



AUDIT

OF

UNDP HAITI

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

Report No. 1456

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

The UNDP Office of Audit and Investigations (OAI), from 27 April to 8 May 2015, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 77895 [HIV], and 77761 [TB]) managed by UNDP Haiti (the Office) as 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 (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 October 2013 to 31 December 2014. The Office recorded Global Fund-related expenditures of approximately \$25.6 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 the incorrect granting and reporting of cash advances.

Key recommendations: Total = 2, high priority = 2

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

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

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:

Long-outstanding cash advances (Issue 1) Despite initiatives undertaken by the Project Management Unit, OAI identified shortcomings in the management of cash advances. If these shortcomings are not addressed adequately, there are risks of: (a) booking ineligible expenses *vis-à-vis* the project budget when clearing cash advances; (b) non-recovery of funds advanced to Sub-recipients for which expenses could not be validated; and (c) the Global Fund asking UNDP to reimburse any expenses booked against the project budget considered by them to be ineligible. This issue is particularly critical given the pending closure of the HIV grant.

Recommendation: The Office should comply with the policy for granting cash advances by: (a) prioritizing the process of clearing and recording Sub-recipient expenses (for HIV Project No. 77895); and (b) granting cash advances to Sub-recipients only when 80 percent of the previous advance and/or 100 percent of all earlier have been cleared (for TB Project No. 77761).

Lack of adherence to financial closure deadline for FY 2014 (Issue 2) The year-end closure deadline to record expenses, which was established by the Office of Financial Resources Management as 6 February 2015, was not adhered to by the Project Management Unit.

Recommendation: The Office should improve financial management by: (a) adhering to the year-end financial closure deadline to ensure that expenses are recorded in the corresponding financial period; (b) speeding up the process of validating and recording expenses; and (c) ensuring that Sub-recipients adhere to the established deadline for submitting supporting documentation.

Implementation status of previous OAI audit recommendations: Report No. 1267, 15 April 2014.

Total recommendations: 7
Implementation rate: 86%²

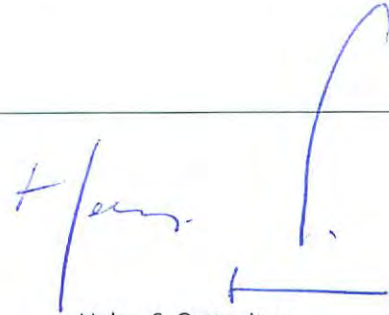
The pending recommendation pertains to direct costs not being charged against project accounts. Its implementation is in progress.

Management comments and action plan

The Resident Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate. Comments from the Bureau for Policy and Programme Support have also been considered in finalizing this report.

² This may differ from the implementation rate in the Comprehensive Audit and Recommendation Database System (CARDS), which includes extra points depending on how quickly the recommendations have been implemented.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is written over a rectangular box. The signature is stylized and includes a long, sweeping flourish that extends upwards and to the right.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Haiti

Since 2011, UNDP has been the Principal Recipient of two Global Fund grants in Haiti (the Country).

Grant number	Output No.	Description	Start Date	End Date	Budget (in \$000)	Funds received as of 1 Oct 2013 to 31 Dec 2014 (in \$'000)	Implementation Rate	Expenditures as of 1 Oct 2013 to 31 Dec 2014 (in \$000)	Global Fund grant rating at 31 Dec 2014
HTI-911-G08-T	00077761	TB	1/04/2011	31/03/2016	4,242	4,432	99.55%	5,596	A2
HTI-102-G09-H	00077895	HIV	01/01/2011	30/06/2015	16,392	16,925	95.28%	20,001	A2

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The organizational structure, staffing, and capacity development were all found to be adequate.
- (b) Programme management. Programme Management Unit activities were implemented within the stipulated timeframe and were adequately monitored through the quarterly Sub-recipient meetings, among others. The Grant Performance Reports showed that the overall performance ratings of both the HIV and TB grants were "A2" (meeting expectation), as of 31 December 2014.
- (c) Procurement and supply management. A quantification exercise was conducted in May 2014. The quantification exercise was subsequently adjusted to meet the requirements of the HIV grant scheduled for closure on 30 June 2015. Temperature lapses were encountered in the warehouse where TB pharmaceutical products were stored, but the issue was escalated to the warehouse management in a timely manner. In addition, while TB medical equipment was identified in stock at the warehouse, OAI noted that the Project Management Unit scaled up its efforts during the audit fieldwork to ensure the equipment was distributed to a laboratory approved by the relevant government ministry, and hence no audit issue is being raised.

OAI made two recommendations ranked high (critical) 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:

- (a) Comply with the policy for granting cash advances (Recommendation 1).
- (b) Improve financial management (Recommendation 2).

OAI took note of the events and circumstances leading to the closure of the HIV grant in the Country, based on the information and documentation provided by the Bureau for Policy and Programme Support, during the process of finalizing this report.

The detailed assessment is presented below, per audit area:

A. Sub-recipient management

1. Funding

Issue 1 Long-outstanding cash advances

The 'Sub-recipient Management Toolkit for UNDP County Offices' states that the granting of an advance to a Sub-recipient is subject to verification by the Project Management Unit in order to confirm that at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated. In addition, no new advance should be granted to a Sub-recipient if there is a cash advance outstanding for more than one year.

