UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP TAJIKISTAN

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

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

The UNDP Office of Audit and Investigations (OAI), from 27 October to 7 November 2014, conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 72835 [TB], 72826 [HIV], and 72827 [Malaria]) managed by UNDP Tajikistan (the Office) as the Principal Recipient. The audit also covered Project No. 38886, a support project funded by UNDP core resources. 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 Global Fund-related activities of the Office from 1 January 2013 to 30 September 2014. The Office recorded Global Fund-related expenditures totalling $20 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2010.

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 inadequate storage conditions for finished pharmaceutical products, and weak asset and inventory management.

Key recommendations: Total = **4**, high priority = **1**

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) effectiveness and efficiency of operations (Recommendations 2 and 3); and (d) safeguarding of assets (Recommendation 4).

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 inventory management and inadequate storage conditions (Issue 3)	A review of inventory and stock management processes along with site visits to the main warehouse and storage facilities identified several weaknesses. For example, there were discrepancies between the stock log and actual inventory counts as well as between product serial numbers and the serial numbers indicated in the stock management software, and one instance where the first-expiry first-out method was not used to handle expired products. Additionally, there were instances where finished pharmaceutical products were not stored properly and were not stored in accordance with WHO guidelines. Recommendation: Implement standard operating procedures relating to the stock and inventory management of finished pharmaceutical products by coordinating with the national implementing partner, and improve storage conditions at the various facilities to be in accordance with WHO guidelines.

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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I. Profile of Global Fund grants managed by UNDP Tajikistan

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

Grant No.	Output No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of **30 Sep 2014** (in $ '000)	Implement -ation Rate %	Expenditures as of **30 Sep 2014** (in $ '000)	Global Fund Rating at **30 June 2014**
TAJ-809-G07-H	58593	HIV/AIDS	Oct 2009	Sep 2015	47,642,371	43,967,734	94	41,212,524	A2
TAJ-809-G08-M	58594	Malaria	Oct 2009	Sep 2015	12,908,783	12,511,033	96	12,025,538	A2
TAJ-809-G09-T	58599	TB	Oct 2009	Sep 2015	47,133,615	42,214,566	77	32,648,513	A1
[UNDP]	38886	Support to implement ation of UNDP HIV, TB, Malaria control	Sep 2005	Sep 2015	2,950,557	2,950,557	86	2,529,062	n/a
Totals					**110,635,326**	**101,643,890**		**88,415,637**	

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. Project approval, implementation, and monitoring and evaluation were adequate. The implementation of the grant activities was carried out with appropriate monitoring and supervision.

(b) Sub-recipient management. The selectioncontracting, funding, oversight and monitoring of Sub-recipients were found to be adequate.

(c) Financial management. The internal control processes for financial management were established and functioning well. Reporting to the Global Fund Secretariat was done in a timely manner and with no delays noted.

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) Implement standard operating procedures relating to the stock and inventory management of finished pharmaceutical products and improve storage conditions at various facilities (Recommendation 3).

Medium priority recommendations, arranged according to significance:

(a) Strengthen the asset management function (Recommendation 4).

(b) Improve the national implementing partner's capacity regarding the management and distribution of finished pharmaceutical products (Recommendation 1).

(c) Strengthen the planning of future civil works projects in order to improve the design of technical specifications (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Capacity development and exit strategy

Issue 1 Weak capacity-building at the national implementing partner in managing finished pharmaceutical products

As per the signed agreements between UNDP and the Global Fund, the Office, as Principal Recipient, is accountable for managing Global Fund grants, while overall ownership of Global Fund grant activities rests with the national government. The Office is expected to build the capacity of the national implementing partners to ensure that the grant activities are sustainable. The Global Fund grants were scheduled to end in September 2015, with the possibility that the Office would continue managing the HIV/AIDS grants after that date.

The Office continually supported the establishment and the implementation of the Transition and Capacity Development Plan of a relevant government ministry by contributing core resources. Since 2004, the Office had invested $2.5 million from its core resources in different capacity development areas relating to Global Fund activities.

