

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

CUBA

Report No. 1883
Issue Date: 1 December 2017

(REDACTED)

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Report on the Audit of UNDP Cuba Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Cuba (the Office) from 2 to 13 October 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 30 June 2017. The Office recorded programme and management expenses of approximately \$36 million. The last audit of the Office was conducted by OAI in 2011.

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 **satisfactory**, which means “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.”

Good practices

The Office had good practices regarding knowledge management and the area of “risk prevention and natural disasters”, since lessons learned from several projects were translated into practical guidelines and documents that shortened the time to respond to specific emergency situations. The Office also consistently managed to share knowledge and experiences in the Country and the region, through printed and electronic knowledge products.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendations 1 and 2, medium priority); (b) reliability and integrity of financial and operational information (Recommendation 4, high priority); (c) effectiveness and efficiency of operations (Recommendation 5, medium priority); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 3, medium priority).

For the high (critical) priority recommendation, 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 recommendation is presented below:

Inadequate handling of cash (Issue 4)

The Office had a practice of keeping and handling cash in the premises, either to pay staff members or to process reimbursements, including (i) monthly salaries paid to national staff members through cash kept at the Finance Unit, which varied from [REDACTED] (ii) Daily Subsistence Allowance payments to travelers through cheques brought to be cashed at the bank by a driver, of approximately [REDACTED] and (iii) cash received by the Office from staff members for the use of telephones, mobile phones and Skype and Internet connection. Funds collected were kept at the Office until their deposit to the bank on a monthly basis.

Recommendation: The Office should improve cash handling by: (a) discontinuing the practice of paying salaries and Daily Subsistence Allowance in cash to staff members and exploring alternative options, such as processing bank transfers or using cheques; and (b) no longer receiving and keeping cash at the Finance Unit, and instead considering payroll deductions for the collection of telephone and internet connection fees.

Management comments and action plan

The Deputy Resident Representative (Resident Representative a.i.) accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in 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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Havana, Cuba (the Country) had 30 staff members under fixed-term appointments and 40 service contract holders at the time of the audit. The Office was implementing a Country Programme agreed with the Government for the period 2014-2018, which was aligned to the national priorities as confirmed by interviewed government officials, the UNDP Strategic Plan 2014-2017 and the United Nations Development Assistance Framework 2014-2018. The Country Programme 2014-2018, in agreement with the Government, was extended for one additional year to allow more time for the formulation of the new programming cycle, aligning it to national priorities and to the Agenda 2030.

II. Good practices

OAI identified good practices under Programme/Knowledge Management, in particular regarding lessons learned for risk prevention and recuperation after disasters. Lessons learned from several projects (including non-UNDP projects) were translated into practical guidelines and documents that shortened the Office's response time to respond to disaster crisis situations. The Office also consistently managed to share knowledge and experiences in the Country and the region through products in printed and electronic formats.

III. Audit results

Satisfactory performance was noted in the following areas and sub-areas:

- (a) Governance/Corporate Direction. Adequate controls were in place regarding governance, risk management and control systems in the Office's programme and operations.
- (b) Governance/Corporate External Relations and Partnerships. The Office established partnerships with different stakeholders including civil society and municipalities, among the most relevant, who expressed their appreciation for the quality of services received from the Office during OAI interviews.
- (c) Programme/Programme & Project Design and Implementation. Project design was found to be adequate, involving all areas of the Office and project document reviews.
- (d) Operations/ICT and General Administrative Management. Despite having the lowest Internet bandwidth across UNDP world-wide, the Office managed to comply with corporate requirements in terms of results reporting and programme quality standards.
- (e) Operations/Staff and Premises Security. The governance, risk management and control systems in the Office were adequate and effective in ensuring that it is resilient due to sound business continuity systems and security arrangements.

OAI made one recommendation ranked high (critical) and four 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) Improve cash handling (Recommendation 4).

Medium priority recommendations, arranged according to significance:

- (a) Address the gaps in its structure and the unclear roles and responsibilities (Recommendation 1).
- (b) Comply with the corporate guidelines for NIM projects (Recommendation 3).

- (c) Establish a mechanism to monitor and control blank, outstanding and used cheques (Recommendation 5).
- (d) Continue efforts to recover uncollected GLOC in association with the Regional Bureau for Latin America and the Caribbean and the Permanent Mission of Cuba to the United Nations (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1 Weaknesses in organizational structure and conflicting roles

The 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The vision and mission of an office as well as its organizational effectiveness rely on the Office's adequate organizational structure, which allows for clear roles and responsibilities, as well as reporting lines. The UNDP framework for service contractors requires them to perform tasks that cannot be assessed as recurring, so as to have a clear accountability when compared to UNDP staff responsibilities.

The overall Office functions and roles were aligned with the UNDP corporate guidelines; however, the audit identified weaknesses in the roles and responsibilities among the various departments and units within the Office, as follows:

Programme Unit

The Programme Analysts (cluster leads) reporting to the Assistant Resident Representative - Programme were classified as National Officers, except for one of them who held a service contract. As these employees had similar responsibilities, the different contractual modalities created imbalances, as result of having employees performing similar functions with different benefits and entitlements, and staff morale issues. In addition, due to the contract modality, the Programme Analyst was unable to discharge the responsibilities associated with the post, such as approvals required to be granted in Atlas (the enterprise resource planning system of UNDP).

