UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP TAJIKISTAN

GRANT FROM THE GLOBAL FUND

Report No. 2005

Issue Date: 29 August 2018

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Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 9 to 20 July 2018, conducted an audit of three grants from the Global Fund (Output Nos. 38886 [CMM], 85259 [HIV], and 85258 [HIV]), managed by UNDP Tajikistan (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, risk management, staffing and performance management, capacity development and transition strategy);

(b) programme management (project approval and implementation, monitoring and evaluation, grant closure);

(c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);

(d) procurement (quantification 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 2017 to 31 May 2018. The Office recorded Global Fund-related expenses of approximately $13 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/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 weaknesses in quality control testing, and in the management of damaged and expired pharmaceutical products.

Key recommendation(s): Total = **3**, high priority = **2**

The three recommendations aim to ensure the following: compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 2 and 3)

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:

Weaknesses in quality control testing (Issue 2)	A risk-based test plan was developed for the 2016-2017 and 2018 periods, which detailed items to be tested upon arrival in the country. The plan did not document which products should be tested throughout the supply chain defining also location and timing of picking up the samples. The test plan as devised was not adhered to as no products were tested upon arrival in the Country. No tests were performed in 2017-18 for products at the health centres which had the weakest storage conditions, and which would warrant more frequent testing. Recommendation: The Office should strengthen its quality control testing by including all relevant information into the testing plan; and testing products upon arrival in the Country and throughout the supply chain using a pre-qualified or ISO certified laboratory.
Weaknesses in damaged and expired pharmaceutical products management (Issue 3)	There was no functional system (process) to ensure that damaged and expired pharmaceutical products were tracked and collected from peripheries to the Central Warehouse. While the audit received some records showing some drugs had expired and had been moved to the entity responsible for destruction, it was not possible to determine the total expired quantity. As such, it was not possible to determine if the expired quantity exceeded the two percent acceptable expiry threshold established by the guidelines. In addition, the Office had no control over the tracking and handling of expired products. Recommendation: The Office should improve controls over expired medicines by establishing and implementing procedures to keep track of expired products; periodically assessing variance of expired products against an established threshold; and determining a mitigating cause when expired products exceed threshold.

Implementation status of previous OAI audit recommendations: Report No. 1414, 12 March 2015

Total recommendations: 4
Implemented: 4

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.

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I. Profile of Global Fund grants managed by UNDP Tajikistan

Since 2003, UNDP has been the Principal Recipient of the Global Fund grants in Tajikistan (the Country).

Grant No.	Output No.	Description (HIV, TB, Malaria, CCM)	Start Date	End Date	Budget (in $'000)	Funds Received as of 31 May 2018 (in $ '000)	Implementation Rate % *	Expenses as of 31 May 2018 (in $ '000)	Global Fund Rating at December 31, 2017
TAJ-CFUND/UNDP	38886	UNDP/CCM	Jan 2016	Dec 2020	3,443	3,442	93%	3,217	N/A
TJK-H-UNDP, Implementation period 1	85259	HIV	Oct 2015	Dec 2017	17,149	16,842	98%	16,533	A2
TJK-H-UNDP, Implementation period 2	85258	HIV	Jan 2018	Dec 2020	12,940	1,820	37%	669	N/A

II. Audit results

Satisfactory performance was noted in the following areas:

a) Governance and strategic management: The organizational structure and capacity building strategy were found to be adequate.
b) Sub-recipient management. The selection, contracting, funding, oversight and monitoring of Sub-recipients were found to be adequate.
c) Financial management. The internal control processes for financial management were established and functioning well. Reporting to the Global Fund Secretariat was done in a timely manner and with no delays noted.

OAI made two recommendations ranked high (critical) and one recommendation 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) The Office should strengthen its quality control testing (Recommendation 2).
(b) The Office should improve controls over expired medicines (Recommendation 3).

