AUDIT REPORT REVEALS WEAKNESSES IN MANAGEMENT OF DRC GRANTS

There are a number of deficiencies in the financial management of sub-recipients (SRs) by the United Nations Development Programme (UNDP), the principal recipient (PR) for all of the Rounds 2-7 grants in the Democratic Republic of Congo (DRC). These deficiencies were mainly due to (a) the lack of an effective interaction between the PR and its SRs; (b) the lack of formal guidelines and manuals by the PR outlining the operational, financial and budgeting requirements that the SRs should comply with; and (c) the lack of appropriate financial accounting and reporting systems and processes at the SR level.

These are among the findings of a report issued last month by the Global Fund's Office of the Inspector General (OIG) based on an audit conducted in 2009. The purpose of the audit was to assess the adequacy of internal control and programmatic systems in managing Global Fund grants in the DRC. The audit covered six active and closed grants (three TB, two HIV and one malaria).

In should be noted that in the audit report, the OIG acknowledges that the DRC is a difficult country in which to implement programmes, due to a decade of conflict between government and rebel forces, and the fact that poor infrastructure has made parts of the country inaccessible. The OIG also said that despite the weaknesses it identified, UNDP has achieved commendable success in programme implementation during the six years it has been the PR. In particular, the OIG said, the HIV/AIDS programme reached 106% of its antiretroviral treatment target.

Because of UN rules concerning who is allowed to conduct external audits of UN agencies, the OIG was unable to directly audit UNDP in its role as PR. Instead, the OIG audit covered many of the other organisations involved in implementing the grants – e.g., SRs, CCMs, LFAs. The OIG based its conclusions concerning UNDP on its audit of these other organisations. However, at the same time as the

OIG was conducting its audit, UNDP's Office of Audit and Investigations (OAI) performed its own internal audit on UNDP's role as PR in the DRC.

The principal findings of the OIG and OAI audits are described in more detail below.

Programme management

The OIG pointed out that "the selection of UNDP as PR for a particular country is intended to be a transitory mechanism." (Note: UNDP is sometimes described as the "PR of last resort," because UNDP is only asked to serve as PR when, in the opinion of the Global Fund, there are no national organisations that are yet strong enough to serve as PR.) However, at the time of the audit, UNDP had not worked to build capacity within national organisations. Instead, according to the OIG, UNDP had set up parallel structures, especially for the malaria and HIV programmes. According to the OIG, the parallel structures have been detrimental to the national systems. "Because of the transitory nature of UNDP's management of Global Fund grant programs, the parallel systems are not sustainable and funds that would have otherwise been used to strengthen national systems are being used to build parallel systems," the OIG said.

In its audit report, the OIG said that there were no control mechanisms in place to ensure that products distributed under social marketing (e.g., condoms and bed nets) reach their intended beneficiaries at a reasonable price; and that the impact of social marketing had not been assessed at the time of the audit.

Financial management

The OIG audit revealed that there were delays in the disbursement of funds from PR to SRs, which resulted in delays in implementing activities. The OIG said that UNDP has only two officials responsible for financial oversight of the Global Fund grants to over 90 SRs and SSRs (sub-sub-recipients).

The OIG audit revealed that most SRs did not perform regular analyses of actual expenditure against budget, which resulted in poor tracking of budget utilisation and in unapproved over-expenditures. Instances were also noted of a lack, or late submission, of financial reports. Reconciliations of bank, cash, grant disbursement and petty cash records were also not carried out. Ten of the 12 SRs audited had received long-outstanding advances that had not been accounted for.

A detailed review of one SR, Association de Santé Familiale – which was selected on the basis that it was nominated as a PR for a Round 8 grant (not included in this audit) – revealed significant weaknesses, including poor budgetary control; poor internal control over expenditures; inability to reconcile income, expenditure and fund balances to bank statements; and lack of control over income from social marketing activities.

Management fees

The OIG noted that in addition to charging its own management fees, which were between five and seven percent of the entire budget, UNDP allowed SRs and SSRs to charge their own 5% management fee. The OIG audit showed that the utilisation of this fee varied among SRs and, in many instances, could not be supported. The practice resulted in multiple levels of management fees on the same funds. For example, in the TB programme, a management fee was charged by UNDP, and by the one SR, and by three SSRs. As a result of this, the OIG said, the overall management fee escalated from 5-7% to 20-22% of costs, "thus reducing the amount of money available for implementing Global Fund programs and fighting the three diseases."

Procurement and supply management

The OIG audit found that delays in programme implementation were mainly due to delays in procurement. The OIG said that the PR established its own procurement and supply management (PSM) unit despite the fact that the country has an existing national supply and distribution system in place. The OIG added that this PSM unit is top heavy, resulting in unnecessary red tape and delays.

