UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

CONSOLIDATED REPORT

OF THE AUDITS OF

UNDP COUNTRY OFFICES AS PRINCIPAL RECIPIENTS OF GRANTS FROM

THE GLOBAL FUND

FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

Report No. 2123

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Consolidated Report of the Audits of UNDP Country Offices as Principal Recipients of Grants from the Global Fund

Executive Summary

Background

The UNDP Office of Audit and Investigations (OAI) analysed the audit issues noted in the 2018 OAI audits of the Global Fund grants managed by UNDP as Principal Recipient and reviewed the status of implementation of audit recommendations as of February 2019. OAI also identified the categories with recurring audit issues from the reports issued from 2015 to 2018.

In 2018, UNDP was the Principal Recipient in 18 countries and 3 regional programmes[1] and managed 31 Global Fund grants totaling $905.6 million.

Audit coverage

In 2018, eight reports were issued pertaining to audits of Global Fund grants managed by UNDP as Principal Recipient. Seven of the eight reports (1 in Africa, 1 in Europe and the Commonwealth of Independent States, 1 in the Arab States, and 4 in Latin America and the Caribbean) covered 19 Global Fund grants with total expenditure of $281.8 million in seven Country Offices. In addition, OAI issued one report on the on-site follow-up audit of the Malaria grant in Chad that was the subject of an audit in late 2016 with an "unsatisfactory" audit rating (Audit Report No. 1732 issued on 13 January 2017).

Of the reports issued, six were rated "partially satisfactory/some improvement needed" and one was rated "partially satisfactory/major improvement needed".[2] A rating was not required for the follow-up audit in Chad.

The seven audits reported a total of 31 audit issues and made a total of 31 recommendations to address those issues. The follow-up audit in Chad identified one additional issue and included one new audit recommendation. The recurring issues noted in the eight audit reports were weaknesses in:

(a) Procurement and supply management (inventory and warehousing)

(b) Programme management (project implementation, monitoring and evaluation)

(c) Sub-recipient management (selection, assessment, and monitoring)

There were 17 recommendations (53 percent) that were rated as high priority.

To strengthen the implementation of Global Fund grants, OAI issued audit recommendations to the Country Offices. The critical recommendations included the following:

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[1] The three regional programmes covered another 29 countries in Africa, Caribbean and Western Pacific.
[2] UNDP Djibouti Report No. 1909

- Strengthen supply management by:

(a) recording and controlling inventory according to the World Health Organization's guidelines for adequate storage, distribution practices, quality testing, physical inventory, stock certification, and disposal of expired medicines and other health products; and

(b) ensuring that adequate facilities are in place for storing medical products, and that all storage facilities are equipped with functioning and properly monitored thermometers.

- Strengthen programme management by:

(a) ensuring that required monitoring and evaluation activities such as, timely monitoring and site visits and project risk assessments are conducted as scheduled and that regularly updated project information is recorded in Atlas for accurate reporting;

(b) enhancing controls for timely implementation of project activities by ensuring that expected number of incentive payments are properly disbursed; following up with the government ministry to ensure the opening of clinics within the agreed timeframe; and

(c) providing relevant training to suppliers and completing required institutional capacity-building activities.

- Strengthen Sub-recipient management by:

(a) ensuring deliverables are received in accordance with the terms and timelines stipulated in the agreements/contracts;

(b) ensuring that programmatic and financial reports are reviewed, and recommendations are made to Sub-recipients to allow for performance improvement; and

(c) ensuring that staff are fully aware of the relevant policies and procedures in engaging Sub-recipients and Sub-sub-recipients and seek guidance from Headquarters for decision-making on procurement activities.

Implementation of audit recommendation

In close cooperation with the Bureau for Policy and Programme Support, Global Fund/Health Implementation Support Team, OAI continuously monitors and follows up on the progress achieved by each Country Office in implementing audit recommendations.

As of 5 March 2019, the rate of implementation of 2018 audit recommendations was 85 percent, as detailed in Section IV of this report.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Profile of Global fund grants managed by UNDP as Principal Recipient

The Global Fund is a partnership organization and is designed to accelerate the end of AIDS, tuberculosis, and malaria as epidemics. As of December 2018, UNDP was the Principal Recipient of Global Fund grants in 18 countries and 3 regional programmes and managed 31 grants totaling $905.6 million. As Principal Recipients, UNDP Country Offices are required to implement the Global Fund grants according to the Framework Agreement, including the UNDP-Global Fund Grant Regulations signed between UNDP and the Global Fund.

