UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MADAGASCAR

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Report on the audit of UNDP Madagascar
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Madagascar (the Office) from 3 to 13 June 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 31 March 2014. The Office recorded programme and management expenditures totalling $27.5 million. The last audit of the Office was conducted by OAI in 2010.

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, "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."

Key recommendations: Total = **5**, high priority = **1**

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Weaknesses in financial management (Issue 3)	(a) Reimbursable micro-capital grant credits totalling $335,000 were inaccurately recorded in Atlas (UNDP's enterprise resource planning system). In addition, $258,000 of these credits were not reimbursed due to inadequate monitoring and the application of certain clauses in the agreements. (b) The Office contracted a responsible party for $ 1.48 million and services were provided for 2013. There was no disclosure of this activity at year end 2013, nor was the liability recorded in Atlas. Based on existing documentation, out of the total amount of $1.48 million only $275,000 could be validated as payments made by the responsible party. In addition, the Office provided cash advances to three vendors totalling $1.5 million that were expensed directly rather than being treated as advances or prepayments. Only $1.1 million paid was validated by an audit firm. As a result, a balance of $0.4 million remained with the vendors.

(a) Recommendation: Strengthen financial management by: (a) accurately recording all disbursements based on agreements signed with the vendors, and ensuring that the provisions of the agreements are monitored and applied; (b) settling the amount owed to the vendor who was contracted to train and pay electoral agents for the activities pre-financed; and (c) settling and recovering the remaining balance of advances currently held by three vendors. If not recovered, the Office should refer this case to OAI/Investigations Section.

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 Antananarivo, Madagascar (the Country). At the time of the audit, the Office employed 41 staff members (10 international, 9 National Officers and 22 General Service staff), 84 service contract holders and 39 international United Nations Volunteers. The Government, donors, and United Nations agencies recognized the crucial role played by the Office in ensuring smooth, peaceful and transparent elections that ended a four-year political and security crisis. The new 'United Nations Development Assistance Framework' signed in June 2014 for the cycle 2015-2019 aligns areas of strategic intervention and results with the Country's development priorities.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. The existence, adequacy and reliability of controls were generally satisfactory. The extra budgetary reserve was adequately managed.

(b) United Nations system coordination. Key controls were operating properly. In addition, the United Nations Country Team shared the common goal of improving the relevance and effectiveness of the United Nations system.

(c) Programme management. OAI assessed the process leading to the extension of the 'Country Programme' and observed that there was adequate follow-up on the outcomes.

(d) Partnerships and resource mobilization. The government coordinating entity indicated that it had a positive and constructive relationship with the Office. The Office was adequately managing contributions received from donors.

(e) Project management. OAI reviewed five projects with a total delivery of $21.2 million (or 90 percent of the Office's delivery for 2013). These projects had a total budget of $33.6 million, representing 73 percent of the total budget for 2013. OAI was satisfied with the procedures and controls in place.

(f) Procurement. There was adequate procurement capacity for both the Office and project procurement activities. The Office channeled procurement activities through established global and local Long Term Agreements, and overall, demonstrated good value for money through its procurement activities given the timing limitations for some projects.

(g) General administration. Controls over travel, common services and vehicle management were operating adequately.

(h) Information and communication technology. The Information and communication technology managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms were operating adequately.

(i) Safety and security. The security focal point advised that no notable security incidents had been recorded during the period under review. Security improvements were completed, including the separation of visitors and staff entrances, in line with recommendations made by the United Nations Department of Safety and Security.

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

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

High priority recommendation:
(a) Strengthen financial management (Recommendation 3).

Medium priority recommendations, arranged according to significance:
(a) Adequately segregate duties and address any deviations from or conflicts with the standard Atlas rights (Recommendation 1).
(b) Improve human resource management (Recommendation 2).
(c) Strengthen the payment process (Recommendation 4).
(d) Improve asset management practices (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegation of authority

Issue 1 Inappropriate Atlas profiles and lack of segregation of duties

According to the 'Internal Control Framework', there must be a segregation of duties in order to implement an appropriate level of checks and balances on the activities of individuals to detect and minimize the risk of error and fraud.
OAI noted a lack of segregation of duties regarding the approval of financial transactions:

(a) Three senior national staff members approved payments made to themselves for items such as Daily Subsistence Allowance. These payments should have been approved by a different approving manager to ensure the proper segregation of duties.

(b) Some staff members were designated as Project Managers for a large portfolio of projects - up to 30 projects in some cases. However, in several instances, up to three staff members were designated as Project Managers on the same project, which could weaken controls over requisitions approval.