The OIG said that the forecasting of needs was top-down – i.e., it was not based on the requests from SRs, but rather on the targets set by the PR. As a result, the OIG said, the goods procured were not reflective of needs, which often resulted in stock-outs across the country. The OIG audit also revealed that:

- a long-term agreement signed between UNDP and some organisations commonly used for procurement of drugs did not always provide a competitive price and sometimes resulted in delays in the procurement process;
- two systems have been used by the PR to track inventory movement, but neither was functional at the time of the OIG visit;
- there were discrepancies between stock records and a physical count of the stock; and
- contrary to Global Fund policy, the PR did not follow established national quality assurance procedures. Drugs were procured that were not registered with the national drugs authority; and there was also no evidence that pre- and post-delivery inspections were conducted.

Monitoring and evaluation

The OIG said that the Monitoring and Evaluation (M&E) unit at the PR concentrated on ensuring that the targets set for the PR were achieved, without assessing the overall impact of the programmes on fighting the three diseases. The OIG said that UNDP attributed this to a lack of capacity within the unit.

According to the OIG audit, delays in implementing programmes, without any adjustment to the indicators and targets, has created some reporting challenges. The malaria programme was far behind its target at the time of the audit, while the HIV/AIDS programme's targets were significantly below actual needs due to errors in drafting the proposal (in which assumptions used were not validated). The OIG said that none of these issues had been properly addressed by the PR's M&E unit at the time of the audit.

The OIG audit found that a parallel data collection process was in place for malaria and HIV programmes, regardless of the fact that there is an existing national data collection system. There were no standard data collection tools for the HIV programme. Results reported to the Global Fund by the PR were not verified.

The OAI audit

The audit conducted by UNDP's Office of Audit and Investigations (OAI) was not made public. However, the OAI provided the OIG with a summary of the findings. According to the OIG, the OAI audit concluded that the management of Global Fund projects by UNDP was "partially satisfactory" – i.e., that internal control and risk management practices were generally established and functioning, but needed improvement. The OAI audit listed a number of high-priority risks, including the following:

- weaknesses in project monitoring and evaluation, as evidenced by the failure to undertake planned field visits in 2008; by the fact that only 20% of the SRs submitted reports to UNDP on time; and by deficiencies in the data management capabilities of health zone staff;
- the fact that there was no exit strategy in place for the transfer of the Round 8 HIV project to the government;
- weaknesses in asset management systems as evidenced by failure to undertake physical asset verification, lack of effective asset tracking systems, etc;
- delays in overall reporting – i.e., by SRs to UNDP, and by UNDP to the LFA and the Global Fund

- Secretariat, which affected disbursements and, in turn, delayed planned project implementation; and
- delays in the supply of certain drugs.

Findings concerning CCMs

The OIG audit also covered the DRC CCM. The OIG reported that, contrary to requirements, the DRC CCM has no mechanism in place to oversee grant implementation. The OIG also found that the CCM did not have defined guidelines to follow in the selection of PRs. The candidates selected as potential PRs for Rounds 8 and 9 provided funds to support the writing of the respective proposals and were, in some instances, even involved in the writing of the country proposal. The OIG said, “Best practice requires that once an organization is involved in an activity, it should not compete for down stream work that is a result of the activity it has undertaken.”

Recommendations, and responses from UNDP and the Global Fund Secretariat

The OIG audit report contains 50 recommendations, variously addressed to the Global Fund secretariat, UNDP, the CCM, the LFA and others, on how the weaknesses should be addressed.

When contacted by Aidspan, UNDP declined to comment on the final version of the OIG audit report. However, UNDP did comment to the OIG on an earlier draft of the report, and the OIG included these comments in its final report. While welcoming many of the OIG’s findings, UNDP said that “overall, the draft Audit Report disregards the degree of UNDP commitment to rebuilding national leadership and capacity-building.”

With respect to the issue of parallel systems, UNDP said that when Global Fund activities started in 2003, there was no national procurement and supply management system, that a parallel system had to be created to ensure that programmes could be implemented and drugs could be delivered, and that national authorities agreed that there was a need to set up a parallel system. UNDP acknowledged the need to rebuild the national system. However, it said, this is a very difficult task given the lack of a clear national strategy and leadership, the limited availability of human and financial resources, and the lack of a supporting infrastructure (such as road networks) to deliver health products throughout the country.

UNDP said that other weaknesses identified in the audit concerning procurement and supply management refer to the initial stages of setting up the PSM team, and that subsequent actions taken by UNDP to strengthen the team’s capacities had resulted in substantial improvements. With respect to the issue of stockouts, UNDP said that it had frequently audited stock levels and that no major issues were identified.

With respect to management fees charged by SRs and SSRs, UNDP said that the OIG’s comments were “well taken.” UNDP said that new SR and SSR contracts will include a 5% management fee only for actual activities carried out by the SR and SSR. In the case of an SR signing a contract with an SSR, a 0.5% management fee will be charged, in line with UNDP’s “passing through” approach.

For its part, the Global Fund Secretariat said that it concurred with most of the OIG’s findings and recommendations. With respect to management fees, the Secretariat said that it has conducted a review of how management fees are included in grants, that further work on this issue is ongoing, and that the work may culminate in the adoption of a new Global Fund policy.

The 132-page audit report, entitled “Country Audit of the Global Fund Grants to the Democratic Republic of Congo,” is available in English and French at www.theglobalfund.org/en/oig/reports.

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