**UNITED NATIONS DEVELOPMENT PROGRAMME**
**Office of Audit and Investigations**

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# AUDIT

# OF

# UNDP COUNTRY OFFICE

# IN

# MONGOLIA

**Report No. 1415**

**Issue Date: 20 February 2015**

**(REDACTED)**

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**Report on the audit of UNDP Mongolia**
**Executive Summary**

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Mongolia (the Office) from 3 to 14 November 2014. 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 and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January 2013 to 30 June 2014. The Office recorded programme and management expenditures totalling $16 million. The last audit of the Office was conducted by OAI in 2009.

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

**Overall audit rating**

OAI assessed the Office as **partially satisfactory,** which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to inadequate management of bank transfer forms and [redacted]

**Key recommendations:** Total = **8**, high priority = **2**

The eight recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendation 5); (c) effectiveness and efficiency of operations (Recommendations 2, 3, 4, 7); (d) safeguarding of assets (Recommendations 6, 8).

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:

| | |
|---|---|
| Inadequate management of bank transfer forms (Issue 5) | There were inadequate controls over payments in seven instances totalling $1.3 million, where the Office changed the payee name from the name reported in Atlas (enterprise resource planning system of UNDP). Thus, there were conflicting payee names between those recorded in Atlas and those recorded in the bank. In two cases, a payment in Atlas was split into two bank transfers, which were deposited separately and on different dates at the bank. This caused the payment processed in Atlas to be different from the payment processed at the bank.<br><br><u>Recommendation</u>: Enhance controls over payment instructions to the bank by: (a) ensuring that vendors are set up under the implementing partner and the final payee; (b) discontinuing the practice of changing payee names after payments have been approved and processed in Atlas; and (c) discontinuing the practice of splitting payments into multiple bank transfer forms. |
| [redacted] | [redacted] |

**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 had been incorporated in 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

## I. About the Office

The Office is located in Ulaanbaatar, Mongolia (the Country). At the time of the audit, the Office employed 33 staff members (3 international and 30 national), 49 service contracts holders and three international United Nations Volunteers.

The 'United Nations Development Assistance Framework' outlines the strategic direction and results expected from cooperation between the Government and the UN Country Team for the period 2012-2016. It represents a collective response of the United Nations system to the national development priorities contained in Mongolia's Comprehensive National Development Strategy for 2008-2021, namely the achievement of the Millennium Development Goals by 2015. Under this 'United Nations Development Assistance Framework', the United Nations Country Team will work with the Government, civil society, and other development partners on the following four strategic priorities: (a) economic development is inclusive and equitable, contributing towards poverty alleviation; (b) equitable access to, and utilization of, quality basic social services and sustainable social protection; (c) improved sustainability of natural resources management and resilience of ecosystems and vulnerable populations to the changing climate; and (d) strengthened governance for protection of human rights and reduction of disparities.

## II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme activities. Resource mobilization and partnership strategies contained in the 'Country Programme Action Plan' were adequate. OAI met with government counterparts and implementing partners, who expressed their appreciation of the Office as a development partner.

(b) General administration. Controls related to the management of the Office's assets, including vehicles, were adequate.

OAI made two recommendations ranked high (critical) and six recommendations ranked medium (important) priority.

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

**High priority recommendations**, arranged according to significance:
(a) Enhance controls over payment instructions to the bank (Recommendation 5).
[redacted]

**Medium priority recommendations**, arranged according to significance:
(a) Discuss Global Staff Survey results with staff and address issues raised in a timely manner (Recommendation 1).
(b) Strengthen travel management (Recommendation 7).
(c) Enhance quality of risk identification and mitigation process (Recommendation 2).
(d) Improve the management of the Resident Coordinator's Office budget (Recommendation 3).
(e) Improve staff separation process (Recommendation 4).
(f) Document the testing of the Office's 'Disaster Recovery Plan' (Recommendation 6).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Organizational structure and delegation of authority

**Issue 1** Delays in addressing negative Global Staff Survey results

UNDP conducts yearly global surveys that consist of questions on a wide range of topics and that should be completed by all UNDP staff worldwide. Feedback is collected from staff answers and questions are raised on what could be done to improve the work environment. Country Offices and other units need to review the Global Staff Survey results together with their staff, identify priorities for improvement, develop action plans and targets, and implement them.