Operations Unit

- A service contract holder within the Procurement Unit was engaged in the full scope of the procurement business function, namely pre-award, award, and post-award phases for acquiring goods and services, for seven procurement cases, contrary to the 'UNDP Programme and Operations Policies and Procedures' stating that a service contract holder can only be engaged in the pre-award and post-award phases of the procurement business process.
- The Office had an automotive mechanic post within the General Services Unit for the maintenance, repair management, and servicing of the UNDP vehicle fleet. The review of the Terms of Reference of the post noted some inconsistencies. The Terms of Reference were specific to the UNDP vehicle fleet; however, the mechanic was engaged in providing services to official vehicles of other UN agencies.

- A Finance Associate at the G7 level was a bank signatory, and also undertook several functions within the Finance Unit, thus hindering adequate segregation of duties.
- A Finance Associate at the G6 level was in charge of preparing the bank reconciliation, applying deposits for cash collected at the Office, creating vouchers, and was also the petty cash custodian, and was thus performing incompatible tasks.

An organizational structure without clear roles, responsibilities, and accountabilities may lead to inadequate segregation of duties. Unclear reporting lines may jeopardize the effectiveness of the entire internal control system, which can lead to the untimely detection of errors.

Priority	Medium (Important)
Recommendation 1:	
The Office should address the gaps in its structure and the unclear roles and responsibilities identified in the cases above.	
Management action plan:	
The Office's management is already taking the specific actions to address the gaps in structure, contractual modality and roles associated to the above-mentioned cases.	
Estimated completion date: March 2018	

2. Corporate External Relations and Partnership

Issue 2 Pending collection of Government Contributions to Local Offices Costs

There were pending Government Contributions to Local Office Costs (GLOC) since 2004. The total GLOC outstanding amounted to \$3.8 million as of September 2017.

GLOC payments in the past were made in Cuban Pesos (CUP) that could not be converted to US dollars. In 2004 the Government stopped paying the contributions in Cuban Pesos, since it was a currency that could be utilized by international organizations within the Country to make payments. OAI was made aware of the efforts made by the Office to negotiate the collection of the GLOC using several mechanisms; recently, a proposal for using outstanding GLOC to offset premises rental costs was offered to the Government, with a response pending.

Failure to collect pending GLOC may put the Office's financial sustainability at risk.

Priority	Medium (Important)
Recommendation 2:	
The Office should continue making efforts to recover the uncollected GLOC in association with the Regional Bureau for Latin America and the Caribbean and the Permanent Mission of Cuba to the United Nations.	
Management action plan:	
The Office will continue devoting all efforts to follow-up on the uncollected GLOC together with the concerned parties and the Regional Bureau for Latin America and the Caribbean, in order to identify viable solutions.	
Estimated completion date: Ongoing	

B. Programme

1. Quality Assurance Process

Issue 3 Insufficient adherence to corporate guidelines for nationally implemented projects

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' (guidelines for NIM projects), such projects are to be implemented following one of two scenarios as a result of the selection of an implementing partner based on an assessment of its capacity to effectively manage the project and deliver the intended outputs: (a) full national implementation, in which the national implementing partners directly assume responsibility for the related outputs and carry out all activities towards the achievement of those outputs; or (b) national implementation, in which the national implementing partner assumes full responsibility for the related outputs, but where at the request of the Government through a standard Letter of Agreement for support to national implementation, UNDP serves as a responsible party that undertakes specific, clearly defined activities for the implementing partner.

The audit identified the following with respect to the Office's use of corporate guidelines for nationally implemented projects:

- Thirteen national implementing partners were engaged without the Office conducting the required capacity assessments.
- The Office was providing support to national implementation without the required standard Letter of Agreement where accountabilities are clarified and the list of services along with associated costs are specified. Instead of having such a Letter of Agreement the Office was using management arrangements contained in the project documents to determine who does what in project implementation.

The lack of adherence to corporate guidelines may result in accountability issues due to unclear roles and responsibilities between the Office and implementing partners. Furthermore, there may be confusion as to which regulations, rules, policies and procedures govern project activities.

Priority	Medium (Important)
Recommendation 3: The Office should comply with the corporate guidelines for NIM projects by: <ul style="list-style-type: none"> (a) conducting implementing partner capacity assessments as required; and (b) signing a Letter of Agreement for each project whenever the Office provides support services to national implementation, where specific roles are clearly stated and cost recovery could be easily tracked and recovered. 	
Management action plan: The Office's management will update the Government on the NIM corporate guidelines, and: <ul style="list-style-type: none"> (a) will continue working jointly with the Regional Bureau for Latin America and the Caribbean for the smooth implementation of capacity assessments; and (b) will follow up on the signature of the Letter of Agreements, together with the concerned parties, for each project whenever the Office provides support services to national implementation. 	
Estimated completion date: June 2018	

C. Operations

1. Financial Resources Management

[NOTE: Part of this section has been redacted as it is deemed to contain sensitive information.]

