UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

HONDURAS

Report No. 1543

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Report on the Audit of UNDP Honduras
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Honduras (the Office) from 16 to 30 September 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) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 31 July 2015. The Office recorded programme and management expenditures of approximately $27.8 million during the period covered by the audit. 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 concerns regarding the financial sustainability of the Office and weaknesses in controls over processing payments.

Key recommendations: Total = **9**, high priority = **2**

The nine recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3, 4	Medium
	5	High
Reliability and integrity of financial and operational information	8	High
	9	Medium
Effectiveness and efficiency of operations	6, 7	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	Medium

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:

Office's financial sustainability at risk (Issue 5)	The financial sustainability of the Office had been a concern for senior management, both at the Office and at the Regional Bureau level, as the months of reserves decreased from 54 months in January 2015 to 24 months as of September 2015. The decrease in reserves was due to a combination of factors: (a) an increase in operational costs; (b) low expenditure against annual budgets which entailed low cost recovery; (c) insufficient cost recovery; (d) and long-outstanding Government Contributions to Local Office Costs (GLOC) of $2 million. Recommendation: The Office should enhance its financial sustainability by: (a) establishing a cost reduction/contention strategy to alleviate the pressure of insufficient resources; (b) reviewing the project results and related targets for the year, and adjusting them to more realistic figures; (c) devising a strategy to recover outstanding GLOC in cash or in-kind and continue to pursue negotiations with the Government; (d) reviewing the cost recovery charges for project activities; and (e) developing a resource and partnership mobilization strategy.
Weaknesses in controls over processing payments (Issue 8)	The paycycle of the Office was processed through two different systems, Atlas (enterprise resource planning system of UNDP) and a local database. The processing of payments using Atlas generated a text file that contained information which was not compatible with the e-banking platform due to a technical glitch that the Office had not been able to fix with the bank for several years. As a result, a new text file had to be produced using the local database that always required manual modifications before uploading it into the e-banking platform. This process increased the risk of irregularities and inconsistencies in the payments made by the Office. Access to records utilized for payments as well as security around the use of software and hardware were also found to be deficient, including the way the monthly bank reconciliation was prepared. Recommendation: The Office should strengthen the internal controls over payments and minimize business risks by: (a) liaising with the bank to request that payments be taken directly from the Atlas system, or producing an encrypted file from Atlas for uploading to the e-banking platform automatically; (b) discontinuing the use of the local database; (c) reviewing access to storage folders and the e-banking platform for processing payments in line with the delegation of authority; (d) establishing an adequate segregation of functions to ensure checks and balances in the e-banking platform for the processing of payments by requiring that at least two Office staff members authorize payments; and (e) improving the preparation of the monthly bank reconciliation.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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

I. About the Office

The Office, located in Tegucigalpa, Honduras (the Country) had 34 staff members and 65 service contract holders at the time of the audit. The Office was implementing a Country Programme agreed upon with the Government for the period 2012-2016, covering areas such as democratic governance, poverty reduction and Millennium Development Goals, crisis prevention and recovery, and environment and sustainable development.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Development activities. Government counterparts, implementing partners and donors with whom OAI met during the audit expressed their appreciation of the Office as a valued development partner.

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

(c) Information and communication technology. The systems managed by the Office, including hardware, software and system security were operating adequately.

Safety and security. There were no reportable issues identified.

OAI made two recommendations ranked high (critical) and seven 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) Implement measures to enhance the Office's financial sustainability (Recommendation 5).
(b) Strengthen controls over payments and minimize business risks (Recommendation 8).

Medium priority recommendations, arranged according to significance:

(a) Improve the organizational structure of the Office and balance workload (Recommendation 1).
(b) Comply with policies and procedures for the management of advances (Recommendation 9).
(c) Clearly describe specific activities to be carried out when providing support to national implementation (Recommendation 3).
(d) Improve the use of Atlas by providing training to staff members (Recommendation 6).
(e) Ensure compliance with UNDP standards for organizational behaviour (Recommendation 2).
(f) Strengthen monitoring activities (Recommendation 4).
(g) Ensure compliance with the 'UNDP Recruitment and Selection Framework' (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Deficiencies in organizational structure

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish an adequate structure that promotes efficiency and ensures that controls operate effectively to minimize risks.

The audit noted the following shortcomings in the Office's organizational structure:

(a) Operations Unit

The post of the Operations Manager had remained vacant for over four years, which hindered effective coordination between the different sub-units within the Operations Unit. For example, cost recovery of $24,000 for services provided to UN agencies for the work performed by the Office in 2015 was not carried out in a timely manner.

