UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

United Nations Capital Development Fund Headquarters

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Report on the audit of United Nations Capital Development Fund Headquarters
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the United Nations Capital Development Fund Headquarters (UNCDF) from 21 July to 22 August 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, risk management, planning, monitoring and reporting, financial sustainability);

(b) programme activities (partnerships and resource mobilization, grant management); and

(c) operations (human resources, finance, procurement, travel).

The audit covered the activities of UNCDF from 1 January 2013 to 30 June 2014. Over this period, UNCDF recorded programme and management expenditures totalling $87.5 million. The audit was limited to UNCDF's Headquarters and did not include field visits to its Regional Offices and to programme countries. The last audit of UNCDF was conducted by the United Nations Board of Auditors in 2014.

At the time the audit was initiated, UNDP senior management conveyed its concerns to OAI, mainly regarding procurement, staffing and travel. OAI noted shortcomings in the areas of procurement and travel.

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

Overall audit rating

OAI assessed UNCDF 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 weaknesses in the governance and strategic management and risk management, planning, monitoring and reporting areas of UNCDF.

Key recommendations: Total = **10**, high priority = **3**

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:

Sub-optimal UNCDF organizational structure and non-use of a UNDP shared service (Issue 1)	UNCDF had three Regional Offices, all of which were structured differently, but without any justification as to the need for this different set-up. Furthermore, each of the Regional Office Managers had different perceptions of what their responsibilities were, and subsequently executed their work differently, mainly as a result of what seemed to be unclear guidance and direction from UNCDF management. Additionally, UNCDF had decided, without any justification, not to use the administrative support functions of UNDP's Global Shared Service Centre. Recommendation: Reassess the organizational structure, considering: (a) set-up of the Regional Offices; (b) provision of clear guidance/direction with regard to

	the roles and responsibilities of the various units as well as the individual staff members; and (c) using UNDP's Global Shared Service Centre.
Weaknesses in policies governing UNCDF's business processes (Issue 2)	A number of policies developed by UNCDF showed weaknesses. The policy governing the issuance of loans was still in draft form at the time of the audit. The policy governing grants focused primarily on grants issued to Financial Service Providers (entities that provide financial services such as checking accounts, savings accounts, loans, and money transfers to consumers and businesses), ignoring grants issued to non-Financial Service Providers. In addition, the Operations Manual prepared by UNCDF lacked direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures,' thereby minimizing the usefulness of the Manual. Recommendation: Improve policies governing UNCDF's business processes by: (a) finalizing the policy governing the issuance of loans; (b) amending the policy governing grants to include issuance of grants to non-Financial Service Providers; and (c) updating the Operations Manual to include direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures.'
Lack of formal risk management process (Issue 4)	UNCDF had not implemented an enterprise risk management system. Furthermore, risk logs showing the key risks of the organization and mitigating actions at unit and/or UNCDF levels were not available. Some risk management activities were carried out in the two Practice Areas; however, they were not carried out in a unified and consistent way. Recommendation: Introduce enterprise risk management processes in line with UNDP's Policy for Risk Management.

Management comments and action plan

The Executive Secretary, UNCDF, 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
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Office of Audit and Investigations

I. About UNCDF

UNCDF was established in 1966 by the General Assembly with an unique mandate "to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans." The mandate was modified in 1973 to focus on "first and foremost the least developed among the developing countries."

UNCDF is headed by an Executive Secretary, who is accountable to the Administrator of UNDP. It has its Headquarters in New York with Regional Offices in Dakar, Senegal; Addis Ababa, Ethiopia; and Bangkok, Thailand and a sub-office in Brussels, Belgium with operations in 33 programme countries. At the time of the audit, the total number of staff in UNCDF was 113, with 35 staff members at Headquarters in New York, 35 at the three Regional Offices, 4 in the sub-office, and 39 at the country level. UNCDF is organized into two distinct service lines: the Local Development Finance Practice Area and the Inclusive Finance Practice Area, both reporting to the Executive Secretary. Both Practice Areas contribute to the overall mandate of UNCDF, but each with a different focus. The Inclusive Finance Practice Area, consisting of 49 staff members, focuses on promoting access to formal financial services for all segments of society, at a reasonable cost and on a sustainable basis. The Local Development Finance Practice Area, consisting of 32 staff members, aims at ensuring that people in all regions and locations benefit from economic growth, and therefore focuses on promoting increased capital flow to the local level, reducing inequalities, improving services and increasing opportunities for sustainable economic development. During the period under review, the Inclusive Finance Practice Area recorded programme and management expenditures totalling $42 million and the Local Development Finance Practice Area recorded programme and management expenditures totalling $36.2 million. Including expenditure of other sections amounting to $8.7 million, UNCDF's expenditures totalled $87.5 million during the audit period.