Objectives and scope of the audits of Global Fund grants

In October 2016, UNDP and the Global Fund signed a Framework Agreement and it formalized the risk-based approach for all OAI audits for the Global Fund. The agreement stipulated that OAI independently plans audits, defines the risk model and undertakes audits of grants managed by UNDP as Principal Recipient, following its audit plans and in accordance with the standards followed by OAI. The prior requirement of annual audits by OAI of grants in Additional Safeguard Policy countries was removed with the signing of the revised Framework agreement.

The 2018 audits were conducted directly by OAI. The audits aimed to assess the adequacy and effectiveness of governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure, capacity development and exit strategy);

(b) programme management (project approval and implementation, monitoring and evaluation, 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).

The scope of the audits of Global Fund grants included all activities related to the implementation of Global Fund grants by UNDP Country Offices.

A draft version of this consolidated report has been shared with the Bureau for Policy and Programme Support, Global Fund/Health Implementation Support Team, HIV, Health and Development Group and their comments have been considered in the final report.

II. Overview of the audits

The Global Fund audit reports issued in 2018 covered 20 grants with total expenditure of $281.8 million. Of the eight reports, six were rated "partially satisfactory/some improvement needed", one was rated "partially satisfactory/major improvement needed", and one did not require a rating.

III.   Analysis of the audit issues raised

The audit recommendations dealt with issues stemming from procurement and supply management, programme management, as well as sub-recipient management. Below is a detailed analysis of the main issues raised.

A. Procurement and supply management

Issue 1   Inadequate quality control testing

The Global Fund Quality Assurance Policy for Health Products, and article 18 of the Framework Agreement between UNDP and the Global Fund, incorporate all aspects of the Guide on Procurement and Supply Management of Health Products. It requires that Principal Recipients must ensure that product testing is done and that random samples of finished pharmaceutical products are obtained at different points in the supply chain. It also requires that samples must be tested for compliance with approved specifications by a laboratory prequalified by the World Health Organization or ISO 17025. To this effect, the quality assurance plan developed by Country Offices should include a quality control plan and adhered to, and revisited if necessary.

OAI noted weaknesses in the quality assurance of pharmaceutical products in Djibouti and Tajikistan, as follows:

- While the quality control testing of pharmaceutical products was performed, the Office did not prepare a plan in which the timing and sample selection was described (Djibouti).

- A risk-based test plan was developed for the 2016-2018 period, which detailed items to be tested upon arrival in the country. However, the plan did not document which products should be tested throughout the supply chain or defined the location and timing of selecting the samples (Tajikistan).

OAI recommended that the Country Offices strengthen their quality control testing by:

- preparing a quality testing plan to identify products that should be tested, as well as their timing and the location from which the sample should be drawn from (Djibouti and Tajikistan); and

- establishing and implementing procedures to keep track of expired products; periodically assessing variance of expired products against an established threshold; and determining mitigating actions when expired products exceed threshold (Tajikistan).

Issue 2   Weaknesses in inventory and warehousing system

The Principal Recipient and its Sub-recipients are required by the standard terms and conditions of the agreement signed with the Global Fund to comply with the World Health Organization's guidelines for adequate storage, distribution practices as well as stock records and physical inventory for medicines and other health products.

OAI noted weaknesses in the inventory and warehousing system in Panama and Zimbabwe, as follows:

- Inadequate inventory records and absence of physical counts (Panama)
    - There were inaccuracies in closing balance quantities for items in the inventory and no independent verification and certification on the inventory balance amounts since the start of the project.

- There were no periodic physical counts or controls to detect expired or damaged products, and no system in place to control and follow up on the inventory delivered to Sub-recipients.

- The 2017 Combined Delivery Report did not include the value of the inventory under Funds Utilization section.

- Poor warehouse management (Panama and Zimbabwe)

  - The medical products were stored on the floor between racks and pallets or spilled over into receiving, picking and dispatch areas. The storage capacity was reduced due to sub-optimal rack utilization.

  - The different stock items were mixed together and there were no bin cards, inventory labels, expiry date or batch numbers for each commodity type.

  - The warehouse was running out of space for storage of expired medical products.

- Weak temperature monitoring and control (Panama and Zimbabwe)

  - It was not clear how frequently the data logger reports in the central warehouse was monitored.

  - There was no evidence of standard operating procedures in place to ensure the safety of medical products in the central warehouse.

