



AUDIT

OF

UNDP DJIBOUTI

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

Report No. 1457

Issue Date: 24 July 2015

Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Djibouti	1
II. Good practice	1
III. Audit results	1
A. Governance and strategic management	2
1. Capacity development and exit strategy	2
B. Programme management	4
1. Project approval and implementation	4
2. Monitoring and evaluation	6
C. Sub-recipient management	8
1. Selection, assessment and contracting	8
2. Oversight and monitoring	8
D. Procurement and supply management	9
1. Quantification and forecasting	9
2. Quality assurance of health products	10
3. Inventory, warehousing and distribution	11
Definitions of audit terms - ratings and priorities	14

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

The UNDP Office of Audit and Investigations (OAI), from 12 to 23 April 2015, conducted an audit of two grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Output Nos. 87111 [HIV] and 88216 [TB]) managed by UNDP Djibouti (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, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (selection, assessment and contracting, 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, and supply management [inventory, warehousing and distribution]); and
- (e) financial management (revenue and accounts receivable, expenditures).

The audit covered the Global Fund-related activities of the Office from 1 January 2014 to 28 February 2015. The Office recorded Global Fund-related expenditures totalling \$2.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2014.

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 governance and strategic management, programme management, Sub-recipient management, and procurement and supply management.

Good practice

The Programme Management Unit and the Office developed a good working relationship with the County Coordinating Mechanism and the Sub-recipients. The Programme Management Unit provided support to the

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

Country Coordinating Mechanism during the drafting of the concept notes of the upcoming grants and the Office provided logistical support on an as needed basis. The audit team met with the president of the Country Coordinating Mechanism who confirmed the good relationship with the Office and recognized the valuable support of the Programme Management Unit and the Office in the implementation of the Global Fund grants.

Key recommendations: Total = **11**, high priority = **1**

The 11 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1, 2 and 9); (b) reliability and integrity of financial and operational information (Recommendations 5, 7 and 11); (c) effectiveness and efficiency of operations (Recommendations 3, 8 and 10); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 4 and 6).

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:

Inadequate quality controls over pharmaceutical products (Issue 8)	Conditions included in the approved Quality Assurance Plan were not addressed in a timely manner. Medicines that were risk prioritized and to be tested upon arrival in the Country and thereafter at least annually, as per the sampling plan provided to the Global Fund, had never been tested. Three of these medicines had been in the supply chain since the beginning of 2014.
--	---

Recommendation 9: Test the quality of pharmaceutical products upon receipt in-country and at different points in the supply chain as per the Global Fund approved Quality Assurance Plan.

Implementation status of previous OAI audit recommendations: Report No. 1278, 11 April 2014

Total recommendations: 5
Implementation rate: 100%²

Management comments and action plan

The Resident Representative and for the corporate issue (Recommendations 2 and 3), the Director of the Bureau for Policy and Programme Support, accepted all of the recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

² This differs 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.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP Djibouti

Since 2013, UNDP has been the Principal Recipient of Global Fund grants in Djibouti (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$)	Funds Received as of 28 February 2015 (in \$)	Implementation Rate	Expenditures as of 28 February 2015 (in \$)	Global Fund Rating at 23 April 2015
DJB-613-G05-H	87111	Continue the fight against HIV	1 January 2013	31 May 2015	4,499,661 (Transitional Funding Mechanism)	3,311,749	86%	3,876,190	B1
DJB-013-G06-T	88216	Support to Djibouti's National Tuberculosis Program	1 October 2013	30 September 2015	3,389,069 (Phase 1)	1,896,791	39%	1,326,900	B2
		Totals			7,888,730	5,208,540		5,203,090	

II. Good practice

OAI identified a good practice, as follows:

Governance and strategic management. Good relationships existed between the Principal Recipient and stakeholders involved in the implementation of the grants.

The Programme Management Unit and the Office had developed a good working relationship with the Country Coordinating Mechanism and the Sub-recipients. The Programme Management Unit provided support to the Country Coordinating Mechanism during the drafting of the concept notes of the upcoming grants and the Office provided logistic support on an as needed basis. The audit team met with the president of the Country Coordinating Mechanism who confirmed the good relationship with the Office and recognized the valuable support of the Programme Management Unit and the Office.

