UNITED NATIONS DEVELOPMENT PROGRAMME

Office of Audit and Investigations

AUDIT

OF

UNDP DJIBOUTI

GRANTS FROM THE GLOBAL FUND

Report No. 2189

Issue Date: 25 June 2020

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

The UNDP Office of Audit and Investigations (OAI), from 13 to 30 April 2020, conducted an audit of two grants from the Global Fund (Output Nos. 107277 [TB/HIV] and 107278 [Malaria]) managed by UNDP Djibouti (the Office) as the Principal Recipient. The Office also managed Output No. 95340 (Country Coordinating Mechanism) as the Funding Recipient.[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, 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 to 31 December 2019. The Office recorded Global Fund-related expenses of approximately $4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2018.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

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[1] Since the Country Coordinating Mechanism is not a legally incorporated body and cannot receive funds, it designates a Funding Recipient to be responsible for receiving funds on its behalf.

[2] The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) All meetings with Office staff and personnel were carried out virtually.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.

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 capacity assessments of Sub-recipients and ineffective implementation of a quality control plan.

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

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

Weaknesses in Sub-recipient capacity assessments and development (Issue 1)	The Office contracted six Sub-recipients for the two grants and conducted capacity assessments of five of them nine months after the signing of the Sub-recipient agreements. A capacity assessment was not conducted for the remaining Sub-recipient. Although the Office identified certain weaknesses through the capacity assessments and monitoring visits, a capacity development plan for addressing them was not prepared. Recommendation: The Office should timely complete capacity assessments of all Sub-recipients for future grants, and prepare a comprehensive capacity development plan, if capacity gaps are identified.
Ineffective implementation of quality control plan (Issue 2)	The Office developed a testing plan for 2019 that contained 14 sampled products to be tested upon arrival and throughout the supply chain. At the time of the audit in April 2020, the Office had yet to receive the 2019 quality control test results of 10 of the 14 sampled products sent for testing in February 2020. No reasons were provided by the Office as to why the 2019 samples were not submitted until 2020. The remaining four sampled products could not be tested. The Office had not revised the sampling plan

by replacing the products that could not be tested. The 2018 sampling plan was submitted to the laboratory only in February 2019 and the results were received in July 2019, four months instead of the required turnaround time of 10 working days.

The annual progress reports were not submitted to the UNDP Global Fund Health Implementation Support Team, Bureau for Policy and Programme Support, to disclose the delays and challenges with the implementation of the quality control testing plan.

Recommendation: The Office should strengthen the implementation of quality control activities by: (a) developing and monitoring a quality control testing plan, which should include the timelines for drawing sampling at different points in the supply chain, and actively following up with the laboratory regarding extended delays in receiving quality control test results; (b) timely revising its quality control testing plan to replace products that could not be sent for testing; and (c) submitting the annual progress reports to the UNDP Global Fund Health Implementation Support Team, Bureau for Policy and Programme Support.

Implementation status of previous OAI audit recommendations: Report No. 1909, 13 April 2018.
   Total recommendations: 9
   Implemented: 9

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
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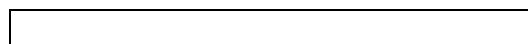
I. Profile of Global Fund grants managed by UNDP Djibouti

Since 2013, UNDP has been the Principal Recipient of Global Fund grants in Djibouti (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in $'000)	Funds Received as of **31 December 2019** (in $ '000)	Impl. Rate	Expenses as of **31 December 2019** (in $ '000)	Global Fund Rating at **31 December 2019**
74979	87111	Continue to fight against HIV	1 January 2013	31 December 2015	4,500	4,480	100 %	4,480	B1
77460	88216	Support to Djibouti's National Tuberculosis Program	1 October 2013	31 December 2015	3,390	2,859	84%	2,859	B1
88869	95340	CCMI DJIBOUTI FUNDING - Phase 1	1 December 2016	30 November 2019	314	312	99%	310	N/A
94487	98605	Support National TB&HIV Programme - Phase 1	1 January 2016	30 June 2018	8,638	7,624	83%	7,191	B1
94500	98620	Support Nat Malaria Programme - Phase 1	1 January 2016	30 June 2018	7,795	7,785	80%	6,209	A1
106649	107277	Support National TB&HIV Programme - Phase 2	1 July 2018	31 December 2020	4,917	3,431	51%	2,503	B1
106650	107278	Support Nat Malaria Programme - Phase 2	1 July 2018	31 December 2020	3,215	2,695	76%	2,449	A2
88792	121139	CCMI DJIBOUTI FUNDING - Phase 2	1 July 2018	30 November 2022	150	-	0%	-	N/A

II. Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Governance and strategic management.</u> Controls were established and operating as designed.
(b) <u>Programme management.</u> The programme management function was established and functioning well.
(c) <u>Financial management.</u> Financial management controls were found to be effectively implemented.

