

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP PROJECT SUPPORT OFFICE

IN

THE RUSSIAN FEDERATION

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Report on the audit of the UNDP Project Support Office in the Russian Federation Executive Summary

From 19 to 30 November 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Project Support Office in the Russian Federation (Office). The audit covered the activities of the Office during the period from 1 January 2011 to 30 September 2012. In view of the transition from a Country Office to a Project Support Office in 2011, the Office was not responsible for United Nations system coordination and, accordingly, this area was not part of the audit. During the period reviewed, the Office recorded programme and management expenditures totalling \$26 million. This was the first audit of the Office since it transitioned from a Country Office. The last audit of the Country Office, which closed in January 2011, was conducted by OAI in 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

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 project management and lack of compliance with UNDP policies and procedures on human resources, finance and procurement areas. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics, and values	Not Assessed			
1.3 Risk management, planning, monitoring, and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				
3. Programme activities				
3.1 Programme management	Not Applicable			
3.2 Partnerships and resource mobilization	Not Applicable			
3.3 Project management	Partially Satisfactory			

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
4. Operations				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			

Key issues and recommendations

The audit raised four issues and resulted in four recommendations, of which three (75 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

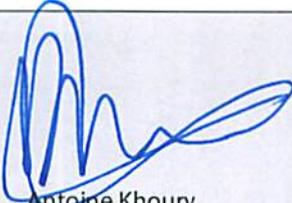
Project management (Issue 1) Use of non-standard legal agreements. The Office issued technical assistance agreements that were inconsistent with UNDP standard agreement templates, and contained no references to the standard UNDP terms and conditions. The Office did not seek clearance from the UNDP Legal Support Office regarding modifications to the standard agreement language. OAI recommends that the Office, in consultation with the Legal Support Office, ensure that the use of technical assistance agreements is consistent with UNDP policies and procedures.

(Issue 2) Inadequate monitoring of projects in Atlas. The Office was not using Atlas to monitor the status of the projects in its portfolio. Out of 64 projects in Atlas, 27 projects should have been operationally closed, but still showed as being in progress in the Atlas system at the time of the audit. In addition, 20 projects were not closed financially even though they had been operationally inactive for more than 12 months. Also, the Office was uncertain as to the status of an additional 25 projects. OAI recommends that the Office, in coordination with the Bratislava Regional Centre: (a) close operationally and/or financially the 47 completed projects in Atlas; (b) clarify the status of the 25 projects with the view of closing them in Atlas; and (c) ensure that ongoing projects are monitored in Atlas.

Human resources (Issue 3) Over-reliance on implementation partners regarding the recruitment of project personnel. The Office did not ensure that the recruitment process for project personnel under UNDP contracts was consistent with relevant UNDP policies and procedures. It relied on the evaluation and selection processes undertaken by the national implementing partners. Also, the majority of evaluation panel members were non-UNDP staff and/or the chair of the panel was a non-UNDP staff member. OAI recommends that the Office ensure that the recruitment of project personnel under UNDP contracts is based on a competitive and transparent process in accordance with relevant UNDP policies and procedures.

Management comments and action plan

The Head of the Project Support Office accepted all four recommendations and is in the process of implementing them.



Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I. Introduction

From 19 to 30 November 2012, OAI conducted an audit of the UNDP Project Support Office in the Russian Federation. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes. With regard to this audit, OAI also aimed at identifying potential unresolved issues stemming from the transition from a Country Office to a Project Support Office.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 September 2012. In view of the transition from a Country Office to a Project Support Office in 2011, the Office was not responsible for United Nations system coordination and, accordingly, this area was not part of the audit. During the period reviewed, the Office recorded programme and management expenditures totalling \$26 million. This was the first audit of the Office since it transitioned to a Project Support Office. The last audit of the Country Office, which closed in January 2011, was conducted by OAI in 2009.

The implementation status of previous OAI audit recommendations (Report No. 622, 2 July 2009) relating to the Country Office was also validated. Of the nine recommendations, eight were fully implemented and one recommendation was withdrawn as it was no longer relevant after the Country Office transitioned to a Project Support Office.

II. About the Office

After the closure of the UNDP Country Office in the Russian Federation (Country) in January 2011, the Regional Bureau for Europe and the Commonwealth of Independent States established the Office to support a residual programme of nationally implemented projects funded by the Global Environment Facility totalling \$55 million in budget. The Office also provided operational support services to several United Nations agencies such as UNAIDS, OHCHR, UNDSS, UNEP, UNFPA, and UNODC.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

The primary role of the Office is to support a residual programme of national implementation modality projects funded by the Global Environment Facility. The main national partner of the projects was the Ministry of Natural Resources and Environment. The Office also provided operational support services at the request of United Nations agencies that had no operational support in the Country, such as UNAIDS, OHCHR, UNDSS, UNEP, UNFPA, and UNODC. The three United Nations agencies (UNHCR, UNFPA, and UNODC) and the Ministry of Natural Resources and Environment representatives that OAI met during the audit expressed that they had a positive experience working with UNDP, emphasizing specifically the Office partnership approach and teamwork.