Sub-recipients are granted cash advances for expenses and commitments to be made in support of activities agreed upon with the Principal Recipient. Funds advanced to the Sub-recipients are under their responsibility and must only be used for the related activities, and must follow UNDP's policies and procedures.

The Project Management Unit had encouraged the Sub-recipients to submit expenses more frequently, on a monthly basis for instance, for verification. In addition, as a best practice, the Unit organized quarterly meetings with Sub-recipients to share information on the progress of activities during each quarter.

Despite these initiatives, OAI identified the following shortcomings in the management of cash advances:

- The policy for granting cash advances was not complied with since advances were granted before 80 percent of the previous advance and/or 100 percent of all earlier had been cleared. The Project Management Unit explained that in order to avoid delaying payments to the Orphans and Vulnerable Children (Global Fund target group) and salary payments to project staff, a management decision was taken to grant cash advances for these categories of expenses, despite the high volume of outstanding advances.
- Total outstanding advances as of FY 2014 year-end closure amounted to \$211,000 for TB and \$1 million for HIV projects. These represented expenses for which Sub-recipients needed to present valid and acceptable supporting documentation. The deadline for booking expenses for FY 2014 year-end closure was February 2015, but was extended to 31 May 2015 by the Project Management Unit to allow additional time for Sub-recipients to clear outstanding advances.
- Outstanding advances for prior years (2012/2013) amounted to \$58,000 as of 31 March 2015 and corresponded to expenses incurred by the Sub-recipients that were not validated by the Project Management Unit. Reimbursements for these advances were requested from the Sub-recipients on 30 April 2015.

In an effort to clear prior year outstanding advances, the Office management issued a letter on 30 April 2015 to 11 of 15 Sub-recipients to request supporting documents by 31 May 2015 to clear FY 2014 expenses and to solicit reimbursement for outstanding advances related to prior years (2012/2013).

As the HIV grant closure was approaching, outstanding advances for this grant needed to be cleared and incurred expenses needed to be booked against the project. As of 30 April 2015, the total outstanding cash advance balance for the HIV project amounted to \$1.5 million. For the TB grant, scheduled to be closed in 2016, the total amount of outstanding cash advances as of 30 April 2015 was \$300,000.

If the foregoing shortcomings are not addressed adequately, there are risks of: (a) booking ineligible expenses *vis-à-vis* the project budget when clearing cash advances; (b) non-recovery of funds advanced to Sub-recipients for which expenses could not be validated; and (c) the Global Fund asking UNDP to reimburse any expenses booked against the project budget considered by them to be ineligible.

Priority	High (Critical)
Recommendation 1:	
The Office should comply with the policy for granting cash advances by:	
(a) prioritizing the process of clearing and recording Sub-recipient expenses (for HIV Project No. 77895); and (b) granting cash advances to Sub-recipients only when 80 percent of the previous advance and/or 100 percent of all earlier advances have been cleared (for TB Project No. 77761).	
Management action plan:	
(a) The Project Management Unit will expedite the review of Sub-recipient expenditures and prioritize the validation and recording of the HIV project (77895). (b) For Sub-recipient grant agreements for the period from July to December 2015, management will include the special condition of clearing 80 percent of the previous advance, and 100 percent of all prior advances. (c) The Project Management Unit will continue, through various avenues, to encourage Sub-recipients to submit timely and complete financial reports.	
Estimated completion date: January 2016	

B. Financial management

1. Expenditure

Issue 2 Lack of adherence to financial closure deadline for FY 2014

The accounting financial year is a 12-month period used to record and recognize income, expenses and taxes. The 'Atlas Financial Closure Instructions' refer to the process of completing the input of all accounting entries to the UNDP General Ledger. Since the General Ledger forms the basis of the financial statements, it is essential that all inputs be complete and accurate by specific dates.

The year-end closure deadline to record expenses, which was established by the Office of Financial Resources Management as 6 February 2015, was not adhered to by the Project Management Unit. This was due to the following: (a) delays by Sub-recipients in submitting supporting documentation to the Project Management Unit for validation; and (b) delays by the Unit itself in reviewing the supporting documentation presented to them for validation of expenses and recording in Atlas (enterprise resource planning system of UNDP). As a result, expenses incurred and validated for prior years' (2012/2013) expenditures were recorded during FY 2014; these prior year expenses amounted to \$68,400 for the TB project, and \$452,100 for the HIV project. There is a risk that expenses booked in a different financial year from which they were incurred might not be considered eligible expenses by third-party reviewers (e.g., external auditors, the Global Fund, and the Local Fund Agent).

Priority	High (Critical)
Recommendation 2:	
The Office should improve financial management by:	
<ul style="list-style-type: none"> (a) adhering to the year-end financial closure deadline to ensure that expenses are recorded in the corresponding financial period; (b) speeding up the process of validating and recording expenses; and (c) ensuring that Sub-recipients adhere to the established deadline for submitting supporting documentation. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Project Management Unit will work with Sub-recipients towards the end of the year to expedite the submission of financial reports and the verification/recording, so that the financial closure deadline is adhered to. (b) The Project Management Unit will stress the importance of the deadline for Sub-recipients to submit the supporting documentation. 	
Estimated completion date: January 2016	

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.