UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

HAITI

Report No. 1416

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Report on the audit of UNDP Haiti
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Haiti (the Office) from 17 to 28 November 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, 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, Global Environment Facility).

The audit covered the activities of the Office from 1 January 2013 to 30 September 2014. The Office recorded programme and management expenditures totalling $31 million. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Office as **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 the financial sustainability of Office being at risk and abuse of salary advances.

Key recommendations: Total = **12**, high priority = **2**

The 12 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 3); (b) effectiveness and efficiency of operations (Recommendations 1, 2, 11); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 4,5, 6, 7, 8, 9, 10 and 12).

There were two issues requiring action by the Bureau of Management (Issues 9 and 10) referred to as 'Corporate Issue'.

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:

Financial sustainability of Office at risk (Issue 3)	The financial sustainability of the Office had been a concern for senior management, both at the Office and the Regional Bureau, mainly due to the closure of the Global Fund project (representing 30 percent of total delivery) scheduled for the second half of 2015. Financial sustainability was also impacted by increased operational costs, reduction in the inflow of core resources, and reduced possibilities for mobilizing resources from traditional donors in the Country. The Office developed a Resource Mobilization Strategy as well as an extrabudgetary strategy in an effort to identify and expand partners and donors base as a way to enhance the inflow of resources. However, no significant results had materialized in regard to resource mobilization at the time of audit. Recommendation: Continue to address the challenge of reduced income by containing operational costs within acceptable limits to keep reserves at the required level. Also, expand partners and donors by developing innovative project interventions to enhance inflow of resources.
Abuse of salary advances (Issue 6)	Granting of salary advances was not in line with UNDP policies and procedures. At the time of the audit, the outstanding balance for salary advances amounted to $107,000 of which $35,000 pertained to separated staff or unidentified personnel. Some staff members were granted advances before settling prior advances. Salary advances were also advanced to service contract holders contrary to the guidelines on salary advances. In addition, some staff members as well as service contract holders often requested their monthly salary to be paid in advance, specifically at the beginning of the month, on the grounds of urgent matters. These requests for advance payment of salary were not reviewed nor approved by senior management. Recommendation: Comply with UNDP policies and procedures on salary advances by: (a) approving salary advances in line with delegation of authority; (b) limiting the approval of salary advances; (c) establishing proper controls to ascertain that advances are justified; (d) adjusting current balances to eliminate unrecoverable salary advances; (e) discontinuing the approval of salary advances to service contract holders; and (e) discontinuing the practice of paying monthly salaries in advance to the extent possible.

Management comments and action plan

The Senior Country Director and the Office of Financial Resources Management accepted all of the recommendations and are 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, located in Port-au-Prince, Haiti (the Country), had 53 staff members, 261 service contract holders and 96 individual contractors at the time of the audit. The Integrated Strategic Framework, which replaced the United Nations Development Assistance Framework in Haiti, covers the period 2013-2016.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Leadership, ethics and values. Key controls were in place and adequate. Overall, employees were aware of the Office's priorities, challenges and control objectives. No reportable issues were identified.

(b) Development activities. Despite the challenges of the Country's post-emergency context that somehow impaired the development agenda, government counterparts, implementing partners and donors that OAI met with during the audit expressed their appreciation of the Office as a valued development partner.

(c) Resident Coordinator Office. Key controls were in place and adequate. The United Nations Country Team shared the common goals of improving coordination within the United Nations system in the Country.

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

(e) General administration. Records and controls were adequate for assets management. The Office was well administered. Supporting documentation on operational matters was properly kept and classified in an orderly manner to facilitate the Office's day-to-day work as well as the tests carried out throughout the audit.

(f) Safety and security. The Office expanded its Business Continuity Plan to include other United Nations agencies located in the same compound where the Office is located (e.g. Log Base) towards integrated and better response to emergencies.

OAI made 2 recommendations ranked high (critical) and 10 recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:

(a) Continue to address the challenge of reduced income (Recommendation 3).
(b) Comply with UNDP policies and procedures on salary advances (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) Address the identified shortcomings in operational processes (Recommendation 1).
(b) Strengthen risk management by fully using the relevant corporate tools to capture, assess and update identified risks (Recommendation 2).

