



AUDIT

OF

UNDP CHAD

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

Report No. 1293

Issue Date: 20 June 2014

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

The UNDP Office of Audit and Investigations (OAI), from 7 to 23 April 2014, conducted an audit of one grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) (Project No. 82056 [Malaria]), managed by UNDP Chad (the Office) as the Principal Recipient. This grant was managed under the Global Fund's Additional Safeguard Policy.¹ 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, staffing, capacity development and exit strategy);
- (b) programme management (project approval and implementation, monitoring and evaluation);
- (c) Sub-recipient management (selection, assessment and contracting, funding, reporting, oversight and monitoring);
- (d) procurement and supply management (qualification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services, supply management [inventory, warehousing and distribution], asset management, individual contractors); and
- (e) financial management (revenue and accounts receivable, expenditures, reporting to the Global Fund).

The audit covered the activities of the Office from 1 January to 31 December 2013. The Office recorded Global Fund-related expenditures totalling \$6.4 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2013.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **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." The previous OAI audit report that was issued in November 2013 (Report No. 1142) and that covered the activities for the period January 2011 to December 2012 also concluded that the management of Global Fund grants was "unsatisfactory." As such, OAI noted that the implementation of the recommendations raised in the previous audit report was very low (9 percent of recommendations implemented). Out of eight high risk recommendations included in the previous OAI audit report, implementation had not started for four (or 50 percent), the implementation for three (38 percent) was in progress, and one had been implemented.

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

Furthermore, weaknesses were noted in Sub-recipient management, procurement and supply chain and financial management. Finally, OAI was concerned with the fact that the Office disregarded the zero cash policy instituted by the Global Fund.

Key recommendations: Total = 8, high priority = 6

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:

Non-compliance with Global Fund zero cash policy (Issue 4)

The Office provided cash advances amounting to \$70,000 to national Sub-recipients from November to December 2013, based on agreements signed with the Sub-recipients in 2013 that provided for 50 percent of advances upon signature. This was contrary to the zero cash policy applicable to Sub-recipients that was instituted by the Global Fund in 2012. The issue of handling cash advances to Sub-recipients had already been raised in the previous OAI audit report of November 2013 (Report No. 1142).

Recommendation: Respect and implement the zero cash policy.

Lack of reporting by Sub-recipients and no on-site check on assets by Project Management Unit (Issue 5)

In 2013, no Sub-recipient had filed any programmatic and financial reports on a quarterly basis for 2013, and no reports on assets at hand were submitted on a six-month basis. In addition, the Project Management Unit did not perform on-site visits to check on assets in the custody of Sub-recipients. The reporting weaknesses were similar to issues raised in the previous OAI report of November 2013 (Report No. 1142).

Recommendation: Obtain from the Sub-recipients all reports required in the agreements signed with them and conduct site visits to validate assets acquired with funds from Global Fund grants.

Expenditures reported as ineligible after audit of Sub-recipients (Issue 6)

Following the audit of Sub-recipients for the years 2010 to 2012, \$1.3 million was deemed ineligible mainly due to the absence of supporting documents. The Global Fund requested the Office to claim these funds from the Government and to be refunded for whatever amount is recovered. Further to that audit, the Government was able to provide additional supporting documents which were submitted to the audit firm for validation. As a result, the amount of ineligible expenditures was reduced to \$850,000. Since the previous OAI audit report of November 2013, some progress was noted and the amount of ineligible expenditure has been reduced. Nonetheless, this issue is still not fully resolved.

Recommendation: Follow-up and obtain the reimbursement from the Government of ineligible expenditures amounting to \$850,000 that has been charged to the Global Fund grant.

Inadequate quality assurance for pharmaceutical products (Issue 7)

OAI confirmed that pharmaceutical products were tested as required upon receipt in the Country. However, no further periodic testing took place for pharmaceutical products at different sites in the Country. For example, a batch of Artesunate and Pharmaceutical products were tested as required upon receipt in the Country. However, no further periodic testing took place for pharmaceutical products at different sites in the Country. The Project Management Unit indicated that it was not able to perform the required tests in 2014 due to the lack of capacity (there were more than 1,000 health centres in the Country).

Recommendation: After the initial testing that is done upon the receipt of pharmaceutical products in the Country, perform tests every six months as per the Global Fund requirements.

Deficiencies in supply chain of pharmaceutical products (Issue 8)

OAI noted that there was inadequate monitoring of the supply of pharmaceutical products as well as inadequate storage conditions for these products.

Recommendation: Improve the reporting on health products by the Sub-recipient, and improve storage at the district and periphery levels by ensuring that World Health Organization storage guidelines are complied with.

Weaknesses in management and disbursement of project funds (Issue 9)

There were several weaknesses in the management and disbursements of funds from Global Fund grants, namely: non-compliance with policy on cash advances; unauthorized project expenditures; incorrect accounting and reconciliation of pre-payments; and inappropriate handling of direct payments to Sub-recipients. Issues of a similar nature had already been identified in the previous OAI audit report of November 2013.

Recommendation: Strengthen the management of disbursements of funds from Global Fund grants.

Implementation status of previous OAI audit recommendations: Report No. 1142, 26 November 2013.

Total recommendations: 11
Implementation status: 40 percent

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.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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