

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP IN THE PLURINATIONAL STATE OF BOLIVIA

GRANTS FROM THE GLOBAL FUND

Report No. 2001
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Report on the Audit of UNDP in the Plurinational State of Bolivia Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 7 to 17 August 2018, conducted an audit of three grants from the Global Fund (Output Nos. 101403 [tuberculosis], 98468 [malaria], and 87454 [Country Coordinating Mechanism]) managed by UNDP in the Plurinational State of Bolivia (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).

The audit covered the Global Fund-related activities of the Office from 1 January 2017 to 30 June 2018. The Office recorded Global Fund-related expenses of approximately \$7 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

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 **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." The rating was mainly due to weaknesses in cash management and Sub-recipient management.

Key recommendations: Total = 2, high priority = 2

The two recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 2); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

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. The high (critical) priority recommendations are presented below:

Weaknesses in Sub-recipient management
(Issue 1)

In September 2016, the Office signed a Standard Letter of Agreement with a United Nations agency as Sub-recipient, for consulting services and issuance of 13 technical reports in connection with the malaria grant. As a result, the Office transferred the full amount of \$381,955.

At the time of the audit, the Sub-recipient had yet to submit to the Office any of the technical reports, even though some reports were due in December 2016 and December 2017. In addition, the Sub-recipient had not provided the required quarterly reports or the annual financial and programmatic reports from 2016 to 2018.

Recommendation: The Office should follow up on agreements/contracts to ensure deliverables are received in accordance with the terms and timeline stipulated in the agreements/contracts.

Weaknesses in cash management
(Issue 2)

The Office took significant risks in cash management due to the incorrect use of the following three cash advance modalities:

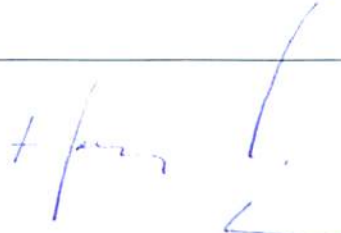
- The Office did not consult or seek approval from headquarters to use staff bank accounts for project cash advances and incorrectly used account 16005 to record these advances.
- In March 2017, the Office used the Project Cash on Hand (PCH) modality to issue cash advances amounting to 172,000 Bolivian Pesos (BOB), equivalent to approximately \$25,000, to two staff members. This resulted in a significant amount of cash on hand in the Office. These cash advances were liquidated at the end of 2017 and new advances were approved at the beginning of 2018. The Project Management Unit indicated that the cash served as an emergency buffer for unforeseen/unplanned project-related activities that may need to be funded.
- The Office used the project cash advance modality to issue advances for the maximum allowable threshold of \$25,000 each to 12 staff members, appointed as cash custodians. These advances were granted for activities that were not specific, and claims were not processed within seven days after the last day of the project activities, as required by the policy.

Recommendation: The Office should strengthen cash management by: (a) complying with 'UNDP Programme and Operations Policies and Procedures' when using different cash advance modalities; and (b) seeking guidance from UNDP Treasury, the Bureau for Policy and Programme Support, and the Regional Bureau for Latin America and the Caribbean, on the cash management alternatives for the implementation of projects in remote locations.

Management comments and action plan

The Resident Representative accepted both 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
Office of Audit and Investigations

I. Profile of Global Fund grants managed by UNDP in the Plurinational State of Bolivia

Since 2006, UNDP has been the Principal Recipient of Global Fund grants in the Plurinational State of Bolivia (the Country).

Grant No.	Output ID	Description	Start Date	End Date	Budget (\$)	Funds Received as of 30/06/2018 (\$)	Expenditures from 01/10/2016 to 30/06/2018 (\$)	Impl. Rate	Global Fund Rating at 30/06/2018
998	98468	Bolivia Libre de Malaria Para Vivir Bien	1/1/2016	12/31/2018	10,333,318.00	4,727,725.00	3,994,166.05	84%	No rating as of 30 June 2018 for 2017 implementation period
1201	101403	Bolivia Libre de Tuberculosis	1/1/2017	12/31/2019	10,710,756.00	7,174,980.00	2,951,343.87	41%	No rating as of 30 June 2018 for 2017 implementation period
1706	87454	Generación de capacidades y monitoreo estratégicos de proyectos en salud	7/1/2016	6/30/2020	327,826.00 *	160,376.02	287,043.31	77%	Not to be rated by the Global Fund given the nature of the grant (CCM functioning support)

* Figure is comprised of \$241,165 from GF and \$86,661 from Ministry of Health

II. Audit results

Satisfactory performance was noted in the following areas:

- Governance and strategic management. No reportable issues were identified.
- Programme management. The Government's national programmes for malaria and tuberculosis were responsible for the quantification and forecasting of pharmaceutical requirements. Long-term agreements for individual consultants were developed for infrastructure supervision, biomedical assessment and microbiology services. No reportable issues were identified.
- Procurement and supply management. The Project Management Unit provides technical advice to the Government's national programmes on pharmaceutical procurement and storage. The review of a sample of procurement processes for both pharmaceutical and non-pharmaceutical products did not lead to reportable issues.