The 2013 Global Staff Survey results for the Office raised concerns in some keys areas, including the lack of an open and trusting environment, the inability to attract high quality staff members and to provide high quality services to clients, the inadequate onboarding of personnel, and the lack of authority to make decisions on how work is to be carried out.

Furthermore, staff participation in the Global Staff Survey had declined from 64 percent (21 out of 33) participants in 2012 to just 33 percent (9 out of 27) in 2013. Service contractors and United Nations Volunteers were not requested to participate in the survey.

As of the date of the audit fieldwork, the Office's management had not held a dedicated meeting with staff to discuss the 2013 results and to identify priorities for improvement, develop action plans, and implement them. No specific actions were taken to detect and address the root cause of the declining participation in the Global Staff Survey.

The Office's management explained that they take the Global Staff Survey results seriously and that these results are discussed at all staff retreats. They added that the Management Consulting Team's missions as well as the Country Office's 'Good to Great' initiatives, together with the Roving Operations Manager's mission, reviewed some aspects of the 2013 Global Staff Survey. Management also indicated that several reminders were sent to staff, and a training session was held to overcome language barriers in completing the survey. Management further added that during the staff retreat of November 2014, they addressed the issues of making UNDP a better workplace, using the 2013 Global Staff Survey results to formulate additional actions plans. OAI noted that the retreat was held one year after the 2013 Global Staff Survey, and only a few weeks before the 2014 Global Staff Survey.

Delays in addressing the results of the Global Staff Survey could impact the Office's results and further demotivate staff.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 1:** Discuss Global Staff Survey results with staff and address issues raised in a timely manner. | |

**Management action plan:**

The Office indicated that going forward, it plans to:

(a) recruit a senior level consultant to support staff with further understanding underlying issues and to recommend actions and provide initial coaching;
(b) ensure that issues relating to staff engagement, empowerment, and work environment are key aspects of the 2015 work plan;
(c) have a staff meeting once the 2014 Global Staff Survey results are available, to review and to update the 2015 work plan with key findings to address emerging issues; and
(d) ensure that Global Staff Survey results are discussed at staff meetings and retreats.

**Estimated completion date:** June 2015

## 2. Risk management, planning, monitoring and reporting

**Issue 2** Weak risk identification and mitigation statements

According to the 'Handbook on Planning, Monitoring and Evaluating for Development Results', risks are potential events or occurrences that could adversely affect the achievement of results. It is therefore crucial that risks are specifically identified and accurately formulated, and steps to mitigate the risks are appropriately described and undertaken.

A review of all five risks identified by the Office in the 'Integrated Work Plan' showed the following weaknesses:

(a) Risk formulations were neither specific nor adequate. There were risks formulated under broad categories, such as 'Civil service reform pipeline' or 'Increased competition on global environmental funding' or 'Delivery challenge'. These formulations did not provide specific details on events or occurrences that could adversely affect the achievement of results.

(b) The proposed risk mitigation actions did not clearly address the risk statement. The risk mitigation measures were not sufficiently elaborated and lacked adequate depth and direction. They did not provide steps to mitigate the effects of the existing risks.

(c) Risks were not updated in a timely manner. A major donor related to the 'Civil service reform pipeline' stopped its funding; however, this was not captured in the 'Integrated Work Plan'. Another risk ('change process') was still listed in the 'Integrated Work Plan' while the change management process had been suspended. These risks were not updated in the 'Integrated Work Plan' to reflect their existing status.

Weak risk identification and mitigation statements could prevent the Office from taking necessary steps/measures to mitigate the impact of known risks, which could jeopardize the achievement of results.

| **Priority** | Medium (Important) |
| --- | --- |

**Recommendation 2:**

Enhance the quality of the risk identification and mitigation process by:

(a) ensuring that risk statements provide specific details on events or occurrences that could adversely affect the achievement of results;
(b) having risk mitigation actions that list the steps needed to mitigate the effects of the risks; and
(c) regularly updating the risk logs in the 'Integrated Work Plan'.