(c) Implement the Harmonized Approach to Cash Transfers (Recommendation 4).
(d) Adhere to the 'Programme and Operations Policies and Procedures' by assessing and refining overtime processes (Recommendation 7).
(e) Adhere to prescribed procedures for project approval and revision (Recommendation 5).
(f) Strengthen the monitoring of financial transactions (Recommendation 11).
(g) Improve management of recruitment and separation processes (Recommendation 8).
(h) Improve the effectiveness of procurement processes (Recommendation 12).
(i) Update the cash management section of the 'Programme and Operations Policies and Procedures' to include year-end closing policy changes (Corporate Recommendation 9).
(j) Update the section on cash management in the 'Programme and Operations Policies and Procedures' by adding an account code to record cash advances under direct implementation modality (Corporate Recommendation10).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Lapses found in Office's operations

The heads of office have overall responsibility for establishing and maintaining adequate internal controls in their offices, devising their own internal control procedures that take account the particular circumstances and characteristics of their operations and for ensuring that these procedures are documented. The UNDP Strategic Plan requires the optimization of financial resources to be aligned with the needs of the organization to enhance delivery and effectiveness. To be able to deliver maximum results at the lowest costs, offices are also required to establish an adequate structure that promotes efficiency while ensuring internal controls operate effectively to minimize risks.

Some processes carried out by the Office did not adhere to the provisions of promoting efficiency and ensuring effective controls, as set out in the 'Programme and Operations Policies and Procedures'. The following issues were noted:

- Financial management was performed by finance staff within the Finance Unit and project finance staff within the Management Support Unit. This set up of the financial management function was not efficient as the two units worked independent of each other. In addition, the employee working in the Management Support Unit was overloaded with work due to an imbalanced distribution of tasks in respect to the other members of the Finance Unit. Also, an independent monitoring of resource management of projects by the Finance Unit was not in place.
- Staff members with approving rights in Atlas (enterprise resource management system of UNDP) approved their own payments. For the period covered by the audit, a total of 19 payment vouchers were noted relating to daily subsistence allowance, petrol reimbursements as well as refunds corresponding to house security that were approved by the beneficiary.
- The Office was processing all payments by cheque. The Office was trying to introduce e-payments, however, capturing vendors' banking information was an ongoing process. As a result, the Office had a dedicated staff member whose main function was to perform bank reconciliations.

- A staff member was dedicated, on a full-time basis, to processing payments resulting in an average of 670 payments per month, without following any plan or schedule. This number of payments was low compared to other offices within the region, resulting in an idle use of human resources.
- Authorization of travel requests was not always in the upward line of authority. Immediate supervisor approvals were not obtained before the travel initiated in all cases (21) tested during the audit, although approvals were sought from other sources.

Inefficiencies in the management of financial resources and non-compliance with UNDP policies and procedures may increase financial risks due to: (a) lack of accountability in operations, (b) ineffective business processes, (c) reduced productivity, and (d) unauthorized transactions.

Priority	Medium (Important)
Recommendation 1: Address the identified shortcomings in operational processes by: (a) reassessing the Finance Unit's workflow requirements; (b) transferring/re-grouping the financial management functions in the Management Support Unit to the Finance Unit; (c) segregating functions for the approval of travel requests and payments in Atlas; and (d) speeding up the process of collecting vendors' bank information in order to introduce e-payments.	
Management action plan: (a) The distribution of tasks within Finance Unit will be reviewed in order to improve workflows and balance workload. (b) The financial management functions will be reorganized in order to either incorporate the programme finance function to the Finance Unit, or design a new workflow which will integrate all finance functions. (c) The Internal Control Framework has sufficiently clarified how functions should be segregated; staff with manager roles and approval rights will be trained further to better exercise theirs roles. (d) A time-table will be set for running the pay cycle. (e) A consultant was recruited in December 2014 to work on vendors' bank information in order to start electronic funds transfer payments in early 2015. (f) The updated travel policy will be shared with the travel assistants with the requirement to abide by them. The process for reviewing travel authorizations will be improved. **Estimated completion date:** September 2015	

2. Risk management, planning, monitoring and reporting

Issue 2 Incomplete risk assessment

UNDP uses the Enhanced Results Based Management platform to capture risks and mitigating actions at the office level, and uses Atlas to record all project information reflecting the same structure, as defined in the 'Country Programme Action Plan'. The 'Programme and Operations Policies and Procedures', along with the 'Managing for Development Results' guidelines, stipulate that all planning, implementation, monitoring and evaluation, including associated decision-making should involve a consideration of risks. UNDP has also implemented an Enterprise Risk Management policy.