OAI made two recommendations ranked high (critical) 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) Strengthen cash management (Recommendation 2).
- (b) Follow up on agreements/contracts to ensure deliverables are received in accordance with the terms and timeline stipulated in the agreements/contracts (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Sub-recipient management

1. Selection, assessment and contracting

Issue 1 Weaknesses in Sub-recipient management

The Sub-recipient agreement stipulates that quarterly reports and annual financial and programmatic reports should be submitted by the Sub-recipient to the UNDP Country Director or Resident Representative, no later than the 30th of January of each year, for subsequent reporting to the Global Fund Secretariat.

In September 2016, the Office signed a Standard Letter of Agreement with a United Nations agency as Sub-recipient, for consulting services and issuance of 13 technical reports in connection with the malaria grant. As a result, the Office transferred the full amount of \$381,955, as stipulated in the agreement.

At the time of the audit, the Sub-recipient had yet to submit to the Office any of the technical reports, even though some reports were due in December 2016 and December 2017. In addition, the Sub-recipient had not provided the required quarterly reports or the annual financial and programmatic reports from 2016 to 2018.

OAI met with the Sub-recipient during the fieldwork and was informed that 12 of 13 technical reports, as stipulated in the agreement, would be issued before 31 December 2018, the end date of the malaria grant. The Sub-recipient assured OAI that all funds received from the Principal Recipient would be expensed by the end of the grant period. The Project Management Unit stated that several requests were made to the Sub-recipient requesting the technical reports (quarterly and/or financial and programmatic reports), to no avail.

During the annual preparation of the Progress Update and Disbursement Request to report to the Global Fund, the Project Management Unit estimated that expenses incurred by the Sub-recipient were \$266,832 in 2016 and \$66,000 in 2017.

The delays in carrying out the consultancies and the delays in the submission of the technical reports jeopardized the implementation of the malaria grant and reporting requirements to the Global Fund Secretariat.

Performance weaknesses by Sub-recipients may lead to difficulties in obtaining adequate assurance that the project activities undertaken are aligned with the governing rules and policies and contribute to the expected results and outcomes of the Global Fund programme.

Priority	High (Critical)
Recommendation 1:	
The Office should follow up on agreements/contracts to ensure deliverables are received in accordance with the terms and timeline stipulated in the agreements/contracts.	
Management action plan:	
The Office and the Project Management Unit have done everything possible to obtain the Sub-recipient's deliverables under the agreement signed in 2016. The Office sent multiple requests without any official response, thus, the decision was taken to scale up the issue at the Resident Coordinator/Resident Representative level as well as to the UNDP headquarters level. As a last resort, on 19 September 2018, a letter from the UNDP Resident Representative was addressed to the Sub-recipient noting their non-compliance with a final deadline for submitting the deliverables by 30 September 2018, otherwise the Sub-recipient should reimburse the total amount of the agreement (\$381,955).	
Estimated completion date: December 2018	
OAI response:	
OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

B. Financial management

1. Expenses

Issue 2 Weaknesses in cash management

The Office took significant risks in cash management due to the incorrect use of the following three cash advance modalities:

A. Account 16005 – National Implementation Advances

Account 16005 is used to record cash advances given to national implementing partners to implement project activities included in annual work plans.

In November 2017, a decision was made and approved by the Deputy Resident Representative to transfer funds to staff bank accounts and to record the disbursements against account 16005 – used to record advances given to nationally implemented projects. The Office did not consult or seek approval at the headquarters level to use staff bank accounts for project cash advances and incorrectly used account 16005 to record these advances. The procedure set consisted of the following:

- Two individual bank accounts were opened under the signatories of the Programme Coordinator and the Programme Administrator (one account for the tuberculosis grant and the other for the malaria grant).
- The threshold amounts to be held in the bank accounts were set at \$500,000 for the malaria grant and \$300,000 for the tuberculosis grant.
- The funds held in the bank accounts were disbursed as cash advances to project personnel to implement activities in the remote areas of the Country.
- The Operations Unit would perform spot checks on the cash advance claims to verify the proper use of the funds.