UNCDF's existing Strategic Framework, covering the period 2014-2017, defined the following three strategic objectives against which results would be monitored and measured:

- increasing financing for basic services and sustainable and inclusive growth;
- establishing financing mechanisms to increase resilience to economic and environmental shocks; and
- fostering policy environment conducive to sustainable financing for sustainable development.

In line with these objectives, UNCDF's activities would place particular emphasis on the following specific target groups, in line with those of UNDP:

- the poor and underserved populations;
- those groups that are experiencing the greatest inequalities and exclusion in terms of access to opportunities and achievement of results, especially vulnerable groups such as women and youth; and
- populations in rural and peri-urban areas.

In its Strategic Framework, UNCDF emphasized its commitment to the Millennium Development Goals and to the post-2015 development framework, as well as its continuing focus on Least Developed Countries, without overlooking the potential for promoting South-South cooperation, especially when this could benefit Least Developed Countries. The Strategic Framework was developed in close connection with UNDP's Strategic Plan for 2014-2017, to maximize synergies between the two organizations.

II. Audit results

OAI made 10 recommendations ranked high (critical) and medium (important) priority.

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

High priority recommendations, arranged according to significance:

(a) Reassess UNCDF's organizational structure (Recommendation 1).
(b) Improve policies governing UNCDF's business processes (Recommendation 2).
(c) Introduce enterprise risk management processes in line with UNDP's Policy for Risk Management (Recommendation 4).

Medium priority recommendations, arranged according to significance:

(a) Clarify the roles and responsibilities of the different actors involved in resources mobilization and partnerships management (Recommendation 5).
(b) Improve donor reporting (Recommendation 7).
(c) Improve travel management (Recommendation 9).
(d) Improve procurement practices (Recommendation 8).
(e) Improve management of contribution agreements (Recommendation 6).
(f) Set up and use Atlas in the same way UNDP does, unless there are valid business reasons not to (Recommendation 3).
(g) Review travel payments where overpayment of Daily Subsistence Allowance might have taken place and, where applicable, recover overpayment (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Sub-optimal UNCDF organizational structure and non-use of a UNDP shared service

The UNCDF Strategic Framework for the period from 2014 to 2017 stipulates, "the functions in the organization will be reviewed to maximize effectiveness and efficiency with special focus on regional and country where the development results are achieved." In order to operate effectively and efficiently, an organization needs a coherent structure that is clearly documented and communicated, taking into account relevant business processes and workflows.

The following issues with regard to UNCDF's organizational structure were identified:

- Each Regional Office was structured differently, without any justification as to why there was a need for a different set-up.

- Regional Office Managers had different perceptions of what their responsibilities were, and subsequently executed their work differently, mainly as a result of what seemed to be unclear guidance and direction from UNCDF senior management. For example, in two of the three Regional Offices, the

managers viewed their roles as being more instrumental in resource mobilization and relation building, whereas the other manager considered his/her role as more of an office manager and provider of support to the technical specialists in the office (also refer to Issue 5).

- There were dual reporting lines of the (Senior) Regional Technical Advisors and Global Thematic Initiative Programme Managers located in the Regional Office: one reporting line was to the Director of their applicable Practice Area for all programmatic aspects and another was to the Regional Office Manager for all operational aspects regarding their work.

- Lines of responsibility among the various units were unclear. As an example, it was not clear which unit or individual had the ultimate responsibility of ensuring that qualitative donor reports were submitted in a timely manner. These various units and individuals included the Policy and Analysis Unit, the Partnerships Unit, the Regional Office Manager, as well as the Technical Advisor (refer to Issue 7).

UNCDF management informed OAI that practice directors were accountable for all aspects of their programme and that there were approved and documented delegations of authority, but that these were not always followed. While accountabilities bestowed upon the practice directors cannot be disputed, the existing organizational structure still called for clearer guidance/instructions as to who was responsible for what.

According to UNCDF's Strategic Framework 2014-2017, "the relationship with UNDP is rooted in the complementarity of the organizations and aims at greater coherence, effectiveness and increased resource flows." The Framework further stipulates, "UNDP's Strategic Plan 2014-2017 presents a strong platform for enhanced synergies between the two organizations."

UNDP had set up in January 2012 a Global Shared Service Centre, whose primary goal was to provide transaction services and related support on revenue management, and asset and expense transactions following the adoption of IPSAS.