**Management action plan:**

The Office will:

(a) conduct training to improve understanding and capacity on how to assess, plan and manage risks as well as how best to capture them in plans and reports;
(b) ensure better use of project risk logs and update accordingly following every project board meeting at a minimum; and
(c) include a discussion on reviewing the initial risks for 2015 in the Management Team agenda.

**Estimated completion date:** February 2015

## B. United Nations system coordination

### 1. Resident Coordinator Office

**Issue 3** Ineffective management of Resident Coordinator's Office budget and work plan

According to UN Development Operations Coordination Office guidelines, Resident Coordinator Office funds not spent during the calendar year cannot be carried over to the following year. In addition, any expenditures that are more than the authorized budget for the year will be deducted from the following year's allocations. Accurate reporting of the use of funds received by the Resident Coordinator's Office enables accurate reporting by the UN Development Operations Coordination Office to the donors on the use of funds.

The review of the Resident Coordinator's Office budget management and execution of its annual work plan revealed the following weaknesses:

(a) Inaccurate expense reporting. The expenditure of $58,633 reported by the Resident Coordinator's Office in the 'Resident Coordinator Annual Report' for 2013 did not reconcile with the expenditure of $65,490 recorded by the UN Development Operations Coordination Office. The Resident Coordinator's Office was, however, unaware of the overspending, and therefore it did not request clarification from the UN Development Operations Coordination Office. The Office explained that the over-expenditure was due to the increase in the pro forma costs of a national officer post, which had not been conveyed to them. Consequently, the UN Development Operations Coordination Office deducted a total of $9,144 (16 percent of the overall budget) from the 2014 allocation for the Resident Coordinator's Office because of the overspending in 2013.

(b) Low budget delivery. The Resident Coordinator's Office expenditure as of 30 October 2014 was $91,660, or 60 percent of the overall budget of $152,384. The recruitment of a second national officer post budgeted for since the beginning of the year had not been completed at the time of the audit fieldwork. The Office indicated that as the recruitment process took longer than expected, the UN Country Team decided to utilize those funds for another purpose (to cover the cost of the Common Premises), in line with UN Country Team priorities for 2014. Clearances were obtained from the UN Development Operations Coordination Office and funds were fully spent. The Office stated that they would be able to utilize the remaining funds – as the commitments until the year end were $34,000 and other activities would be carried out for $25,000. Of particular concern to OAI was the Office's capacity to deliver the 40 percent of the budget in the final 1 ½ months of the year, as the Office was only able to deliver 60 percent in the first 10½ months.

Ineffective management of the Resident Coordinator's Office budget could lead to inaccurate expense reporting to the UN Development Operations Coordination Office, which in turn could negatively impact the allocation of funds for subsequent years. Furthermore, low delivery could prevent the Resident Coordinator's Office from efficiently fulfilling its mandate.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 3:**<br><br>Improve the management of Resident Coordinator's Office budget by:<br><br>(a) accurately reporting on expenditure, and validating with the UN Development Operations Coordination Office if necessary; and<br>(b) properly planning the execution of the annual work plan, ensuring the timely execution of different activities. | |
| **Management action plan:**<br><br>(a) In the future, the Resident Coordinator's Office and the Country Office's Finance Unit will communicate with the Office of Human Resources in the last quarter to get an update on the pro forma costs and make budget adjustments before year end.<br>(b) The Resident Coordinator's Office will budget for contingencies, including some funding for any changes to the pro forma costs at the beginning of the year in the 2015 and subsequent work plans; the Resident Coordinator's Office will ensure a quarterly budget review and that revisions are made and that the work plan is adjusted accordingly to ensure there is no over- or under-expenditure.<br><br>**Estimated completion date:** January 2015 | |

## C. Operations

### 1. Human resources

**Issue 4** Missing or incomplete exit/final clearance forms for separating staff

The 'Programme and Operations Policies and Procedures' provide guidance for staff separating at the end of their contract, which should be documented to ensure that key actions, such as the return of the Office's assets, removal from payroll, and the deactivation of email and Atlas accounts, are carried out in a timely manner.