The Finance Unit staff to a large extent carried out operational activities due to a heavy workload, which impacted their ability to undertake an oversight role over financial activities. Key required control activities, such as reviewing deleted vouchers, analysing trial balance accounts, and clearing pending transactions on vouchers were performed only occasionally. For instance, at the time of the audit, there were seven vouchers totalling $58,000 that had been approved for payment but were not processed due to a lack of supporting documentation. These were outstanding for more than 30 days.

In addition, a decentralized Procurement Unit was located on the premises of a government implementing partner. The Office did not provide documentation supporting that decentralizing procurement to this unit resulted in more efficient and effective project arrangements. The Office's management reported that they had already taken steps to centralize the procurement function.

(b) Programme Unit

The Programme Unit was organized in three clusters: Democratic Governance, Environment, and Poverty. The Unit was operating without adequate coordination, since each Cluster Leader defined their own structure and priorities. In addition, the project distribution among the three clusters was not balanced. For instance, one Cluster Leader was in charge of managing 5 percent of the total programme portfolio. This was the result of a unilateral decision in March 2014 to transfer several projects totalling $22 million that were part of the Poverty cluster to national institutions for their direct implementation. Despite the reduction in the size of the programme and the number of projects, the Office did not timely adjust the number of projects remaining in the portfolio among the three clusters.

Office management explained that a Management Change Team review was commissioned in April 2015 and a Transformation Plan was in the process of being implemented to align the Office's structure with the 'UNDP Strategic Plan 2014-2017' and the Country's priorities and aimed to ensure a financially sustainable budget and strong functions and capacities for the Office.

An organizational structure that does not reflect the Office's priorities and does not support the programme implemented in the Country may result in unclear roles and responsibilities, and may have a negative impact on the efficiency and effectiveness of the overall operations of the Office.

Priority	Medium (Important)
Recommendation 1: The Office should improve its organizational structure and balance the workload by: (a) implementing the planned restructuring resulting from the Transformation Plan as soon as possible; (b) assessing the existing project portfolio to adjust the number of outputs required to achieve the agreed Country Programme Document outcomes; and (c) ensuring balanced distribution of projects among the Programme Unit staff.	
Management action plan: (a) The Office has already started implementing the Transformation Plan. An Office vision has been elaborated, and a new Office structure designed and approved by the Regional Bureau for Latin America and the Caribbean and Headquarters, which addresses all observations made. In addition, the Office is already in the process of bringing the procurement staff from the government implementing partner to the Office. There will not be a decentralized procurement unit as all procurement will be conducted by the Office. This will be completed before the end of the year. (b) Currently, the UN and UNDP are developing a new United Nations Development Assistance Framework and Country Programme Document for 2017 onwards, together with the Government. It is expected that the new Country Programme Document will adjust the outcomes for the new programming cycle. (c) This is already being done with the new programme structure of the new Office and is already being implemented as part of the Transformation Plan. **Estimated completion date:** June 2016	

2. Leadership, ethics and values

Issue 2 Non-compliance with UNDP's standards for organizational behaviour

UNDP operates under a set of six values that define the overall standards of organizational behavior: integrity, transparency, mutual respect, professionalism, accountability and results orientation. These standards provide clear principles on how staff members interact with stakeholders, with each other, and when fulfilling their work responsibilities. These standards are based on the Standards of Conduct for International Civil Servants and are supported by a number of regulations, rules, policies and procedures.

The audit disclosed the following issues of non-compliance with the standards for organizational behavior:

- The Medical Insurance Plan stipulates that a staff member may request a salary advance that will be recovered in full at the end of the fourth month after the advance has been made, or earlier, upon settlement of the medical claim. One staff member requested and received a salary advance of $3,625 to cope with medical expenses, equivalent to 80 percent of the total medical expenditures. The staff member delayed the repayment of the salary advance for 11 months, despite the fact that the staff member had received a reimbursement for the medical procedure approximately two months after submitting the medical claim. The Finance Unit followed up on the outstanding salary advance with the staff member during the 2014 year-end closure and certified the outstanding amount, receiving assurance that the salary advance would be repaid in the first quarter of 2015; however, the staff member did not comply. The Office received full payment of the outstanding salary advance from the staff member on 20 September 2015. Subsequent to the audit mission, the Office updated the Request for Salary Advance template to include a statement of recovery, to comply with the Medical Insurance Plan requirements.

- As prescribed in the UNDP Rank in Post policy, staff members are expected to assume, temporarily, as a normal part of their day-to-day activities and without extra compensation, the duties and responsibilities of a higher-level post. A staff member who is designated to assume the full duties and responsibilities of a post at a clearly higher level may be granted, in exceptional cases, a non-pensionable Special Post Allowance. This allowance may be approved only by the relevant Bureau Director, when a staff member is assigned temporarily to a job more than one grade up. Special Post Allowances should only be approved when the staff member performs and is accountable for the full range of responsibilities of the higher-level post.