UNCDF decided not to use this Service Centre, and instead its functions were carried out by the Programme Management Support Unit in UNCDF Headquarters, with additional support from staff in Regional Offices. No cost-benefit calculation was available to justify and sustain the decision not to use UNDP's Global Shared Service Centre.

A sub-optimal organizational structure with unclear roles and responsibilities of staff and the non-utilization of globally shared resources can lead to inefficient and ineffective business processes and a lack of accountability, which can increase the risk of incurring unnecessary costs.

Priority	High (Critical)
Recommendation 1: Reassess UNCDF's organizational structure, considering: (a) a consistent set-up for Regional Offices; (b) the provision of clear guidance/direction with regard to the roles and responsibilities of the various units as well as the individual staff members; and (c) the use of UNDP's Global Shared Service Centre.	

Management action plan:

UNCDF is currently engaged in a realignment process, which is expected to provide the organization with a "health-check" of the existing organizational architecture, practices, roles and responsibilities. Concrete recommendations will be made to enhance and improve upon the current policies and procedures in place, and where possible, benchmarking the organization's current environment against leading practices. The realignment plan will present specific recommendations pertaining to the Regional Offices' setup, roles and responsibilities, and the eventual utilization of UNDP's Global Shared Service Centre. For that purpose, the suggested cost-benefit analysis will be done in order to determine whether to keep the current setting or use UNDP's Global Shared Service Centre. The proposed plan should be presented in December 2014, and the recommended actions will be implemented by June 2015.

Estimated completion date: June 2015

Issue 2 Weaknesses in policies governing UNCDF's business processes

The UNCDF Strategic Framework for the period covering 2014 to 2017 mentions, "At the operational level, UNCDF is aligned with the UNDP accountability framework, allowing for differences only when needed." Given the extent of UNCDF's joint programming with UNDP and the similarities in many operational processes, and in the interest of simplification and harmonization, UNCDF opted to follow UNDP's 'Programme and Operations Policies and Procedures.' When certain policies and procedures were found to be unique to UNCDF, such as the provision of capital (rather than technical) assistance, UNCDF issued a separate Operations Manual.

A review of the policies developed by UNCDF to govern its business processes identified the following weaknesses:

- The policy governing the issuance of loans (Loan Policy) drafted in April 2012 with updates in December 2012 and November 2013 was still in draft form at the time of the audit. UNCDF management informed OAI that the Loan Policy had been finalized by UNCDF, and that UNCDF was only awaiting final clearance from UNDP, after which it would be approved and signed by the UNCDF Executive Secretary. While no new loans were issued during the period under review, the policy needs to be finalized to avoid any potential legal and operational issues in case new loans are issued.

- The policy governing grants (Structuring, Monitoring and Enforcement of Performance Based Agreements) focused primarily on grants issued to Financial Service Providers (entities that provide financial services such as checking accounts, savings accounts, loans, and money transfers to consumers and businesses) and did not address the topic of issuing grants to non-Financial Service Providers. During the period under review, UNCDF issued grants amounting to $9 million to Financial Service Providers and grants amounting to $27.8 million to non-Financial Service Providers.

- In numerous instances, the UNCDF Operations Manual had references to UNDP's 'Programme and Operations Policies and Procedures.' However, direct references (e.g., by including a link) to the actual section of UNDP's 'Programme and Operations Policies and Procedures' dealing with the issue being addressed in the Operations Manual were limited.

Incomplete policies and procedures can lead to inefficient and ineffective business processes and a lack of accountability, increasing the risk of irregular practices that could lead to possible negative reputational consequences for UNCDF.

Priority	High (Critical)
Recommendation 2: Improve policies governing UNCDF's business processes and enhance their usefulness by: (a) finalizing the policy governing the issuance of loans; (b) amending the policy governing grants to include issuance of grants to non-Financial Service Providers; and (c) updating the Operations Manual to include direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures.'	
Management action plan: With the recent appointment of a new senior management team, and as part of the realignment process, it is evident that the policies governing the issuance of loans and grants to non-Financial Service Providers needs to be updated and formally validated by the UNDP Office of Financial Resources Management. These policies will be embedded in a revised Operations Manual and will also include direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures.' **Estimated completion date:** April 2015	

Issue 3 Sub-optimal set-up and use of Atlas

As mentioned in its Strategic Framework for 2014 to 2017, whenever possible, UNCDF makes full use of UNDP's systems, such as Atlas (UNDP's enterprise resource planning system).