The review of a sample of 10 out of 12 separating staff during the audit period revealed the following weaknesses:

- A 'Welcome and Final Clearance Form' or other similar form was not available for two staff separations in January 2014 and February 2014.

- In two other cases, the forms were incomplete. Hence, it was not possible to check whether or when relevant actions, including returning office equipment, returning UNLPs, and removing staff from Atlas access rights lists and email and group accounts, had been completed.

Additionally, the forms in use by the Office ('Welcome and Final Clearance Form' or 'Final Clearance Form') did not clearly identify each action or when the action was completed. In several instances, the actions were filed together in the same box, such as: (a) closure of email accounts, (b) removal from group accounts, and (c) return of all IT related equipment. This occurred because of inadequate oversight from the Office.

The Office mentioned that since the audit fieldwork, the 'Final Clearance Form' was updated and was issued as an inter-office memo on 24 December 2014. The Office further mentioned that the UNDP 'Welcome and Induction' process was updated to include assets in the staff members' custody.

Missing or incomplete exit/final clearance forms may result in delays or lack of actions relating to staff separations, which may lead to the failure in recovering outstanding payments, and the loss of assets or funds.

| **Priority** | Medium (Important) |
|---|---|

**Recommendation 4:**

Improve the staff separation process by fully documenting actions to be taken to ensure assets belonging to the organization are properly recovered, any outstanding liabilities from staff are settled, and all access rights are timely deactivated.

**Management action plan:**

The action plan for 2015 is to monitor the implementation of updated processes and for all separating staff to sign the above mentioned forms where missing.

**Estimated completion date:** January 2015

## 2. Finance

**Issue 5** Inadequate management of bank transfer forms

The UNDP 'Programme and Operations Policies and Procedures' provide that there should be no change in the payment instructions as processed in Atlas and those communicated to the bank, in order to mitigate the risk of errors or unauthorized payments.

The Office processed 3,438 vouchers during the period under review for a total amount of $13.4 million. OAI selected a sample of 27 vouchers totalling $1.9 million for review and testing.

The Office did not have an automated Electronic Funds Transfer payment process, where payment instructions would be generated from Atlas and sent directly to the bank for processing without any manual intervention. Consequently, the Office manually prepared letters of transmittals or bank transfer forms to document payment instructions, which were then delivered to the bank for execution.

Review of the management of bank transfer forms revealed the following weaknesses:

(a) Different payee names. In 7 out of 27 vouchers reviewed totalling $1.3 million, the Office changed the payee name in the bank transfer form from that recorded in Atlas, resulting in conflicting payee names between Atlas and the bank. The Office explained that in some cases, vendors were set up under the project name, while the implementing partner was the final payee.

(b) Split payments on bank transfer forms. In two instances, the Office split the payment processed in Atlas into two bank transfers, which were deposited separately and at different dates at the bank. This caused the payment processed in Atlas to be different from the payment processed by the bank. The Office explained that it did not have sufficient funds at the bank to process the full payment amount and could only make partial payment pending replenishment of the bank account. Such practices create the risk of unauthorized payments, as the payee's name could be altered after being approved in Atlas.

The inadequate management of bank transfer forms could lead to fraud or unauthorized payments.

| **Priority** High (Critical) |
|---|
| **Recommendation 5:**<br><br>Enhance controls over payment instructions to the bank by:<br><br>(a) ensuring that vendors are set up under the implementing partner and the final payee;<br>(b) discontinuing the practice of changing payee names after payments have been approved and processed in Atlas; and<br>(c) discontinuing the practice of splitting payments into multiple bank transfer forms. |
| **Management action plan:**<br><br>In 2015, the Office will closely monitor and shift to the Electronic Funds Transfer process.<br><br>**Estimated completion date:** December 2015. |

## 3. Information and communication technology

**Issue 6** 'Disaster Recovery Plan' testing not documented

The 'Information and Communication Technology Disaster Recovery Standards for UNDP Offices' (Section 4.2.10 – Maintenance and Improvement) set out the requirements for an annual, documented test of the Office's 'Disaster Recovery Plan'.

