AUDIT

OF

UNDP ZIMBABWE

GRANTS FROM THE GLOBAL FUND

Report No. 1904
Issue Date: 24 January 2018
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Audit Report No. 1904, 24 January 2018 UNDP Zimbabwe, Global Fund
Report on the Audit of UNDP Zimbabwe
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 6 to 17 November 2017, conducted an audit of five grants from the Global Fund [Output Nos. 72970 [HIV], 72971 [TB], 72973 [Health System Strengthening], 82260 [Malaria], and 88278 [HIV]] managed by UNDP Zimbabwe (the Office) as the Principal Recipient, and of three projects (Output Nos. 93055 [TB], 93641 [Malaria] and 94787 [Capacity Development]) managed by the Office as the Fund Administrator.1 These grants were managed under the Global Fund’s Additional Safeguard Policy.2 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 (qualification and forecasting, procurement of health products, quality assurance of health products, individual contractors, procurement of other goods and services), supply management (inventory, warehousing and distribution), and asset management; and

(e) financial management (revenue and accounts receivable, expenses, reporting to the Global Fund, Fund Administrator role).

The audit covered the Global Fund-related activities of the Office from 1 January 2016 to 30 September 2017. The Office recorded Global Fund-related expenses of approximately $244 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.

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1 On 1 January 2015, UNDP entered into an agreement with the Global Fund to provide support services to the new Principal Recipient (a government counterpart) managing the new TB and Malaria grants as the Fund Administrator. The agreement stated that UNDP was to contribute its own resources towards building functional capacities required by national entities. UNDP would facilitate and design a prioritized capacity development plan owned by the new Principal Recipient. The aim was to build on the capacity assessments that had already been carried out and on the ongoing work in the areas of strengthening financial and risk management at the Principal Recipient level.

2 The Additional Safeguard Policy is a range of tools established by the Global Fund, as a result of its risk management processes.
Overall audit rating

OAI assessed the Office’s management of the Global Fund grants as **partially satisfactory / some improvement needed**, which means “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.” This rating was mainly due to uncertainty over the completion of infrastructure improvements, and to weaknesses in the storage of medical products.

**Key recommendations:** Total = 4, high priority = 2

The four recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1, high priority); (b) effectiveness and efficiency of operations (Recommendation 2, high priority); (c) safeguarding of assets (Recommendation 3, medium priority); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 4, medium priority).

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:

<table>
<thead>
<tr>
<th>Uncertainty over the completion of infrastructure improvements (Issue 1)</th>
<th>At the time of the audit mission in November 2017, construction and renovation of infrastructure amounting to $34 million were planned, but would require funding and completion beyond the grant end date of 31 December 2017. However, countries are required to return unused funds at the end of the grant implementation period. At the time of the audit mission, the Government, as the recipient of the funds, was requesting through the Country Coordinating Mechanism, a special waiver from the Global Fund to enable them to use the funds beyond 31 December 2017.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaknesses in the storage of health products (Issue 2)</td>
<td>Storage conditions in the central medical warehouse and the two health facilities that were visited were poor. The space in the central warehouse was not optimized and the monitoring of the temperature in the warehouse and health facilities was not properly carried out. There were inadequate storage conditions and delays in safely disposing of expired medical products.</td>
</tr>
</tbody>
</table>

**Recommendation:** The Office should prioritize reaching an agreement with the Global Fund in collaboration with the Country Coordinating Mechanism and other relevant stakeholders on how to fund the approved infrastructure activities.

**Recommendation:** The Office should work with the government counterpart to improve storage conditions of medical products by: (a) expediting the process of constructing and equipping the new central medical warehouse in Harare; (b) monitoring temperature fluctuations at facilities storing medical products, and ensuring facilities are equipped with functioning thermometers and data loggers that are used to monitor temperature fluctuations, including all quality assurance tests to establish the efficacy and safety of medical products exposed to potentially harmful temperature fluctuations, and recall damaged products if warranted; and (c) keeping all expired medical items secure and under quarantine until they can be safely disposed of.
Total recommendations: 2
Implemented: 2

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.

