

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP PROJECT MANAGEMENT OFFICE

IN

THE RUSSIAN FEDERATION

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Report on the Audit of UNDP Project Management Office in the Russian Federation Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Project Management Office in the Russian Federation (the Project Office) from 4 to 29 May 2015. 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) program activities (project management); and
- (c) operations (human resources, finance, procurement, information and communication technology, general administration, and safety and security).

Specifically, this audit covered the management of the Project Office and the oversight carried out at the level of the Istanbul Regional Hub.

The audit covered the activities of the Project Office from 1 January 2014 to 31 March 2015. It recorded programme and management expenditures totalling \$9 million. The last audit of the Project Office was conducted by OAI in 2012.

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

Overall audit rating

OAI assessed the Project 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 inadequate use of individual contractors.

Key recommendations: Total = 3, high priority = 1

The three recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) effectiveness and efficiency of operations (Recommendation 2); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 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. The high (critical) priority recommendation is presented below:

Inadequate management of individual contracts (Issue 3)

The audit identified deficiencies in the overall management of individual contracts, such as deviations from UNDP procurement policies and procedures regarding competitive processes, financial proposals, salary arrangements and approvals granted. Further, in one case, a change in the Terms of Reference was noted during the selection process, which resulted in an increase of the value of the contract.

Recommendation: The Regional Bureau for Europe and the Commonwealth of Independent States should adhere to UNDP policies related to individual contracts by: (a) using the appropriate contracting modality with properly defined deliverables and milestones; (b) awarding individual contracts through a competitive, fair and transparent selection process; and (c) strengthening oversight over delivery of results by individual contractors by using a performance management system.

Implementation status of previous OAI audit recommendations: Report No. 1087, 24 May 2013.

Total recommendations: 4

Implemented: 4

Management comments and action plan

The Regional Bureau for Europe and the Commonwealth of Independent States accepted all three 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.



Antoine Khoury
Officer-in-Charge
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I. About the Office

The Project Office is located in Moscow, the Russian Federation (the Country). Upon completion of the Country Programme Document for the Russian Federation (2008-2010) as approved by the Executive Board, the UNDP Country Office in the Russian Federation was closed on 31 December 2010. In this context, UNDP's international representation in the Country in the form of a resident representative function also ceased as of 31 December 2010.

UNDP's residual programme in the Country represents the Global Environmental Facility, which focuses on environment and sustainable development, addressing global environmental challenges. The programme was developed by the UNDP Global Environmental Facility and the Government. The task of the Project Office is to provide technical support to a number of projects, which UNDP continues to implement in the Country in cooperation with the Government and other partners. In addition, UNDP also has partnership activities in Moscow. The Project Office further provides support services to the United Nations agencies in the Country following the agreement on the Remote Service Model between the Bureau of Management and the Regional Bureau for Europe and the Commonwealth of Independent States (RBEC).

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Project management. The Project Office managed 18 projects, including technical support to 8 nationally implemented UNDP Global Environmental Facility projects. OAI reviewed a sample of six projects. No reportable issues were identified.
- (b) Financial management. OAI reviewed a sample of 41 vouchers amounting to \$4 million, representing 53 percent of the total value of purchase vouchers created during the audit period. Control procedures over receivables, payment processing, disbursements and administration of petty cash were found to be adequate.
- (c) General administration. OAI reviewed general administration activities, including asset management, travel management, common services and safe management. No reportable issues were identified.
- (d) Information and communication technology. Information and communication systems managed by the Project Office, including hardware, software, systems security, and disaster recovery mechanisms were adequately operating.
- (e) Safety and security. The Project Office was found to be generally compliant with the Minimum Operating Security Standards.

OAI made one recommendation ranked high (critical) and two recommendations ranked medium (important) priority.

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

High priority recommendation:

- (a) RBEC should adhere to UNDP policies related to individual contracts (Recommendation 3).

Medium priority recommendations, arranged according to significance:

- (a) RBEC should improve the monitoring of the Project Office's closure activities by developing a detailed exit plan (Recommendation 1).
- (b) The Project Office should improve recruitment of service contracts (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Inadequate monitoring of project closure activities

Communication from RBEC in 2010 stated that, according to discussions and based on approval by the Government, any UNDP projects under implementation and not completed by 31 December 2010 would be closed with the support of a Project Office headed by a national staff member from the former Country Office.