  The Office granted a Special Post Allowance of $7,050 to the Human Resources Associate (GS6 level) for a three-month period in 2009 to cover the Human Resources Analyst post (NOB level) that was vacant. The Special Post Allowance was erroneously calculated for two steps above the grade of the staff member and was approved post facto in 2010 by a local panel. Furthermore, there was no evidence that the staff member had assumed the full range of responsibilities and the supervisory role of the post. For the same three-month period in 2009, the staff member also claimed 41 hours of overtime, and received approximately $800, which was incorrect since the staff member was compensated with the Special Post Allowance during the same period.

- The administrative instruction ST/AI/2005/3 stipulates that a total of up to 20 working days taken cumulatively or consecutively during a 12-month period may be approved as certified sick leave. Any additional sick leave must be certified by the UN Medical Services Division. OAI identified two cases where staff members exceeded the 20 days of certified sick leave during the period covered by the audit, yet these cases were not escalated to the UN Medical Services Division for review.

The discrepancies noted were mainly due to inadequate guidance or supervision over the human resources function.

Requesting benefits and/or exceeding privileges could lead to financial and reputational risks for the Office.

Priority	Medium (Important)
Recommendation 2: The Office should ensure compliance with UNDP's standards on organizational behaviour by: (a) following the Medical Insurance Plan on emergency salary advances and recovering them in full; (b) conducting a desk review with the Office of Human Resources to assess the benefits of recovering the 2009 Special Post Allowance and overtime; and (c) adjusting leave records from certified sick leave to annual leave in cases where the certified sick leave has exceeded 20 days and approval has not been granted by UN Medical Services Division.	

Management action plan:

(a) The Office will ensure immediate compliance with this policy.
(b) The Office is currently consulting Office of Human Resources to assess if the Special Post Allowances granted and 2013 were appropriate to identify remedial actions in case necessary.
(c) Management has already asked the Human Resources Unit of the Office to identify the cases and to submit these to UN Medical Services Division. Also, Human Resources Unit has made changes to identify and follow upon these cases.

Estimated completion date: December 2015

OAI Response

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

3. Risk management, planning, monitoring and reporting

Issue 3 Unclear responsibilities in the provision of support to national implementing partners

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' (guidelines for nationally implemented projects), such projects are to be implemented following one of two scenarios: (a) full national implementation, in which the national implementing partners directly assume responsibility for the related outputs and carry out all activities towards the achievement of those outputs; or (b) national implementation, in which the national implementing partner assumes full responsibility for the related outputs, but where, at the request of the Government, through a standard Letter of Agreement for support to national implementation, UNDP serves as a responsible party that undertakes specific, clearly defined activities on behalf of the implementing partner.

The Office signed a standard Letter of Agreement with the host Government as required and added annexes defining the Office's and implementing partner's roles and expenditures for only 21 projects out of a total of 45. In the case of the 21 projects, the audit identified that the annexes did not include a clear description of detailed activities and related cost recovery by the Office. The annexes were rather generic, indicating that over a given threshold (for example, over $30,000) all activities should be carried out by the Office without specifying the list of activities, estimated budget and associated direct costs. As a result, it was not possible to identify the project activities to be carried out by the Office due to the lack of a clear list of activities. The project definition in Atlas reflected only the implementing partner, which was the national institution in charge of the project, and not the responsible party that in this case was the Office. Therefore, it was not possible to distinguish the total value of the activities carried out by the Office.

As a consequence of the unclear roles between the Office and the implementing partners, the audit exercise of the nationally implemented projects was impacted. During the planning phase of the annual audit, the Office reported all of the expenses as if they had been incurred by the implementing partners. As a result, project activities and expenses carried out by the Office were comingled with those of the implementing partners. All of these expenses were audited by the external auditors, which contravened the single audit principle.

Priority	Medium (Important)

Recommendation 3:

The Office should clearly describe the specific activities to be carried out as well as the budget expenses and associated cost recovery in the annexes of the standard Letters of Agreement when providing support to national implementation.

Management action plan:

New Letters of Agreement with the implementing partners will be signed, and will include the nature and scope of the services described in the annexes, as well as budget expenses according to the Annual Work Plan approved by the Project Board.

Estimated completion date: April 2016

Issue 4 Weaknesses in the monitoring activities of programme/projects

Monitoring is driven by the need to account for the achievement of intended results and to provide a factual base for decision-making. It is an essential management tool to support UNDP's commitment to accountability for results, resources entrusted to it, and organizational learning. Monitoring relates to pre-identified results in the development plan that are achieved throughout project implementation, where baselines, indicators, targets and measurements of results are clearly defined and regularly monitored. Monitoring frameworks at the project level also ensure that projects are implemented within the agreed upon time frame and are timely closed to capture lessons learned.