Low risk issues (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 Zimbabwe

Since 2009, UNDP has been the Principal Recipient of Global Fund grants in Zimbabwe (the Country).

<table>
<thead>
<tr>
<th>Grant No.</th>
<th>Output No.</th>
<th>Description</th>
<th>Start Date</th>
<th>End Date</th>
<th>Lifetime Budget (in $)</th>
<th>Funds Received as of 30 Sept 2017 (in $)</th>
<th>Implementation Rate</th>
<th>Expenses from 1 Jan 2016 to 30 Sept 2017 (in $)</th>
<th>Global Fund Rating at 30 Sept 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZIM-809-G11-H</td>
<td>72970</td>
<td>Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe</td>
<td>1 Jan 2010 (Ph 1)</td>
<td>31 Dec 2013 (Ph 2)</td>
<td>238,367,000</td>
<td>216,476,000</td>
<td>91</td>
<td>180,000</td>
<td>A1 ³</td>
</tr>
<tr>
<td>ZIM-809-G12-T</td>
<td>72971</td>
<td>Towards universal access: Improving accessibility to high quality DOTS in Zimbabwe</td>
<td>1 Jan 2010 (Ph 1)</td>
<td>31 Dec 2014 (Ph 2)</td>
<td>48,106,000</td>
<td>39,475,000</td>
<td>82</td>
<td>590,000</td>
<td>A2 ⁴</td>
</tr>
<tr>
<td>ZIM-809-G14-S</td>
<td>72973</td>
<td>Health System Strengthening Cross-Cutting Interventions</td>
<td>1 Jan 2010 (Ph 1)</td>
<td>31 Dec 2014 (Ph 2)</td>
<td>74,664,000</td>
<td>68,008,000</td>
<td>91</td>
<td>219,000</td>
<td>A1</td>
</tr>
<tr>
<td>ZIM-UNDP</td>
<td>82260</td>
<td>Towards achieving pre-elimination in the Southern region scaling up effective malaria control interventions</td>
<td>1 Apr 2012 (Ph 1)</td>
<td>31 Dec 2016 (Ph 1)</td>
<td>34,878,000</td>
<td>24,388,000</td>
<td>70</td>
<td>-</td>
<td>A1</td>
</tr>
<tr>
<td>ZIM-H-UNDP</td>
<td>88278</td>
<td>Addressing critical gaps in HIV prevention, Treatment, Care and Support in Zimbabwe</td>
<td>1 Jan 2014</td>
<td>31 Dec 2016</td>
<td>611,375,000</td>
<td>504,420,000</td>
<td>83</td>
<td>215,988,000</td>
<td>A2</td>
</tr>
</tbody>
</table>

Totals | | | 1,007,390,000 | 852,767,000 | 216,977,000 |

³ Global Fund A1 rating = Exceeds expectations
⁴ Global Fund A2 rating = Meets expectations
Beginning 2015, UNDP has been the Fund Administrator for the following Global Fund grants in the Country:

<table>
<thead>
<tr>
<th>Grant No.</th>
<th>Output No.</th>
<th>Description</th>
<th>Start Date</th>
<th>End Date</th>
<th>Lifetime Budget (in $)</th>
<th>Funds Received as of 30 Sept 2017 (in $)</th>
<th>Implementation Rate</th>
<th>Expenses from 1 Jan 2016 to 30 Sept 2017 (in $)</th>
<th>Global Fund Rating at 30 Sept 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZWE-T-MOHCC</td>
<td>93055</td>
<td>Getting to zero TB deaths in Zimbabwe: Intensifying efforts to find, treat and cure all TB cases</td>
<td>1 Jan 2015</td>
<td>31 Dec 2017</td>
<td>38,789,000</td>
<td>22,975,000</td>
<td>59</td>
<td>12,505,000</td>
<td>A2</td>
</tr>
<tr>
<td>ZWE-M-MOHCC</td>
<td>93641</td>
<td>Getting to zero Malaria deaths in Zimbabwe: Scaling up effective malaria control interventions in Zimbabwe</td>
<td>1 Jan 2015</td>
<td>31 Dec 2017</td>
<td>59,460,000</td>
<td>26,726,000</td>
<td>45</td>
<td>14,418,000</td>
<td>A1</td>
</tr>
<tr>
<td>N/A</td>
<td>94787</td>
<td>Capacity Development</td>
<td>1 Jan 2015</td>
<td>31 Dec 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>98,249,000</td>
<td>49,701,000</td>
<td></td>
<td>26,923,000</td>
<td></td>
</tr>
</tbody>
</table>