The Office updated its risk register in the Enhanced Results Based Management platform for the planning of financial year 2014 and included five risks, along with their descriptions, probability, potential impact and corresponding risk status. However, given the complexity of the programme, which was operating under Fast Track Procedures, and given the changes in the Country's context, where most of the donors were shifting the focus from emergency response to development, the Office was exposed to other risks that were not captured in the available tools, that is, the Enhanced Result Based Management platform and Atlas for project risks. These risks were:

- Global Fund projects ending in 2015, which represented more than 30 percent of the total programme delivery, affecting overall cost recovery, exposing the Office to financial instability.
- At the time of the audit, the Office had a total programme budget of $65.4 million for 2014 and a total delivery of $31 million (47 percent). In 25 (64 percent) out of 39 ongoing projects, delivery was below 50 percent of the total approved budget for the year, exposing the Office to reputational risks and the risk of not achieving agreed results.
- Delays on narrative and financial reports to donors, exposing the Office to reputational risks.

The lack of adequate risk management practices may result in risks not being identified and not being addressed in a timely manner. In addition, the failure to meet expected results may negatively affect the reputation of UNDP, and may reduce donor interest in funding future projects.

Priority	Medium (Important)
Recommendation 2: Strengthen risk management by fully using the relevant corporate tools (Enhanced Results Based Management platform and Atlas for project risks) to capture, assess and update identified risks.	
Management action plan: One staff member within the Management Support Unit will be assigned the responsibility of monitoring and updating the Enhanced Results Based Management platform for identified risks and follow-up with Programme Managers and project focal points for timely reporting to donors. Senior management will ensure that risks are reviewed and updated on a regular basis in order to ensure timely decision-making for the Office. **Estimated completion date:** June 2015	

3. Financial sustainability

Issue 3 <u>Financial sustainability of Office at risk</u>

The 'UNDP Programme and Operations Policies and Procedures' require all offices to maintain a minimum of 12 months of extrabudgetary reserves and to ensure financial sustainability by securing stable and sufficient longterm financial resources and allocating these resources in a timely manner and appropriate form in order to cover full costs, and to ensure that resources are managed effectively and efficiently.

The financial sustainability of the Office remained a concern for senior management, both at the Office and the Regional Bureau, due to:

- Increased operational costs, from $711,000 (2013) to $769,000 (2014).
- Reduction in the inflow of core resources, from $3.5 million (2013) to $1.9 million (2014).
- Reduction in the number of months in reserve, from 37 (2013) to 29 (2014); the projected level for 2014 had been set at 69 months.
- Reduced possibilities for mobilizing resources from traditional donors in the Country.
- Closure of the Global Fund project, scheduled for the second half of 2015 - As this accounted for a significant portion of the Office's delivery (30 percent) and this also funded a large part of the Office's operating costs, the sustainability of the Office was further exacerbated.

The Office developed a Resource Mobilization Strategy as well as an extra budgetary strategy in an effort to identify and expand partners and donor base as a way to enhance the inflow of resources. However, no significant results had materialized in regard to resource mobilization at the time of the audit.

Lack of financial resources may negatively impact the achievement of the overall UNDP mandate for the Office.

Priority High (Critical)
Recommendation 3: Continue to address the challenge of reduced income by containing operational costs within acceptable limits to keep reserves at the required level. Also, expand partners and donors by developing innovative project interventions to enhance inflow of resources.
Management action plan: As stated in the extrabudgetary strategy, the Office will implement a cost reduction strategy by preparing and implementing two plans: one aiming at restructuring the Office with the objective of reducing staff costs covered by extrabudgetary resources; and the second one aiming at reducing General Operating Expenditure. **Estimated completion date:** September 2015

B. United Nations system coordination

Issue 4 Harmonized Approach to Cash Transfers not implemented

To lessen the burden that the multiplicity of United Nations procedures and rules create for its partners, the 'Framework for Harmonized Approach to Cash Transfers to Implementing Partners' requires that participating United Nations agencies (UNDP, UNICEF and UNFPA) agree on and coordinate Harmonized Approach to Cash Transfer activities. Compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing the Harmonized Approach to Cash Transfers; and (d) development and implementation of an assurance and audit plan for implementing partners.