III. Audit results

Satisfactory performance was noted in the following area:

- Financial management. Expenditures were incurred and reported in accordance with the policies and procedures of UNDP and the Global Fund.

OAI made 1 recommendation ranked high (critical) and 10 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) Test the quality of pharmaceutical products upon receipt in-country and at different points in the supply chain as per the Global Fund approved quality assurance plan. (Recommendation 9).

Medium priority recommendations, arranged according to significance:

- (a) Improve quantification and forecasting of medical products (Recommendation 8).
- (b) Facilitate the establishment of achievable performance indicators (Recommendation 3).
- (c) Clarify the operational requirements of the Principal Recipient when improving the capacity of the national partners in a context of Zero Cash Policy (Recommendation 2).
- (d) Reinforce capacity-building efforts (Recommendation 1).
- (e) Strengthen the monitoring and evaluation function (Recommendation 5).
- (f) Formalize relationships with national partners (Recommendation 6).
- (g) Improve the timeliness of submissions of required reports (Recommendation 7).
- (h) Improve the management of medical products (Recommendation 10).
- (i) Implement a robust inventory management system (Recommendation 11).
- (j) Comply with the policy on payments to government staff (Recommendation 4).

A. Governance and strategic management

1. Capacity development and exit strategy

Issue 1 Delays in capacity-building activities

The UNDP 'Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria' recommends that, while serving as Principal Recipient, Country Offices should develop the capacity of national entities so that they may eventually take over the role of Principal Recipient. The objective of capacity-building is to strengthen the Sub-recipient's role in programming, finance, procurement, and monitoring and evaluation.

Capacity development remained a key challenge in the implementation of the grants due to the factors summarized below:

- Capacity-building plan not finalized
The Sub-recipients capacity assessments conducted by UNDP in the first quarter of 2013 rated the capacity of national partners as weak. Areas highlighted as high risk in the assessments included financial management, and monitoring and evaluation. Subsequent to this, a draft risk prioritized capacity-building plan was developed in coordination with the Bureau for Policy and Programme Support in 2014. The plan was yet to be finalized as of April 2015. Its goal was to enhance the potential of the partners in leading, managing and monitoring the implementation of Global Fund grants. The Programme Management Unit explained that due to resource constraints, the capacity-building plan had not been put into operation. The Bureau for Policy and Programme Support and the Office mentioned that UNDP, as Principal Recipient, builds the capacity of national partners, regardless of the existence of a capacity-building plan. This is done through daily engagement, coaching, and transfer of skills to the national programmes and the relevant government ministry professionals, in all functional areas of the grants.

- Unclear role of Principal Recipient with regard to building operational capacity under the Zero Cash Policy³
In line with the Zero Cash Policy requirements, the Principal Recipient was required to conduct all procurement and financial transactions on behalf of the Sub-recipients, thereby maintaining ownership of related processes, including budgeting. The implementation of the Zero Cash Policy neither exposed the national partners to the fundamentals of Global Fund financial reporting nor to procurement mechanisms. This hindered the national partner's ability to capitalize on specific capacity-building activities, such as conducting best value for money procurement, or preparing financial reports for the Principal Recipient.

The weakness in capacity-building was due to the fact that there were no distinct corporate guidelines on how operational capacity-building should be approached in the context of a Zero Cash Policy. The Bureau for Policy and Programme Support reported that the Zero Cash Policy modality did not restrict Sub-recipients from implementing or making decisions on their work plans and budgets. Sub-recipients continued to be responsible for managing and monitoring their budgets (expenditures, savings, forecasts) and preparing requests for payments by the Principal Recipient.

- Lack of synergies between components of the national health systems
To ensure the sustainability of the implementation of grant activities, there should be an established national health system that is structured and functional. The national health system was fragmented and its components lacked synergy. Moreover, it lacked procedures and guidelines on how components of the system should work together to enhance the quality of data and statistics needed for reporting. The Global Fund frequently raised concerns regarding the quality of data that it received in the reports from the Principal Recipient. OAI acknowledges that capacity-building at the national health system level requires investment, resource mobilization, and buy-in from the Government, and therefore, it is not the sole responsibility of the Principal Recipient.