(c) At least nine staff members separated from the Office but their Atlas profiles were not deactivated until three to four months after their separation. Subsequent to the audit fieldwork, management indicated that a number of profiles had been verified in the system, and several profiles had already been deactivated. The Office indicated that it will ensure that the Atlas profiles are deleted within 5 to 10 days after a staff member's departure. Further, the Office Human Resources Manager advised OAI that it will timely inform the system Requestor and Approver of any pending staff departures thereby ensuring an effective communication and adherence to the commitment made by the Office concerning this issue. Since corrective action has been taken, no recommendation is being made by OAI in regard to Atlas profiles.

The above issues occurred because of inadequate oversight and monitoring of projects in Atlas, and insufficient knowledge of the 'Internal Control Framework'.

Lack of segregation of duties increases the risk of unauthorized transactions being processed, which may result in the loss of financial resources.

Priority	Medium (Important)
Recommendation 1: Adequately segregate duties and address any deviations from or conflicts with the standard Atlas rights. Specifically, the Office should: (a) train all staff, including approving managers on the UNDP 'Internal Control Framework' and hold staff accountable for any deviations; and (b) streamline the number of projects managed by each staff member and ensure that only one staff member is designated as Project Manager for each project.	
Management action plan: (a) Training of all staff will be organized and implemented by the end of September 2014, ensuring all staff are clearly made aware of the importance of segregation of duties, and the reason for delegated authorities to individual staff in reference to their roles in the office, such as approving manager, disbursing officer, approval of vendors, etc. in keeping with the 'Internal Control Framework' for UNDP offices. Staff will also be made aware that if authority has been delegated/assigned to them, they are required to perform their duties and responsibilities in accordance with the 'Internal Control Framework' and the UNDP rules and regulations. (b) Verification and correction in Argus was carried out on 9 July by management. A review of programme and project portfolios against staff in charge of project management was conducted with the view to ensure that a limited number of projects (not exceeding five) were assigned to each individual. Since most of the projects will be closed by 31 December 2015, the situation will significantly improve with an even smaller number of outputs considered under the new 'Country Programme Document'. The current Atlas set up is not appropriate as it considers every single output as a project, hence the huge number of projects recorded in the system. Management is aware that Argus has been set up to enforce the requirement that each staff member can only have one Atlas profile (i.e. one of project manager, general user, finance, buyer, manager level 1, manager level 2, or senior manager at level 3). This will achieve the required segregation of duties. **Estimated completion date:** As indicated	

B. Operations

1. Human resources

Issue 2 Weaknesses in human resource management

Effective management of human resources is critical for ensuring that UNDP employs qualified individuals with the correct skills on a timely basis and provides them with the necessary training and development needs in order to meet its strategic objectives. Furthermore, it is critical for ensuring that staff members only receive entitlements for which they are eligible.

(a) UNDP mandatory training not completed

All staff members are required to complete mandatory training in the Learning Management System within six months upon being hired. At the time of the audit, 18 of 41 staff members had not completed all six mandatory training courses. For example, 12 staff members had not completed the UNDP "Legal Framework" course, while 21 had not completed "Prevention of Harassment" course. Failure to complete these mandatory training courses could result in staff not being aware of the organization's mandate, its accountability framework, corporate initiatives and requirements, and may prevent staff from properly carrying out their roles and responsibilities in accordance with UNDP policies and procedures.

(b) Core functions performed by service contract holders

Of the 84 service contract holders engaged by the Office, at least 5 were deployed to perform core functions, including human resources and procurement management. Having service contract holders perform core functions may negatively impact the Office, as there are restrictions on the access rights and authority levels that can be assigned to a service contract holder. Moreover, allowing contractors to perform core functions might generate frustration and demotivation among the staff which could impact on the efficiency and effectiveness of the Office operations.

(c) Entitlements paid without validation

Education grant travel is intended to allow for the reunion of parents and children for whom education grant is being paid. Three staff members received payment for education grant travel amounting to $40,000 without the Office validating their eligibility or confirming that their children were receiving education grant payments for the same school year. Follow-up with the Office of Human Resources confirmed that one of these staff members was not receiving education grant payment for his children, which is a prerequisite for the payment of the education grant travel.

(d) Inaccurate reporting of absences

Effective leave management calls for accurate and timely recording of all absences, including annual leave, sick leave, official business, and compensatory time off. However, absences were not validated prior to being reported in the Attendance Record Cards. One staff member reported five official business trips in 2013 by sending an email to the Human Resources Associate, who did not validate the existence of travel authorizations prior to recording the events in the Attendance Record Card. Another staff member was on detailed assignment for two months in addition to being away on official business outside of the Country for two weeks. However, these events were neither reflected on his Attendance Record Card nor in Atlas. One staff member took four uncertified sick leave days without submitting a note or doctor's certification. Finally, two staff members took compensatory time off without any evidence to support that such compensatory time off was actually earned.