The Office had initiated actions with UNICEF and UNFPA since 2012 to implement the Harmonized Approach to Cash Transfers. However, the Office had only completed the macro-assessment of the public financial system, but lacked the formal micro-assessments of all implementing partners during the programme cycle. Consequently, the Office was not in a position to prepare the required assurance plan during the audit period. A Harmonized Approach to Cash Transfers working group and a detailed implementation plan to guide efficient implementation of the harmonized approach had yet to be prepared at the time of audit.

In the absence of a formal working group and an implementation plan, there is a risk that implementation of the Harmonized Approach to Cash Transfers will be further delayed due to the lack of coordination and follow-up actions by all relevant agencies.

Priority	Medium (Important)
Recommendation 4: Implement the Harmonized Approach to Cash Transfers by: (a) completing the micro-assessments of implementing partners; (b) establishing a formal working group and developing an implementation plan; and (c) establishing assurance plans and conducting assurance activities.	
Management action plan: UNDP will be the lead agency in reviving the HACT Committee and enhancing HACT implementation in the Country. The Office will compile a list of prospective implementing partners and will carry out the required capacity assessments. **Estimated completion date:** December 2015	

C. Programme activities

Issue 5 Project approval and review not following prescribed procedures

According to the 'Programme and Operations Policies and Procedures', as part of the project appraisal process, UNDP representatives and stakeholders should ensure that projects are designed with clear and measurable results, following standard templates. All projects and substantive revisions should be reviewed by a Project Appraisal Committee to ensure that outputs are aligned with the planned results contained in the 'Country Programme' and that a proper project management structure is in place to monitor and evaluate results.

OAI reviewed a sample of 11 out of 39 active development projects and found the following:

- Two projects had not undergone the required Project Appraisal Committee review (Project 00079220, "Prohuertas" and Project 00062058, "Prévention du risque sismique dans le Grand Nord"). Project 00079220 included a non-standard annex where management arrangements were changed including a technical team overlapping with the Office's role, which may have been identified by the Project Appraisal Committee had they reviewed the project.

- The meeting minutes for two projects that had been reviewed by the Project Appraisal Committee did not have adequate information (Project 00041481,"Gestion des risques et des désastres" and Project 00076471, "Renforcement institutionnel du CTCEP"). The missing information included assessments of the relevance of the projects, cost effectiveness, and monitoring and evaluation frameworks. Furthermore, these minutes were not signed by participating members as prescribed by the 'Programme and Operations Policies and Procedures'.
- Substantive revisions to Project 00041481, "Gestion des risques et des désastres", such as extending the project duration for up to nine years and increasing the total budget by more than 20 percent, were not submitted to the Project Appraisal Committee for review.

In 2012, UNDP launched a new project-level environmental and social screening procedure applicable to projects submitted to the Project Appraisal Committee with a budget of $500,000 or more. OAI noted that only 1 out of 10 projects with a budget of $500,000 or more was subjected to the social and environmental screening procedure.

Considering that the Office was operating under Fast Track Procedures, and given that all projects were approved locally, the role of the Project Appraisal Committee was even more critical, as any weakness in project designs or substantive revisions increase the risk of project failures that might impact the achievement of expected results. The shortcomings were caused by lack of sufficient knowledge by project staff combined in some cases with the need to implement projects that are driven by donors and not fully aligned with UNDP Country Programme. Failure to meet expected results can negatively affect UNDP's reputation and could reduce donor interest in funding future projects.

Priority Medium (Important)

Recommendation 5:

Adhere to prescribed procedures for project approval and revision by:

(a) submitting all development projects to the Project Appraisal Committee for its review;
(b) including all required sections with details of the discussions of the appraisal of the project in the meeting minutes of the Project Appraisal Committee;
(c) submitting all substantive revisions to the Project Appraisal Committee as required; and
(d) submitting the environmental and social screening procedure checklist for projects with a budget of $500,000 or more to the Project Appraisal Committee.

In addition, Office management should ensure all personnel concerned are fully acquainted with any changes in policies and procedures.

Management action plan:

The Office will ensure that all relevant staff are aware of corporate policies related to project appraisal and review and have the appropriate tools to ensure follow-through on project development/revision and approval.

Via the Management Support Unit, the Office will ensure that a procedures and requirements checklist, including the environmental and social screening procedures, is used to follow through on project development/revision and approval.

