



AUDIT

OF

UNDP CHAD

**GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA**

Report No. 1142

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Report on the audit of UNDP CHAD
Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria
Executive Summary

From 24 April to 10 May 2013, the Office of Audit and Investigations (OAI) conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project Nos. 69747, 79718, 82056 [Malaria]), managed by the UNDP Country Office in Chad (the Office) as the Principal Recipient. These grants were managed under the Global Fund’s Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 January 2011 to 31 December 2012. The audit did not cover closure activities as they were not relevant to the project. During the period reviewed, the Office recorded Global Fund-related cumulative expenditures totalling \$28 million. The last audit of the Office’s Global Fund-related activities was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Background information provided by various sources, indicated that the Office faced challenges implementing Global Fund grants from the beginning. These challenges included weak Sub-recipient capacity, ineffective oversight mechanisms, complex processes for grant consolidation, as well as inadequate staffing of the Global Fund Programme Management Unit Support Team in the Office. Several field missions have been conducted by UNDP’s Bureau for Development Policy/Global Fund Partnership Team since September 2012 to support the Office in restructuring the Programme Management Unit. A mission by the UNDP Management Consultants Team took place in February 2013 to specifically review and recommend appropriate changes and restructuring of the Global Fund Programme Unit, including as it relates to the structure and organization of the Office itself.

Audit rating

OAI assessed the Office’s management of Global Fund grants as **unsatisfactory**, which means “Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.” This rating was mainly due to use of the incorrect accounts to record disbursements to Sub-recipients, poor oversight over Sub-recipients’ financial and programmatic activities, weak control over project cash advances, and weak oversight in the procurement and supply management area. Ratings per audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				

¹ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

1.1	Organizational structure	Partially Satisfactory		
1.2	Staffing	Satisfactory		
1.3	Cooperation and coordination with Country Coordinating Mechanism and other stakeholders	Satisfactory		
1.4	Capacity building and exit strategy	Satisfactory		
2.	Programme management			
2.1	Project approval and implementation	Partially Satisfactory		
2.2	Conditions precedent to disbursement and special conditions	Satisfactory		
2.3	Monitoring and evaluation	Unsatisfactory		
2.4	Grant closure	Not Applicable		
3.	Sub-recipient management			
3.1	Selection, assessment and contracting	Satisfactory		
3.2	Funding	Unsatisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Unsatisfactory		
3.5	Audit	Unsatisfactory		
4.	Procurement and supply management			
4.1	Procurement of health products	Satisfactory		
4.2	Quality assurance of health products	Partially Satisfactory		
4.3	Procurement of other goods and services	Partially Satisfactory		
4.4	Supply management (inventory, warehousing and distribution)	Unsatisfactory		
4.5	Asset management	Partially Satisfactory		
4.6	Individual contractors	Satisfactory		
5.	Financial management			
5.1	Revenue and accounts receivable	Satisfactory		
5.2	Expenditures	Unsatisfactory		
5.3	Reporting to the Global Fund	Satisfactory		

Key issues and recommendations

The audit raised 14 issues and resulted in 11 recommendations, of which 8 (73 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

The high priority recommendations are as follows:

Monitoring and evaluation (Issue 3) Inadequate programme monitoring and evaluation. The delay in approving and implementing the Monitoring and Evaluation Plan and the absence of key monitoring activities such as field visits negatively impacted national counterpart’s capacity building efforts as well as the quality of programmatic reporting. Additionally, the Programme Management Unit did not use Atlas as a programme management and resource tool. OAI recommends that the Office strengthen its programme monitoring and evaluation by: (a) implementing the newly approved Monitoring and Evaluation Plan; and (b) ensuring that all Atlas activity logs and outputs are maintained and monitored regularly.

Funding (Issue 5) Weaknesses relating to Sub-recipient cash advances and direct payments. The Office made advances to Sub-recipients totalling approximately 2 million euros until June 2012. Inconsistencies were noted, such as: recording of advances as direct expenses; advancing funds based on anticipated activities for the year rather than for the next quarter as per

UNDP policies; advances disbursed to Sub-recipients totalling approximately \$2.4 million were recorded using the Office's implementing agent code in Atlas, rather than using the respective Sub-recipient's code; and processing of advances through purchase orders. OAI recommends that the Office strengthen financial management control procedures by ensuring that Sub-recipients are recorded as implementing agents rather than vendors in Atlas and further, ensuring that transactions are recorded under the correct implementing agent code.

Oversight and monitoring
(Issue 7)

Inadequate oversight of Sub-recipient finances. The Office did not communicate the minimum supporting documentation that Sub-recipients should keep and submit to the Office with funding requests or upon submission of financial reports. The Office did not enforce controls to ensure timely submission of supporting documents for expenditures of Sub-recipients in order to ascertain that expenditures were in line with the agreed work plan. OAI recommends that the Office validate all outstanding advances and seek reimbursement of any amounts which remain unjustified or inadequately documented.