There was no evidence that the 'Disaster Recovery Plan' was tested in 2014. The Office stated that the 'Disaster Recovery Plan' had been partially tested in 2014; however, there was no evidence of the test or of any follow-up actions.

The Office indicated that since the audit fieldwork, it had discussed the contingency plan, including the 'Disaster Recovery Plan' with the UNDP Regional Security Advisor and prepared an action plan for 2015. The Office further indicated that it had tested 3G internet connectivity for cases of emergency, and tested and documented connections for last resort internet connectivity.

Failure to conduct the annual testing or to document the testing plan, may result in key components of the 'Disaster Recovery Plan' not being assessed or required improvements not being formally followed up on by management, which may lead to potential disruptions in business continuity.

| **Priority** Medium (Important) |
|---|
| **Recommendation 6:**<br><br>Document the testing of the Office's 'Disaster Recovery Plan' and prepare a report from the test to incorporate it into an updated 'Disaster Recovery Plan'. Also, set out the key results and follow-up activities that need to be performed. |
| **Management action plan:**<br><br>In 2015, the Office will test, update and approve the 'Disaster Recovery Plan' as necessary.<br><br>**Estimated completion date:** March 2015 |

## 4. General administration

**Issue 7** Insufficient justification of travel entitlements

The 'Programme and Operations Policies and Procedures' require that travel benefits be calculated based on an approved travel itinerary. Early arrivals or late departures from official business travel should be adequately documented to substantiate benefits that the traveller is entitled to.

OAI selected 12 out of 54 travel vouchers valued at $27,000 for review and noted the following weaknesses:

(a) Daily subsistence allowance payments not consistently substantiated. The calculation of daily subsistence allowance was not always substantiated. In three instances, there was no documentation on file to substantiate the early arrival or late departure compared to the approved Office business dates.

(b) Inadequate justification for full daily subsistence allowances. There were three instances where full daily subsistence allowance was paid to the staff for a meeting or other events, even though part of the costs, including meals, were to be provided by the meeting organizers. This meant that the staff members were only entitled to partial daily subsistence allowance. This was caused by ineffective communication between the requesting unit and the travel unit, whereby the full details of the events were not made available to the travel unit. Details of the event organizers' contributions were neither available on file nor provided to OAI in order to determine the excess payment to the three staff.

(c) Inadequate trip analysis/cost comparison. Travel cost comparison was not always carried out to only include the official business travel days. In three instances, the travel comparison included the extended days requested by the staff for personal reasons. As such, it was difficult to assess the financial impact of these extended days on the travel cost.

Office management explained that it has improved the travel related processes since 2014, with more detailed daily subsistence allowance calculation forms and revised travel approval processes and business flows. Management also indicated that they would review travel cases on a random basis to ensure compliance with the travel policy.

The Office further informed OAI that subsequent to the audit fieldwork, they carefully analysed the three cases identified by the auditors, based on all supporting documents and determined that an excess payment of $1,585 needed to be recovered from the three staff members. Further, travel authorization forms and business processes have been revised to address identified gaps.

The inadequate justification of travel entitlements and the incorrect calculation daily subsistence allowance may lead to financial losses for the organization, as travellers may receive allowances that they are not actually entitled to.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 7:**<br><br>Strengthen travel management by:<br><br>(a) maintaining adequate justification for daily subsistence allowances authorized to the traveller – especially when there is change from the approved travel;<br>(b) ensuring daily subsistence allowance calculation takes into account meals and accommodation provided by the meeting organizers; and<br>(c) completing the travel cost analysis only on the basis of the approved itinerary without consideration to staff preferences. | |
| **Management action plan:**<br><br>The action plan for 2015 is to: | |

- strengthen monitoring by conducting internal reviews with specific attention paid to the travel approval process and daily subsistence allowance calculations; and
- based on a sample, review domestic travel cases for 2013 and 2014 to identify similar cases.

**Estimated completion date:** March 2015

## 5. Safety and security

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

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**Definitions of audit terms - ratings and priorities**

## A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — 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.

## 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 that are considered moderate. 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 <u>not included in this report</u>.