



**AUDIT**

**OF**

**UNDP CUBA**

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

**Report No. 1454**

**Issue Date: 22 May 2015**

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

The UNDP Office of Audit and Investigations (OAI), from 9 to 20 March 2015, conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 57442, 59615 [HIV], and 61801 [TB]) managed by UNDP Cuba (the Office) as the Principal Recipient. 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 (quantification 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 31 December 2014. The Office recorded Global Fund-related expenditures of approximately \$14 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2011.

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 **satisfactory**, which means, "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."

**Key recommendations:** Total = **3**, high priority = **0**

The three recommendations aim to ensure the reliability and integrity of financial and operational information (Recommendations 1, 2 and 3).

The three recommendations are all medium (important) priority recommendations, which means, "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." These recommendations include actions to address



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weaknesses in the areas of governance and strategic management, procurement and supply management, and financial management.

**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 Cuba

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

Grant No.	Project ID	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of 31 Dec 2014 (in \$ '000)	Expenditures from 1 Jan 2013 to 31 Dec 2014 (in \$ '000)	Implementation Rate <sup>1</sup>	Global Fund Rating at 31 Dec 2014
CUB-202-G01-H-00	00057442	Strengthening the multi-sector national response to prevent and address the HIV/AIDS epidemic in the Republic of Cuba (RCC-II)	1 Jan 2012 (Phase II)	30 Jun 2015 (Phase II)	17,965 (Phase II)	13,558 (Phase II)	11,012	61.3%	A1 <sup>2</sup>
CUB-607-G02-H	00059615	Strengthening the multi-sector national response to prevent and address the HIV/AIDS epidemic in the Republic of Cuba (R6-II)	1 Jan 2010 (Phase II)	31 Dec 2012 (Phase II)	18,611 (Phase II)	17,429 (Phase II)	1,690	100%	A2
CUB-708-G03-T	00061801	Expansion and Decentralization of National HIV/AIDS Program Comprehensive Care and Support in the Republic of Cuba (R7-II) (TB component)	1 Jan 2011 (Phase II)	31 Dec 2013 (Phase II)	2,275 (Phase II)	2,040 (Phase II)	912	100%	A1
<b>Totals</b>					<b>38,851</b>	<b>33,027</b>	<b>13,614</b>		

Until October 2010, the grants were being managed under the Additional Safeguard Policy.<sup>3</sup> In the Country, projects funded by the Global Fund are nationally implemented, meaning that the Government is responsible

<sup>1</sup> The implementation rate encompasses expenditures since 2010.

<sup>2</sup> The latest performance review as of April 2015 reported a B1 rating for the period ended in 2014.

<sup>3</sup> The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

for carrying out the project activities and delivering results. The Office had a Programme Management Unit that worked directly with the government counterparts. In its role as Principal Recipient, the Office, in consultation with the Country Coordinating Mechanism, partnered with 38 Sub-recipients, the majority of which were government institutions, including 6 civil society entities allowed by the Government to advocate for groups at high risk of infection.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Programme management. Programme activities were implemented within the stipulated timeframe and were adequately monitored. The Global Fund assessment of 31 December 2014 indicated that the overall performance ratings of both the HIV and TB grants were A1 (exceeding expectation).
- (b) Sub-recipient management. Despite the large number (38) of Sub-recipients utilized to run the programme in the Country, the selection process and capacity assessments adhered to recommended guidelines. Financial and progress reports from Sub-recipients were found to be adequate, with reports received on a quarterly basis and timely reviewed by the Programme Management Unit.

OAI made 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.

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

- (a) Resolve inadequacies relating to the deployment of staff (Recommendation 1).
- (b) Improve the procurement and financial internal control environment (Recommendation 2).
- (c) Settle inconsistencies in accounting (Recommendation 3).

The detailed assessment is presented below, per audit area

### A. Governance and strategic management

#### 1. Staffing

##### **Issue 1**      Deployment of technical advisor not communicated well and not recorded correctly

The 'UNDP Operations Manual for Projects Financed by the Global Fund' requires that Principal Recipients be adequately staffed in terms of quality and number of employees in order to be able to undertake the required activities in a timely and effective manner. In fulfilling the Principal Recipient role, UNDP should maintain a clear and effective communication channel with the Global Fund Secretariat to facilitate the timely reporting of any potential operational or financial issues.