UNCDF activities are run under a dedicated and separate business unit in Atlas. However, the set-up of projects implemented by UNCDF differed from the set-up used by UNDP, even though a large number of UNCDF's projects were joint projects with UNDP and the size and nature of UNCDF's operations did not warrant a different set-up from that of UNDP. The differences noted included the following:

- A separate project and outcome was created for each individual donor, leading to numerous similar projects and outcomes.
- The type of implementing partner (Institution Type) was not used, making distinguishing the implementation modality of the project difficult (e.g. directly or nationally implemented).

The difference in set-up made it impossible for UNCDF to use the standard corporate monitoring and reporting tools, such as the Executive Snapshot and the various dashboards as used by UNDP. As a result, useful information was not readily or systematically available from Atlas for monitoring and reporting. As a workaround, manual reports were prepared by the two Practice Areas as well as the Programme Management Support Unit, but this was considered a less efficient and less effective solution.

There were no convincing business cases for this divergence or for UNCDF not adopting a similar set-up of projects in Atlas as that of UNDP.

Without an effective system that fully supports operations, the management and monitoring and oversight of projects may be negatively affected.

Priority	Medium (Important)
Recommendation 3: Set up and use Atlas in the same way that UNDP does, unless there are valid business reasons not to.	
Management action plan: On 23 September, the Executive Secretary sent an official request to UNDP's Bureau of Management to express UNCDF's interest in integrating UNDP's strategic planning and reporting systems. Today, UNCDF is not only not fully linked to any of the above-mentioned systems (i.e. Atlas Dashboards, Executive Snapshot, Risk Management tool, RBM platform, etc.), but it also has to rely on very basic and limited reporting tools that are not suitable for its current requirements. As the alignment with UNDP's planning and reporting systems now are a priority, two technical meetings with the Office of Information Systems and Technology already took place to plan a phased approach, starting with the utilization of financial dashboards, towards integrating UNCDF into UNDP strategic planning and reporting systems. **Estimated completion date:** April 2015	

2. Risk management, planning, monitoring and reporting

Issue 4 Lack of formal risk management process

According to UNDP's 'Programme and Operations Policies and Procedures,' which is applicable to UNCDF as well, risk management is an integral part of effective managing for development results. UNDP's Enterprise Risk Management Policy defines the roles, responsibilities and requirements of effective risk management, which are also applicable to UNCDF.

OAI noted that no enterprise risk management was implemented in UNCDF. No risk logs were available, showing at unit and/or UNCDF levels the key risks (programmatic and operational) of the organization and mitigating actions.

Some risk management activities were carried out in the two Practice Areas. However, while they were formally executed in the Local Development Finance Practice Area, they were carried out more informally and on a case-by-case basis in the Inclusive Finance Practice Area. In addition, these risk management activities focused on programme delivery and did not provide a comprehensive approach to identifying, assessing and mitigating key operational and programmatic risks (e.g. risks related to staffing, reputational risks, financial risks, etc.).

OAI noted that the Board of Auditor's audit report for 2013 also highlighted the lack of formal enterprise risk management methods and processes, and urged UNCDF to adopt and fully implement an enterprise-wide risk management process.

The lack of formal enterprise risk management may lead to risks not being identified and mitigated. Key management information may be not available, in particular at higher organizational levels, to assess potential cross-cutting or aggregate levels of risks, and to decide on necessary actions to reduce risk exposure.

Priority	High (Critical)
Recommendation 4: Introduce enterprise risk management processes in line with UNDP's Enterprise Risk Management Policy.	
Management action plan: UNCDF will review the current UNDP Enterprise Risk Management Policy, practice and tools, and adapt and embed them in the revised Operations Manual. Adaptation will be necessary given UNCDF's particular mandate and programming/financial instruments. UNCDF's senior management will also continuously foster an organizational culture that motivates staff to act in line with the Enterprise Risk Management Policy on internal control. Some practical steps will include more positive recognition of hands-on approaches in the operation of controls, and appropriate follow-up on control weaknesses or failures. **Estimated completion date:** June 2015	

B. Programme activities

1. Partnerships and resource mobilization

Issue 5 Roles and responsibilities for resource mobilization and partnership management not clearly defined and implemented

The Partnerships, Resources Mobilization & Communications Strategy 2010-2013, which was extended to 2014, makes a proposal for roles and responsibilities for resources mobilization and partnership management of the various units with UNCDF, including the Executive Office, Partnership Unit, Programme Units, Regional Offices and Country Offices. The Strategy stipulates that "the regional office heads must take the lead in overseeing and supporting resource mobilization activities at country and regional levels." In addition, "the Partnership Unit must ensure that the necessary tools and routines are in place to deliver on the annually determined resource mobilization targets." The Strategy further refers to a mission calendar, as a tool to support identifying and capitalizing on resource mobilization opportunities by coordinating missions to donor capitals.