Active involvement of the national partners is key to successfully implementing grants. There is an increased risk of lack of sustainability and ownership if the capacity development activities are not implemented and monitored.

Priority	Medium (Important)
Recommendation 1:	
Reinforce capacity-building efforts by:	
(a) finalizing and implementing the capacity-building plan, and establishing a mechanism to monitor the implementation of the plan; and	
(b) sensitizing the Government and the donor community on the need to develop the capacity of the national health system to increase synergies among its components.	
Management action plan:	
The Office mobilized \$50,000 to implement the capacity-building plan and kick off key activities on capacity development before the start of the new grants. Additional support from Bureau for Policy and Programme Support would be mobilized in 2015.	

³ The Global Fund imposed conditions to mitigate financial risks and significantly reduce risk of loss in the form of zero cash disbursements to Sub-recipients.

Estimated completion date: February 2016

Priority	Medium (Important)
Recommendation 2 (Corporate):	
Clarify the operational requirements of the Principal Recipient when improving the capacity of the national partners in a context of a Zero Cash Policy.	
Responsible HQ bureau: Bureau for Policy and Programme Support	
Management action plan:	
The UNDP Global Fund Programme Team shall include guidelines on the mechanism for Zero Cash Policy and the impact on capacity development initiatives in the 'Capacity Development Toolkit' and UNDP 'Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria'.	
Estimated completion date: September 2015	

B. Programme management

The Office became Principal Recipient of the HIV and TB grants in 2013. The total budget for the two grants amounted to \$7.9 million and was implemented through three government Sub-recipients and one United Nations agency.

1. Project approval and implementation

Issue 2 Corporate Issue: Inadequacies in the set-up of grant performance indicators

According to the UNDP 'Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria', at the grant negotiation stage, the Principal Recipient works with the Global Fund Secretariat to finalize a Performance Framework which contains the country-defined indicators, targets and time frame against which programme performance will be measured during the period covered by the Grant Agreement. The Performance Framework is an essential part of the legally binding Grant Agreement between the Principal Recipient and the Global Fund. The indicators included in the Performance Framework are used by the Global Fund to measure the programme's performance and consequently inform disbursement decisions and grant renewals.

The overall performance of the HIV and TB grants had been consistently rated B2 "Inadequate – potential demonstrated" since their initiation, except for the latest rating of the HIV grant on 15 March 2015, which assessed the grant as B1 "Adequate".

This rating was to a large extent due to alignment gaps between indicators and financial activities, as well as targets which were difficult to achieve. This was noted for indicators 1.1, 1.2, 1.3, and 1.4 of the HIV grant. OAI did

not receive evidence that a robust review of the Performance Framework was undertaken to detect the gaps. Thus, the inappropriately set targets were not identified and mitigated upfront.

The Programme Management Unit subsequently tried to negotiate a realignment of the targets in mid-2014, but this was not authorized by the Global Fund. This was due to the fact that the Office attempted to introduce the changes during a grant extension, whereas such a change can only be introduced through a reprogramming request according to the Global Fund. Since then, the Office had not formally approached the Global Fund with a reprogramming request to revise the targets. OAI noted that the Office initiated a request for a meeting with the Global Fund to discuss the targets for the HIV grant in January 2015, but no changes had been made at the time of audit.

The inadequate performance of grants may affect future funding.