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) Timely complete capacity assessments of all Sub-recipients and prepare a comprehensive capacity development plan (Recommendation 1).

(b) Strengthen the implementation of quality control activities (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(a) Maintain complete, accurate and updated inventory records (Recommendation 3).
(b) Improve asset management (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Sub-recipient management

1. Selection, assessment and contracting

Issue 1   Weaknesses in Sub-recipient capacity assessments and development

UNDP policies stipulate that a capacity assessment should be completed for all Sub-recipients prior to contracting them so that UNDP can determine that Sub-recipients meet the minimum institutional and technical capacity requirements. In case of capacity gaps, UNDP and Sub-recipients need to develop a plan to address the identified capacity issues prior to signing the Sub-recipient agreement, for instance, through a capacity development plan, as part of the agreement, to bridge identified major gaps.

The Office contracted six Sub-recipients for the two grants and conducted capacity assessments of five of them nine months after the signing of the Sub-recipient agreements. A capacity assessment was not conducted for the remaining Sub-recipient. Although the Office identified certain weaknesses through the capacity assessments and monitoring visits, a capacity development plan for addressing them was not prepared.

Weaknesses identified in the capacity assessments were related to human resources, procurement and financial management. The Office mitigated the risks on Sub-recipient capacity gaps by undertaking all procurement and payment activities of Sub-recipients.

Delays in completing Sub-recipient capacity assessments and not addressing capacity gaps may result in inefficient use of resources, which could delay the achievement of results and impact performance.

Priority	High (Important)
Recommendation 1: The Office should timely complete capacity assessments of all Sub-recipients for future grants, and prepare a comprehensive capacity development plan, if capacity gaps are identified.	
Management action plan: The Office will complete capacity assessments of the Sub-recipients to be engaged in the implementation of the grants for the 2021–2023 allocation and reflect the findings in the grant	

agreements with the Sub-recipients and capacity development plan of the designated Principal Recipient.

Estimated completion date: January 2021

B. Procurement

1. Quality assurance of health products

Issue 2 <u>Ineffective implementation of the quality control plan</u>

The 'UNDP-Global Fund and Health Implementation Guidance Manual' requires the preparation of an annual quality control testing plan for the supply chain, from initial receipt of the health products to delivery to health facilities. The Office's quality assurance plan states that quality control test results should be received back from the approved laboratory within 10 working days after receipt of samples. The established guidelines by UNDP on management of pharmaceutical products require annual planning and reporting to the Global Fund.

The Office developed a testing plan for 2019 that contained 14 sampled products to be tested upon arrival and throughout the supply chain. At the time of the audit in April 2020, the Office had yet to receive the 2019 quality control test results of 10 of the 14 sampled products sent for testing in February 2020, despite following up with the laboratory. No reasons were provided by the Office as to why the 2019 samples were not submitted until 2020.

Approximately 313,620 out of a total quantity of 413,128 (or 76 percent) of these products in stock had been distributed by December 2019 without undergoing quality control testing. The remaining four sampled products could not be tested because of i) low stock quantity; ii) products close to expiry date; or iii) closure of the laboratory due to COVID-19. The Office had not revised the sampling plan by replacing the products that could not be tested.

Further, the samples corresponding to the 2018 testing plan were submitted to the laboratory only in February 2019 and the results were received in July 2019, four months instead of the required turnaround time of 10 working days.

The annual progress reports were not submitted to the UNDP Global Fund Health Implementation Support Team, Bureau for Policy and Programme Support, to disclose any delays and challenges with the implementation of the quality control testing plan.

The late submission of the samples occurred because the Office did not establish timelines for the sampling in the quality control testing plan and a did not have a monitoring mechanism in place to ensure that quality control testing was being conducted as planned or needed any adjustment.

Without an effective quality control mechanism, the Office may be exposed to reputational risk, particularly if consumed products are later found not to be in conformity with required quality standards.

Priority	High (Critical)

Recommendation 2:

The Office should strengthen the implementation of quality control activities by:

(a) developing and monitoring a quality control testing plan, which should include the timelines for drawing sampling at different points in the supply chain, and actively following up with the laboratory regarding extended delays in receiving quality control test results;
(b) timely revising its quality control testing plan to replace products that could not be sent for testing; and
(c) submitting the annual progress reports to the UNDP Global Fund Health Implementation Support Team, Bureau for Policy and Programme Support.

