UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP IN THE BOLIVARIAN REPUBLIC OF VENEZUELA

GRANTS FROM THE GLOBAL FUND

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Report on the Audit of UNDP in the Bolivarian Republic of Venezuela
Grants from the Global Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 10 October to 26 October 2022, conducted an audit of one grant from the Global Fund (Output No. NMF3 [malaria]), managed by UNDP in the Bolivarian Republic of Venezuela (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).

In addition, using the performance audit methodology, OAI assessed whether programme management activities were effectively implemented. OAI's review was guided by the following questions:

a) Was the start-up process[1] implemented in an effective manner?
b) Did the Office establish cost-efficient mitigating controls in cases where primary controls were not functioning?
c) Did the Office's actions ensure the efficient implementation of the grant activities as at the end of the grant cycle?

Performance auditing is an independent, objective, and reliable examination of an entity or process to assess whether economy, efficiency, and effectiveness in the employment of available resources is being achieved.

The audit covered the Global Fund-related activities of the Office from 1 January 2021 to 30 June 2022. The Office recorded Global Fund-related expenses of approximately $10.54 million. This was the first audit of the Office's Global Fund-related activities.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors (The IIA). The audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(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.

[1] The start-up process refers to the set of activities implemented by the Principal Recipient for Global Fund projects for the first time, designed to facilitate a timely start of grant implementation and prevent any interruption to critical programme activities and services, including delivery of health commodities.

(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project site visits, including to medical facilities, warehouses, Sub-recipients, and meetings with counterparts/beneficiaries were not conducted.
(d) A physical verification of assets and inventory was not performed. However, a verification of inventory at Central stores was performed remotely through videoconference.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **satisfactory/some improvement needed,** which means that "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."

Satisfactory performance was noted in the area of financial management. No issues were noted regarding revenue, accounts receivable and budget. Expenditures and payment processes as well as reporting to the Global Fund were assessed as adequate.

There were improvements needed mainly due to the following: weaknesses in monitoring and evaluation planning and implementation; challenges in the delivery, supply management, and reception processes of pharmaceutical products, medical products, and other goods and services; and insufficient inventory and information collection systems.

Conclusions on the performance audit questions regarding programme management activities were as follows:

- The start-up process was not implemented in an effective manner.
- Cost-efficient mitigating controls were not timely implemented.
- Actions taken by the Office should ensure the efficient implementation of the grant activities as at the end of the grant cycle.

These findings have been incorporated in the overall auditing rating.

Good practice

The Country Coordinating Mechanism (CCM) was not operational in the Country. However, the Office proactively set up an advisory committee (Malaria Advisory Committee) to develop the functions assigned to the CCM within the malaria-related area.

Key recommendations Total = **5**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are five medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address weaknesses in monitoring and evaluation, inventory management, and the procurement and quality assurance of health products.

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Effectiveness and efficiency of operations	2, 3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5	Medium

Management comments and action plan

The Resident Representative accepted all 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.

Moncef Ghrib

Moncef Ghrib
Officer-in-Charge
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP in the Bolivarian Republic of Venezuela

Since 2021, UNDP has been the Principal Recipient of Global Fund grants in the Bolivarian Republic of Venezuela (the Country).

Grant No.	Output No.	Description	Start Date (phase 1)	End Date	Budget (phase 1) (in $'000)	Funds Received as of 30 June 2022 (in $ '000)	Implementation Rate	Expenses as of 30 June 2022 (in $ '000)	Global Fund Rating at 31 December 2021
VEN-M-UNDP	NMF3	Controlling malaria resurgence and reducing its morbidity.	1 January 2021	31 December 2023	19,800	13,390	21%	4,191	D1
VEN-M-UNDP	C19RM	COVID-19 Response Mechanism.	1 January 2021	31 December 2023	12,782	12,515	50%	6,352	D1

The Office was operating in a challenging operating environment where there were limited qualified health professionals in the Country. A limited pool of qualified personnel also resulted in difficulties in recruiting qualified personnel to the Office's Programme Management Unit (PMU). Further, the Government had not made relevant statistical information available, which may have been useful for the Office to use in their programmatic activities.

II. Good practice

OAI identified a good practice, as described below.

