well as the timing and the related costs. In this particular context, the Global Fund had appointed UNDP as a Fund Administrator, which was a newly developed role. This role of the Fund Administrator was to provide financial management to the Principal Recipient and ensure that financial management and procurement activities adhere to the grant agreement.

OAI noted the following issues:

- At the time of the audit fieldwork, UNDP as Principal Recipient had not received a formal notification from the Global Fund about the transfer of the Principal Recipient role for the malaria and TB grants.
- There was no common understanding among concerned parties of critical tasks to be completed and associated timelines for a smooth transition.
- At the time of the audit, the oversight role and responsibility of UNDP as a Fund Administrator and its relationship with the new Principal Recipient remained unclear as the Fund Administrator Agreement was yet to be finalized and signed between UNDP and the Global Fund.

According to management, the Global Fund indicated in an email its intention to transfer the Principal Recipient's role of the TB and malaria grants from UNDP to the national counterpart by January 2015. Formal approval of the transfer from the Global Fund Board of Directors was expected in December 2014. In addition, UNDP and the Global Fund had agreed, in principle, on a draft Letter of Agreement and draft Terms of Reference for the newly developed Fund Administrator support role to be filled by UNDP for the TB and malaria grants. This was also pending approval from the Global Fund Board of Auditors.

If grants are not transferred in an efficient and effective manner, programme activities may be negatively impacted. In addition, the reputation of UNDP as outgoing Principal Recipient may be negatively affected.

Priority	Medium (Important)
Recommendation 1:	
Improve the process of transferring grants by:	
<ul style="list-style-type: none"> (a) requesting written notification from the Global Fund Secretariat with regard to the transfer of the next round of malaria and TB grants; (b) discussing practical modalities for the transfer of the Principal Recipient duties with both the Government and Global Fund Secretariat, through a memorandum of understanding with all parties concerned; and (c) concluding discussions and finalizing the Fund Administrator Agreement with the Global Fund Secretariat. 	
Management action plan:	
Management will continue to liaise with the Global Fund to ensure a smooth transition of the TB and malaria grant to the national counterpart.	
Estimated completion date: March 2015	

B. Procurement and supply management

Issue 2 Weak controls and supervision over supply chain management

The UNDP Operations Manual for Projects Financed by the Global Fund (September 2008) recommends the use of WHO guidelines for the storage of medical products. The Principal Recipient is required to ensure that the Sub-recipients establish and maintain reliable stock management systems.

Based on the on-site visits conducted at two health facilities and the national warehouse, the following weaknesses were noted:

- (a) The storage and supervision of health-related supplies at facilities was found to be inadequate. In one health facility visited, a refrigerator used to store items such as blood samples had no working external thermometer.
- (b) In the second health facility visited, there was no working thermometer at all. In both cases, there was no evidence to show that refrigeration temperatures were being monitored and kept within acceptable ranges.
- (c) At the two health facilities visited, expired medicines were stored next to unexpired medicines in the pharmacy area. This practice put the health of patients at risk. In addition, items that were set to expire within one or two months were not necessarily distributed before the items with longer expiry dates.
- (d) At the national warehouse, long-expired medicines that had accumulated over the course of two years and valued at \$1.4 million had not been disposed of.

Management indicated that a supply chain assessment was conducted by an internal entity in November 2013 and that recommendations were made to address the capacity gaps of the storage facilities at the national warehouse and at the periphery levels. In addition, \$24 million had been allocated to the revised HIV grant under the New Funding Model for improvements in warehouse and storage conditions beginning in 2015. A new quantification and forecasting tool for laboratory commodities was piloted in 2014 to assist in providing reliable data for forecasting and supply planning. The tool was expected to be fully operational in 2015. Laboratory supplies procured by UNDP for 2014 and 2015 had been scheduled to be delivered on a staggered basis.

OAI established that the bulk procurement of medicines and other medical products and supplies had been done without adequate staggering of delivery dates. There was also inadequate quantification of required reagents and other consumables, leading to expiry. Consumption levels of reagents were lower than the estimates because of the sub-optimal use of laboratory equipment (refer to Issue 3).

Priority	High (Critical)
Recommendation 2:	
Strengthen supervision and controls over supply chain management by:	
<ol style="list-style-type: none"> (a) engaging with the relevant stakeholders to correct deficiencies in storage conditions at the national warehouse as well as at the health facilities to conform to the standards defined in WHO guidelines; (b) reconfirming in writing with the responsible parties on the need to maintain acceptable cold chain transportation and storage conditions as per WHO standards and conduct more periodic on-site 	

- visits to assess storage conditions; and
- (c) improving consumption, forecasting and quantification data for essential supplies and medicines required for laboratory equipment to function and stagger deliveries of bulk purchases.

Management action plan:

The Office will share the recommendations on storage conditions with the national warehouse management and with the national counterpart.

Estimated completion date: Ongoing until December 2015

Issue 3 Laboratory equipment not functional

As Principal Recipient, UNDP is responsible for ensuring that assets purchased by the Global Fund are functional and used for the programme activities of the grants.

Laboratory equipment funded by the Global Fund was not functional.

(a) From the on-site verification of two health facilities, the following was noted:

- One out of the two white blood cell count machines was not operational.
- All three chemistry analyzers inspected were not operational and the laboratory technician at one health facility had not used the analyzer in four years.
- There was 1 microscope out of 10 that was not working, and auditors could not verify whether there was a service level agreement in place for the maintenance of microscopes.

(b) Review of electronic communication from the agent contracted to maintain laboratory equipment showed that three out of four chemistry analyzers at two provincial hospitals and one district hospital had not been functioning properly for over three years. Additionally, one white blood cell count machine had only worked for one week and had started giving variations in results due to lack of essential parts. Auditors were only able to verify the working condition of two out of the four analyzers and found that the equipment was not working due to the lack of essential parts.

Management indicated that the budget for service and maintenance of laboratory equipment under the New Funding Model HIV grant was limited to equipment only, however, the Office would explore possible funding from other partners to cover the servicing of auxiliary components.

The cause for the equipment not functioning was due to lack of funding at the national level to replace essential parts that were not part of the standard service packages and maintenance contracts.

Non-functional laboratory equipment at health facilities affects the timeliness of detecting diseases and getting test results that determine the correct diagnoses and treatment options for patients.

Priority	High (Critical)
Recommendation 3: Consider options to improve the maintenance contracts for laboratory equipment in order to include the provision of peripheral equipment and all essential parts and consumables so as to ensure the most effective use of instruments.	
Management action plan: The Office will explore possible funding from other partners to cover the servicing of auxiliary components. 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 not included in this report.