1.1 Organizational structure and delegations of authority

Satisfactory

The Office is headed by a National Officer, who reports to the Chief, Division 2, of the Regional Bureau for Europe and the Commonwealth of Independent States, based in New York. The Head of the Office has a standard delegation of authority up to \$100,000. The number of staff in the Office was to decrease from 12, at the time of the audit, to five by 31 January 2013. At the time of audit, the Office and the Regional Bureau for Europe and the Commonwealth of Independent States were drafting a new Internal Control Framework to reflect the staffing changes in 2013. In particular, the Bratislava Regional Center would provide oversight on operational functions as the Office would not have staff with the required level of authority to ensure segregation of duties.

1.2 Leadership, ethics and values

Not Assessed

The Global Staff Survey is a tool for staff to express their views on UNDP leadership, ethics, values, and workplace quality. Taking into account that the latest survey for the Office was conducted in 2010, this area was not assessed.

1.3 Risk management, planning, monitoring, and reporting

Satisfactory

The Office maintained logs for assessing and prioritizing project risks and produced an annual report consistent with the corporate requirements. The Office had been using documents such as contracts, letters, and invoices written in Russian. To enable better oversight by the Regional Bureau for Europe and the Commonwealth of Independent States office in New York and the Bratislava Regional Center, the Office had agreed to translate necessary documentation to English. In 2011, eight national implementation modality projects totalling \$8.8 million were audited by external auditors and all projects audited were rated satisfactory.

1.4 Financial sustainability

Satisfactory

The Office did not receive core funding from UNDP when it transitioned to a Project Support Office in 2011. Its main revenues were fees for managing and providing operational support on a project portfolio funded by the Global Environment Facility, as well as fees for providing operational support to United Nations agencies. The Regional Bureau for Europe and the Commonwealth of Independent States has ensured financial sustainability of the Office through cost reduction measures and the downsizing of staff, in order for the Office to avoid having a deficit of \$1.5 million in five years.

2. United Nations system coordination

Not Applicable

This area was not applicable to the audit as the Office was not responsible for United Nations system coordination in the Country.

3. Programme activities

Partially Satisfactory

Due to the issues identified in regard to project management, as presented below, this area has been rated as partially satisfactory.

3.1 Programme management

Not Applicable

This area was not applicable to the audit as UNDP programmes in the Country ended in 2010.

3.2 Partnerships and resource mobilization

Not Applicable

This area was not applicable to the audit as UNDP programmes in the Country ended in 2010.

3.3 Project management

Partially Satisfactory

At the time of the audit, the Office was providing operational support at the request of the Government to 12 national implementation modality projects with a total combined budget of \$55 million. OAI reviewed the appraisal, approval, monitoring, evaluation, and donor reporting on a sample of five projects representing 55 percent of the project expenditures during the audited period. OAI noted that three of the projects reviewed had significantly higher expenditure patterns in the second half of the project cycles in 2015 and 2016. The Office asserted that the higher expenditure patterns on these projects were achievable with no expectation of project extensions after 2016.

Issue 1 Use of non-standard legal agreements

UNDP requires Country Offices to use the UNDP standard templates on agreements with implementing partners. The Office had been issuing technical assistance agreements that were inconsistent with UNDP standard agreement templates and which did not contain references to the standard UNDP terms and conditions. The purpose of the agreements was to certify that beneficiaries selected by national implementation modality partners would be receiving technical assistance funded by UNDP.

The use of these technical assistance agreements was inconsistent with UNDP policies and procedures, namely:

- the execution of agreements with beneficiaries of implementation partners was not a service that had been agreed upon with the national implementation modality partners; and
- the terms and conditions of the agreement had not been cleared with the Legal Support Office.

Also, the Office had not been able to provide OAI with a complete list of the agreements signed during the audit period.

The Office explained that these technical assistance agreements were required by national legislation in order to certify the UNDP funds as international technical assistance. The agreements enabled the national beneficiaries of the Global Environment Facility projects to process requests for exemption from the national value added tax and customs duties. The Office was not cognizant of UNDP standard legal agreements that could be used for the Country's specific requirements. It had approached the Legal Support Office through the Regional Bureau for Europe and the Commonwealth of Independent States for advice and clearance only in November 2012.

Failure to use the standard agreement templates will put UNDP at risk in relation to its financial obligations to donors and Government entities.