The Project Office commenced its activities on 1 January 2011 and was to close with the finalization of the last remaining project. In addition, according to the strategic notes for 2014 and 2015 reflecting the official communication between UNDP and the Government, the Project Office was expected to continue its operations until the end of 2017, when all remaining projects would be completed. An exit plan for the completion of activities would facilitate the closure of the Project Office.

According to the Project Office, there was a clear understanding among RBEC, the Istanbul Regional Hub, and the Project Office that UNDP's presence in the Country would be discontinued after 2017 and if there were any residual activities after 2017, including any ongoing projects, the supervision and management of these activities would be fully handed over to the Istanbul Regional Hub. The Project Office planned to draft a concrete exit plan for completing the ongoing projects in 2016.

At the time of the audit fieldwork, the Project Office was drafting two Project Preparation Grants that were in the pipeline, pending approval from the Global Environmental Fund Council and pending a decision from the Global Environmental Facility, RBEC and UNDP management on whether they would be implemented. In case the two projects were approved, the Project Office would need to extend its presence in the Country beyond 2017. This activity on the new projects was not in line with the communication and the mutual understanding mentioned above.

There is a risk that UNDP will not be able to successfully finalize all ongoing projects as planned, and that resources might be inappropriately used for developing new projects.

Priority	Medium (Important)
Recommendation 1:	
The Regional Bureau for Europe and the Commonwealth of Independent States should improve the monitoring of the Project Office's closure activities by developing a detailed exit plan, including for all ongoing projects and operations.	

Management action plan:

Recommendation is accepted. RBEC would like to clarify further that there is a decision and a clear understanding to discontinue the Moscow-based Project Management Office after 31 December 2017. This decision has been communicated to all stakeholders concerned. A detailed exit plan for 2017 will be prepared by 31 March 2016.

Estimated completion date: 31 March 2016

B. Operations

1. Human resources

Issue 2 Weaknesses in recruitment of service contractors

According to the UNDP 'Programme and Operations Policies and Procedures', longlisting and shortlisting procedures must be followed and documented for all recruitment actions. To the extent possible, the longlisting, shortlisting and interview processes must be conducted by panels comprising staff members who are knowledgeable about the requirements of the post. This may include the hiring manager.

While the composition of the longlisting and shortlisting panels is flexible, to ensure transparency and objectivity, the hiring manager may not make selection decisions independently. In addition, the hiring unit is responsible for ensuring proper and thorough verification of critical information, including academic qualifications, language skills, nationality, and detailed reference checks prior to UNDP employment. Furthermore, if the contract is to be signed by UNDP, its staff should represent a majority of the interview panel members for the selection of the successful candidate.

OAI reviewed all three service contract recruitments for the nationally implemented projects processed during the period under review and noted the following:

- Interview reports did not contain relevant details, such as candidate answers to the interview questions explaining their strengths and weaknesses, or support for the basis of the selection.
- In one case, the recruitment panel had a majority of service contractors and no UNDP staff member was involved in the selection process. The Project Office explained that UNDP staff performed the review of the selection process, before the signing of the service contract.
- In one case, only one individual holding a service contract did the shortlisting.
- In one case, no information on longlisting and shortlisting was available for two applicants. The Project Office explained that both applicants were invited for interview and thus no short and longlisting was documented.

In addition, in two cases, the Project Office repeated the selection process for the position of Project Manager three times during the previous four years, as the performance of the selected candidates was unsatisfactory.

By not complying with recruitment policies and procedures, there may be no assurance that the recruitment process was fair, competitive, and transparent, or that the most qualified candidate was selected. In addition, the

frequent turnover of Project Managers may have a negative impact on the Project Office's achievements/results, and may lead to the inefficient use of the Project Office's resources.

