

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP CUBA

GRANTS FROM THE GLOBAL FUND

Report No. 1884
Issue Date: 1 December 2017

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Report on the Audit of UNDP Cuba Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 2 to 13 October 2017, conducted an audit of one grant from the Global Fund (Output No. 92866 [HIV]) 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 (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, expenses, reporting to the Global Fund).

The audit covered the Global Fund-related activities of the Office from 1 January 2016 to 30 June 2017. The Office recorded Global Fund-related expenses of approximately \$9.9 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2015.

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 "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Key recommendations: Total = 3, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address staffing issues within the Project Management Unit, low project delivery rate, and weaknesses in the use of Atlas impacting project management.

The three recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives, and effectiveness and efficiency of operations (Recommendation 1); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2); and (c) reliability and integrity of financial and operational information (Recommendation 3).

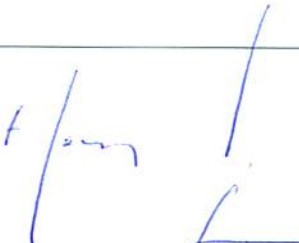
Implementation status of previous OAI audit recommendations: Report No. 1454, 22 May 2015.

Total recommendations: 3

Implemented: 3

Management comments and action plan

The Deputy Resident Representative (Resident Representative a.i.) accepted all three recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.



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I. Profile of Global Fund grants managed by UNDP Cuba

Since 2004, UNDP has been the Principal Recipient of Global Fund grants in Cuba (the Country).

Grant No.	Output ID	Description	Start Date	End Date	Budget	Funds Received	Expenditures from 01/01/2016 to 30/06/2017	Implementation Rate	Global Fund Rating at 30/06/2017
						as of 30/06/2017			
CUB - H - UNDP	92866	Respuesta al VIH en Poblaciones Clave: 2015 - 2017	1-Jul-2015	31-Dec-2017	\$18,207,435	\$16,200,407	\$9,927,882	55%	B1 ¹

In the Country, projects funded by the Global Fund are nationally implemented, meaning that the Government is responsible for carrying out the project activities and delivering results. The Office has a Project Management Unit that works directly with the government counterparts. In its role as Principal Recipient, the Office, in consultation with the Country Coordinating Mechanism, has partnered with 38 Sub-recipients, the majority of which are government institutions; these include nine civil society entities allowed by the Government to advocate for groups at high risk of infection. The Global Fund has approved a new grant that for operational purposes will be considered as an extension of the existing one starting in January 2018 for a period of three years, and the Office will continue with the same supporting role for the duration of the grant.

II. Audit results

Satisfactory performance was noted in the following areas:

- Sub-recipient management. For the audit period, there was no selection, assessment and contracting of new Sub-recipients. Monitoring of Sub-recipients was effectively discharged during the period covered by the audit.
- Procurement and supply management. The review of a sample of procurement processes for both pharmaceutical and non-pharmaceutical products did not lead to reportable issues. No reportable issues were addressed in the inventory, warehousing and distribution of pharmaceuticals.
- Financial management. The verification of a sample of vouchers did not lead to reportable issues related to revenue, account receivables or delays in reporting to the Global Fund.

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.

¹ Adequate performance between 60 to 89 percent regarding targets set, with some improvement opportunities.

Medium priority recommendations, arranged according to significance:

- (a) Ensure the Project Management Unit is fully staffed throughout 2017 and finalize the recruitment process for the Project Coordinator post (Recommendation 1).
- (b) Increase the efforts in coordination with the implementing partner to implement the activities planned for the current year (Recommendation 2).
- (c) Improve the use of Atlas (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Staffing and performance management

Issue 1 Staffing issues within the Project Management Unit

According to the UNDP Global Fund and Health Implementation Guidance Manual, the Office should undertake a critical review of its capacity to manage a grant considering any changes in programme activities, to determine the Global Fund Project Management Unit's size and structure, as human resources required for successful grant implementation may change over time. A review of human resources needs should therefore be conducted on a regular basis.

Significant changes in the staffing took place since the fourth quarter of 2016. The Office was challenged with the resignation of three national project personnel, the relocation of the International Project Coordinator, resignation of two Administrative Assistants and resignation of the Finance Specialist. The Office acted by appointing temporary assignments, arranging for temporary consultants, recruiting and initiating recruitment of new staff.

In view of the closure of the current grant as of December 2017, and of the initiation of the new grant, the Office and the Bureau for Policy and Programme Support proposed in October 2017 a new Project Management Unit structure. The proposed structure included a Project Manager post at the National Officer level, whose terms of reference would combine the key functions of the former Project Coordinator and the Finance Specialist posts. The recruitment of the post was initiated in late October 2017, and expected to be completed by year-end 2017.

Insufficient human resources and delays in the recruitment of key posts may impair delivery and the achievement of results, thus exacerbating financial and reputational risks for the project and the Office.

Priority	Medium (Important)
Recommendation 1:	
The Office should ensure the Project Management Unit is fully staffed through year-end, and it should finalize the recruitment process for the Project Coordinator to be on board prior to the initiation of the new grant in 2018.	