Despite these efforts, stock and inventory management required capacity-building and better collaboration between stakeholders (refer to Issue 3). Finished pharmaceutical products were being shipped to the Country and stored in warehouses rented by the Office. Even though the product distribution plan was proposed by the respective government centres, the ultimate decisions on final distribution were made by the Office. The Office's heavy involvement in the decision-making process limited the capacity-building of the main national implementing partner regarding finished pharmaceutical product management and distribution processes.

The Office acknowledged the risk of national implementing partners having limited capacity and explained that it had already started strengthening the overall procurement- and supply management-related capacities of key health partners, by investing core resources. For instance, the Office stated that it had hired an international consultant to strengthen supply chain management and introduced 34 standard operating procedures concerning functions such as distribution, storage, and requisition. The relevant government ministry endorsed these standard operating procedures. Furthermore, the Office agreed to fully hand over the management and distribution of finished pharmaceutical products to the national implementing partner.

National implementing partners that lack capacity may not be able to effectively manage and distribute finished pharmaceutical products, particularly when the Office's role as Principal Recipient ends.

Priority	Medium (Important)
Recommendation 1:	
Improve the national implementing partner's capacity regarding the management and distribution of finished pharmaceutical products by developing and implementing a comprehensive plan to hand over these activities to the national implementing partner.	

Management action plan:

In close coordination with key partners, the Office will develop a comprehensive action plan to improve the national partner's capacities in regard to managing and distributing finished pharmaceutical products, and will formalize an agreement to hand over these activities to the national implementing partner.

In addition, the Office will continue to consult and provide technical assistance to the national partners, and will follow up on the implementation of key recommendations and standard operating procedures at least twice a year.

Estimated completion date: October 2015

B. Procurement and supply management

1. Procurement of other goods and services

Issue 2 Delays in construction of a hospital for TB patients

According to the signed grant agreements and the approved work plan, as part of its responsibility as a Principal Recipient of the Global Fund grant, the Office manages the construction and renovation of buildings and laboratories. When managing these activities, it is crucial to plan the entire construction process and define the requested technical specifications with the beneficiary.

There was a two-year delay in the construction of a hospital for TB patients. This situation was mainly due to six amendments made to the contract by the Office and the vendor, five of which related to changes in the initial technical specifications. The sixth amendment related to the terms of payment. These amendments required additional time and a resulted in a revised delivery date. Further, the Office incurred additional costs of $75,104, representing about 8 percent of the initial contract amount. Additionally, the Office awarded part of the construction contract to another vendor, resulting in additional costs of $96,647 to accelerate completion of the hospital.

The Office indicated that amendments to the contract were necessary due to unforeseen technical issues that were only identified during the construction phase. The Office further indicated that the additional vendor was contracted to ensure that the hospital would be opened by the third quarter of 2013 in order to coincide with a visit from government representatives.

The delays in the construction of the hospital resulted in additional costs and in delays in providing healthcare services to TB patients.

Priority	Medium (Important)

Recommendation 2:

Strengthen the planning of future civil works projects in order to improve the design of technical specifications and to avoid delays and additional costs.

Management action plan:

Appropriate coordination and quality assurance will be ensured with all relevant stakeholders during the design stage of civil works projects.

Estimated completion date: June 2015

2. Supply management (inventory, warehousing and distribution)

Issue 3 Weak inventory management and inadequate storage conditions

The Grant Agreement between UNDP and the Global Fund requires adherence to WHO guidelines for the storage of medical products. The Office, as the Principal Recipient of Global Fund grants, procures and distributes pharmaceutical and other health products. It is crucial that the inventory and stock management systems function properly in order to ensure adequate execution of the Global Fund's grant management mandate. The Office is also responsible for ensuring that the implementing partner establishes and maintains reliable storage conditions for finished pharmaceutical products and other consumables.