OAI noted the following issues:

- The roles and responsibilities of the different units and actors were not clear to all parties and needed further refinement and clarification. In particular, OAI noted insufficient vertical integration and coordination of activities, such as coordinating site visits between Headquarters Programme Units and Regional Offices.
- The oversight and support of resource mobilization activities were largely carried out by the Programme Units at Headquarters.
- No guidance was provided by the Partnership Unit to the Programme Units on calculating soft and hard pipelines. As a consequence, the categorization and the allocation into soft and hard pipelines were not commonly defined and differed in the two Practice Areas.

- There was no common planning tool in place. The two Practice Areas managed their activities individually and internally, with different levels of formalization and coordination, and with other UNCDF units and functions.

Unclear roles and responsibilities, and lack of common planning tools may lead to inefficient and ineffective resource mobilization and partnership management activities, which may ultimately negatively affect UNCDF's ability to execute its mandate.

Priority	Medium (Important)
Recommendation 5: Clarify the roles and responsibilities of the different actors involved in resource mobilization and partnership management and provide guidance and tools to better support consistency and coordination of activities.	
Management action plan: Partnerships at all levels, including governments, United Nations agencies, private sector, foundations, and non-governmental organizations are at the heart of the UNCDF 2014-2017 Strategic Framework. This approach comes from the organization's commitment to consolidate the impact of its development activities in a changing Official Development Assistance context through organizational realignment and strengthening. At the same time, UNCDF has experienced a reduction of its regular resources and for that reason, a way to further diversify its donor base is being envisaged. In this context, UNCDF will develop the next generation Partnerships, Resources Mobilization & Communications Strategy, an activity plan for 2015-2017, an assessment of internal capacities, and clear linkages with terms of reference at all levels to clarify roles and responsibilities within UNCDF. Hard and soft pipeline planning with clear definitions to assure common application across the Practice Areas has already been implemented for the purposes of the organizational realignment currently underway, and will be formalized through the revised Operations Manual. **Estimated completion date:** April 2015	

Issue 6 Weaknesses in management of contribution agreements

According to the UNDP 'Programme and Operations Policies and Procedures,' "any use of non-standard contribution agreements requires clearance by the Legal Support Office and/or the Bureau for External Relations and Advocacy of UNDP." Clear, complete and up-to-date guidelines help ensure consistency in managing processes and compliance with underlying policies.

The following weaknesses regarding the management of contribution agreements were noted:

- No evidence of clearance of non-standard agreements by the Legal Support Office

  OAI reviewed a sample of 20 donor agreements that included standard and non-standard contracts, with private and government donors in both Practice Areas of UNCDF.

  No evidence of clearance of non-standard agreements by the Legal Support Office was provided in five cases reviewed. According to UNCDF management, all non-standard agreements were cleared by the

Legal Support Office. However, in one case, significant comments made by the Legal Support Office on a draft agreement could not be verified in the final agreement, as the latter was not provided. In one case, no clearance by the Legal Support Office was provided regarding a contract clause included in a standard agreement that obliged UNCDF to use an amount of $485,000 of the funding for work to be performed by a specified third party. In other cases, the templates used were said to be agreed upon earlier. However, no evidence of clearance by the Legal Support Office was provided.

- No guidance for management of contribution agreements

  No internal guideline on managing contribution agreements was available, e.g. defining roles and responsibilities of Headquarter units, Regional Offices and outposted staff, as well as process steps for all types of donor agreements (initiation, clearance, quality control, and approval), documentation requirements, standard templates, etc. to ensure consistency and quality of contribution agreements. OAI noted that although UNCDF had one standard contribution agreement template, most of the agreements signed deviated from this template. Further, in some cases, agreements and supporting documents could not be easily retrieved, because they were not stored consistently in a central repository. In addition, even though quality control of donor agreements was carried out by the Partnerships Unit, OAI noted some quality issues (e.g. in some agreements there were two options for reporting). No checklist was available to ensure consistent quality control of contribution agreements.

  According to UNCDF management, guidance was provided in the Partnership Strategy and through notes from the former Executive Secretary and his Deputy. However, in OAI's view, these documents do not adequately and sufficiently cover the topics mentioned earlier. The Partnership Strategy makes generic proposals for "assignment of roles and responsibilities," it presents "action items envisaged towards establishing a more structured approach to earmarked resource mobilization," and outlines mainly the Partnership Unit's areas of responsibilities and as such is not a guidance document. The note from the Deputy Executive Secretary was only related to "Reporting Lines" and defined the reporting lines between UNCDF units and hierarchical levels.

Lack of guidance for managing contribution agreements could lead to signing agreements that expose UNCDF to legal, financial and reputational risks.