  - The pharmacy and storage room were not equipped with air conditioners, and inside temperatures were not monitored as there was no working thermometer in the rooms.

OAI recommended that the Country Offices improve inventory and warehousing system by:

- recording and controlling inventory according to the World Health Organization's guidelines for adequate storage, distribution practices, quality testing, physical inventory, stocks certification, disposal of expired medicines and other health products; and

- ensuring that adequate facilities are in place for storing medical products and equipped with functioning thermometers, and that temperature fluctuations are properly monitored.

B. Programme management

Issue 1 Inadequate planning and implementation of monitoring and evaluation activities

The grant agreement between UNDP and the Global Fund states that the Principal Recipient is responsible for the overall monitoring and evaluation of the grants. It should carry out periodic monitoring and supervision visits and on return, the results should be documented in a written report.

OAI noted weaknesses in the monitoring and evaluation activities in Belize, Djibouti, and Panama, as follows:

- The monitoring and evaluation plan included quarterly, semi-annual and annual visits to the Sub-recipients. During 2017, the Project Management Unit did not conduct any visits to one Sub-recipient. The plan also included capacity-building activities such as informal mentoring, "learning by doing", and short-term training in managing the plan. However, those activities were not conducted during the review period (Belize).

- A monitoring and supervision plan was developed for the grants. However, at the time of the audit, the Office had not visited facilities that were serviced by the grants (Djibouti).

- The Office did not have a comprehensive annual monitoring plan that identified areas to be visited, the frequency, by whom, and the type of monitoring to be completed (Panama).

OAI recommended that the Country Offices improve their monitoring and evaluation activities by:

- ensuring that the project management unit's planned monitoring and evaluation activities are conducted as scheduled (Belize);

- undertaking monitoring and site visits as agreed with the Global Fund (Djibouti); and

- preparing a comprehensive annual monitoring plan (Panama).

Issue 2   Weaknesses in the use of Atlas as a project management tool

UNDP uses Atlas as the corporate system to track project information and expenses. Up-to-date project information ensures accurate reporting and a transparent view of the project performance.

OAI noted deficiencies in the use of Atlas for processing project information in Belize and Djibouti, as follows:

- The budget had an incorrect Sub-recipient as reflected in the budget cover page and project budget balance reports reviewed for 2017 and 2018 (Belize).

- The risk register in Atlas used Sub-recipients risks but did not include direct project risks due to the lack of project risk assessments (Belize).

- At the project management level, risk and issue logs were either not completed or not updated in Atlas to capture project events (Djibouti).

OAI recommended that the Country Offices improve their use of Atlas as a project management tool by:

- regularly updating the Atlas project management module information, such as the approved budget, project risks and monitoring items to allow for accurate reporting (Belize and Djibouti); and

- conducting project risk assessments as required (Belize).

Issue 3   Delays in project implementation

According to UNDP Programme and Operations Policies and Procedures, programme and project monitoring is a key activity in measuring programme results at various levels to provide a basis for accountability and informed decision-making.

OAI noted a low rate in project implementation in Panama due to delays in the implementation of several activities. Specifically:

- Incentive payments for target populations were due to be paid from 2016. However, only 8 percent of the budgeted amount had been disbursed as of April 2018.

- Institutional capacity-building activities of civil society were not completed as planned due to delays in identifying a suitable supplier.

- Two Friendly Clinics were to be opened by the government ministry in 2016. However, the Clinics were not opened due to a lack of available budget.

OAI recommended that the Country Office enhance controls for timely implementation of activities by:

- calculating the expected number of incentive payments to be disbursed or agreeing with the government ministry and donor regarding reprogramming of the unused amounts;

- identifying a suitable supplier, providing the relevant training, and completing the required institutional capacity-building activities; and

- following up with the government ministry to ensure the opening of the Friendly Clinics within the agreed time frame.

C. Sub-recipient management

Issue 1   Inadequate reporting and monitoring

According to the standard Sub-recipient agreements, all Sub-recipients are required to provide quarterly programmatic and financial reports to UNDP no later than the 30th of January of each year, for subsequent reporting to the Global Fund Secretariat.

OAI noted significant delays of up to two years in the submission of those reports by the Sub-recipients in Bolivia and Djibouti, as follows:

- The Sub-recipient (a United Nations Agency) which had been engaged in September 2016 had yet to submit to the Office technical reports that were due in December 2016 and 2017 (Bolivia).

- The Sub-recipient had not provided required quarterly reports or annual financial and programmatic report from 2016 to 2018 (Bolivia).