The Office transferred funds to staff bank accounts and staff subsequently made online bank transfers to project personnel. No limit for such bank transfers was set since the need for funds in the field was calculated based on project budget activities.

In addition, cash advances were granted without ensuring liquidation of prior advances. For instance, the Project Administrator received seven consecutive cash advances amounting to \$289,564 in November 2017.

B. Account 16107 - Project Cash on Hand

Project Cash on Hand (PCH) provides a perpetual cash advance to directly implemented project offices that are in remote areas, where project disbursement needs cannot be met by the main office through a cheque or Electronic Fund Transfer, or other banking arrangements. A directly implemented project office that meets certain criteria and requires cash up to \$25,000 may elect the PCH arrangement.

In March 2017, two Office staff members (Programme Associate and UN Coordination Analyst) were appointed as cash custodians, as all Project Management Unit personnel were service contractors. Each of the two cash custodians received a cash advance amounting to 172,000 Bolivian Pesos (BOB), equivalent to approximately \$25,000, which resulted in a significant amount of cash on hand in the Office.

The cash funds were safeguarded in two project safes (one safe per grant) and retained in a restricted area of the Project Management Unit, within the Office's premises. The Project Management Unit indicated that the cash funds served as an emergency buffer for unforeseen/unplanned project-related activities that may need to be funded, for unexpected malaria cases or additional tuberculosis requirements, for example. These cash advances were liquidated at the end of 2017 and new advances were approved at the beginning of 2018.

The PCH account showed an outstanding balance of 172,000 BOB throughout the fiscal year until year-end closure of the account. During the audit period, the staff members received project funds amounting to \$208,033 for malaria and \$76,809 for tuberculosis project-related activities.

C. Account 16108 – Project Cash Advances

A project cash advance is a one-time advance issued to an appointed project cash advance custodian for a specific one-time project activity, which could include workshops, training seminars, or other activities that take place at a remote location. The duration for such types of activities ranges from two days to two weeks. The project cash advance must be closed and actual expenses fully accounted for within seven days after the last day of the one-time project activity.

The Office used this project cash advance modality to issue advances for the maximum allowable threshold of \$25,000 each to 12 staff members appointed as cash custodians. These advances were granted for activities that were not specific, and claims were not processed within seven days after the last day of the project activities.

OAI noted that the Office, at the request of the Government, was carrying out the role of Sub-recipient to directly implement project activities in the field to be able to meet the project goals in the absence of suitable Sub-recipients that could carry out project payments to beneficiaries. However, such cash management arrangements were not in accordance with the 'UNDP Programme and Operations Policies and Procedures' and therefore presented challenges for the Project Management Unit and the Office in transferring funds and managing risks appropriately.

The incorrect use of the account bookings and non-compliance with UNDP's Financial Regulations and Rules may impact financial statements and reporting requirements to the Global Fund Secretariat. Furthermore, the risk of loss of funds may impact project implementation and may have a negative impact on UNDP's reputation.

Priority	High (Critical)
Recommendation 2:	
The Office should strengthen cash management by:	
<ul style="list-style-type: none"> (a) complying with the 'UNDP Programme and Operations Policies and Procedures' when using different cash advance modalities; and (b) seeking guidance from UNDP Treasury, the Bureau for Policy and Programme Support, and the Regional Bureau for Latin America and the Caribbean, on the cash management alternatives for the implementation of projects in remote locations. 	
Management action plan:	
Since the OAI audit mission and following receipt of the audit exit notes and subsequently the draft audit report, the following immediate actions were taken by the Office as of 18 September 2018:	
<ol style="list-style-type: none"> 1. Closure of the project checking accounts (under account code 16005). 2. The Project Management Unit now using the account PCH 16107 according to the 'UNDP Programme and Operations Policies and Procedures', from 14 September 2018. 3. On 15 September 2018 the Finance Unit carried out a spot check. 4. Following the instructions of the Bureau for Management Services (email of Ms. Susan McDade of 4 September 2018 on Streamlining Business Practices), the project is already working on cash arrangements. 5. The Office's management sent a communication to senior management in the Regional Bureau for Latin America and the Caribbean on 24 August 2018, providing the background and explaining the causes for the extraordinary measures adopted for project implementation and requiring guidance from Treasury. 	
Estimated completion date: March 2019	

OAI Response

OAI acknowledges the actions taken by management, in particular its decision to discontinue the use of account 16005 to record and keep track of project cash advances. As indicated by the Office, a request to the Regional Bureau for Latin America and the Caribbean still awaits guidance from UNDP Treasury on the most appropriate ways for cash management to be adopted by the Project Management Unit to be able to implement project activities and effectively optimize time and resources. The full implementation of the two above recommendations will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

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.