Priority	Medium (Important)
Recommendation 6: Improve the management of contribution agreements by: (a) clearing all non-standard agreements with the Legal Support Office and/or the Bureau for External Relations and Advocacy of UNDP, and supporting documentation thereof should be kept on file; and (b) preparing an internal guideline on the management of donor agreements.	
Management action plan: An initial note will be sent to all staff to reiterate standard procedures referring to the management of donor agreements, and compliance will be monitored at the clearance/approval point to ensure supporting documentation is complete and on file. Specific emphasis will be made on the following points:	

- Standard agreements can be used where no changes are required to the terms of the agreement or no special conditions need to be inserted.
- The utilization of non-standard agreements should be considered as exceptions and justified. UNDP's Legal Support Office and/or Bureau for External Relations and Advocacy must review and approve any change to the standard agreements.
- Standard agreements are updated regularly and should be downloaded from the UNCDF intranet as needed. This ensures that the latest approved version is used.

Before the end of the year, detailed guidelines will be shared with all staff.

Estimated completion date: December 2014

Issue 7 Deficiencies in donor reporting

Clear, complete and up-to-date guidelines and supporting tools help ensure consistency, timeliness and quality in the donor reporting processes and compliance with requirements in the underlying donor agreements.

OAI noted that no internal guideline was available for the donor reporting process, defining roles and responsibilities of the different actors involved in the reporting process, the process flow, and storage of reports issued. A draft paper from the Partnership Unit had not been approved as of yet and was not discussed and agreed upon with all actors involved in the reporting chain.

As a potential consequence of the lack of clear guidance from Headquarters, it was noted that the reporting process differed among the Regional Offices and that the involvement of the Headquarters Practice Areas and the Partnership Unit varied, e.g. Country Office reports were submitted in some cases directly to the donors while others were channelled through the Headquarters Practice Areas and the Partnership Unit. In addition, no tool was available allowing for the central monitoring and follow-up of reporting deadlines and status of report preparation. The update of an existing tool was under development.

Insufficient clarity regarding the process, roles and responsibilities for donor reporting, and insufficient support through tools could lead to delayed reporting to donors and poor quality of reports, ultimately negatively affecting UNCDF's relations with its donors and exposing UNCDF to reputational and financial risks.

Priority	Medium (Important)

Recommendation 7:

Improve donor reporting by:

(a) consulting all actors involved in the reporting process before finalizing the internal guideline on donor reporting;
(b) monitoring and ensuring that the defined reporting process is followed consistently by all offices/units; and
(c) finalizing the reporting monitoring portal and ensuring that procedures are in place to validate and keep the information included up-to-date.

Management action plan:

Internal guidelines on donor reporting will be revised, consulted, and approved, including clarification on roles and responsibilities, process flows, and monitoring. An effective and accessible tracking system will be established on the intranet to ensure good planning and timely reporting.

Estimated completion date: March 2015

C. Operations

OAI reviewed UNCDF's processes and controls governing human resources, finance, procurement and travel. This review identified two medium priority issues, one in procurement and one in travel that have been included in this report. With regard to human resources and finance, only low priority issues were noted. These have been discussed directly with management and actions have been initiated to address them and are therefore not included in this report.

1. Procurement

Issue 8 Weaknesses in procurement

A fair, competitive and transparent procurement process in line with the requirements of UNDP's 'Programme and Operations Policies and Procedures' is a prerequisite for achieving best value for money for the services and goods purchased by UNCDF.

During the review period, UNCDF processed procurement related payments amounting to $9.3 million. OAI reviewed a sample of 15 procurement cases with a total value of $2.1 million or 23 percent of the total. Additionally, one procurement case valued at $92,000 falling outside the review period was also reviewed following concerns conveyed by UNDP senior management. OAI noted weaknesses in the procurement activities undertaken by UNCDF, including instances of no or limited competition, lack of transparency in evaluation and selection processes, failure to demonstrate best value for money for UNCDF and failure to comply with UNDP procurement policies. The following weaknesses were identified:

A review of 15 procurement cases showed the following:

- Six instances ($558,477) where the information on the basis of which the contracts were awarded was not on file, resulting in a lack of clarity and transparency regarding the evaluation results and contract award.
- Three instances ($496,643) where solicitation documentation, such as procurement notices, were not available on file, making it impossible to assess whether the contracts had been awarded following a transparent and competitive process and whether in these cases best value for money was achieved.
- Two instances ($683,834) where only one or two bids were received following an open international competition and where UNCDF was not able to demonstrate that best value for money was obtained, as the contract was awarded to the sole bidder or one of the two bidders.