Following a corporate request, the Office's Principal Technical Advisor was deployed to Guinea on a detail assignment in November 2014 to provide technical advice in response to the Ebola crisis, for an initially agreed upon period of two months. After two subsequent extensions agreed between the Bureau for Policy and

Programme Support and the Office, the Principal Technical Advisor was expected to return and resume responsibilities by the end of April 2015.

OAI noted the following:

- The Global Fund Secretariat had not been informed of the deployment details and extensions agreed between the Office and the Bureau for Policy and Programme Support.
- The salaries and entitlements paid to the Principal Technical Advisor since his deployment to Guinea (approximately \$88,000 at the time of the audit mission) were charged against the Global Fund programme budget, despite the fact that there was a separate Chart of Accounts where these expenditures should have been charged. The reclassification of salary costs under the correct account code was still pending at the time this report was being drafted.
- The Office indicated that prior to the deployment, a review of the programme needs had been undertaken to ensure full compliance with the Office’s obligations under the Global Fund grant agreement. The review results included rearranging tasks among several staff members to cover the duties of the Principal Technical Advisor’s Terms of Reference. The duties were shared among four Office staff and two Programme Management Unit staff. At the time of the audit fieldwork, the amount to be charged to the Global Fund programme budget as a result of the redistribution of the Principal Technical Advisor’s tasks had yet to be recorded.

Not recording expenditures to the appropriate account code may result in inaccurate financial reporting. In addition, the lack of timely communication between the Office and the Global Fund may jeopardize the established framework of cooperation.

<b>Priority</b>	Medium (important)
<b>Recommendation 1:</b>	
Resolve inadequacies relating to the deployment of staff by:	
(a) informing the Global Fund Secretariat of the Principal Technical Advisor’s deployment details, timeline and salary costs to be charged to the Global Fund programme budget; and	
(b) reclassifying pending salary costs to the correct account code.	
<b>Management action plan:</b>	
The Office has been in direct contact with the Bureau for Policy and Programme Support and the Global Fund Secretariat regarding a cost recovery proposal. It will set the basis for the final financial entries relating to the Principal Technical Advisor’s salary and benefits, as well as for the recovery of actual costs resulting from the distribution of tasks among Office staff.	
<b>Estimated completion date:</b> June 2015	

## B. Procurement and supply management

### 1. Procurement of health products

#### Issue 2 Direct payments to non-contracted/unregistered vendors

The 'Programme and Operations Policies and Procedures' stipulate that all vendors should have an approved profile in Atlas (enterprise resource planning system of UNDP), based on adequate supporting documentation that indicates that the vendor is in fact legally constituted.

The procurement function was being carried out by the responsible government counterpart, based on the national implementation modality followed in the Country. As a result, neither the Office nor the Programme Management Unit undertook procurement activities directly. The Office was only processing direct payments to vendors on behalf of the counterparts for goods or services procured for the Global Fund projects.

A sample of 36 payment vouchers totalling \$2.9 million was reviewed. In 16 cases totalling \$1.8 million, the government counterpart had designated a different payee than the vendor that had been initially awarded the contract. As a result, the Office made payments to beneficiaries that were not the actual contracted vendors and not entitled to payment. This was not in line with established internal controls relating to direct payments, and may have run the risk of non-compliance with payment clauses in existing contracts.

In addition, OAI conducted an assessment of 23 vendors based in Panama and identified that 9 of those vendors did not have commercial licenses to operate in Panama. Furthermore, for two of those vendors, there was no evidence that they were legally registered in Panama. These two companies submitted invoices without tax identification numbers. The Programme Management Unit indicated that this was partly due to the limited number of vendors willing to engage in commercial transactions with the Country given the political context. These vendors were registered with the government counterpart so that payments could be effected through the Office. Due diligence could not be performed on these vendors since the Office did not carry out procurement activities.