- Except for one, none of the 10 Sub-recipients met the quarterly reporting requirements. They reported semi-annually and with significant delays with some reports being as much as 10 months late. These reports were not reviewed by the Office and documented feedback with recommendations were not provided to the Sub-recipients (Djibouti).

OAI recommended that the Country Offices improve sub-recipients reporting and monitoring by:

- ensuring deliverables are received in accordance with the terms and timelines stipulated in the agreements/contracts (Bolivia and Djibouti); and

- ensuring that reports are reviewed, and recommendations are made to sub-recipients to allow for performance improvement (Djibouti).

Issue 2   Weaknesses in the selection and contracting of sub-recipients

The UNDP Guidance Manual for Global Fund and Health Implementation (Manual) stipulates that a value for money analysis must be completed prior to contracting with civil society organizations that are directly engaged as Sub-recipients. In addition, the Manual does not allow outsourcing of the procurement function if the procurement threshold of $100,000 (or 10 percent of total budget) is reached. Moreover, the office, as Principal Recipient, must actively participate in the capacity assessment of Sub-sub-recipients prior to their engagement.

OAI noted the following issues relating to the engagement of Sub-recipients and Sub-sub-recipients in Jamaica:

- A value for money analysis was not undertaken prior to contracting two Sub-recipients.

- The Office outsourced the procurement of professional services for $1.8 million to the two Sub-recipients.

- The Office did not actively participate in the capacity assessment of three Sub-sub-recipients conducted by the Sub-recipients.

OAI recommended that the Country Office improve the Sub-recipient selection and contracting process by:

- ensuring that staff are fully aware of the relevant policies and procedures in engaging Sub-recipients and Sub-sub-recipients; and

- seeking guidance from Headquarters for decision-making on procurement activities.

IV.   Implementation of the audit recommendations

OAI, in close cooperation with the Bureau for Programme and Policy Support, UNDP Global Fund/Health Implementation Support Team, HIV, Health and Development Group, continuously monitors the progress achieved by UNDP Country Offices in implementing the audit recommendations made. Country Offices are required to report any progress made directly in the Comprehensive Audit and Recommendation Database System (CARDS) and to upload supporting documentation. This information is subsequently validated by OAI.

The data contained in this section of the report represents 32 audit recommendations included in eight audit reports issued between 1 January and 31 December 2018 (see Figure 1). As of 5 March 2019, 18 of the 32 recommendations had been fully implemented.

Figure 1: Implementation rate of the recommendations in the 2018 Global Fund audits
As of 5 March 2019

| Country Office	Report no.	Issue date	Total no. of recommendations	No. of outstanding recommendations	Implementation rate
Belize	1908	4-Apr-18	4		100%
Bolivia	2001	28-Sep-18	2	1	85%
Djibouti	1909	13-Apr-18	9	7	55%
Jamaica & Bermuda	1919	12-Jul-18	2		100%
Panama	1929	25-May-18	7	5	61%
Tajikistan	2005	29-Aug-18	3		100%
Zimbabwe	1904	24-Jan-18	4		100%
Chad (follow-up audit)	2012	26-Oct-18	1	1	0%
Total for 2018			**32**	**14**	**85%**

V.   Recurring audit issues from 2015-2018

OAI analysed the audit recommendations raised during the last four years to examine the areas where audit issues were most prevalent. The summary is displayed in Figure 2.

Some of the key conclusions are as follows:

1. Procurement and supply management was the audit area with the most number of recommendations in the last four years. Although the number of recommendations slightly increased between 2016 and 2017, it remained the same in 2018.

2. Programme management, Governance, and Sub-recipient management had an increase in the number of recommendations in 2017 compared to 2016. In 2018, the number of recommendations for all three categories decreased.

3. Financial management, the number of recommendations decreased in 2016 and 2017 but increased in 2018. Despite the increase in 2018 (4 or 13 percent), it was below the number of recommendations in 2016 (6 or 24 percent) and in 2015 (8 or 15 percent) - in absolute and relative numbers.