The Country Coordinating Mechanism (CCM) was not operational in the Country. However, as an alternative measure, the Office took action to set up an advisory committee (Malaria Advisory Committee) to develop the functions typically assigned to the CCM. This Advisory Committee subsequently provided oversight over the Principal Recipient in connection to the malaria-related grant.

III. Audit results

OAI made five recommendations ranked medium (important) priority.

Low priority recommendations were discussed directly and agreed upon with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:
(a) Enhance monitoring and evaluation (Recommendation 1).
(b) Strengthen the inventory management system (Recommendation 2).
(c) Expedite the delivery of pharmaceutical and other medical and non-medical products (Recommendation 3).
(d) The PMU should strengthen its quality control processes over pharmaceutical products (Recommendation 5).
(e) Reinforce oversight of transit and receiving processes (Recommendation 4).

Conclusion on the Office's performance in the following audit areas/sub-areas:

To form an opinion and conclude on the performance elements of this audit, the audit team used the following audit criteria:

- Date of Delegation of Authority granted to personnel in PMU.
- Date project document was signed.
- Date Sub-recipient agreement was signed.
- Date monitoring and evaluation plan was signed.
- Achievement of programme and finance targets as set out in the performance framework.

(a) Development activities:

i. Was the start-up process implemented in an effective manner?

The start-up process should have been completed by 1 January 2021. However, it was not finalized until April 2021. The project document was not signed until 2 June 2021, while the monitoring and evaluation plan was not approved until October 2021. The Sub-recipient agreement was signed with a significant delay (in July 2021) which resulted in a low implementation rate (47 percent) of the grant activities in 2021. The delay was mainly due to prolonged discussions carried out between the Office and the Sub-recipient on oversight arrangement.

ii. Did the Office establish cost-efficient mitigating controls in cases where primary controls were not functioning?

During the first year of the grant cycle, the procurement of pharmaceutical products and other medical products was delivered late, which resulted in low absorption and a programmatic performance rate of 46 percent. Although the lead times for product delivery improved in 2022, it is not certain if all medical products would be delivered as planned and on time. The performance of Sub-recipients improved in 2022, but not sufficiently enough to ensure implementation of its work plan for 2022. Monitoring and evaluation activities also experienced delays.

iii. Did the Office's actions ensure the efficient implementation of the grant activities as at the end of the grant cycle?

Insufficient reporting mechanisms and warehousing and distribution infrastructure in the Country led to issues related to product delivery and storage conditions. Adequate controls were not applied during the first year of grant implementation in 2021, since the priority was on the delivery of pharmaceutical products and medical products planned for that year. The implementation of additional controls started late in 2022. The Office provided a set of action plans; the strict and timely implementation of these plans should result in the improvement of the programme's key infrastructure mechanisms and reporting systems.

The detailed assessment is presented below, per audit area:

A. Programme management

1. Programme monitoring and evaluation

Issue 1 Weaknesses in monitoring and evaluation planning and implementation

As of 13 July 2022, the Global Fund set out the priorities to be achieved by the Principal Recipient over the period 2022–2023. These priorities included the reinforcement of the government ministry's information system, the utilization of indicator verification tool agreed upon between the Principal Recipient and the government ministry, reporting to the Global Fund on the progress made on the DHIS-2 (Health Information Management System widely used for collecting and analyzing data), and updating the monitoring and evaluation plan as agreed with the government ministry.

Late implementation of monitoring and evaluation activities

In the event that a national monitoring and evaluation plan is not in place, then the submission of a Global Fund-specific monitoring and evaluation plan is necessary for grant signature. The PMU should prepare the site visit plan using a risk-based approach. Each quarter, the PMU updates its monitoring visit plan.

The audit review disclosed the following:

a) The plan was signed late in the year (October 2021), while it should have been signed at the grant confirmation stage in December 2020.
b) Relevant monitoring and evaluation details were not included in the plan, such as programme evaluations and a communications plan with the stakeholders involved at the national level.
c) Out of the 16 activities in the monitoring and evaluation plan, as of the date of the audit, 5 of them had not started and 9 were still in progress. Out of the 9 activities in progress, 3 had not been finalized and 6 showed slow progress, such as support to supply and logistics activities and field visits for data collection and verification.
d) The monitoring and evaluation plan included two programmatic visits to be carried out in 2021 and four in 2022 (one per quarter). The audit team noted that three visits were carried out in the second and third quarters of 2022, where significant weaknesses in infrastructure and the inventory management system were identified.
e) Programmatic visits did not include data validation. Hence, the Office relied on the data provided by the government ministry for reporting on performance indicators, without cross-checking the data against the data provided directly by the health facilities visited.
f) The content of the programmatic field visit reports was not aligned with UNDP guidance in any of the reports drafted by the Office, as it did not provide details relating to programme progress towards results, or the production of outputs.