The Office had already shared the standard operating procedures related to stock and inventory management with the national implementing partner. However, the review of inventory and stock management processes along with site visits to the main warehouse and storage facilities in four regions throughout the Country identified the following weaknesses:

- the first-expiry, first-out method was not observed in one out of four cases reviewed at a TB storage facility;
- in five out of eight cases reviewed, there were discrepancies between the stock log and actual inventory count;
- serial numbers in the stock management software did not match the product serial numbers in two out of eight cases reviewed; and
- the expiration dates in the stock management software did not match the product's expiration date in one out of eight cases reviewed.

Further, the quarterly inventory counts of two finished pharmaceutical products and the final stock compilation did not match the various inventory count sheets, as presented below:

	Cycloserine 250 mg	Levofloxacin (250 mg)
Count sheet	554,649	475,084
Final stock compilation	604,330	539,410
Difference (in quantity)	49,681	64,326
Difference (in $ amount)	24,266	6,109

Visits to the main warehouse and storage facilities in four regions throughout the Country (where finished pharmaceutical products were stored before they were delivered to regional level hospitals) revealed that WHO guidelines were not adhered to. For instance:

- no electricity, and back-up generator not functioning in order to properly operate refrigeration equipment;

- thermometer not functioning properly;
- cleaning products and final pharmaceutical products stored in the same room; and
- boxes placed on the floor instead of on pallets.

Finished pharmaceutical products that are not appropriately stored and managed are at risk of being damaged, lost, or stolen, which could lead to project goals not being achieved and may place patient lives at risk.

Priority	High (Critical)
Recommendation 3: Implement standard operating procedures relating to the stock and inventory management of finished pharmaceutical products by coordinating with the national implementing partner, and improve storage conditions at the various facilities to be in accordance with WHO guidelines.	
Management action plan: The Office will take the following actions: (a) Coordinate with the national implementing partner and the Country Coordination Mechanism to improve storage conditions at storage facilities in accordance with the WHO guidelines. (b) Conduct training for regional and national centre staff on standard operating procedures related to stock and inventory management of finished pharmaceutical products, including regular monitoring of storage conditions, and follow-up on the implementation of recommendations at least twice a year. **Estimated completion date:** September 2015	

3. Asset management

Issue 4 Weak asset management controls

In order to ensure that assets purchased with Global Fund project funds are accounted for, UNDP's 'Programme and Operations Policies and Procedures' require that offices maintain complete and accurate records of capital assets, including those procured for Global Fund projects. They also require that each business unit conduct a physical verification exercise twice per year.

A review of asset management processes and site visits to three health centers and four TB laboratories in three regions revealed the following weaknesses:

- There were 62 assets that were not properly identified by a tag number. Also, the asset lists did not reflect any of the assets in one hospital and were incomplete in 26 separate cases at various sites visited.

- None of the UNDP asset tag numbers assigned to laboratory equipment in one TB hospital matched the tag numbers listed in the asset list maintained on site.

- The most recent physical inventory check of the assets had been carried out in December 2013. The detailed inventory sheets reflecting the results of the physical inventory were not available, and there was no evidence that any corrective actions were taken to address the discrepancies observed during the physical inventory.

The accuracy or completeness of the asset lists provided by the Office could not be confirmed. Improper asset management procedures may lead to financial losses for the organization.

Priority Medium (Important)
Recommendation 4: Strengthen the asset management function by: (a) ensuring that all assets are tagged with asset identification numbers and that the asset database is updated to include identification numbers, location, position, and serial numbers; and (b) carrying out a comprehensive physical inventory in order to identify and address potential discrepancies and to update the asset list based on the results of the inventory.
Management action plan: The Office will take the following actions: (a) Conduct a comprehensive physical inventory and update the asset list. (b) Ensure that all assets are tagged with asset identification numbers and that the asset lists are updated to include each asset's identification number, location, position, and serial number. (c) Follow-up actions will be included in the grant closure plans for TB and malaria grants. (d) Regular monitoring will be conducted on Sub-recipients to check the asset management and update asset registers. **Estimated completion date:** October 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.