Estimated completion date: June 2015

D. Operations

1. Human resources

Issue 6 Abuse of salary advances

According to UNDP policies and procedures, the purpose of granting an advance against future salary payments is to provide a measure of financial assistance to staff members only under very specific circumstances and conditions. The advance is then recovered within a specified time period not exceeding 12 months. The responsibility for the approval of salary advances is delegated solely to the head of office.

At the time of the audit, there were 83 outstanding salary advances amounting to $107,000, of which 21 amounting to $35,000 had to be classified as unrecoverable since they were granted to separated staff or personnel that could not be identified by the Office.

OAI examined a sample of 19 salary advances out of 34 salary advances granted during the period under review, and noted the following:

- All salary advances were approved by the Deputy Resident Representative - Operations rather than Senior Country Director.
- In 18 out of 19 cases, approved salary advances lacked proper supporting documentation or justification.
- Five staff members requested advances before settling prior advances. Up to three salary advances were granted to the same staff members during the year.
- One salary advance exceeded the 12-month period for recovery.
- One salary advance was not recovered consistently on a monthly basis.
- Salary advances were granted to non-staff members, i.e., 27 service contract holders during the audit period

In addition, some staff members as well as service contract holders often requested their monthly salary to be paid in advance, specifically at the beginning of the month, on the grounds of urgent matters. For instance, five requests for monthly salary to be paid in advances were approved in May and eight in June 2014. These requests were sent to the Administrative Specialist, who requested the Payroll Administrator to process the payment. In all cases, the request for advance payment of salary lacked sufficient review and approval by senior management.

Inadequate controls over salary advances may lead to advances not being recovered in a timely manner, and may result in financial losses for the organization.

Priority	High (Critical)
Recommendation 6: Comply with UNDP policies and procedures on salary advances by: (a) approving salary advances in line with delegation of authority; (b) limiting the approval of salary advances to the provisions set by UNDP; (c) establishing proper controls to ascertain that advances are justified; (d) requesting the approval of the Office of Financial Resources Management for writing off unrecoverable salary advances, once justified; (e) discontinuing the approval of salary advances to service contract holders; and, (f) discontinuing the practice of paying monthly salaries in advance to the extent possible.	
Management action plan: (a) Management will recirculate the 2013 circular regarding staff and service contract holders' access to salary advances. (b) The Finance Unit will review and clear current advance balances and determine which advances should be written off. (c) Management will issue an inter-office memo aiming at discontinuing payment of salaries before the payroll run. **Estimated completion date:** March 2015	

Issue 7 Weaknesses in the administration of overtime entitlement

According to the 'Programme and Operations Policies and Procedures', supervisors are expected to arrange the work at their organizational units so that overtime is an exceptional occurrence. Compensation for overtime is calculated to the nearest half-hour; work of less than a half-hour beyond the regularly scheduled workday is not counted towards overtime. Overtime should be limited to 40 hours per month.

OAI tested 16 overtime control sheets out of 21 corresponding to six personnel for a sample period of three months. The following situations, which were not aligned with the 'Programme and Operations Policies and Procedures' were observed:

- In 11 control sheets, overtime exceeding 40 hours per month were identified. In one month, one staff member accumulated and was authorized 75 hours of overtime.
- In five cases, personnel were found to have worked seven days per week without any rest during a very busy season for the Office.
- In one particular month, two staff members worked every Saturday and Sunday. The value added by such overtime was difficult to assess as this was found to be a customary practice.
- No evidence of pre-approval for overtime was found in all 16 control sheets tested.
- Overtime requests were reviewed by the supervisor of the requester but not approved by the Deputy Country Director – Operations before payment.

Incorrectly using the overtime entitlement may have a financial impact on the organization and have a negative impact on staff morale.

Priority	Medium (Important)
Recommendation 7: Adhere to the 'Programme and Operations Policies and Procedures' by assessing and refining overtime processes.	
Management action plan: A memo will be issued to redefine the Office's policy on overtime and establishing the workflow on pre-authorization of overtime as well as its approval and calculation. **Estimated completion date:** March 2015	

Issue 8 Weaknesses in the management of recruitment and separations

For a competitive and transparent recruitment process, the recruitment of staff is to be undertaken in compliance with the requirements of the 'UNDP Recruitment and Selection Framework'. In addition, a consolidated recruitment plan provides the Office with an opportunity to reduce the number of recruitment processes launched by consolidating the needs of personnel and to shorten the length of the overall recruitment process.