- Two instances ($191,118) with a potential conflict of interest, where:
  - an external (i.e. non-UNCDF) member of the bid evaluation panel acted as a reference for the vendor subsequently selected by the panel by providing feedback on the performance of the vendor; and
  - a UNCDF member of the individual contractor assessment panel had a prior working relationship with the candidate who was subsequently selected by the panel. Several months after the selection was made, a disclosure of this working relationship was conveyed to the Ethics Office.

- Two instances ($147,012) with no supporting documentation/reasoning for long-listing decisions (for individual contractor recruitment).

- One instance ($259,877) where the work/services procured were considered as core UNCDF activities that, under the 'Programme and Operations Policies and Procedures,' should not be performed by an external service provider. This was something that was also indicated by the Advisory Committee on Procurement in their review of this case.

- One instance ($101,423) of direct contracting referred to a prior competitive selection process without evidence of such a competitive selection process in the 12 months preceding the direct contracting award.

- One instance ($92,918) where the only available terms of reference document for a contractor was tailored to the contractor (including base location, daily rates and travel estimates) who was awarded the contract. Subsequently, the payments against this contract were made to a corporate entity and not to the contractor with whom the contract was signed.

- One instance where the contractual amount was increased because the contractor had exceeded the maximum travel allowance by $2,737, or 35 percent more than what had been agreed upon in the contract.

There was no evidence of competitive procurement activity or other cost comparison analysis leading to the selection of the location and venue for the UNCDF staff and management retreat in 2013, which had a cost of about $370,000.

The General Terms and Conditions for Individual Contractors available on the UNCDF intranet at the time of the audit were not identical to the equivalent UNDP document. Specifically, the audit clause and limitation of actions section were missing from the UNCDF version.

The consultant roster maintained centrally through the Roster Management Desktop application contained entries that had not been updated since 2011. At the time of the audit, the UNCDF operations team was in the process of preparing to call for applications to update the roster membership and was expecting the roster to be fully updated by the end of 2014.

OAI noted improvement in the procurement cases concluded in 2014, specifically with regard to increased coordination of procurement activities through the new post of Operations Specialist (operational since February 2014).

The absence of effective procurement planning, delivery and review, may result in a failure to obtain best value for money, to obtain required goods or services on time, to meet the required specifications, to maintain quality,

and to remain within the allocated budget. This may in turn prevent UNCDF from achieving its objectives and also may result in financial losses or reputational risks for the organization.

Priority	Medium (Important)
Recommendation 8: Improve the procurement practices at UNCDF by: (a) reminding all staff of UNDP procurement rules and requirements regarding procuring services and contracting individual contractors; (b) requiring all procurement requests to be reviewed by the procurement team (Operations Specialist and Procurement Associate) in Headquarters and requiring that all procurement documentation (or copies thereof) be filed centrally with the unit; (c) updating the individual contractor roster with appropriately qualified candidates and using the roster to identify potential candidates in all individual contractor recruitment activities; and (d) updating the General Terms and Conditions document as per the standard UNDP template.	
Management action plan: UNCDF will strengthen procurement activities by providing continued guidance and support to staff at all levels, including Headquarters, Regional Offices and Country Offices. One training session has already been completed in Dakar and others are planned to take place between the 4th quarter of 2014 and the 1st quarter of 2015. UNCDF is reinforcing the preparation of quarterly procurement plans to facilitate planning and support, and is strengthening process flows, and roles and responsibilities for procurement, in the context of the organizational realignment. The update process for the UNCDF Roster of consultants is ongoing. The case is currently with the Advisory Committee for Procurement for approval and it is expected that the roster will be updated during the last quarter of 2014. The General Terms and Conditions document will be updated. **Estimated completion date:** March 2015	

2. Travel

Issue 9 Deficient travel management

The UNDP 'Programme and Operations Policies and Procedures' include the following provisions regarding business travel:

- All business travel that is organized and is due to be paid by the organization is required to be approved before the traveler leaves for the trip and before any prepayments can be made. Furthermore, it is strongly encouraged to confirm travel itineraries as early as possible and purchase airline tickets at least

21 days in advance of travel to have the best opportunity to book the lowest fare and wherever possible, changes to advance bookings should be avoided.

- In case a traveler is provided free overnight accommodation and/or meals by the organization, a government or related institution, or by an airline, reduced Daily Subsistence Allowance shall be paid.

All staff members, as well as non-staff members, when their travel is organized and paid for by the organization, are required to submit a travel claim (F.10 - Voucher for Reimbursement of Expenses) within two weeks after returning from official travel, whether claiming additional expenses or not.