The issues discussed above were primarily attributable to ineffective management oversight to ensure that human resource policies were applied effectively.

Without adequate human resources management, the Office may not achieve its strategic objectives and development goals. Also, without proper monitoring and validation of entitlements, staff members may receive undue benefits from the organization.

Priority	Medium (Important)

Recommendation 2:

Improve human resource management by:

(a) requiring all staff members to complete their mandatory training;
(b) refraining from engaging service contractors to perform core functions;
(c) validating all eligibility criteria prior to processing entitlement payments; and
(d) validating and recording all leave events in the Attendance Record Cards.

Management action plan:

(a) Subsequent to the audit, 7 staff members out of the 18 mentioned completed the required mandatory courses. The Office is diligently following up with the 11 remaining staff members to ensure they complete their mandatory courses by the end of July 2014.
(b) The names of the service contract holders performing core functions have been identified. Post conversion requests from service contract to fixed-term appointments have been sent for the three staff members, and the one human resource service contract has been converted to a fixed-term appointment with the medical clearance obtained from Headquarters on 9 July. With the new 'Country Programme Document' rolling out as of January 2015, a review of all of the Office's functions will be undertaken and all core functions assigned to staff holding fixed-term appointments.
(c) The Office will ensure that the Headquarters in Copenhagen confirms the eligibility of staff members prior to processing any entitlement payments to them. In the case of the three staff members mentioned, two have already been checked and validated and the third is diligently working with the Office of Human Resources in Copenhagen to resolve the issue by end July 2014.

By the end of September 2014, the Office will set up a leave monitoring system within each unit. The monitoring form will be completed by each staff member and checked by the Leave Monitor before being submitted to its Human Resource for control and recording the same information on the Attendance Record Card. A Human Resource Assistant has been recruited and one of this staff member's key functions will be to ensure that information on the Attendance Record Cards matches what is recorded in Atlas e-services. Each unit is in the process of identifying a Leave Monitor.

Estimated completion date: As indicated

2. Finance

Issue 3 Weaknesses in financial management

The 'UNDP Financial Regulations and Rules' require full disclosure of material transactions undertaken by offices. All commitments or agreements signed by the office should be timely and accurately recorded in Atlas to recognize the potential liability, secure the corresponding funding and allow for proper monitoring and timely liquidation of such engagements.

(a) Micro-capital grant credit activities not accurately reflected in Atlas

The Office signed reimbursable micro-capital grants with micro-credit institutions totalling $745,000 for the purpose of facilitating access to credit to certain minority groups. However, only $410,000 of this amount was recorded correctly in Atlas (in account 72610), while the balance of $335,000 was incorrectly recorded as non-reimbursable grants to financial institutions (in account 72605). A total amount of $258,000 (out of the total reimbursable micro-capital grants) which matured during the audit period was not reimbursed, due to inadequate monitoring and the application of certain clauses in the agreements.

Inadequate management of grant agreements could lead to unaccounted funds or the use of funds for unauthorized purposes.

(b) Potential liability/credit balance not captured in Atlas

- The Office contracted a responsible party in the amount of $1.48 million to train and pay electoral agents. While the vendor provided services in 2013, there was no disclosure of this activity at year end 2013, nor had this liability been recorded in Atlas as of June 2014. In addition, an audit firm sub-contracted by the Office to validate the documentation supporting payments made by the responsible party could only validate $275,000 out of the $1.48 million (or 19 percent). The balance of $1.2 million was neither disclosed nor recorded in Atlas.

- The Office provided cash advances to three vendors totalling $1.5 million that were expensed directly rather than being treated as advances or prepayments, which inflated the Office's delivery level by $1.5 million at year end. Furthermore, an audit firm (hired by the Office) only validated supporting documents for $1.1 million out of the $1.5 million prepaid to the vendors. As a result, a balance of $0.4 million remained with the vendors.

Inadequate financial management could lead to omitting material events in the financial statements or the misuse funds.

Priority	High (Critical)
Recommendation 3: Strengthen financial management by: (b) accurately recording all disbursements based on agreements signed with the vendors, and ensuring that the provisions of the agreements are monitored and applied; (c) settling the amount owed to the vendor who was contracted to train and pay electoral agents for the activities pre-financed; and (d) settling and recovering the remaining balance of advances currently held by three vendors. If not recovered, the Office should refer this case to OAI/Investigations Section.	
Management action plan: (a) The micro-capital grant credits which were inaccurately recorded were corrected and addendums sent to the four financial institutions to consider these grants as non-reimbursable. Appropriate action is being undertaken to correct the account recording in Atlas. (b) and (c) The office is currently working with the implementing partner to collect the remaining	

supporting documents for validation. UNDP will ensure that all un-validated payments made by vendor will be reimbursed to UNDP according to the agreement. After further verification carried out by the audit firm sub-contracted by the Office, the unjustified amount was $127,000. The Office has decided to allocate two additional months to the implementing partner to provide justification. After the deadline of 30 September 2014, the implementing partner will be requested to reimburse any balance amount not duly justified. Also, based on the requirements stated by the external audit report from the audit firm hired by the Office, the invoices will be sent by 31 July 2014 to the two other vendors who received the cash advances, in order to collect the remaining balances. Going forward, the Office will also ensure correct accounting treatment of advances and prepayments, thereby avoiding misrepresentation of financial data and delivery for the Office.

