

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP BELIZE

GRANT FROM THE GLOBAL FUND

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Table of Contents

Executive Summary	i
I. Profile of Global Fund grants managed by UNDP Belize	1
A. Governance and strategic management	2
1. Staffing	2
B. Programme management	3
1. Project approval and implementation	3
2. Monitoring and evaluation	4
C. Procurement	5
1. Individual contractors	5
Definitions of audit terms - ratings and priorities	7

Report on the Audit of UNDP Belize Grant from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 23 January to 2 February 2018, conducted an audit of one grant from the Global Fund, BLZ-C-UNDP that corresponds to Project ID 00084493 (Outputs No. 00092472 and 00097570 [HIV/TB]) managed by UNDP Belize (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 (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), asset management.
- (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 31 December 2017. The Office recorded Global Fund-related expenses of approximately \$1.8 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

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/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 capacity issues within the Project Management Unit and insufficient project oversight activities (monitoring and evaluation) carried out.

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) reliability and integrity of financial and operational information (Recommendation 3, high priority and Recommendation 2, medium priority); and (c) 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:

Capacity issues within the Project Management Unit impacting project delivery (Issue 1)

The audit noted several capacity issues within the Project Management Unit:

- Average project delivery for 2016 and 2017 remained lower than planned. In 2016, project expenditures were 54.5 percent of the approved budget, whereas in 2017, 66 percent of the approved budget was expended. Although the project had taken steps in 2017 to accelerate delivery, the delivery pace was still low at year-end.
- Sub-recipients interviewed indicated that there were delays in the disbursement of funds from the Office to initiate activities in 2016 and 2017. As of 2 February 2018, the funds had yet to be disbursed for first quarter activities, therefore impacting project delivery.
- Staff responsible for providing the National AIDS Commission and Country Coordination Mechanism with quarterly information on the grant's performance did not attend meetings and did not provide the fourth quarter grant performance information for 2017 in a timely manner.
- From April to December 2016 the Monitoring and Evaluation Officer position was vacant; however, the Project Management Unit did not request any temporary support. The Sub-recipients interviewed by the audit team expressed concerns regarding the lack of sufficient monitoring and evaluation support visits carried out since April 2016, and throughout 2017. Further verification showed that more desk reviews were conducted versus field visits to cover the monitoring and evaluation activities. In addition, the Monitoring and Evaluation Officer eventually recruited was also providing monitoring and evaluation services exclusively to the UNDP Belize Office.

Recommendation: The Project Management Unit should address the issues identified by: (a) diligently monitoring project delivery and engaging staff exclusively in Global Fund activities; (b) timely transferring financial resources to partners; and (c) providing timely financial reporting to the Country Coordinating Mechanism and the Global Fund.

Monitoring and evaluation activities not conducted (Issue 3)

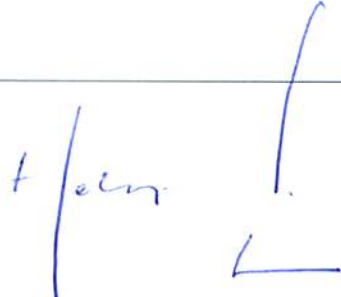
The approved Monitoring and Evaluation Plan included one semi-annual visit, one annual verification visit, and one quarterly visit (if required) to the five Sub-recipients. During 2017 the Project Management Unit did not conduct any visits to one Sub-recipient.

Furthermore, the approved Monitoring and Evaluation Plan included capacity-building activities such as informal mentoring, "learning by doing" and short-term training in managing the Monitoring and Evaluation Plan for Global Fund activities but those activities were not conducted during the review period.

Recommendation: The Office should ensure that the Project Management Unit's planned monitoring and evaluation activities such as visits (quarterly, semi-annual and annual) and capacity-building are conducted as scheduled.

Management comments and action plan

The Resident Coordinator / Resident Representative accepted all four recommendations and is in the process of implementing them. Comments and /or additional information provided have been incorporated into the report, where appropriate.



Helge S. Ostveiten
Director
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I. Profile of Global Fund grant managed by UNDP Belize

Since 2011, UNDP has been the Principal Recipient of Global Fund grant in Belize (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget	Funds Received as of 31 Dec 2017	Expenditures from 1 Jan 2016 to 31 Dec 2017	Imp. Rate	Global Fund Rating at 31 Dec 2017
BLZ-C-UNDP	00084493	TB/HIV	1 Jan 2016	31 Dec 2018	\$3,451,271	\$2,037,378	\$1,695,015	65%	A2

Audit results

Satisfactory performance was noted in the following areas:

- (a) Procurement and supply management. No reportable issues were raised regarding the procurement of health products, quality assurance of health products, procurement of other goods and services, or asset management.
- (b) Financial management. The verification of a sample of vouchers did not lead to reportable issues related to revenue, accounts receivable and expenses management, or delays in reporting to the Global Fund.