Management action plan:

(a) The Office will complete the sampling of health products in accordance with the quality control testing plan and will follow up with the laboratory where there are extended delays.
(b) The Office will revise the quality control testing plan to replace products that could not be sent for testing.
(c) The Office will submit annual progress reports to the UNDP Global Fund Health Implementation Support Team, Bureau for Policy and Programme Support.

Estimated completion date: March 2021

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

Issue 3   Weaknesses in the management and monitoring of inventory records

The UNDP-Global Fund agreement requires Principal Recipients to ensure that operating procedures and controls are put in place to prevent any diversion of health products within the supply chain. The agreement requires the maintenance of sufficient inventories and that product expiry should be kept below the 2 percent World Health Organization threshold.

The inventory control reports were incomplete and outdated. Expired products represented $26,029 or 1.7 percent of the total value of health products procured and delivered in 2019 to the central warehouse. While this was below the World Health Organization tolerance of 2 percent, the list of expired products was incomplete as it did not include expired TB products, such as 22,000 units of disposable 5ml syringes, which were under the responsibility of a national entity. The TB inventory as of 31 December 2019

contained products that expired between 2012 and 2018 with an estimated total quantity of 46,768 tablets, which should have been already disposed of.

The malaria 2019 year-end inventory report did not record all products procured in 2019, such as clindamycin and bed nets.

Without accurate and adequate management and monitoring of inventory records there is an increased likelihood of inefficient inventory use.

Priority	Medium (Important)
Recommendation 3: The Office should maintain complete, accurate and updated inventory records by: (a) monitoring and controlling all inventories to ensure that expired products are below the 2 percent World Health Organization threshold; and (b) disposing expired inventory as per the established national guidelines.	
Management action plan: (a) As part of the work planning process, the Office will support the central warehouse, *Centrale d'Achat des Medicaments et Materiels Essentiels* (CAMME), to update procedures for the disposal of health products and pharmaceuticals; (b) Share annually the list of expired products with CAMME and monitor, with CAMME, the status of the disposal operations. **Estimated completion date:** March 2021	

3. Asset management

Issue 4   Weaknesses in asset management

According to the 'UNDP-Global Fund and Health Implementation Guidance Manual', the physical verification of Sub-recipients' assets should be completed at least annually. Assets used and controlled by UNDP are verified semi-annually in accordance with the 'UNDP Programme and Operations Policies and Procedures'. The UNDP Global Fund Framework Agreement states that assets should be transferred or disposed of in accordance with the Principal Recipient's regulations, rules, policies and procedures and relevant agreements with the host country, following consultation with the Global Fund.

The audit team was not provided with the 2019 year-end physical inventory count of Global Fund assets.

The Office and the Sub-recipient asset registries were dated February and March 2020 respectively, and had not been consolidated. The Office's asset registry did not include relevant information such as value,

acquisition date, quantity and project number for effective monitoring. Seven out of nine capitalized assets listed in the registry were not included in the Atlas (enterprise resource planning system of UNDP) asset "In Service Report". Another 23 line items from the asset registry, located in a container, were assessed as non-functional but had yet to be disposed of.

The asset registries for two Sub-recipients were missing important information such as purchase orders or voucher numbers, value of assets, supplier names, serial number and quantity to facilitate their identification. None of the field visit reports provided evidence of oversight of assets held by the Sub-recipients.

The majority of the assets, including cars and information technology equipment procured in 2013 had yet to be submitted to the Country Coordinating Mechanism for transfer approval to Sub-recipients. Incomplete asset registries increase the risk of misuse and or loss of grant assets.

Priority	Medium (Important)
Recommendation 4: The Office should improve asset management by: (a) establishing a complete and consolidated asset inventory register including all relevant information for proper monitoring, and updating the Atlas asset report and conducting a physical verification of the grant assets as required by the 'UNDP-Global Fund and Health Implementation Guidance Manual'; and (b) disposing of, in a timely manner, the non-functional or obsolete assets.	
Management action plan: (a) The Office will conduct a physical verification of all Sub-recipient assets by year end and for assets used and controlled by UNDP during the office bi-annual certification of assets exercise. (b) The Office will prepare a plan for the disposal of assets and proceed with the transfers or disposal after consultation with the Global Fund. **Estimated completion date:** March 2021	

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.