To improve recruitment and overall human resources management, UNDP offices are required to conduct exit interviews that provide valuable information regarding reasons for separation and areas/issues that need attention/improvement. Personal information corresponding to prospective candidates and employee personnel files is to be kept confidential.

A sample of 19 personnel files assessed out of 88 in regard to recruitment and 10 out of 91 corresponding to separation were tested. The following weaknesses were identified by OAI in all files subject to the review:

- Candidates were evaluated based on interviews rather than assessing technical skills through technical tests in any of the recruitment processes examined.
- A consolidated recruitment plan was not prepared.
- Exit interviews of separating personnel were not conducted.
- Separation clearance forms were found to be incomplete and did not to allow for benefits granted to personnel to be timely recovered (e.g. salary advances) or for Atlas accounts to be timely deactivated.
- Pre-employment medical examination results and other medical documentation were included in the personnel files of staff members and service contract holders.

Insufficient knowledge and failure to comply with the requirements of the 'UNDP Recruitment and Selection Framework' could result in the perception that recruitment is not managed in a fair and transparent manner, thereby negatively impacting staff morale. Lack of exit interviews may impact the reputation of the Office, as mitigating actions could not be timely adopted without knowing the reasons for the separation.

Priority	Medium (Important)
Recommendation 8: Improve management of recruitment and separation processes by: (a) assessing technical skills of candidates being recruited; (b) preparing a consolidated recruitment plan and regularly evaluating and updating the plan; (c) conducting and documenting exit interviews; (d) reviewing workflow and information kept in the separation clearance form; (e) properly managing confidential/sensitive information regarding personnel and restricting access to authorized personnel only; and, (f) ensuring personnel concerned are fully acquainted with changes in policies and procedures.	
Management action plan: (a) A technical skills assessment is already operationalized through the introduction of a hiring strategy for every new vacancy, which states that a written test is the modality for determining suitable candidates to be interviewed. (b) A consolidated recruitment plan will be prepared for 2015. (c) Exit interviews to be added as part of separation standard operating procedures. (d) The separation standard operating procedures will be revised along with the clearance form. (e) Content and filing system for personnel file will be reviewed in order to ensure confidentiality and adherence to the 'Programme and Operations Policies and Procedures.' **Estimated completion date:** May 2015	

2. Finance

Issue 9 Corporate issue: Outdated corporate guideline governing project cash advances

According to the 'Programme and Operations Policies and Procedures', a "project cash advance" is a one-time advance issued to a project custodian for a specific, one-time project activity. Typically, the one-time project activity includes workshops, training seminars or conferences relating to certain projects that take place in remote locations where banking facilities are limited. The General Ledger account to be used for such purposes is "16007 – Project Cash Advance."

An email dated 17 December 2013 providing year-end closing instructions for fiscal year 2013 and sent to the Country Offices through the Regional Bureaux, stated that a new account (16108 – Project Cash Advance) was established to record project cash advances starting on 1 January 2014. However, this policy change had not been updated in the 'Programme and Operations Policies and Procedures.'

Not updating policy changes in the 'Programme and Operations Policies and Procedures' may lead to incorrect accounts being used, resulting in inaccurate financial reporting.

Priority	Medium (Important)
Recommendation 9: Update the cash management section of the 'Programme and Operations Policies and Procedures' to include year-end closing policy changes. **Responsible HQ bureau:** Office of Financial Resources Management	
Management action plan: The Office of Financial Resources Management will look into this and amend the 'Programme and Operations Policies and Procedures' accordingly. **Estimated completion date:** June 2015	

Issue 10 Corporate issue: Incorrect accounting entries - cash advances recorded as payments

Based on the provisions contained in the 'UNDP Programme and Operations Policies and Procedures' staff determine the appropriate mechanism to use when a partnership agreement with another entity is being formalized.

The Office signed standard Letters of Agreement with government counterparts to perform activities when projects were set to be implemented under direct implementation modality. These Letters of Agreement stated that in order to start an activity, the first payment was to be effected at the date when the agreement was signed. These transactions were to be recorded as payments in Atlas using several expense accounts or in some instances the micro capital-grant account (e.g. 72615), following the guidance contained in the 'Programme and Operations Policies and Procedures.'

The first payment of the agreements did not involve the receipt of any goods or services; but rather cash advances to start project activities. There were also a lack of an account code to record the cash advances.