Management action plan:

The Office is already undertaking actions required to ensure that the Project Management Unit is fully staffed through year-end, and the recruitment process for the Project Coordinator is underway and will be finalized prior to the initiation of the new transition grant in 2018.

Estimated completion date: December 2017

B. Programme management

1. Project approval and implementation

Issue 2 Low delivery rate

As the Principal Recipient, the Office is required to ensure that the implementation of the grant is carried out per the signed agreement with the Global Fund, which defines the activities to be implemented, and when these will be implemented. The set activities use inputs with an associated budget to produce the agreed upon deliverables. The Office is the Principal Recipient in the Country, and the project is nationally implemented by the Government, who is responsible for the programmatic results. The Office has an oversight and monitoring role over operational and programmatic results.

The audit reviewed the project delivery for 2016 and 2017 and found it to be 75 percent for 2016 and below 50 percent as of 7 October 2017. Despite the low delivery rate for 2016, the programmatic results were achieved as reported by the implementing partner. The current grant is in its last year, and is expected to close on 31 December 2017. Under the New Global Fund Policies and Procedures, unused funds cannot be carried over into a new grant, thereby affecting the overall project delivery.

Low delivery of the project in 2017 may lead to delays in the implementation of project activities and return of funds to the donor, thereby affecting the performance rating of the grant.

Priority	Medium (Important)
Recommendation 2:	
The Office should increase its efforts in coordination with the implementing partner to ensure the activities planned for the current year are accomplished on time.	
Management action plan:	
To ensure that the activities planned for the current year are accomplished on time and to increase delivery, the Office and the Bureau for Policy and Programme Support are undertaking several actions, as follows:	
<ul style="list-style-type: none"> (a) Identify the main activities that are still to be completed by each Sub-recipient or with a low delivery and establish an integrated action plan to accomplish the activities and increase the delivery. (b) Contact the suppliers to accelerate the arrival of all outstanding items. 	

- (c) Weekly “marathons” with counterparts to follow up on delivery status, including bottlenecks analysis and revision of contract performances together with the implementing partner’s procurement unit in which deadlines are checked and delivery forecasts are verified.
- (d) A risk management plan has been shared with the Global Fund on 27 October 2017, for their validation with a proposal to exceptionally re-phase some final payments to the first quarter of 2018 to avoid the loss of funds. This document is still under their internal approval process.

Estimated completion date: December 2017

Issue 3 Weaknesses in the use of Atlas

UNDP uses Atlas as its enterprise resource planning system to track project information and expenses, thus having the project information up to date and ensuring accurate reporting.

The audit found that the following information in Atlas was not adequately processed for reporting purposes:

- Risks and monitoring items were entered in the system in 2015, and were updated in 2016, yet they were not further updated in 2017, mainly as a result of the Project Management Unit’s staffing issues (refer to issue 1).
- The total project budget included a re-phase from 2016, which increased the total budget for 2017 to \$10 million, while the authorized budget by the Global Fund at the beginning of the year was \$7.8 million. All official reports obtained from Atlas showed the grant with an incorrect total budget, which also affected the delivery rates. In addition, expenses were charged to 13 different account codes that had no budget assigned, which created discrepancies in the Project Budget Balance report. The Office’s management explained that there was a budget revision in process to adjust the 2017 budget to \$9.3 million in Atlas to reflect the actual total budget as agreed with the Global Fund and the Government.
- Prepayments amounting to \$1.6 million were created for pharmaceuticals procured through UNICEF. In accordance with the Long-Term Agreement in place, partial deliveries of these pharmaceuticals were received in 2017; however, the Project Management Unit did not follow the accounting procedures regarding prepayments, whereby the prepaid asset balance must be reduced as the goods or services are provided, and an expense should be recorded for the amount of goods or services received by UNDP. The Office created a purchase order instead, and kept the prepayment amount open for the full year, only recording the goods by the end of the year, and not when these were received. Furthermore, the Project Management Unit was monitoring the future deliverables on Excel spreadsheets, external to Atlas, and it was not properly recording the outstanding prepayments.
- The project procured a vehicle in 2015 for project use, yet the vehicle was recorded as an asset under the Office’s project management account, instead of being recorded under the Global Fund project. The initial cost and depreciation expenditure amounting to \$35,841 was not charged to the project, and it was not reflected in the project’s Combined Delivery Report.

The Office was at risk of not being able to provide accurate information to Headquarters, donors, government counterparts and other stakeholders.

Priority	Medium (Important)
Recommendation 3: The Office should improve the use of Atlas by regularly updating budget, risks and monitoring items; using the correct accounting codes for expenses and prepayments; and transferring the vehicle to the Global Fund project.	
Management action plan: The Office has already updated the Atlas project management module information regarding the budget, and all risks and monitoring items. The Office will transfer the vehicle to the Global Fund project chart of accounts. Estimated completion date: December 2017	
OAI Response 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** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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.