Issue 4 Inadequate handling of cash

As stated in the 'UNDP Financial Regulations and Rules', all disbursements shall be made by cheque or bank transfer, except to the extent that cash disbursements are authorized by the Treasurer. All local disbursements must be paid in local currency to the extent possible, fully utilizing non-convertible balances held prior to the utilization of convertible local currency balances. According to the 'UNDP Programme and Operations Policies and Procedures', due to the security and financial risks of carrying cash, the Office must always seek alternative options to deal with cash transactions.

The audit found inadequacies in the way the Office handled cash, either to pay staff members or to process reimbursements, as follows:

- Monthly salaries paid to national staff members: Until October 2016, salaries to national staff members were paid in cash through a specialized company engaged to do so. The company collected the funds from the bank following the Office's monthly request, and carried them to the Office the day before payments were due. The company prepared envelopes for each staff member containing their salaries and handed them over to each staff member on pay day; cash was under the responsibility of the company. From November

2016, the Office assumed the responsibilities for managing and enveloping the cash, and funds were kept at the Finance Unit's safe box. The cash handled varied from [REDACTED] on a monthly basis.

- Daily Subsistence Allowance: To pay Daily Subsistence Allowance, a cheque was issued to each traveller. The traveller endorsed the cheque, which remained at the Finance Unit, and was brought to be cashed at the bank by a driver. The driver in turn handed over the funds to the Finance Assistant for paying the Daily Subsistence Allowance to the traveller. According to the Office, this practice was followed to provide a better service to staff members. The Trial Balance report extracted from Atlas showed that the Office recorded payments related to Daily Subsistence Allowance of [REDACTED]
- Cash received by the Office: The Office provided services to staff members for the use of Skype and Internet connection, telephones, and mobile phones. Each staff member paid in cash at the Finance Unit; funds collected were deposited to the bank account on a monthly basis. The amounts involved, although not significant in volume, varied each month, and entailed cash handling, which was kept by the finance staff until deposited into the bank. This practice had been in force for several years, as a way to provide staff members with access to telecommunication services.

By handling cash at the Office's premises, risk of loss or misappropriation of funds and security of Office staff members were exacerbated.

Priority	High (Critical)
Recommendation 4: The Office should improve cash handling by: <ul style="list-style-type: none"> (a) discontinuing the practice of paying salaries and Daily Subsistence Allowance in cash to staff members and exploring alternative options, such as processing bank transfers or using cheques; and (b) no longer receiving and keeping cash at the Finance Unit, and instead considering payroll deductions, for the collection of telephone and internet connection fees. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office's management is looking for local banking alternatives in order to avoid cash payments on salaries and Daily Subsistence Allowance entitlements and will continue liaising with UNDP Treasury on a suitable solution. (b) The Office will begin to make the discounts through the monthly payroll. 	
Estimated completion date: May 2018	

Issue 5 Weaknesses in bank reconciliation

As stated in the 'UNDP Financial Regulations and Rules', all disbursements shall be made by cheque or bank transfer through an authorized bank account, which will be reconciled with the entries in the UNDP system. The objective of the bank account reconciliation is to prove that the entries in the system are correct and reconciled with authorized transactions that have been recorded by the bank. Whenever cheques are used as means of payment, a system to monitor unused or blank cheques in stock should be in place.

During the audit period, there were 8,486 cheques issued and 1,072 bank transfers processed through the local bank account. The audit found inadequacies in the way the Office handled cheques, which in turn impacted the bank reconciliation, as follows:

- The number corresponding to each cheque was not used in the bank reconciliation. As a result, cheques were not issued in a sequential manner; therefore, the Office adopted a practice by which an internal reference number was printed on each cheque used. Consequently, when performing the bank reconciliation, the number of unused cheques were not monitored, leading to the risk that unused cheques could be cashed.
- Outstanding cheques not adequately monitored: According to the local banking system, cheques are valid only for two months. As a result, the list of outstanding cheques that had not been cashed was not properly monitored, in order to timely contact suppliers and request them to cash the cheques. This situation further resulted in an increase of cancelled payments and reissued vouchers, impacting the bank reconciliation preparation process.
- Hand-written cheques: Salaries paid locally to international staff members were made with hand-written cheques; as a result, these cheques were not tracked using Atlas. The Office indicated that they followed a practice established at the request of the Office of Human Resources.

Deficiencies in the management of cheques and untimely follow up on unreconciled transactions may lead to financial irregularities.

Priority	Medium (Important)
Recommendation 5:	
The Office should improve the handling of cheques by:	
<ul style="list-style-type: none"> (a) establishing a mechanism to monitor and control blank, outstanding, and used cheques; and (b) clarifying with the Office of Human Resources the practice of paying international staff with cheques prepared manually and outside of Atlas, in order to discontinue it. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office's management is already establishing a mechanism to monitor and control blank cheques, and outstanding and used cheques. (b) The Office has already contacted the Regional Bureau for Latin America and the Caribbean in order to immediately process cheques associated with salaries of international staff members through Atlas. 	
Estimated completion date: December 2017	

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 result in 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.