Figure 2: Ratio between the number of recommendations by audit category and the total recommendations per year (2015-2018)
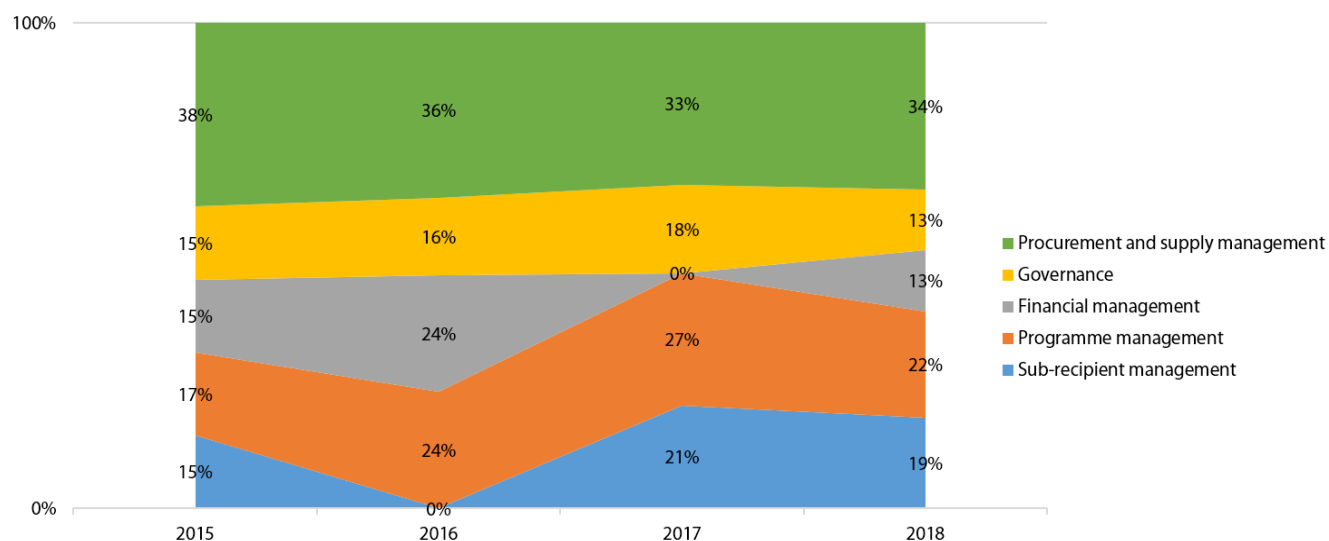
Category	2015 (14 reports)		2016 (13 reports)		2017 (10 reports)		2018 (8 reports)	
	Ratio	No. of Rec.	Ratio	No. of Rec.	Ratio	No. of Rec.	Ratio	No. of Rec.
Procurement and supply management	38%	20	36%	9	33%	11	34%	11
Governance	15%	8	16%	4	18%	6	13%	4
Financial management	15%	8	24%	6	0%	0	13%	4
Programme management	17%	9	24%	6	27%	9	22%	7
Sub-recipient management	15%	8	0%	0	21%	7	19%	6
Total	**100%**	**53**	**100%**	**25**	**100%**	**33**	**100%**	**32**

Definitions of audit terms - ratings and priorities used in 2018

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 result in 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 <u>not included in this report</u>.

Annex 1: Global Fund grants audited in Country Offices

Report No.	Country Office	Issue Date	Audit Period		Audit Rating	Exp. (in $m)	Global Fund Grants Audited							No. of Issues/Recommendations
							Total	HIV	TB	Mal.	HIV/ TB	CCM	HSS	
2001	Bolivia	28/09/18	1/1/17	30/6/18	Partially Satisfactory/Some Improvement Needed	7.0	**3**		1	1		1		2
2005	Tajikistan	29/08/18	1/1/17	31/5/18	Partially Satisfactory/Some Improvement Needed	13.0	**3**	2				1		3
1919	Jamaica	12/7/18	1/10/16	31/3/18	Partially Satisfactory/Some Improvement Needed	2.5	**1**				1			2
1929	Panama	25/05/18	1/1/17	31/1/18	Partially Satisfactory/Some Improvement Needed	3.7	**1**				1			7
1909	Djibouti	13/04/18	1/7/16	31/12/17	Partially Satisfactory/Major Improvement Needed	9.8	**5**	1	1	1	1	1		9
1908	Belize	4/4/18	1/1/16	31/12/17	Partially Satisfactory/Some Improvement Needed	1.8	**1**				1			4
1904	Zimbabwe	24/01/18	1/1/16	30/9/17	Partially Satisfactory/Some Improvement Needed	244.0	**5**	2	1	1			1	4
2012	Chad (Follow-up audit)	26-Oct-18	-	-	N/A	-	**1**			1				1
Grand Total						281.8	**20**	**5**	**3**	**4**	**4**	**3**	**1**	**32**