Medium priority recommendations, arranged according to significance:

(a) The Office should obtain approval for using the National Salary Supplementation and Payment Schemes (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Programme management

1. Project approval and implementation

Issue 1 Lack of approval for the salary supplementation of government officials

UNDP guiding principles prohibit direct payments to government officials on top of their government salaries for work done in supporting the UNDP. This is different with the standard practice of hiring nationals as UNDP staff, management or technical experts. However, in well-defined exceptional circumstances, and provided that specific conditions are met, the UNDP Policy and Procedures for Engagement permit to engaging in National Salary Supplementation Schemes and National Salary Payment Schemes. Such engagement requires the approval of the Office of the Administrator and of the Regional Bureau concerned.

Between 1 January 2017 and 31 March 2018, the Office disbursed around $0.6 million as salary supplementation and salary payments to government officials. However, the Office had not sought prior approval of this payment scheme from the Office of the Administrator and the Regional Bureau for Europe and the Commonwealth of Independent States.

The Office management stated that the officials were nominated by the Government, and that the payment scheme was in line with both grant budgets, which had been approved by the donor and reviewed by the Country Coordinating Mechanism. This was acknowledged by OAI, however, the lack of a properly approved supplemental payment scheme could increase the risk that rates may not be applied fairly.

The identified practice may result in the improper use of funds and in reputational risks

Priority	Medium (Important)
Recommendation 1: The Office should obtain approval from the Office of the Administrator and from the Regional Bureau for Europe and the Commonwealth of Independent States for using the National Salary Supplementation and Payment Schemes, by clearly indicating the mechanism for calculating the level of salary supplements in order to continue with the payment scheme. If approval is not obtained, the Office should discontinue the existing payment scheme.	
Management action plan: The process of obtaining the approval of the Office of the Administrator and Regional Bureau has been started; the letter was sent to the Regional Bureau. **Estimated completion date:** December 2018	

B. Procurement

1. Quality Assurance of Health Products

Issue 2 Weaknesses in quality control testing

The Global Fund Quality Assurance Policy for Pharmaceutical Products, and article 18 of the framework agreement between UNDP and the Global Fund, requires that Principal Recipients must ensure that risk-based product testing is done, and that random samples of finished pharmaceutical products are obtained at different points in the supply chain. Moreover, per the UNDP-Global Fund and Health Implementation Guidance Manual, items to be sampled and tested are to be documented in the annual sampling plan. Samples must be tested for compliance with applicable quality standards by a pre-qualified or ISO certified laboratory. To this effect, a quality assurance plan should be developed, adhered to, and revisited, if necessary.

A risk-based testing plan was developed for the 2016-2017 and 2018 periods, which detailed items to be tested upon arrival in the country. The plan did not document which products should be tested throughout the supply chain defining also location and timing of picking up the samples.

The testing plan as devised was not adhered to as no products were tested upon arrival in the Country. The Office explained that it did not test pharmaceutical products upon arrival, given that they were procured from WHO pre-qualified sources and supplied along with good manufacturing practice (GMP) certificates and manufacturer's certificates of analysis. In addition, all products were tested by the national laboratory in accordance with the national legislation. However, the audit noted that the Global Fund policy requirement was to test products upon arrival based on a risk assessment, and for tests to be undertaken by a prequalified or ISO certified laboratory. None of these two conditions were met.

No tests were performed in 2017-18 for products at the health centres which have the weakest storage conditions, and which would warrant more frequent testing. The audit noted that some tests at this level occurred in 2016. No rationale was provided for not undertaking tests of pharmaceutical products at the health centre level in 2017-18.

Failure to timely test pharmaceutical products may lead to the use of products that are unfit for consumption.

Priority High (Critical)
Recommendation 2: The Office should strengthen its quality control testing by: (a) including all relevant information into the testing plan; and (b) testing products upon arrival in the Country and throughout the supply chain in line with annual risk-based sampling using a pre-qualified or ISO certified laboratory.
Management action plan: The following management actions are developed to address the recommendations. (a) Including all relevant information into the testing plan:

- The testing plan will be updated, and missing sections will be incorporated.
- The Office will implement the annual sampling plan according to the Global Fund Quality Assurance Policy for Pharmaceutical Products.