Priority	Medium (Important)
Recommendation 3 (Corporate):	
Facilitate the establishment of achievable performance indicators by:	
<ul style="list-style-type: none"> (a) establishing a robust review mechanism of the Performance Framework prior to signature of the grants at the Country or support team levels; and (b) establishing guidance with a recourse mechanism between UNDP and the Global Fund on the revision of incorrect targets that affect the rating of the grants outside of reprogramming requests. 	
Responsible HQ bureau: Bureau for Policy and Programme Support	
Management action plan:	
<ul style="list-style-type: none"> (a) The UNDP Global Fund Programme Team will continue to review the Performance Frameworks as part of the Grant Agreement clearance process and will highlight to Country Offices any concerns on the reasonableness of indicators and targets and the recommendation to seek revision in line with Global Fund policy. (b) The UNDP Global Fund Programme Team shall include the mechanism for the amendment of indicators and targets in line with Global Fund policy (including best practice country examples of amendments to performance frameworks) in the UNDP 'Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria'. 	
Estimated completion date: 31 August 2015	

Issue 3 Payment of incentives to government staff

The United Nations policy on payments to government staff does not allow for any monetary compensation to be made to government counterparts for their work and/or participation in donor-funded programmes and projects. UNDP should only engage in salary supplementation and salary payment schemes as part of a larger wage or civil service reform process. A risk assessment should be included in such an engagement, and direct service support should be for an agreed-upon limited duration with a monitored exit strategy. This type of arrangement requires approval from the Office of the Administrator and the Regional Bureau concerned.

The Office was paying a fixed allowance to government staff. This allowance was agreed upon by the Country Coordinating Mechanism and was mandated to UNDP in its capacity as Principal Recipient. These allowances were not performance based. OAI further noted that the grants for the New Funding Model envisaged similar payments at 20 percent of the civil servants salaries.

The incentives had been established in order to motivate staff assigned to specific grants to take on additional workload. However, the Office did not seek approval for the payments to government staff from the Office of the Administrator or from the Regional Bureau, as required by UNDP policy.

A corporate issue related to payment of incentives to government staff was raised in a prior OAI audit of another Country Office (Report No. 749, pages 10 and 11). The issue was resolved at the corporate level and respective decisions were taken. The implementation of that recommendation reiterated the need for Global Fund projects to review the policy on payment of such incentives and to ensure compliance with the policy.

Payments of incentives to government staff can create tension with other staff in the government.

Priority	Medium (Important)
Recommendation 4:	
Comply with the policy on payments to government staff by:	
<ul style="list-style-type: none"> (a) obtaining the approval of the Office of the Administrator and Regional Bureau on the payment of incentives; or (b) phasing out such payments through the transition to the grants for the New Funding Model. 	
Management action plan:	
The Office will seek advice from the Bureau for Policy and Programme Support and opt for the most suitable alternative for the Country.	
Estimated completion date: March 2016	

2. Monitoring and evaluation

Issue 4 Gaps in monitoring and evaluation activities

UNDP's 'Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria' defines monitoring as "the routine tracking of the key elements of programme/project performance, usually inputs and outputs, through record keeping, regular reporting and surveillance systems as well as health facility observation and client surveys." UNDP uses the Enhanced Results Based Management platform to capture risks and mitigating actions at the office level, and uses Atlas (enterprise resource planning system of UNDP) to record all project information reflecting the same structure, as defined in the 'Country Programme Action Plan'.

According to the Global Fund approved Monitoring and Evaluation Plan, Sub-recipients must conduct periodic visits to the regions to supervise the delivery of services, collect data, and provide training on the use of data collection tools. From the review of the Programme Management Unit's monitoring and evaluation function and

work plan, it was noted that its scope and focus were largely data collection and validation. Illustrative examples are described below:

- The review of the annual monitoring and evaluation work plan indicated that there was no distinction between the activities of the Programme Management Unit and those of the Sub-recipients. The distinction of activities would allow the Programme Management Unit to monitor its own activities and to oversee activities entrusted to the Sub-recipients. In addition, Sub-recipients' work plans would allow them to take ownership of their tasks and build capacities. OAI further noted that the implementation of the annual work plan was not monitored periodically (e.g., annually and quarterly). Management issues, past audit issues, and Sub-recipients' risk assessments were also not taken into account when the annual monitoring and evaluation work plan was developed.
- In general, Global Fund programmes have a substantial operational component, including procurement supply management. Although there was a mechanism set up to monitor programmatic indicators, operational indicators for procurement activities, as an example, were not identified and monitored.
- Atlas is the established mechanism for effectively controlling risks, and risk mitigation actions should be recorded in Atlas. A review of the Atlas project management module, which incorporates project risk management tools, indicated that risk and issue logs were not uniformly understood and used by project staff. In some cases, risks were recorded as issues, and issues were recorded as risks.