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management: The Programme Management Unit was adequately staffed and all positions were funded. Capacity development activities were expedited and carried out as per the Capacity Development Plan.

(b) Programme management: The programme activities were implemented in line with the implementation plan and savings identified were reprogrammed. The grant closure for the Round 8 Malaria grant, TB, and Health System Strengthening grants were finalized and the remaining funds reimbursed to the Global Fund.

(c) Sub-recipient management: There were no new Sub-recipients selected during the period under review. During the period under review, extension of Sub-recipient grant agreements was according to the regulations. Disbursements were made to the Sub-recipients according to UNDP rules and regulations. Financial reports were received on a monthly and/or quarterly basis and programmatic reports were received from the Sub-recipients on a quarterly basis and were reviewed by the Office.

OAI made two recommendations ranked high (critical) and two 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 recommendations**, arranged according to significance:

(a) Prioritize reaching an agreement with the Global Fund in collaboration with the Country Coordinating Mechanism and other relevant stakeholders on how to fund the approved infrastructure activities (Recommendation 1).
(b) Work with the government counterpart to improve storage conditions of medical products (Recommendation 2).

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

(a) Coordinate with the Global Fund and the government counterpart and finalize the pending standard operating procedures (Recommendation 4).
(b) Improve asset management (Recommendation 3).

The detailed assessment is presented below, per audit area:

### A. Procurement and supply management

#### 1. Procurement of other goods and services

**Issue 1 Uncertainty over the completion of infrastructure developments**

As per communication from the Global Fund issued in March 2017, unused funds from grants have to be returned to the Global Fund and expenditure cannot be carried over beyond the grant end date. Therefore, all approved activities are expected to be implemented during the grant implementation period. The current grants were scheduled to end on 31 December 2017.

The Global Fund approved funding of $46 million, of which 72 percent (i.e., $33 million) was derived from reprogrammed savings and 27 percent ($12.5 million) came from a set-aside supply chain budget, for the construction and renovation of infrastructure to strengthen the supply chain and improve warehouse storage capacity and conditions (refer to issue 2). At the time of the audit mission, construction and renovation of infrastructure with $34 million worth of expenditure was planned but not yet committed, and respective activities would require funding and completion timelines beyond the grant end date of 31 December 2017. The break down is shown in the table below:

<table>
<thead>
<tr>
<th>Cost Element - Infrastructure Developments under the New Funding Model (NFM) HIV Grant</th>
<th>Amount in Millions ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Warehouse Construction and Equipment</td>
<td>29.7</td>
</tr>
<tr>
<td>(b) Solar for Health</td>
<td>2.75</td>
</tr>
<tr>
<td>(c) Local Area Network/Wide Area Network for the electronic Patient Management System/Health Information System</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33.95</strong></td>
</tr>
</tbody>
</table>

Activities for the completion of the Solar for Health and the Local Area Network for the Health Information System were expected to be completed by the second quarter of 2018. In regard to the central warehouse, the Office had earlier invested $3.3 million in the design of the warehouse and preparatory works at the site. The time needed for the completion of construction works for the central medical warehouse was 18 months.
In March 2017, the Global Fund had stipulated that the funds un-expended before 31 December 2017 would be unavailable for use, and they would appreciate receiving the firm commitment of the Government and partners to complete the project should it have to continue beyond the grant end date. The Office duly obtained the firm commitment of the Government, in a letter dated 7 June 2017, before any work was initiated.