The Office indicated that in 2021, delivering malaria and COVID-19-related supplies was prioritized. The Office added that the Sub-recipient was responsible for the development of the DHIS-2 and that the data for reporting on indicators was performed in conjunction with the Sub-recipient and the government ministry. The Office also explained that restrictions on field visits were only lifted in the second quarter of 2022, which impacted the timeliness of the field visits. However, the audit team could not obtain sufficient evidence to confirm the restrictions on travel, which would have prevented field visits from taking place.

Insufficient implementation of monitoring and evaluation activities might prevent the Office from identifying and following up on weaknesses at the programmatic level.

Priority	Medium (Important)

Recommendation 1:

The Office should enhance monitoring and evaluation by:

(a) implementing and updating the monitoring and evaluation plan in a timely manner while at the same time strengthening monitoring of the plan; and
(b) establishing and applying an integrated site visit plan and ensuring that reports are results-oriented, and that data reported on indicators is cross-checked against the source register.

Management action plan:

The Office shall:

(a) increase the monitoring and evaluation capacity of the Office and implement and update the monitoring and evaluation plan (annually) while at the same time strengthening the monitoring of the plan; and
(b) establish and apply an integrated site visit plan ensuring that reports are results-oriented and that data reported on indicators is cross-checked against the source register.

Estimated completion date: 30 April 2023

B. Procurement and supply management

1. Quantification and forecasting and inventory management

Issue 2 Insufficient inventory and information collection systems

Before medical products are procured, the Principal Recipient must verify that there are sufficient inventory and information collection systems in place to monitor consumption rates and prevent diversion, stock-outs, or the expiration of products.

Quantification and forecasting committee not operational

a) As of the time of the audit, the quantification and forecasting process in the Country was not based on actual consumption, which was due to the absence of a national quantification and forecasting committee. In addition, the Logistics Management Information System was not sufficiently developed.

b) The Office took action to set up the committee with representatives from various organizations. However, as of the time of the audit, only the Government (National Malaria Programme) had sent a proposal to be a member of this committee.

The Office explained that the quantification process for 2022 and 2023 was carried out in conjunction with the National Malaria Programme and the Sub-recipient based on epidemiological data and historical consumption information available.

Evaluation of stocks of antimalarial products not conducted

The Office is required to undertake periodic visits of regional warehouses or service delivery points for physical verification of inventory and warehouse management. However, the audit team noted that no annual physical inventory exercise involving staff from PMU or periodic visits of regional warehouses or service delivery points for physical verification of inventories had been conducted.

Warehouses and health centres at regional and district levels in need of refurbishment

a) Based on the inspections carried out by the Office, the audit team noted the following: (i) the capacities of the warehouses and health care centres were not adapted to the needs of the grant, as their capacities to store antimalarial products, bed nets and other medical products were insufficient; (ii) best storage and distribution practices were not consistently applied; and (iii) shortages of gloves and dataloggers were observed in one of the inspections carried out and there was a general lack of ICT equipment for data recording.

b) The distribution of pharmaceutical and medical products was also weak. For example, insufficient means of transportation (boats, trucks, motorcycles) needed for product distribution and diagnostic visits were found in the field visit to the Amazonas State.

c) The initial grant budget for infrastructure (supply of furniture and equipment to microscopy points) was $100,000 in 2021 (0 percent absorption rate) and was doubled to $200,000 in 2022. As of the time of the audit, there was no evidence to suggest that funds were utilized to improve the distribution infrastructure.

d) Deficiencies in storage practices at the central level in the warehouse of the logistics services provider were also noted during the review of the reports furnished by the service provider. The temperature logs in these reports showed that during the period from 4 May 2022 to 26 May 2022, the 60 percent humidity upper limit established in the long-term agreement with the service provider was frequently exceeded, with humidity levels reaching 67 percent and 68 percent at times.