Estimated completion date: August 2014

Issue 4 Inadequate management of payments

The 'UNDP Financial Regulations and Rules' require Country Offices to establish appropriate controls and measures to avoid duplicate payments or payments to fictitious vendors.

The Office processed cheque payments to certain vendors, even though they did not have bank accounts. While these cheques were printed, they were not submitted to vendors, nor were they cancelled. The Office also completed bank transfer forms which were submitted to the bank for processing, thereby creating two valid payments for the same vendor/transaction. The printed cheques were kept unsecured in binders or folders in the Office, and were at risk of being reused.

This situation was caused by an absence of oversight over the payment process.

Inadequate management of payments could lead to the misuse of funds or financial losses for the organization.

Priority Medium (Important)

Recommendation 4:

Strengthen the payment process by discontinuing the practice of issuing and maintaining two valid payments (i.e. cheque and bank transfer) to vendors for the same transaction; and ensuring that all printed cheques are voided and maintained in the corresponding payment file.

Management action plan:

The Office has cancelled all issued cheques for which the actual payment was processed through cash remittance. The cancelled cheques are filed together with the payment voucher to limit the risk of them being reused.

Estimated completion date: December 2014

3. Asset management

Issue 5 Weak asset management practices

The 'Programme and Operations Policies and Procedures' require offices to maintain complete and accurate records of all assets. UNDP assets should be capitalized and recorded in the Atlas Asset Management Module and removed from Atlas once transferred or disposed. At the time of the audit, as per the Atlas 'Assets in-Service Report' (assets register), the Office had 343 assets with a value of $2.1 million.

Assets held by the Office were not fully or correctly recorded in Atlas. Specifically, out of a sample of 10 items selected from the assets register in order to verify their physical existence, location, tag number and serial number, the following was noted:

- An incorrect asset location was recorded for three items.
- Two other items had been transferred to the Government in November 2013 but still appeared in the Office's assets register in June 2014.
- Two sets of bundled items with a combined value of $20,191 had been purchased as single products with one price for the entire bundle in each case (and a price of zero for each individual sub-component) and recorded in the assets register as single items with only one serial number and tag number.

Additionally, eight items were selected to verify whether they had been correctly recorded in the assets register or the Office's list of non-capital assets. Of these eight items, two were not recorded in the assets register. Although disposed of according to accounting records, they were still in use by the Office. Two other items were not recorded in the assets register or the list of non-capital assets.

Furthermore, the Office did not maintain a list of asset transfers, asset disposals or custodial items such as laptops and cameras held by staff members. Although appropriate forms had been completed and signed for the three categories of assets or asset transactions mentioned above, the Office had not established a mechanism for tracking these items and ensuring that relevant approvals were obtained in all cases.

Asset management weaknesses may result in the failure to identify lost or stolen items. Additionally, incomplete or incorrect recording of assets in the Atlas Asset Management Module may result in misstatements in UNDP's financial statements.

Priority	Medium (Important)

Recommendation 5:

Improve asset management practices by:

(a) performing a thorough review of the Office's assets and information recorded in the Atlas Asset Management Module to ensure it is complete and accurate;
(b) obtaining individual item costs for all new purchases of bundled products to enable the Office to record and track all individual assets; and
(c) introducing an equipment log for all capital and non-capital assets that will enable the Office to fully track asset transfers, custodial items loaned to staff and asset disposals.

Management action plan:

(a) A thorough review of the Office's assets (completeness and accuracy) and information recorded in the Atlas Asset Management Module is currently being undertaken in line with preparations for the mid-year asset certification for Headquarters. This exercise will be completed by 31 July 2014.

(b) The audit recommendation is well-noted for new purchases of bundled products going forward. Individual item costs will be recorded and where concerns arise, the Office will seek clarification from the Global Shared Service Centre, thereby ensuring that all assets are correctly recorded.

(c) Action will be undertaken as per the audit recommendation. An equipment log for all capital and non-capital assets will be introduced to enable the Office to fully track asset transfers, custodial items loaned to staff and asset disposals.

Estimated completion date: July 2014

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>.