The Office’s management explained that they took immediate steps to analyse the projects at risk and that subsequently, the Country Coordinating Mechanism, the Global Fund and the Health Development Partners Group were engaged by the Office, and a formal request was submitted to the Global Fund Senior Management in November 2017, for a special waiver from the Global Fund to enable them to use the savings for ongoing infrastructure projects beyond 31 December 2017. However, the Government indicated that it may not be able to secure adequate funding for the completion of infrastructure works, due to ongoing economic difficulty. The funding for these incomplete infrastructure activities was not included in the new grant covering the period 2018-2020.

There is a risk that approximately $3.3 million already invested in the design of the warehouses and preparatory works at the site for the planned new central warehouse in Harare may be lost if no solution for funding and implementation beyond 31 December 2017 is reached.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td>The Office should prioritize reaching an agreement with the Global Fund in collaboration with the Country Coordinating Mechanism and other relevant stakeholders on how to fund the approved infrastructure activities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management action plan:</th>
</tr>
</thead>
<tbody>
<tr>
<td>While agreeing with the criticality of the issue, it has to be noted that this is beyond the control of the Office and that the process has been managed in accordance with rules and regulations in a prudent manner, while advocating with a solution through various mechanisms including the Country Coordinating Mechanism and the Global Fund directly.</td>
</tr>
</tbody>
</table>

Management takes note that the issue should continue to be raised to the attention of the Government, the Global Fund, Health Development Partners Group and other stakeholders. The Office has prudently managed the process, seeking commitment from the Government and Global Fund to ensure it could complete the works before committing the organization. The Office is in continued dialogue with the Country Coordinating Mechanism, Global Fund and Health Development Partners Group to reach a solution.

**Estimated completion date:** March 2018 (for the Global Fund waiver).

### 2. Supply management (inventory, warehousing and distribution)

<table>
<thead>
<tr>
<th>Issue 2</th>
<th>Weaknesses in the storage of health products</th>
</tr>
</thead>
</table>

The ‘UNDP Global Fund and Health Implementation Guidance Manual for Projects Financed by the Global Fund’ recommends the use of WHO guidelines for the storage of medical products. The Principal Recipient is required to ensure that Sub-recipients establish and maintain reliable stock management systems.
The following weaknesses were noted during on-site visits to the central warehouse, as well as the pharmacy and store rooms at two health facilities:

(a) Poor storage

In the existing central medical warehouse in Harare, storage conditions were sub-optimal as health products were stored on the floor in between racks and pallets, and boxes were piled on top of each other obstructing walkways, and higher placed items were not easily accessible. Medical products were spilled over into the receiving, picking and dispatch areas. As a result, new deliveries and quarantined items were at risk of being co-mingled with orders being picked and put together for distribution. Further, storage capacity was reduced by sub-optimal rack utilization. An assessment done in 2017 by a warehouse specialist engaged in a consultancy supported by various development partners found that more space would be availed if improvements were made to the existing storage space. The available storage space at other health facilities that OAI visited were also found inadequate to cope with delivered medicine. The previous OAI audit had identified similar weaknesses and a recommendation was raised to this effect, which was assessed as implemented based on the desktop monitoring performed by OAI. As the situation is recurring, a new recommendation is being raised by OAI in this respect.

(b) Weak temperature monitoring and control

It was not clear how temperature was monitored. Specifically:

- The central medical warehouse in Harare had four cold rooms. Two of the four were equipped with technology to monitor temperature and alert management in real time when the cold room temperature reached temperatures above or below the acceptable range for the cold room items stored inside. The other two cold rooms as well as the main storage area were equipped with data loggers and working thermometers. However, it was not clear how frequent the data logger reports were downloaded, who received the information on a routine basis and what was the protocol for escalation. There was no evidence of standard operating procedures in place to ensure efficacy and safety of medical products exposed to temperatures out of the acceptable range.

- The pharmacy store of the first health facility visited was equipped with two different data loggers to monitor temperature but neither of them were in use yet. Temperature inside the pharmacy store was not monitored and there was no working thermometer in the bulk store room. At the time of the site visit there was no electricity supply to the bulk store and the cold room and air conditioners were off. Antiretroviral medicines were stored in the bulk store, and these require storage in a controlled temperature not exceeding 25 to 30 degrees Celsius.