Gaps in monitoring and evaluation make it difficult to timely detect and correct operational challenges, which could negatively impact the rating of the grants.

Priority	Medium (Important)
Recommendation 5:	
Strengthen the monitoring and evaluation function by:	
<ul style="list-style-type: none"> (a) developing distinct monitoring and evaluation annual work plans for the Principal Recipient and each Sub-recipient with clear targets and deadlines; (b) overseeing the implementation of the Sub-recipient work plans; (c) clarifying the operational aspects of the Programme Management Unit's monitoring and evaluation plan by developing specific operational indicators and targets to enable tracking of progress in attaining operational performance results; and (d) embedding the concept of risk management into how it carries out its monitoring of Sub-recipients. 	
Management action plan:	
The Programme Management Unit is already working on the development of such tools, based on the best practice shared by OAI from other Country Offices implementing Global Fund grants.	
Estimated completion date: March 2016	

C. Sub-recipient management

1. Selection, assessment and contracting

Issue 5 Informal engagement of implementing partners

The 'Sub-recipient Management Toolkit for UNDP Country Offices' requires offices to conduct independent capacity assessments of proposed Sub-recipients prior to signing agreements with them. The agreements with the Sub-recipients must be consistent with the terms of the Global Fund Grant Agreement.

The Office informally engaged two national partners to store TB medicines and HIV reagents, respectively. A capacity assessment was not undertaken for these entities and neither was the relationship formalized in the form of an agreement. As such, there was no agreed upon performance framework or reporting mechanism in place to hold the two national partners accountable.

OAI noted that these two partners were named in various documents leading to the signing of the grant. However, OAI could not determine why a capacity assessment was not undertaken or why the relationship was not formalized.

Informally engaging implementing partners without adequate due diligence increases the likelihood of underperformance and also makes it difficult to hold them accountable.

Priority	Medium (Important)
Recommendation 6:	Formalize relationships with national partners by undertaking capacity assessments and signing an agreement or memorandum of understanding to document the responsibilities of each party.
Management action plan:	The Programme Management Unit is already working with the Bureau for Policy and Programme Support to identify the most suitable form for this formal engagement.
Estimated completion date:	January 2016

2. Oversight and monitoring

Issue 6 Weaknesses in Sub-recipient reporting

According to the Sub-recipient agreements signed with the Office, each Sub-recipient is required to submit to quarterly (narrative and financial) reports 30 days after the end of each quarter.

OAI noted that the Sub-recipients did not provide the required quarterly reports in timely manner, with delays ranging from 23 to 103 days. A similar issue had been raised in the previous audit (Report No. 1278 issued on 11

April 2014). The delays in the delivery of the Sub-recipient reports affected the quality of the Principal Recipient reports, as reflected in the management letters from the Global Fund.

Moreover, national Sub-recipients did not produce any financial reports to account for their budgets as required by article VIII (b) of the Sub-recipients agreement. As noted under Issue 1 above, the grants were managed under the Zero Cash Policy. In this context, the Programme Management Unit did not consistently provide feedback on the payments made on behalf of the Sub-recipients to enable them to monitor and account for their budgets.

Inadequate reporting by the Sub-recipients could jeopardize the accuracy of UNDP's reporting to the Global Fund and consequently impact the Global Fund ratings of grant performance.

Priority	Medium (Important)
Recommendation 7:	
Improve the timeliness of submissions of required reports through regular follow-ups with Sub-recipients.	
Management action plan:	
The Programme Management Unit will regularly follow up with Sub-recipients for the timely submission of their reports.	
Estimated completion date: February 2016	

D. Procurement and supply management

1. Quantification and forecasting

Issue 7 Inadequate quantification and forecasting of medical products

The 'UNDP Operations Manual for Projects Financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria' stipulates that the quantification and forecasting of health product needs is a fundamental aspect of the procurement and supply chain management process. Not carrying out a quantification and forecasting exercise could lead to stock-outs and patients not receiving treatments, or could lead to a waste of resources due to oversupply. In the Country, the quantification and forecasting of drugs is an annual exercise conducted by the government-led National Quantification Committee. The terms of reference of the National Quantification Committee calls for quarterly meetings of the Executive Committee and monthly meetings of the technical subcommittee, which should include the UNDP Procurement and Supply Management Specialist.