Audit
(Issue 8)

No follow-up of recommendations from the audit of Sub-recipients. The reports issued in March 2013 for audits of Sub-recipients identified significant weaknesses both in terms of financial statement accuracy as well as the adequacy of the Internal Control Framework. Adverse/disclaimers of opinions were given for the financial statements, and the audit firm reported approximately \$2 million in expenditures deemed to be ineligible. OAI recommends that the Office follow up on the audit recommendations contained in the audit reports covering Sub-recipients. Further, the Office should review the supporting documents relating to the \$2 million deemed ineligible and request reimbursement for any remaining unsupported amounts.

Supply management
(Issue 11)

Inadequate management of stock inventory. OAI noted that the Office contracted a Sub-recipient to distribute Global Fund's anti-malarial products, to undertake inventory monitoring at the district level and to provide quarterly updates on stock levels. OAI was not able to confirm that inventory counts of medical products had been undertaken every quarter as required, as there was no coherence in the opening and closing balances of the reports provided. Moreover, during the period under review, the Project Management Unit did not perform any inventory counts covering all levels of the medical supply inventory. OAI recommends that the Office strengthen its management of stock inventory by: (a) ensuring that the Sub-recipient responsible for the distribution of anti-malarial products complies with its contractual responsibility for monitoring and reporting on the stock balances; and (b) ensuring that if the Sub-recipient cannot meet its obligations, an alternative mechanism is put in place to ensure the timely collection and analysis of stock movement data from the point of distribution.

Asset management
(Issue 12)

Inadequate management of assets. OAI noted that the Office did not register in Atlas any of the assets purchased using Global Fund resources. OAI was unable to confirm the accuracy or completeness of the asset list provided by the Office. With the exception of the vehicles and motorcycles, none of the UNDP asset tag numbers assigned to the assets matched the tag numbers listed in the asset list. OAI recommends that the Office improve the management of assets by ensuring: (a) that all assets are properly tagged and registered in Atlas; (b) that any lost or stolen assets are reported and investigated in a timely manner in liaison with OAI and that the recommendations of the investigation report are completed; and (c) that periodic physical counts are performed and reconciled with the asset records in Atlas, with appropriate follow-up of any discrepancies noted.

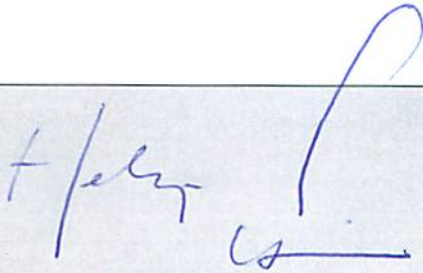
Expenditures (Issue 13) Inadequate financial management control procedures. OAI noted that the internal control procedures for processing payments were not enforced consistently in order to ensure segregation between the commitment, reviewer and disbursing authorities. The Office had not obtained and did not maintain a list of officers from the Implementing Partners/Sub-recipients that were authorized to initiate requests for funds from UNDP. Unplanned activity totalling \$47,000 to facilitate a Management Consulting Team mission to assess the programme's Internal Control Framework in February 2013, was charged to the programme budget without prior approval from the Global Fund. OAI recommends that the Office strengthen financial management control procedures by: (a) formally designating a project manager for each project and ensuring adequate segregation between the commitment, reviewer and disbursing authorities; (b) obtaining and maintaining a list of officers from the Implementing Partners/Sub-recipients that are authorized to initiate financial funding requests for the project; and (c) ensuring adequate controls are in place to assure that only planned/budgeted activities are funded/paid from the programme budget.

Issue 14 Inadequate monitoring and oversight of project cash advances. There were weaknesses in the internal controls relating to management of cash advances made to project personnel to carry out project activities. As a result, an advance of \$227,000 was incorrectly recorded as expenditure and OAI could not determine whether an advance of \$28,000 was used to execute project activities. OAI recommends that the Office strengthen its monitoring and oversight of cash advances to projects by: (a) putting in place an adequate monitoring system to ensure that cash advances are promptly liquidated, including the recovery and timely deposit of any remaining balance (this includes following up on the unjustified cash advances); and (b) ensuring that all cash advances are recorded in Atlas account 16007 only.

The implementation status of previous Global Fund audit recommendations (Report No. 779, 14 April 2011) was also validated. All 18 recommendations were noted to be fully implemented.

Management comments and action plan

The Resident Representative accepted all 11 recommendations and is in the process of implementing them.



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