- At the second health facility, there were two data loggers but neither were in use yet. In the pharmacy store, cold chain items were stored in a refrigerator with a manual type of thermometer. A temperature log was attached to the refrigerator, but the last entry dated back to 9 February 2016. It could not be verified if temperatures were within the acceptable range of between 2 to 8 degrees Celsius for cold chain items or if the temperatures were systematically monitored. The pharmacy and store room were not equipped with air conditioners and relied on the natural air flow.

(c) Inadequate storage and disposal of expired items

There were eight large containers at the back of the warehouse, full of expired items procured by various donors, awaiting approval for the disposal before they could be safely disposed of. The warehouse was running
out of space for storage of expired medical products. Some expired medical products had spilt over next to the dispatch area creating a risk that expired medical products could be distributed in error.

The backlog in waste management was due to limited safe waste disposal facilities in the Country. Office management explained that while waste disposal facilities were available, there was a cost to the disposal of the waste. In view of the economic challenges in the Country, it was expected that there would continue to be delays in the disposal of medical waste not funded by the Global Fund. Office management also pointed out that UNDP was closely supporting the logistical process to reduce expiries and hence reduce disposal needs while increasing value for money. In that respect, the expiries of health products procured by the Office was only 0.4 percent of the value in stock for the period.

Poor storage conditions and inadequate monitoring may damage and/or reduce the quality of the health products. There is also a risk that the expired medical products may be distributed in error.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 2:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should work with the government counterpart to improve storage conditions of medical products by:</td>
<td></td>
</tr>
<tr>
<td>(a) expediting the process of constructing and equipping the new central medical warehouse in Harare;</td>
<td></td>
</tr>
<tr>
<td>(b) monitoring temperature fluctuations at facilities storing medical products funded by the grant, and ensuring facilities are equipped with functioning thermometers and data loggers that are used to monitor temperature fluctuations, including all quality assurance tests to establish the efficacy and safety of medical products exposed to potentially harmful temperature fluctuations, and recall damaged products if warranted; and</td>
<td></td>
</tr>
<tr>
<td>(c) keeping all expired medical items secure and under quarantine until they can be safely disposed of.</td>
<td></td>
</tr>
<tr>
<td><strong>Management action plan:</strong></td>
<td></td>
</tr>
<tr>
<td>(a) The criticality of storage space – including waste disposal – has been duly recognized and this led to the proposal to include warehousing into the reprogrammed ring-fenced supply chain budget and grant savings. In fact, it is important to recognize the efforts of the Office to advocate for the infrastructure projects in the first place. The Office has made efforts to advocate for infrastructure projects which include support for the conduct of the first ever comprehensive assessment of the supply chain system in the Country and the eventual development of a costed action plan, used by UNDP to mobilize the initial amount of $21 million from the Global Fund New Funding Model (NFM) HIV grant, and another $25 million from savings realized under the same grant to fund the Harare medical warehouse. In addition, UNDP secured about $11 million from the Global Fund to support solar systems in 5kWs, 10kWs and 40kWs for about 400 health facilities. At the time of the audit, renovations of storage spaces at 92 health facilities had been completed and renovation of storage spaces at pharmacy shops and laboratories at another 98 health facilities were ongoing and are expected to be completed by March 2018. (The Office has obtained a waiver from the Global Fund for the 98 health facilities).</td>
<td></td>
</tr>
<tr>
<td>In recognition of the urgency of the warehousing, while the request for approval is being sought the Office has completed the procurement process for the construction of the Mutare warehouse. The</td>
<td></td>
</tr>
</tbody>
</table>
construction of the Masvingo warehouse is about 30 percent completed whilst the preparatory works for the Harare central warehouse have been completed at a cost of about $3.3 million. In addition to the renovation, funding was sourced from the Global Fund to support improvements in storage conditions as part of the supply chain strengthening efforts – 217 air conditioning units, 17 cold rooms, trolleys and other accessories have been procured and a waiver received from the Global Fund for the installations to be completed in the first quarter of 2018. Furthermore, during November 2017, NatPharm followed the consultant’s advice and guidance to rearrange the storage space. The UNDP/PSM team has checked the warehouse and observed that space is freed up to cater to the TLE400 shipment, racks were well-filled, and cartons on the passages are removed.