Priority	Medium (Important)
Recommendation 2:	
The Project Office should improve the recruitment of service contractors by:	
<ul style="list-style-type: none"> (a) participating in the entire recruitment process including longlisting, shortlisting, interviewing and selecting suitable candidates as required by UNDP policies and procedures; (b) keeping the relevant details in the interview reports, including the answers of each candidate to the interview questions explaining their strengths and weaknesses and giving the basis for selection; and (c) setting up relevant criteria for selection of personnel to ensure selected candidates have the required abilities to carry out their tasks at expected levels. 	
Management action plan:	
Recommendation is accepted. RBEC would like to point out that the Project Office's personnel participate in the recruitment process for service contracts of nationally implemented projects as per UNDP's requirements. A decision is taken that the format of the corporate interview report used for fixed-term appointment positions will also be used for service contract processes as a best practice, although this is not a mandatory requirement stipulated in rules, regulations, policies and procedures. Careful consideration will be given to relevant criteria for the selection of service contract personnel during the classification stage.	
Estimated completion date: September 2015	

2. Procurement

Issue 3 Inadequate management of individual contracts

The UNDP 'Programme and Operations Policies and Procedures' clearly note the conditions under which individual contracts are managed, and stipulate the following:

- The best value for money must be considered in the selection process for individual contracts. Terms of Reference must clearly specify the process or the document that will be used to activate or initiate the rendering of services within the period of the individual contract. If the best value for money approach is adopted the financial proposal should account for at least 30 percent of the total score. The duration of the individual consultant/contractor's engagement with UNDP should be reasonable given the required output/deliverables that must be performed. In the event that the individual consultant/contractor's engagement on an assignment (including extensions of the same contract) exceeds 12 months, approval from the head of the respective bureau must be obtained prior to any required submission to a procurement review committee and prior to contract signature.
- The need for an individual contractor should be one-time and definitive, therefore, once the services are delivered, there should be no need for additional services.

During the audit period, the Project Office engaged 99 individual contractors (for a total amount of \$0.9 million), including 20 individual contractors (for a total amount of \$0.4 million) that were previously working under

service contracts. The engagement process resulted in deviations from UNDP procurement policies and procedures.

Incorrect use and inadequate management of individual contractors

The review of 16 individual contracts (42 percent of all individual contracts issued during the audit period) identified the following deficiencies:

- No financial proposal was requested and received.
- Monthly salary arrangements were made. Deliverables and milestones were not mentioned in the contracts. The Project Office made monthly payments to each individual contractor without verification that the services and related deliverables had been satisfactorily performed by the due dates.
- There was lack of approval for contracts exceeding 12 months.

In 20 cases totalling \$0.4 million, the consultant functions and tasks had not been clearly defined. The contracts did not include any specific deliverables or milestones. The consultants were neither required to prepare or submit any reports on their activities, nor to be present in the office.

According to the Project Office, the 20 individual contractors had originally been recruited as service contractors and were exceptionally shifted to the individual contract modality due to technical difficulties related to payroll management in Atlas (enterprise resource planning system of UNDP). The Project Office did not obtain any respective authorization from RBEC or the Bureau of Management.

Terms of Reference changed during selection process

In one case, the initial Terms of Reference related to the recruitment of one Technical Advisor for energy and efficiency in building construction was changed during the evaluation process. The selection panel, according to the Meeting Minutes dated 15 July 2013, finally recommended signing individual contracts with two consultants with the condition that the initial Terms of Reference would be split into two parts, and that the number of working days would be reduced from 45 to 30 days for each consultant. This decision resulted in an increase of \$13,600 in the total cost of both contracts. The Project Office explained that this exceptional split of Terms of Reference was done to benefit from the combination of skills of both qualified candidates.

Incorrectly using the individual contract modality may lead to financial and reputational risks for the Project Office. Furthermore, not establishing clearly defined deliverables and milestones for individual contractors may result in objectives not being achieved.

Priority	High (Critical)
Recommendation 3: The Regional Bureau for Europe and the Commonwealth of Independent States should adhere to UNDP policies related to individual contracts by: <ul style="list-style-type: none"> (a) using the appropriate contracting modality with properly defined deliverables and milestones; (b) awarding individual contracts through a competitive, fair and transparent process; and (c) strengthening oversight over delivery of results by individual contractors by using a performance management system. 	

Management action plan:

Recommendation is accepted and fully implemented. The Project Office discontinued all 20 individual contracts by 1 August 2015.

Estimated completion date: August 2015

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

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.