The Office indicated that arrangements for the rehabilitation of the designated infrastructure for the malaria warehouse in the state of Bolivar had already been made. The audit team noted that the weaknesses observed in infrastructure applied to the “four prioritized states” for which a refurbishment plan should be developed.

Delays in the operationalization of the quantification and forecasting committee might prevent accurate procurement planning of medical products.

Incomplete evaluation of stocks increases the risk of product diversion, stock-outs and expiration of products. Not utilizing funds for warehouse improvements may result in products being damaged.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen its inventory management system by: (a) expediting the operationalization of the quantification and forecasting committee; (b) conducting at least one annual physical inventory exercise involving staff from PMU and conducting regular inspection visits to central stores for complete stock evaluation and assurance of storage conditions; and (c) ensuring the timely rehabilitation of storage facilities at the four prioritized districts.	

Management action plan:

The Office shall:

(a) enhance communications at a senior management level with representatives of designated entities to establish the quantification and forecasting committee;
(b) conduct an annual physical inventory exercise and complete regular inspection visits to Central Stores for stock evaluation and assurance of storage conditions; and
(c) ensure the Global Fund's timely approval of the programming for the rehabilitation of storage facilities at the four prioritized districts and obtain the ministry's approval of a detailed refurbishment project with specific milestones and deadlines.

Estimated completion date: 31 May 2023

2. Procurement of health products and non-medical goods

Issue 3 Challenges in the supply management of medical products and other goods and services

UNDP manages a procurement architecture designed to facilitate the timely supply of quality assured pharmaceutical and health products to meet the needs of Global Fund-financed grants implemented by UNDP, at an affordable cost, through a value for money service proposition.

The audit team performed an analytical review of the procurement of pharmaceutical and other medical products procured over the period audited. The audit team also carried out detailed testing of a sample of three purchase orders of pharmaceutical and malaria equipment worth $2.22 million bought through the long-term agreement with UNICEF. The sample represented 38 percent of all the purchase orders approved during the audit period and 83 percent of the total value of these purchases. Additionally, the audit team reviewed 12 non-medical purchase orders approved during the period under review, valued at $1.18 million and representing 26 percent of all goods, services and works procured over the period, including six individual contractors hired by the Office during the audit period.

The audit team noted the following:

Delays and shortages in the procurement of antimalarial products, bed nets and diagnostic products in 2021

a) Significant delays were noted in the delivery of pharmaceutical products, bed nets and other medical products in 2021. According to the 2021 procurement planning tool, 100 percent of purchase orders of medical products should have been approved in the first quarter of 2021. The audit team noted that antimalarial products valued at $0.4 million (16 percent) of total purchase orders approved in 2021 were received in central store as of November 2021 and the rest in 2022.
b) The process from the request for quotation date to the effective receipt of goods at the central store took, on average, 356 days. The quotation process with the long-term agreement holder (UNICEF) took around 5.5 months, on average, due to multiple amendments in cost estimates and specifications.
c) The Office did not contract and use relevant technical experts to assist with technical specifications in 2021, which would have prevented delays in the procurement process.

Delays in the delivery of medical products in 2022

a) Diagnostic tests, laboratory equipment, and medical consumables and disposables representing 78 percent of the 2022 health procurement budget were not received according to the procurement plan. The estimated time of arrival was May 2022 for all of these products, while the receipt date ranged from August to September 2022 (diagnostic tests and laboratory equipment) and December 2022 (for the medical consumables). These acquisitions were critical for the indicators CM-1a, CM-1b (proportion of suspected malaria cases that receive a parasitological tests) and Malaria O-9 (annual blood examination rate per 100 population per year.

Delays in procurement of antimalarial products, bed nets and diagnostic tests resulted in, among other factors, the low achievement of four indicators out of the nine included in the performance framework, which contributed to the low programmatic performance of 2021.

The Office explained that the failure by a third party to provide warehousing and distribution services, the COVID-19 pandemic, the customs clearance process, and the lack of a database of technical specifications for some necessary items within the government ministry, resulted in long response times for some technical requirements, and contributed to the delays noted.