Since 2013, the National Quantification Committee had met only once, in September 2014, when it committed to meet on a monthly basis going forward. Since then, no meetings took place. The technical subcommittee, which is responsible for the technical aspects related to the quantification and forecasting of the health products, did not meet at all since 2013. A similar issue had been raised in the prior audit (Report No. 1278 issued on 11 April 2014) and a recommendation had been made that was subsequently assessed by OAI as being

implemented based on the reporting provided by the Office. However, this resurfaced as a recurring issue. OAI is thus making a new recommendation in this report.

Without a functional quantification committee, there was no systematic review and monitoring of the quantity of medical products on hand in the Country, or forecasting of the supply pipeline. To fill the gap, the Programme Management Unit was unilaterally undertaking the process of quantification and forecasting of medical products, resulting in a transfer of risk to the Office.

OAI noted an instance where there were no medicines for HIV opportunistic infections in the central warehouse from May to September 2014. While the Office stated that the resulting stock out was due to a Global Fund decision to delay the purchases, it did not provide any documents to support this.

Inadequate quantification and forecasting of medical supplies may result in stock outs or oversupply.

Priority	Medium (Important)
Recommendation 8:	
Improve the quantification and forecasting of medical products by:	
<ul style="list-style-type: none"> (a) organizing monthly meetings of the technical subcommittee and quarterly meetings of the Executive Committee to oversee the quantification and forecasting of medical supplies; or (b) formally accepting the risk of unilateral quantification and developing the necessary controls to mitigate any issues associated with such a decision, in case (a) cannot be achieved. 	
Management action plan:	
The Programme Management Unit will work with the corresponding stakeholders to have monthly meetings of the technical committees and quarterly meetings of the Executive Committees.	
Estimated completion date: January 2016	

2. Quality assurance of health products

Issue 8 Inadequate quality controls over pharmaceutical products

The Grant Agreement requires the Office, in cooperation with the national health partners, to prepare a Quality Assurance Plan based on the Procurement and Supply Management Plan. This Plan must be approved by the Global Fund before its implementation. Additionally, the 'Global Fund Quality Assurance Policy for Pharmaceutical Products' requires that the Principal Recipient ensure that pharmaceutical products are tested upon initial receipt in-country, and thereafter along the supply chain for any products that remain unused.

A Quality Assurance Plan for health products was conditionally approved by the Global Fund on 20 November 2014 (two years after the start of the grants), subject to the fulfilment of some conditions by 15 December 2015. No supporting documents were provided to OAI to show how the Programme Management Unit addressed these conditions.

OAI noted that there were medicines that were risk prioritized to be tested on arrival in the Country and thereafter at least once annually as per the sampling plan provided to the Global Fund; however, these medicines had never been tested. Three of these medicines had been in the supply chain since the beginning of 2014.

The failure to test risk prioritized pharmaceutical products was largely attributable to delays in finalizing the Quality Assurance Plan.

Failure to test pharmaceutical products at different points in the supply chain may lead to the delivery of sub-standard pharmaceutical products to treatment facilities, thereby placing patients' lives and the reputation of the Office and UNDP at risk.

Priority	High (Critical)
Recommendation 9:	
Test the quality of pharmaceutical products upon receipt in-country and at different points in the supply chain as per the Global Fund approved Quality Assurance Plan.	
Management action plan:	
The Programme Management Unit will accelerate the implementation of the Quality Assurance Plan with the support of the Bureau for Policy and Project Support.	
Estimated completion date: December 2015	

3. Inventory, warehousing and distribution

Issue 9 Inefficient warehousing and distribution system

According to the standard terms and conditions of the UNDP – Global Fund Grant Agreement, UNDP is accountable for the entire supply chain; from product selection to the rational use of medicines and resources.