In addition, OAI found that when processing these types of payments, vendors were created in Atlas with the name of the related projects. As a consequence, payments to implementing partners were not easily traceable. OAI identified 5 vouchers out of 24 reviewed related to these agreements (agreements valued at $2.8 million).

The use of improper account codes to record advances may lead to inconsistencies in financial reporting.

Priority	Medium (Important)
Recommendation 10: Update the section on cash management in the 'Programme and Operations Policies and Procedures' by adding an account code to record cash advances under direct implementation modality. **Responsible HQ bureau:** Office of Financial Resources Management.	

Management action plan:

Regarding which account to use, as there is no official system where advances are issued on directly implemented projects, there is no separate account for this purpose, and thus the only account available is 16005. Until this is discussed further with relevant parties to sanction a new account to be created, the only suggestion is to use the 16005 account.

Estimated completion date: September 2015

Issue 11 Insufficient monitoring of accounts / financial transactions

The Office of Financial Resources Management circulates the year-end closure instructions every year in order to ensure that a proper clean-up of accounts takes place at year-end. Nevertheless, OAI identified the following instances that revealed that the cleaning of accounts was not properly completed at 2013 year-end:

- One open item amounting to $45,000, not belonging to the Office, recorded in January 2014, which had not been identified until the time of audit in November 2014.
- Unrecoverable outstanding balances of salary advances amounting to $35,000.
- Excessive use of General Ledger Journal Entries (350 recorded in 2014). These were for adjustments to correct errors on recorded transactions.

Incorrect accounting entries may impact year-end closure activities and impact UNDP overall financial reporting.

Priority Medium (Important)

Recommendation 11:

Strengthen the monitoring of financial transactions by:

(a) increasing the frequency of reviewing account balances using the Atlas Trial Balance report;
(b) training staff on the correct use of General Ledger Journal Entries; and,
(c) increasing awareness among staff members on the timely and proper processing of accounting entries.

Management action plan:

(a) As part of review of task distribution to finance staff, frequency of account balance reviews will be addressed and a standard operating procedure will document the process.
(b) Training of all project staff will be undertaken in order limit the use of General Ledger Journal Entries.
(c) Urge all concerned staff to follow good practices on processing accounting entries.

Estimated completion date: April 2015

3. Procurement

Issue 12 Lack of procurement capacity

Procurement functions are to be carried out under the responsibility of the delegated authority. Furthermore, each procurement activity is intended to be conducted in a fair and transparent manner, in the interest of UNDP, provide best value for money and conducted through a competitive process. According to 'UNDP Programme and Operations Policies and Procedures', the individual contract is used for the procurement of services to perform non-core tasks in connection with clear and quantifiable deliverables, which shall be listed in the contract and linked to payment. Contract amounts are required to include travel and per diem allowances. In the event that the Individual Contractor's engagement under the same contract and terms of reference, exceeds a period of 12 months, then the Head of the Office must obtain approval from respective Bureau Director.

The Senior Country Director was entrusted with a Level 2 Increased Delegation of Procurement Authority. Consequently, the 'Programme and Operations Policies and Procedures' stipulate that procurement functions are to be supported by Procurement Associates/Assistants that have a certification in procurement (CIPS) of Level 2 or above.

OAI identified the following weakness in the management of individual contracts:

- During the period covered by the audit, the Office signed 374 individual contracts. Of these, 74 were extensions of precedent contracts, where consultants had been in the position over two years.
- Twenty-two individual contracts were filling core staff functions.
- Remuneration schedules were based on monthly payments instead of being linked to deliverables.
- From a sample of 23 contracts reviewed out of the 96 active individual contracts at the time of the audit OAI observed that:
    - For seven contract durations that exceeded 12 months, the authorization from the Regional Bureau Director was not requested.
    - Travel and other expenses were covered by the Office and not included in the financial offer.
    - Four contract extensions were processed after the expiration of the preceding contract.
    - In four cases, contractors' signatures were not obtained, not even a scanned copy.