This particular issue had been identified in the previous OAI audit report (Report No. 822, 30 December 2011) and a recommendation had been made that was subsequently assessed by OAI as being implemented based on documentation provided by the Office. However, this appears to have resurfaced as a recurring issue. OAI is thus making a new recommendation in this report.

Not performing due diligence on vendors resulted in payments being made to recipients that were not the contracted vendors and not registered to operate in the Country.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
Improve the procurement and financial internal control environment by:	
(a) properly verifying that vendors designated by the Government are in line with the direct payments policy and the terms stipulated in vendor contracts; and	
(b) immediately addressing concerns regarding the legitimacy of vendors to the government counterpart.	



**Management action plan:**

- (a) The Office will strengthen compliance with the national implementation modality payment policies, and the procedures for the capacity assessment of the counterparts, by performing due diligence on suppliers and proper contract management of vendors.
- (b) The Office will inform the government counterpart on the above-referenced audit concerns.

**Estimated completion date:** June 2015

## C. Financial management

### 1. Expenditure

**Issue 3**      Expenditures recorded incorrectly

The UNDP 'Maintenance and Usage of the Chart of Accounts' financial policy states that the correct use of the UNDP Chart of Accounts is critical for accurate financial, management and donor reporting. All Atlas financial users should therefore have a good understanding of the chart fields and of the purpose of each account. The review of reports generated from Atlas indicated inaccurate classifications of expenses, which were not consistent with the Global Fund grants' operations. Inconsistencies relating to 2013 and 2014 cumulative expenditures were identified in the following accounts:

- An amount of \$1.6 million for food and dietary supplements was recorded in the 'Reimbursement to UNDP for support services' account.
- \$1.3 million in health product costs, such as storage and transportation costs, was actually recorded in the 'Machinery' account.
- \$260,000 in overhead expenditure for storage, travel activities, audit services, and office supplies was recorded in the 'Rent' account.
- An amount of \$1 million for the procurement of antiretroviral medicines was recorded in the 'Agricultural and forestry products' account.
- \$300,000 in miscellaneous expenses, such as translation services, insurance, fuel, maintenance and spare parts for vehicles and motorcycles was recorded in the account for 'Acquisition of Equipment'.
- \$351,000 in travel, training and vehicle maintenance expenses was recorded in the 'Grants to institutions' account.
- An amount of \$25,000 for vehicles and motorcycles, as well as combustible and office supply costs was recorded in the account for 'Port Operation.'

The above inconsistencies were due to unclear understanding of the process on the part of the Programme Management Unit in its efforts to match Atlas account codes to account codes in the Global Fund's Chart of Accounts.

The inconsistencies noted above resulted in the following:

- The UNDP Combined Delivery Reports submitted to the Global Fund for respective fiscal years 2013 and 2014 reflected these inconsistencies in the classification of expense accounts, and as a result, distorted financial data.
- The Combined Delivery Reports issued and certified for nationally implemented project audit purposes lacked reclassified expenditures amounting to \$3.6 million and \$2.8 million for 2013 and 2014, respectively.
- The Global Fund Financial Manager indicated that the Atlas financial reports submitted by the Programme Management Unit were difficult to comprehend.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
Settle the inconsistencies in accounting by:	
<ul style="list-style-type: none"> <li>(a) communicating the incorrect Atlas account entries to the Global Fund, and correcting any errors for the fiscal year ending in 2014;</li> <li>(b) preparing a conversion table between Atlas and Global Fund account code data for 2015 onwards; and</li> <li>(c) informing the Local Fund Agent and the auditors of nationally implemented projects of the inconsistencies in accounting.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office will contact the Global Fund on the classification of accounts and confirm its willingness to provide any clarification, if needed, in this respect.</li> <li>(b) For the newly signed grant, an updated set of accounts has been set up in Atlas and the Office has prepared an updated conversion table to align Atlas codes to the Global Fund structure for better reporting. It will be fully implemented upon approval of the new project.</li> <li>(c) The conversion table has already been shared with auditors of nationally implemented projects and it is available for the Local Fund Agent auditors.</li> </ul>	
<b>Estimated completion date:</b> June 2015	
<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.