During the review period, UNCDF incurred travel costs amounting to $3.9 million. Of this amount, around $1.3 million related to travel by UNCDF staff based in UNCDF Headquarters and around $2.7 million to travel by UNCDF staff based in the Regional Offices or programme offices and non-UNCDF staff (e.g. consultants and meeting participants).

OAI noted deficiencies in the management of travel, specifically:

- Issuance of tickets too close to travel date

  Although UNCDF prepared quarterly travel plans, OAI noted that out of the 32 official travel cases reviewed, 14 tickets valued at $82,050 had been purchased within 72 hours prior to boarding, and in six cases, the purchase had been finalized only on the day before the travel date. There were only two cases where tickets were purchased and issued 21 days prior to official travel. The delay in travel arrangements was often due to travelers accepting ad-hoc meeting invitations. A review of three of the cases where tickets had been purchased within 72 hours prior to boarding showed that these cases had resulted in higher tickets costs.

- Incorrect Daily Subsistence Allowance payments

  In three cases reviewed, full Daily Subsistence Allowance was paid when the official travel included coverage of a meal, which should have led to a reduction of the Daily Subsistence Allowance payment by at least $256. In addition, there was one case where the official travel included coverage of accommodation as well, leading to an overpayment of at least $3,000. Additionally, an incorrect Daily Subsistence Allowance rate was noted in one case and improper approval of supplementary Daily Subsistence Allowance payment was noted in another case.

- Late submission of travel claims (F10 – Voucher for reimbursement of expenses)

  In 21 out of the 32 cases reviewed, the travel claim was submitted after the two week deadline or was not submitted at all. Timely submission would prove that the travel was completed as initially approved; delayed submission would also delay any required financial adjustments (recovery or additional payment).

- Unauthorized exceptions to travel entitlements

  In two instances, a deviation of the standard for accommodation (i.e. traveling business class instead of entitled economy class) was granted for medical reasons. However, these requests were granted without the required assessment of the Medical Services Division and subsequent approval by the Chief, Administrative Services Division.

- Incomplete supporting documents

  In 8 of the 32 cases reviewed, mainly regarding travel requests originating from the Regional Offices or staff in programme offices, there were incomplete supporting documents. For these cases, which amounted to $42,542 in Daily Subsistence Allowance and Terminal Allowance payments, the documents supporting the travel request were not sufficient for OAI to be able to verify whether the most direct and most economic route was selected or whether it was properly authorized. Moreover, supporting documents of requested samples did not include 'Back to Office Reports' or similar information, and as a result, OAI was not able to conclude on the achievement of expected results as indicated in the terms of reference justifying the official travel.

The deficiencies identified constitute non-compliance with the applicable policies and procedures governing travel and lead to financial losses for UNCDF and exposure to reputational risks.

Priority	Medium (Important)

Recommendation 9:

Improve travel management by:

(a) strengthening the review process of travel requests, discouraging last minute itinerary changes and only in exceptional cases deviate from the approved travel plan, and purchase tickets within 21 days of traveling;
(b) verifying travel requests for completeness and carefully reviewing supporting documents, such as the agenda of workshops, meetings and conferences to assess whether full Daily Subsistence Allowance needs to be paid or not; and
(c) complying with the travel policies with regard to submission of travel claims and deviation of standard of accommodation.

Management action plan:

UNCDF is aware that travel management needs to be strengthened, starting with a better planning process and reporting on completed missions. The Executive Secretary has already amended the business process for exceptional waivers to require Deputy/Executive Secretary review and approval of any deviations from standard UNDP guidelines and/or approved quarterly travel plans that incur additional costs to the organization. Spot checks on travel supporting documentation and compliance with standard procedures will be made on regular basis, and a monitoring system for Back to Office Reports and travel claim (F.10 - Voucher for Reimbursement of Expenses) will be implemented. Senior management will address this issue in staff meetings to raise the awareness of staff on applicable procedures. Senior management will issue a revised guidance note on travel management.

Estimated completion date: March 2015

Priority	Medium (Important)
Recommendation 10: Review travel payments where overpayment of Daily Subsistence Allowance might have taken place, and where applicable, recover overpayment.	
Management action plan: UNCDF will review the current processes to determine how to improve on accuracy and will review the current processes to determine how to best capture and record traveler's financial liability for the personal portion of an itinerary. In these cases, staff will be requested to annex an Excel template reflecting the itinerary and related information, which will be annexed to the travel request. Regarding past cases of overpayment of Daily Subsistence Allowance, UNCDF will review each case and take steps to recover any overpaid amounts, as necessary. **Estimated completion date:** December 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 not included in this report.