Regarding procurement processes for other goods or services, OAI reviewed cases corresponding to the 32 percent of the purchases orders issued in the period under review for a total value of $4.9 million. The following weaknesses were identified:

- A consolidated procurement plan that provides the Office with an opportunity to identify economies of scale and better use of resources was not duly prepared. There was no evidence that the projects' procurement plans were followed up on and updated.
- Effective competition was not ensured in two procurement processes because restrictions were placed, limiting the number of potential offerors, such as: (a) legally constituted companies in the Country, (b) accreditation by local professional associations for services requested (e.g. architect, engineers association), (c) prior working experience with United Nations system agencies for referral purposes, or (d) language proficiency for field operations (e.g. Creole and/or French).
- In two processes, the technical evaluations were conducted six months after the deadline for submissions of the offer, which may have implied a change in conditions that would have needed to be reassessed.

- The award of contracts exceeding $100,000 was not always published on the UNDP procurement website.
- The Office's procurement team was supported by two staff certified at CIPS Level 1, contrary to the policy.

Lack of compliance with UNDP policies and procedures on individual contracts may result in the Office not achieving best value for money. Without the required certified procurement staff support the quality of the procurement services may be negatively affected, while weaknesses in the procurement process may increase financial and reputational risks for the Office.

Priority Medium (Important)

Recommendation 12:

Improve the effectiveness of procurement processes by:

(a) fulfilling the requirements of the Increased Delegation of Procurement Authority and the Fast Track Procedures approval process;
(b) adhering to UNDP procurement policies and procedures;
(c) hiring individual contractors for non-core functions only; complying with contract templates by defining a schedule of deliverables linked to payments; and including travel and per diem allowances in contract amounts
(d) preparing a consolidated procurement plan and regularly evaluate and update it; and
(e) improving award and contract management by avoiding unnecessary restrictions that may limit competition – and completion of technical evaluations in a timely manner and increase transparency when sharing information with bidders.

Management action plan:

(a) Staff certification in the Procurement Unit will be prioritized as part of staff learning to be included in their Performance Management Development plans.
(b) Procurement staff will be trained on the 'Programme and Operations Policies and Procedures' regarding the selection and management of individual contractors.
(c) A consolidated procurement plan will be prepared for 2015 and timely updates will be done throughout the year.
(d) The process of awarding/managing contracts will be strengthened by reminding all Procurement staff of the 'Programme and Operations Policies and Procedures' stipulations and enhancing control at the Deputy Country Director- Operations level.

Estimated completion date: December 2015

4. General administration

Issue 13 Lack of Memorandum of Understanding with United Nations Stabilization Mission in Haiti for Common Services and Premises

A Memorandum of Understanding (MOU) on common premises should be signed between UNDP and United Nations agencies to agree on the mechanism on which the common services, premises and maintenance costs are shared.

In the aftermath of the earthquake of January 2010, the Office and several United Nations agencies were forced to move to Log Base Area 5 administered by the United Nations Stabilization Mission in Haiti (MINUSTAH) due to the emergency; however, an MOU for common services and use of premises was not signed at that time. The temporary arrangement was still in force at the time of audit. In April 2013, MINUSTAH reported to all United Nations agencies based at Log Base Area 5 that there were some balances calculated retroactively to 2010 for charges of common services and premises. However, given the nature of the charges, all agencies refused to accept and pay for these charges. Since then, several meetings between MINUSTAH and the United Nations agencies were held in order to agree on the charges and sign an MOU. At the time of the audit, the MOU remained pending due to disagreements with the conditions therein, especially the clause that requested that the recovery of costs by MINUSTAH was to be done on a retroactive basis. In the case of UNDP, the issue has been escalated to the Regional Bureau for Latin American and the Caribbean and to the Legal Support Office for its clearance.

As agreed upon with other United Nations agencies, the Office took the lead in calculating the estimated costs for common services owed to MINUSTAH. The Office also collected the funds that were paid by some United Nations agencies in order to transfer them to MINUSTAH. However, since the estimated costs were not agreed upon upfront, MINUSTAH refused to accept the payment.

The lack of a formal agreement with MINUSTAH prevents the settlement of any outstanding balance due to MINUSTAH, which may impact the Office's financial position.

The Office commented that the signing of the MOU with MINUSTAH was a matter beyond its control. MINUSTAH was advised to resubmit an MOU using a template provided by the Legal Support Office and they had accepted to do so. For payment of collected contributions from agencies to be transferred to MINUSTAH, the Office is pursuing efforts and plans to clear all arrears in 2015.

Comment

Since the Office has already taken appropriate action and the closure of the matter is beyond its control OAI is not issuing a recommendation.

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>.