The storage and distribution of health products was rather complex and not integrated between the two diseases (HIV and TB). There were three different institutions at the central level that were responsible for the storage of medicines and reagents. OAI noted that they used different forms and approaches to track supplies. In addition, there was no standardized, consolidated distribution resource planning covering medical supplies of the two diseases in place. The distribution cycle was quarterly for HIV and monthly for TB. TB supplies were delivered to the service delivery points by the national TB programme, while the national HIV programme only delivered HIV supplies within the city of Djibouti (government staff from the five regional warehouses came to the city to pick up their supplies). OAI assessed that it was important to coordinate the delivery of medicines and reagents to avoid the need to visit a single centre more than once in a week or a month to deliver products from different programmes. The national HIV programme did not have a vehicle to make the deliveries, while the national TB programme had one. Consequently, it was not possible to take full advantage of existing resources to gain efficiencies since the warehousing and distribution resource planning was not integrated across the two grants.

In addition, the Programme Management Unit did not have a holistic view of the medical products available throughout the Country (at the central level as well as at the service delivery points). The reports received from the three institutions covered the stock status at the central level only. Without a holistic view of the medical products available throughout the Country, it was not possible to implement a system for transfer of stock between the central level and service delivery areas to correct stock-outs or to manage overstocking.

Inefficient warehousing and distribution systems may result in the inconsistent use of medicines and resources.

Priority	Medium (Important)
Recommendation 10:	
Improve the management of medical products through the implementation of an integrated and resource-efficient storage and distribution system.	
Management action plan:	
The Office recruited an international consultant to work on redesigning the distribution system for the three diseases. However, this new system would not be operational before the implementation of the new grants, due to resource constraints under the current grants.	
Estimated completion date: April 2016	

Issue 10 Inadequate Inventory management

According to UNDP's 'Operations Manual for Projects Financed by the Global Fund', adequate storage and inventory management systems are key elements to ensuring that quality medical products reach the intended users.

The audit disclosed that there was a weak inventory management system characterized by poor record keeping. While reviewing stock reports, OAI noted differences between the ending and opening values of successive monthly stocks of antiretroviral and opportunistic infections drugs. From October 2014 to January 2015, the theoretical gains arising from inaccurate record keeping amounted to \$86,000, while the losses amounted to \$13,000. The gains impact the monthly value of inventory reported to the insurance company, while the losses could be the result of inappropriate use of medicines or inadequate reporting.

Moreover, theoretical and physical value of stocks at the central warehouse used for HIV medicines differed for six of eight products validated by OAI on 19 April 2015. Gains by inventory amounting to \$21,597 and losses by inventory amounting to \$199 were noted. The large gains by inventory were explained by a batch of antiretroviral medicines amounting to \$21,427 that was not recorded in the electronic inventory system, and for which a record card had not been created.

OAI noted that this was a long-standing systemic issue that predated the time of UNDP as Principal Recipient in the Country, as noted in the audit performed by the Global Fund's Office of the Inspector General in 2012. Nevertheless, corrective action to address the root cause of the issue had not been undertaken to resolve the issue permanently.

In addition, internal controls, such as physical inventory counts and spot checks were not carried out. OAI noted that an annual inventory of medical products stored at the three warehouses at the central level in the city of Djibouti was not undertaken by the Programme Management Unit in 2014 as required by the World Health Organisation's 'Guidelines for the Storage of Essential Medicines and Other Health Commodities'. Further, there was no evidence of spot checks carried out by the Programme Management Unit at the central warehouses, regional warehouses or at the service delivery areas for 2014.

Weak inventory management systems may lead to errors in reporting inventory levels, or undetected losses.

Priority	Medium (Important)
Recommendation 11:	
Implement a robust inventory management system that ensures accuracy of records and periodically validates physical stock against theoretical reports.	
Management action plan:	
The Office recruited an international consultant to work on improving the stock management at central and peripheral levels.	
Estimated completion date: February 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.