Priority	High (Critical)
Recommendation 1:	
The Office should, in consultation with the Legal Support Office, ensure that the use of technical assistance agreements is consistent with UNDP policies and procedures.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will consult with the Legal Support Office and the Regional Bureau for Europe and the Commonwealth of Independent States to resolve the issue.	

Issue 2 Inadequate monitoring of projects in Atlas

UNDP requires Country Offices to use Atlas, the UNDP corporate financial and project monitoring tool, to rigorously monitor the progress of projects. However, the Office had not been using Atlas to monitor the financial status of projects in its portfolio. Atlas data of the Office showed 64 projects were still in progress in December 2012 when 27 of the 64 projects should have been closed operationally in Atlas.

UNDP policies and procedures require projects that have been closed operationally, to be closed financially within the next 12 months. However, 20 projects had not been closed financially, even though they had been operationally inactive in Atlas for more than 12 months.

Also, the Office remained uncertain as to the status of 25 additional projects in Atlas. The Office stated that it did not have the staffing capacity to monitor projects in Atlas.

Failure to closely monitor projects in Atlas puts UNDP at risk of fraudulent activities.

Priority	High (Critical)
Recommendation 2:	
OAI recommends that the Office, in coordination with the Bratislava Regional Centre: (a) close operationally and/or financially the 47 completed projects in Atlas; (b) clarify the status of the 25 projects with the view of closing them in Atlas; and (c) ensure that ongoing projects are monitored in Atlas.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will follow up with the closure of completed projects in consultation with the Bratislava Regional Centre and the Regional Bureau for Europe and the Commonwealth of Independent States. Also, the Office will ensure that ongoing projects in Atlas are adequately monitored.	

4. Operations

Partially Satisfactory

4.1 Human resources

Partially Satisfactory

The Office had 13 personnel consisting of five National Officers, seven General Service staff members, and one service contract holder at the time of audit. In addition, 71 service contract holders and 204 individual contract holders were working in projects during the audited period. The human resources function for the Office was performed by a Human Resources Associate. OAI reviewed a sample of 6 staff, 14 service contract holders, and 15 individual contractor holders to verify the relevant recruitment and selection processes. OAI also selected a sample of six staff to test the separation process.

Subsequent to discussions with OAI, the Office had agreed to ensure the job descriptions in personnel files were signed and updated. The Office had also agreed to reiterate to service contract holders that UNDP is not responsible for taxation or contributions to national schemes relating to their remuneration, as it is a personal responsibility.

Issue 3 Over-reliance on implementation partners regarding recruitment of project personnel

UNDP policies and procedures on recruitment are intended to promote competition and transparency. The Office had not ensured that the recruitment process for project personnel under UNDP contracts, as part of the Office support services to national implementation modality projects, were consistent with relevant policies and procedures. The majority of the membership of the evaluation panel was not comprised of UNDP staff, nor was the Chair of the panel a UNDP staff member in 20 out of the 29 service contract and individual contract cases reviewed. The Declaration of Impartiality had not been signed by the service contract and individual contract holders who participated as evaluation panel members.

The Office asserted that it had issued UNDP contracts for project personnel at the request of the national implementation modality partners, and that the Office had relied on the evaluation and selection process undertaken by these national implementation modality partners. OAI pointed out that UNDP policies and procedures require that the Office take full responsibility for any UNDP contracts issued to project personnel, and do not permit the Office to rely on the assertions of a national implementation modality partner that the selection of project personnel had undergone a competitive and transparent process.

Priority	High (Critical)
Recommendation 3:	
The Office should ensure that the recruitment of project personnel under UNDP contracts is based on a competitive and transparent process in accordance with relevant UNDP policies and procedures.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office took note of Recommendation 3 and the following actions will be implemented:	
(a) Evaluation panels will consist of a majority of UNDP staff, and noting the small number of staff in the Office, may include participation of service contract holders, staff from the Regional Centre and other United Nations agencies (when available).	
(b) A Declaration of Impartiality will be signed by the service contract holders participating in the evaluation panel.	

4.2 Finance

Partially Satisfactory

The Finance Unit had two Finance Associates. The Office recorded 6,303 vouchers with a value of \$18.2 million in 2011 and 2,977 vouchers with a value of \$9.2 million in the first nine months of 2012. OAI reviewed 25 vouchers with a value of \$5.4 million, representing about 22 percent of the total value of all vouchers recorded during the audited period. OAI also reviewed the payment process, adequacy of supporting documents, management of bank accounts, and accuracy of the account coding of disbursements against the chart of accounts.

During discussions with the audit team, the Office had agreed to deactivate obsolete and duplicate vendors in the vendor database to minimize the risk of duplicate payments to the same vendor. The Office also closed one bank account that was opened in 1999 which had a zero balance, and no transactions over the last five years. Also, it had instituted controls on electronic payments, which were managed outside Atlas, as there was no interface between Atlas and the bank due to the Atlas system’s inability to decipher the Russian Cyrillic alphabet.