Weaknesses in the procurement of other goods and services

a) A total of 20 vehicles, intended to facilitate the distribution of commodities in hard-to-reach communities, were under UNDP custody at the logistics service provider warehouse in Caracas as of October 2022. It was noted that these vehicles were stored at the logistics service provider for more than nine months.
b) No vehicle asset reviews were conducted at the logistics service provider. As a result, the audit team noted that there was an insufficient number of vehicles available to carry out oversight missions, open new diagnostic centres, and distribute health products.
c) The Office explained that a contract was signed with the warehouse and distribution provider to strengthen the distribution process.

Not addressing the concerns raised above, may result in the risk of the Office not being able to achieve its programmatic results.

Priority	Medium (important)
Recommendation 3: The Office should expedite the delivery of pharmaceutical and other medical and non-medical products by: (a) expediting the approval of purchase orders to reduce the lead time between the purchase order approval date and receipt of goods at the central store and strengthening the procurement planning process through a more realistic estimation of delivery dates; and (b) shortening the timeline between the date of initial receipt and final approval of the quotation/cost estimate.	
Management action plan: The Office shall:	

(a) Ensure the timely approval of purchase orders and reflect in the health product procurement plan adequate timelines for the delivery of health products reflecting the lessons learned from 2021 and 2022. In addition, the Office shall utilize the corporate tracking of deliveries completed by the Global Fund Partnership Team (CPH).

(b) Enhance the timeliness of the approval of the quotation/cost estimate for health products.

Estimated completion date: 31 May 2023

Issue 4 Lapses in the receiving processes of pharmaceutical and medical products

Upon receipt, each delivery should be checked for storage conditions during transport and transit (data loggers or equivalent). Each delivery should be checked for the integrity of packages and storage conditions.

Based on the review of the purchase orders sampled, the audit team noted the following:

1. The audit team was not provided with evidence of data logger reviews in transit and/or storage in any of the procurement cases sampled.

2. The Office did not review the receiving process of the service provider of pharmaceutical and other medical products to ensure the integrity of packages and storage conditions.

Lack of oversight on the transit and receiving processes of pharmaceutical and medical products might increase the risk of goods being damaged.

Priority	Medium (Important)

Recommendation 4:

The Office should reinforce its oversight of the transit and receiving processes by:

(a) ensuring the datalogger reports are reviewed and kept on file and any deviations from acceptable conditions are properly addressed;
(b) improving the receiving process by certifying the integrity of packages and seals and storage conditions during transport in the receiving reports.

Management action plan:

The Office shall:

(a) ensure the datalogger reports are reviewed and kept on file and any deviation of acceptable conditions are addressed; and
(b) ensure the contractor for the storage of health products completes the receiving process with reports being shared with UNDP that certify the integrity of packages, quantity, seals and storage conditions during transport; and
(c) complete a quarterly review of the contractor's receiving process of health products as detailed in (b) above.

Estimated completion date: 31 May 2023

3. Quality assurance of health products

Issue 5 Quality control of pharmaceutical and other medical products not completed in 2022

Recipients shall take measures to ensure adequate monitoring of the quality of pharmaceutical products throughout the supply chain. It should be monitored quarterly, assessed at the end of every year, and updated on an annual basis. Sampling will be done, if required, in accordance with the quality control plan and/or sampling plan.

Based on its review of the quality control undertaken by the Office during the period under review, the audit team noted the following:

a) The quality control of pharmaceutical products was carried out in 2021. All products were sampled at the central store level. The Office explained that sampling at the peripheral level (stores other than the central store) would be conducted in 2022.

b) The 2022 quality control plan was not completed and quality control tests at the peripheral level were not performed as at the time of the audit.

The Office explained that the 2022 draft quality control plan was in the process of being developed.

Without an effective quality control mechanism in place, there is a risk that products will be distributed and consumed prior to testing being completed.

Priority Medium (Important)

Recommendation 5:

The PMU should strengthen its quality control processes over pharmaceutical products by:

(a) ensuring completion of the quality control plan in the first quarter of the year; and
(b) monitoring the progress of the quality control tests according to the established sampling plan.

Management action plan:

The Office shall:

(a) develop the 2023 quality control plan; and
(b) ensure quarterly monitoring of the quality control plan.

Estimated completion date: 30 April 2023

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.