(b) UNDP has procured 784+ data loggers, handed them over to the government counterpart and these have been distributed to health facilities. Training on the proper use of the data loggers has been conducted for health workers by the responsible national authority. The challenge is that the staff at health facilities have not always monitored the room temperatures as required, except the cold chain temperature items. UNDP has brought this issue for discussion at the Quality Assurance Task Force and the Procurement and Supply Management stakeholder meetings for readress. Temperature tracking tools will be considered in the 17-19 Quality Assurance Plan. UNDP will do market search on available technologies to automate recording, reporting and alert systems for temperature tracking.

Another development partner has started a pilot for real time monitoring of temperature and humidity for the distribution fleets. To ensure availability of electricity to support the functioning of the systems that have been installed, UNDP, with funding from the Global Fund, is in the process of installing 5kWs, 10kWs and 40kWs of solar systems at about 400 health facilities. By December 2017, installations and commissioning of solar systems at 152 health facilities had been completed. Temperature and humidity monitoring standard operating procedures are available but need to be widely disseminated and enforced.

(c) As at December 2017, two incinerators had been installed in Harare and Bulawayo and were under commissioning. These incinerators will cater to the southern and northern sectors of the Country and are expected to minimize waste disposal delays. It should be noted that the process of disposing of medical waste in the Country is guided by a national policy which requires that certain processes and clearances are obtained before the disposal. Therefore, the issue is beyond the control of the Office. Currently, and as already highlighted, the Office has delivered on all activities within its control to address the issue. It continues to engage with the Government and other stakeholders to find a comprehensive solution to waste disposal in the Country.

A Waste Management Plan is being finalized by a consultant for adoption by the Country and this is expected to guide medical waste management.

**Estimated completion date:** June 2018

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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.
3. Asset management

Issue 3  Weak asset management

The ‘UNDP Programme and Operations Policies and Procedures’, as well as the UNDP health implementation guidance on asset management requires that assets used and controlled by UNDP be recorded in UNDP’s books when all of the criteria for asset capitalization are met. In accordance with ‘Asset Management in the Context of Global Funds Grants’ guidance note, UNDP as a Principal Recipient, has responsibility for ensuring adequate management of assets procured and/or used by Sub-recipients. Effective monitoring of Sub-recipient assets would entail periodic spot-checks and physical verification of assets performed by the Principal Recipient. There should be a reporting system in place to ensure that any movement of assets within the Sub-recipients or among Sub-recipients is communicated to the Principal Recipient.

The following weaknesses were noted in the asset records:

(a) The names of locations and custodians entered in the master asset listing were entered inconsistently. The Office’s management explained that the locations were updated from the Sub-recipients’ quarterly reports received 30 days after the end of each quarter. The inconsistencies in naming locations arose when the Finance/Asset Focal Officer conducted a manual matching process to update the locations in an Excel master assets sheet, which resulted in duplications.

(b) The master asset listing was not up to date with all movements, additions, disposals/losses or changes in custody.

(c) As at 30 September 2017, assets totalling $313,536 (acquisition value) with individual asset values of $1,500 and above were held and controlled by the UNDP Project Management Unit. However, 28 assets totalling $175,507 were not included in the Atlas (enterprise resource planning system of UNDP) In Service Report as required by the UNDP asset guidelines because the UNDP catalogue was not correctly selected to capitalize these assets. Only 19 assets with a total net book value of $138,029 were listed on the Atlas In Service Report because they were transferred from the old to the active grant. Of the 19 assets listed in the Atlas In Service report, 5 assets totalling $12,215, did not appear on the master asset listing maintained in Excel. No reconciliation was performed between the Atlas In Service Report, the master asset list maintained by the Office, and the results from the physical verification.