Issue 4 Disbursement of new advances to implementing partners prior to liquidating prior advances

UNDP policies and procedures require Country Offices to verify at least 80 percent of the cash advances disbursed to an implementing partner each quarter and to liquidate all prior advances before approving new advances.

The Office had approved a new advance even though the national implementation modality partners had not submitted documentation to liquidate the prior advance. Therefore, the Office had not verified at least 80 percent of the prior cash advances, nor had it liquidated the prior advances before approving new advances for two quarters, resulting in outstanding advances of \$0.6 million for more than six months.

The Office management explained that the above-mentioned advance had been an exceptional case, when a national implementation modality partner had to make a payment to a subcontractor covering two quarters of a year. Further, close monitoring of this case was undertaken, and the financial reporting was ensured without any delay.

Weak monitoring of advances to national implementation modality partners may compromise the achievement of the planned activities and could lead to UNDP resources being lost or misappropriated.

Priority	Medium (Important)
Recommendation 4:	
<p>The Office should ensure compliance with UNDP policies and procedures by:</p> <ul style="list-style-type: none"> (a) ensuring the verification of at least 80 percent of the cash advances disbursed to implementing partners each quarter; and (b) liquidating all prior advances before approving new advances. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>The Office is taking measures to urge national implementing partners and project teams to ensure better planning, delivery and reporting of advances in order to address the high outstanding amounts not cleared within six months.</p>	

4.3 Procurement

Partially Satisfactory

The procurement function was performed by one Administrative Associate who processed procurement requests for Global Environment Facility projects and other United Nations agencies. The Office recorded 487

purchase orders with a value of \$4.1 million in 2011 and 583 purchase orders with a value of \$3 million for the first nine months of 2012. The Office had a standard delegation of authority for procuring goods and services up to \$100,000. OAI reviewed the procurement process by interviewing the Office staff and testing a sample of 19 purchase orders valued at \$0.8 million or about 11 percent of the total value of items procured during the audited period.

The Office had limited staff capacity and relied on the implementation partners in regard to the procurement process for projects, in which UNDP contracts were issued. For instance, the evaluation and selection process was undertaken by the national implementing partners in 7 out of 19 UNDP procurement contracts reviewed. The issuance of UNDP contracts requires the Office to take full responsibility, and not to rely on the assertions of national implementing partners that the vendor selection had undergone a competitive and transparent process as intended by UNDP policies and procedures.

Also, due to limited staffing capacity in the Office, the Atlas e-requisitions were not used, as required by UNDP procurement policies and procedures, on 483 purchase orders totalling \$4.6 million in 2011 and 68 purchase orders totalling \$5.9 million in 2012.

OAI has not made a recommendation, as the Bratislava Regional Center will be providing oversight and supervision on the Office procurement process, including the use of e-requisitions, in 2013. At the time of the audit, the Office was in the process of securing tenders for long-term agreements on travel, printing and national implementation modality audit services. OAI discussed with Office management the need to involve the Bratislava Regional Center early on in the procurement process to ensure a smooth transition and avoid delays in finalizing the long-term agreements.

4.4 Information and communication technology

Satisfactory

OAI reviewed the information and communication technology roles and responsibilities, including the back-up and recovery plan, and did not identify any major issues. At the time of the audit, the Office was planning to continue using the local information and communication technology support to enable it to meet the increased demand for scanning procurement and financial documents for submission to the Bratislava Regional Center for oversight in 2013.

4.5 General administration

Satisfactory

OAI reviewed travel, assets, and common premises. The Office agreed to carry out a year-end physical inventory of the assets and seek the advice of the Regional Bureau for Europe and the Commonwealth of Independent States on the disposal of assets that were no longer needed by the Office.

The Office was paying rent in the amount of \$21,000 a month, which represented a 15 percent share of the cost of renting an office building from the Government. The building was administered by WHO on behalf of the various United Nations agency tenants in the building. At the time of the audit, the Office was negotiating with the other United Nations agencies to reduce its share of the space in the building as, with the reduction in staff, it would no longer need as much space in 2013.

4.6 Safety and security

Satisfactory

At the time of the audit, the entire Country, except for North Ossetia-Alania, Kabardino-Balkaria, Ingushetia, Chechnya and Dagestan areas, was under Security Level 2, meaning the level of danger was low on a scale of 1 (least dangerous) to 6 (most dangerous). The UNHCR Resident Representative has been appointed as the designated official responsible for the security management of the United Nations in the Country.

ANNEX. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units).*
- **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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category).*
- **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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category).*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to significant 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.