(b) Testing products upon arrival in the Country and throughout the supply chain in line with annual risk-based sampling using a pre-qualified or ISO certified laboratory:
- The annual risk assessment of the delivered products will be elaborated and regularly conducted.
- Based on the risk assessment's results, the sampling will be conducted upon arrival of products. Hence, overall a two-staged testing approach will be introduced: a) upon arrival based on the risk assessment; and b) sampling from central and regional health facilities. Both testing samples will be sent to the WHO-prequalified or ISO certified laboratory.
- The Office will revise the Standard Operating Procedures for annual sampling plan to test products upon arrival.
- The Office will continue submitting 100% of all batches for testing to National Medicine Control Laboratory in conformity with the National Medicines Law for testing medicines and medical commodities.

Estimated completion date: February 2019

2. Supply Management (inventory warehousing, and distribution)

Issue 3 Weaknesses in damaged and expired pharmaceutical products management

The 'Guidelines for the Storage of Essential Medicine and Other Health Products' issued by the World Health Organisation, stipulate that expired pharmaceutical products should be monitored and controlled. Good management practices suggest that an acceptable percentage of expired products should be defined, and if exceeded, the reasons for the expiries should be established and mitigated.

There was no functional system (process) to ensure that damaged and expired pharmaceutical products were tracked and collected from peripheries to the Central Warehouse. While the audit received some records showing some drugs had expired and had been moved to the entity responsible for destruction, it was not possible to determine the total expired quantity. As such, it was not possible to determine if the expired quantity exceeded the two percent acceptable expiry threshold established by the guidelines. In addition, the Office had no control over the tracking and handling of expired products.

Based on a random review of six pharmaceutical products, the audit noted three that were at risk of expiry based on an analysis of stock on hand and consumption data over the last ten months. Analysis done during the audit indicated that on average, each of the products would lose 50 percent of the stock on hand, due to potential expiry; Doxycycline would lose 11 months of stock, Erythromycin would lose 29 months of stock, and Lamivudine 30mg+Nevrapine 50mg+Zidovudine would lose 13 months of stock. The Office attributed the potential expiry to discontinuation of the work on sexually transmitted illnesses, as well as to change in treatment in the HIV paediatric treatment regimen. OAI acknowledged the challenges faced in monitoring the expiration dates of pharmaceutical products, however there is a concern on residual risks.

Excess supply may lead to loss of funds and inadequately controlled expired products may endanger patients.

Priority	High (Critical)
Recommendation 3: The Office should improve controls over expired medicines by: (a) establishing and implementing procedures to keep track of expired products; (b) periodically assessing variance of expired products against an established threshold; and (c) determining a mitigating cause when expired products exceed threshold.	
Management action plan: The following actions would be implemented: (a) Establishing and implementing procedures to keep track of expired products - A logbook for sub-recipients for registering the goods' movement within their entities. An additional column is added to the drug log book for registration the expiration dates of medicines and medical commodities. - The sub-recipients will be requested to report on each expired item based on the registration book and on a separate report form. This form should match with the tracking table/report of the Central warehouse who will also report to the principal recipient on tracing of expired goods. A management letter with instructions will be sent to the sub-recipients. - In order to dispose the expired products, a Return act for collection of medicines with expired date was developed and distributed to all health facilities. - A separate log book will be developed for registration of collected expired medicine in central and regional warehouses. This log book will match with the Reporting form of sub-recipients. - The Contractor managing the Central warehouse will be requested to develop a separate tracking function in the existing Warehouse's reporting software for tracking the expired medicines at the warehouse level. The warehouse will be requested to report to the principal recipient on a monthly basis. (b) Periodically assessing variance of expired products against and established threshold; and (c) determining a mitigating cause when expired products exceed threshold. - Based on the report of the Central warehouse, quarterly assessment will be conducted to see the variance of expired products against the 1% WHO threshold. - Monitoring of the expiration dates of medicines and medical commodities will be continued as a regular practice upon receiving monthly stock reports from the health facilities. - Redistributing the items with short expiration date between health facilities. - The Central and regional warehouses will continue providing the report on monthly basis for products with 6-months expiration dates and less. **Estimated completion date:** February 2019	

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.