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) Address capacity and delivery issues (Recommendation 1).
- (b) Ensure that planned monitoring and evaluation activities such as visits, and capacity-building are conducted as scheduled (Recommendation 3).

Medium priority recommendations, arranged according to significance:

- (a) Improve the use of Atlas (Recommendation 2).
- (b) Comply with the individual contract management policies (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Staffing

Issue 1 Capacity issues within the Project Management Unit impacting project delivery

As per the 'UNDP Global Fund and Health Implementation Guidance Manual', the Office should undertake a critical review of its capacity to manage the grant. It should consider changes in programme activities, and to determine the Global Fund Project Management Unit's size and structure, as human resources required for a successful grant implementation may change over time. As Principal Recipient, the Office is required to ensure the implementation of the grant per the signed agreement, which defines the timeline of activities to be implemented. The different set of activities use inputs with an associated budget to produce the agreed upon deliverables.

The Project Management Unit comprised of one fixed-term appointment staff at the National Officer level (NO-A) and three service contractors (including a driver).

The audit noted the following:

- The review of the project delivery for 2016 and 2017 disclosed that average delivery remained lower than planned. In 2016, project expenditures were 55 percent of the approved budget, whereas in 2017, 66 percent of the approved budget was expended. Although the project had taken steps in 2017 to accelerate delivery, the delivery pace was still low at year-end.
- The audit team interviewed Sub-recipients who indicated that there were delays in the disbursement of funds from the Office to initiate activities in 2016 and 2017. Delays were encountered in the processing of the Sub-recipient's agreements and in disbursing the allocated funds to each of the Sub-recipients. As of 2 February 2018, the funds had yet to be disbursed for first quarter activities, therefore impacting project delivery.
- Staff responsible for providing the National AIDS Commission and Country Coordination Mechanism with quarterly information on the grant's performance did not attend meetings and did not provide the fourth quarter grant performance information for 2017 in a timely manner. Furthermore, the delayed information was provided in a summary presentation format and did not include sufficient financial information for decision-making purposes. This was due to a misinterpretation of a guideline issued by the Regional Bureau on year-end priorities.
- From April to December 2016 the Monitoring and Evaluation Officer position was vacant; however, the Project Management Unit did not request temporary support. The Sub-recipients interviewed by the audit team expressed concerns regarding the lack of sufficient monitoring and evaluation support visits, carried out since April 2016 and throughout 2017. Further verification showed that more desk reviews were conducted versus field visits to cover the monitoring and evaluation activities (refer to Issue 3). In addition, the Monitoring and Evaluation Officer also provided monitoring and evaluation services to other projects of the Office.

Low delivery rates may have a negative impact on resource mobilization efforts.

Priority	High (Critical)
Recommendation 1:	
The Project Management Unit should address the capacity and delivery issues identified by:	
<ul style="list-style-type: none"> (a) diligently monitoring project delivery and engaging staff exclusively in Global Fund activities; (b) timely transferring financial resources to partners; and (c) providing timely financial reporting to the Country Coordinating Mechanism and the Global Fund. 	
Management action plan:	
<ul style="list-style-type: none"> (a) Monthly delivery targets will be established and reviewed by senior management at the end of each month, and the Office will require Global Fund project personnel to engage only in Global Fund grant activities, and a memo will be issued to this effect. (b) The Office takes note of the observation and will improve the timing for processing agreements and disbursements. A schedule for funds transfer will be established and reviewed by senior management at the end of each quarter. (c) The Office will provide coaching to the Project Management Unit staff on relationship management, including to attend key meetings and financial reporting and advise partners on options to support capacity building of counterparts. 	
Estimated completion date: April 2018	

B. Programme management

1. Project approval and implementation

Issue 2 Atlas information not aligned to Global Fund grant agreement and project risk assessments not conducted

UNDP uses Atlas as the enterprise resource planning system to track project information and expenses. Up to date project information ensures accurate reporting.

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

- The budget had an incorrect Sub-recipient as reflected in the Budget Cover Page and Project Budget Balance reports reviewed for 2017 and 2018.
- Risks and monitoring items were entered in 2016 but not in 2017. During the audit, the Project Management Unit updated the risk register in Atlas using Sub-recipient risks but did not include direct project risks due to the lack of project risk assessments for the review period.

By not regularly updating Atlas the Office is at risk of not being able to provide accurate information to Headquarters, donors, government counterparts and other stakeholders, which may affect the decision-making process.