Subsequent to the audit mission, the Office added 27 out of the 28 assets to the Atlas In Service report and was working on adding the outstanding one.

If the asset register is not updated and maintained accurately, assets may be misused or losses may go undetected resulting in financial loss.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 3:</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Office should improve asset management by:

(a) updating the master asset list maintained in Excel for all Global Fund funded assets and verify data entries for accuracy and completeness;
(b) reconciling the quarterly Sub-recipient asset reports and information received from the Sub-recipient audit findings related to assets to the master asset list maintained by the Office and updating the master asset list with all movements, additions and disposals/losses and

(c) ensuring that all Project Management Unit assets meeting the UNDP definition of asset criteria are added to the UNDP Atlas In Service Report, per UNDP asset guidelines and reconciling the Atlas In Service Report to the master assets list and to the results of the physical verification.

Management action plan:

The Office takes note of the observations and recommendations and would like to clarify as follows:

(a) The Office acknowledged instances on inconsistency in naming (e.g., Hospital/Hosp/Hsp); however, the risk of duplication/omission is negligible as the Office uses the name of the entity for filtering (e.g., “Harare”), which will capture all locations with Harare. There were no duplications. Matching of names to one name per health institution as per recommendation is however underway to eliminate any residual risk.

(b) UNDP asset listing is updated quarterly after receipt of Sub-recipient's asset report. This implies an institutionalized timing difference as the Sub-recipient might have current movements that are not yet reported to the Principal Recipient as they are done 30 days after end of the quarter.

(c) This observation was noted by the Office. 27 out of 28 assets have already been added into Atlas. One asset ref: GF014406 V8Land cruiser was omitted by Document Management System on uploading and the Office staff are working on it. This observation therefore has been implemented.

Estimated completion date: June 2018

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.

B. Financial management

1. Fund Administrator role

Issue 4 Delay in the procurement verification carried out as part of the Fund Administrator role

The Terms of Reference for UNDP Support Services and Related Responsibilities require UNDP to verify the Principal Recipient procurement before issuance of a contract. The findings of the review are shared with the Global Fund in a report for approval of the procurement.

Based on feedback from the government Principal Recipient and on follow-up discussions with the Office’s management, there was a time lag from the date that requests for procurement verification were made by the
Government to the time that approval/disapproval was received from the Global Fund. This time lag was tracked in a spreadsheet since December 2016. A summary of the delays is noted below:

- There were 13 procurement cases where the time taken between date of request for verification and date when the verification was done was more than 15 days and these included 3 cases when it took 32 days.
- There were 12 procurement cases where the Office took more than 20 days to send the report to the government Principal Recipient after the date the verification was done.
- There were 10 procurement cases where the time lag between the day the Office received final clarifications from the government Principal Recipient and the date when the Office sent the final report to the Global Fund was more than 15 days.

In its management comments, the Office explained that although UNDP was continually engaged with partners in the cases cited above, time lags occurred at various points, including at the counterpart side, due to various reasons, such as communication exchanges on the steps that need to be undertaken, time needed for complex reviews to be finalized, and sourcing and verifying additional supporting documents relating to procurement.

In addition, the procurement support function was new under the Fund Administrator role and there were no detailed guidelines on when the verifications were expected to be carried out and concluded. The Office shared a proposed standard operating procedure that they had started working on and shared with the Government since January 2016, which had not been finalized due to the heavy workload.

Delays in the review of the Principal Recipient’s procurement activities may lead to delays in the implementation by the Principal Recipient, which may affect the performance of the grant.

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 4:**

The Office should coordinate with the Global Fund and the government counterpart and finalize the pending standard operating procedures, including realistic time lines to ensure that the procurement verification process is properly carried out and finalized on a timely basis in the future.

**Management action plan:**

Management agrees with the recommendation. The standard operating procedures will be finalized with inputs from the Principal Recipient and the Global Fund Country Team to guide the new grant.

The Excel sheet that formed the basis for the analysis has been reviewed and some inaccuracies have been noted and corrected.

**Estimated completion date:** June 2018

**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.