Priority	Medium (Important)
Recommendation 2:	
The Office should improve the use of Atlas by:	
<ul style="list-style-type: none"> (a) regularly updating the Atlas project management module information, such as the approved budget, project risks and monitoring items; and (b) conducting project risk assessments as required. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will ensure that the project management module is updated on a regular basis by establishing a schedule for Atlas updating and verify compliance. (b) The Office will ensure that a project risk assessment will be conducted and verified. 	
Estimated completion date: April 2018	

2. Monitoring and evaluation

Issue 3 Monitoring and evaluation activities not conducted

Monitoring and evaluation activities ensure the achievement of intended results and provide the basis for decision-making. As agreed with the Global Fund, the Monitoring and Evaluation Plan and any subsequent updates focus on critical components such as: 1) indicators, data collection methods and reporting; 2) the identified needs for strengthening capacity and strategic information, where possible as part of health systems strengthening; and 3) analysis of available data and possible surveys, studies and assessments.

The approved Monitoring and Evaluation Plan included one semi-annual visit, one annual verification visit, and one quarterly visit (if required) to the five Sub-recipients. During 2017 the Project Management Unit did not conduct any visits to one Sub-recipient. The Project Management Unit explained that due to the quality of the reports of one of the Sub-recipients the associated risk was low, thus no visits were conducted. Nevertheless, the purpose of the visits is not only to validate what the Sub-recipients report but to review the supporting evidence and provide guidance as required in line with the capacity development plan. As explained by the Project Management Unit, during the period from April to December 2016 the visits conducted were not documented due to the lack of a monitoring and evaluation staff member in the Project Management Unit (refer to Issue 1).

Furthermore, the approved Monitoring and Evaluation Plan included capacity-building activities such as informal mentoring, “learning by doing” and short-term training in managing the Monitoring and Evaluation Plan for Global Fund activities, but those activities were not conducted during the review period. One government ministry indicated that during 2017, four visits from the Project Management Unit were conducted to collect information but not to provide guidance or carry out informal capacity-building activities. The lack of visits and capacity-building activities causes weaknesses in the monitoring and evaluation function of the Project Management Unit.

By not conducting the planned monitoring and evaluation activities, the Office may be exposed to reputational risks with its partners as it would be difficult to determine whether intended results are being achieved as planned.

Priority	High (Critical)
Recommendation 3:	
The Office should ensure that the Project Management Unit's planned monitoring and evaluation activities, such as visits (quarterly, semi-annual and annual) and capacity-building are conducted as scheduled.	
Management action plan:	
The Office recognizes the need to improve monitoring, especially direct visits to counterparts and sites. To this end, the monitoring plan will be reviewed by the Deputy Resident Representative and actions be verified on a quarterly basis.	
Estimated completion date: April 2018	

C. Procurement

1. Individual contractors

Issue 4 Deficiencies in management of individual contractors

The engagement of individuals as contractors under the individual contract modality is subject to the general procurement principals of: (i) best value for money in acquiring the best services at the most competitive rates for a particular skill; (ii) fairness, integrity and transparency, to ensure the proper use of the individual contract modality and its results; (iii) effective competition through a selection process of skilled and highly qualified individuals; and (iv) the protection of the interests of UNDP (as Principal Recipient of a Global Fund grant). The 'UNDP Programme and Operations Policies and Procedures' explicitly address the role of the Procurement Unit when discrepancies arise in the contractual obligations assumed under an individual contract.

Under the planned activities in the grant agreement, 13 individuals were contracted by the Office during the 2016-2017 period, which included trainings, assessments, and the enhancement of an information system tool. The audit found deficiencies in the management of the individual contracts awarded on behalf of the Global Fund project, as follows:

- The Project Management Unit had not developed a procurement plan.
- A roster of qualified local consultants was not available, even though the Office had been Principal Recipient of Global Fund grants since 2011. As a result, direct contracting was primarily used.
- Terms of Reference of consultants were often vague and not detailed enough, which resulted in unclear expectations on the consultants' deliverables. In one case the consultant was dismissed for poor performance and in another case the consultant's deliverables were unsatisfactory and not accepted by the respective ministry.

- The Procurement Unit did not always intervene nor did the Project Management Unit follow up on the progress of the consultants' work, due to the arrangement that a supervisor was assigned at the respective ministry level.

Weaknesses addressed were primarily due to lack of understanding by the Project Management Unit and the Sub-recipient of UNDP procurement policies. The lack of adequate management of individual contracts could jeopardize the achievement of project outcomes and may increase reputational risks for UNDP.

Priority	Medium (Important)
Recommendation 4: The Office should ensure adequate compliance with the individual contract management policies by: <ul style="list-style-type: none"> (a) stipulating the roles and responsibilities of managing an individual contract upon award; (b) developing a roster of qualified individual consultants; and (c) ensuring Terms of Reference are specific. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will utilize the Management Change Team of El Salvador to update the Individual Contract Standard Operating Procedure, which will be shared with all staff. The Office will request from the Regional Bureau for Latin America and the Caribbean virtual training sessions on procurement processes to improve staff understanding of roles and responsibilities. (b) The Office will improve the management of individual contracts and establish a roster of qualified consultants. (c) The Office takes note of the recommendation and will make sure that the Terms of Reference are specific to each contract by documenting proper feedback and review by management. 	
Estimated completion date: May 2018	

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.