The Office portfolio comprised of 66 projects with 225 active outputs in Atlas, out of which 163 were ongoing and 62 were operationally closed. The audit reviewed a sample of nine ongoing projects that comprised 20 outputs and found that project documents contained a monitoring framework detailing quarterly monitoring activities to be carried out during the life cycle of each project. Such activities entailed preparing quarterly project progress reports, including the financial monitoring of project Annual Work Plans. Although the activities were carried out on an annual basis, the quarterly monitoring activities stipulated in the framework were not undertaken, nor were field visits results-oriented and formally documented as required in the monitoring framework. These discrepancies were observed in all nine projects reviewed.

Additionally, the Office carried out risk assessments when formulating the projects as required; however, the risk assessments were not quarterly updated and recorded in Atlas as required by the monitoring framework. Therefore, projects were exposed to unknown risks for which mitigating actions were not planned/carried out. As part of the monitoring function, the Office planned seven evaluations for financial year 2015, but at the time of the audit, none of the evaluations were initiated. In five evaluations, the process of hiring consultants was ongoing and in the other two cases the evaluations were planned to be undertaken in the fourth quarter of 2015. As a result, evaluations were delayed and completing all of them by the end of 2015 was unrealistic.

Out of the 62 operationally closed projects, the audit identified 25 outputs that remained operationally closed for over a year and that had not been financially closed as at the time of the audit. The main reason for the delay in financial closure was the need to finalize pending adjustments to clear outstanding balances, the transfer of assets to implementing partners, and the signature of the final Combined Delivery Reports. The audit team acknowledged that a high turnover of government officials impeded the closing of projects as new officials were reluctant to certify the final Combined Delivery Reports when they were not involved in project implementation.

The lack of effective monitoring could make it difficult to determine whether intended results are being achieved, and whether corrective actions are necessary to ensure the delivery of intended results.

Priority Medium (Important)

Recommendation 4:

The Office should strengthen the monitoring activities by:

(a) timely carrying out the activities described in the project monitoring frameworks;
(b) performing project risk assessments on an annual basis and recording them in Atlas;
(c) ensuring that field visits are results-oriented and properly documented;
(d) implementing the evaluation plan and if necessary, revising the plan to reschedule the evaluations as applicable; and
(e) finalizing the pending actions to financially close the project outputs that were operationally closed for more than 12 months.

Management action plan:

(a) When applicable, project monitoring frameworks contained in the Programme Document will be reviewed in the subsequent Project Board meetings to agree on more realistic timing. Subsequent project revisions will be prepared to reflect the agreed frameworks in order to adapt to the local reality. For the new organizational structure, monitoring requirements in all job descriptions are duly specified. In addition, the new Programme Support Monitoring Unit contains specific monitoring and organizational learning functions.
(b) Recording in Atlas of project risk assessments will be closely monitored.
(c) The Office will arrange a training session for all programme/project staff to refresh knowledge on project modules and other corporate monitoring tools.
(d) The evaluation plan has been updated in the Evaluation Resources Centre and approved by the Regional Monitoring and Country Planning Advisor at the Regional Centre within the corporate deadline.
(e) The closure of the projects is a work in progress.

Estimated completion date: June 2016

4. Financial sustainability

Issue 5 Office's financial sustainability at risk

In accordance with UNDP corporate requirements, all Country Offices are required to maintain a minimum financial reserve of 12 months and ensure financial sustainability by securing long-term committed resources. The 'UNDP Programme and Operations Policies and Procedures' require Country Offices to establish effective partnerships, develop a resource mobilization strategy, as well as implement a corresponding resource mobilization action plan. A successful and consistent application of the cost recovery policy is a measure of the organization's ability to plan and use financial resources. All efforts must be made to recover fully the costs incurred by UNDP in providing services to programmes and projects so that UNDP's Integrated Budget (regular resources) does not subsidize the management of other resources.

The financial sustainability of the Office had been a concern for senior management both at the Office and at the Regional Bureau level, as the reserves decreased from 54 months in January 2015 to 24 months as of September 2015. This significant 30-month decrease in reserves was due to the following:

- There were increased operational costs, due to the fact that the salary of the Deputy Resident Representative was charged to the Office extrabudgetary reserve starting 1 January 2015, as opposed to being funded from core resources as in previous years.
- There was a reduced inflow of cost recoveries, due to low projects expenditure. The level of expenditure of 43 out of 163 ongoing outputs was below 50 percent of the total budget approved for the current year, putting most projects at risk of not achieving the agreed development results for the year.
- For one project, the General Management Services were not charged, as there was no set-up in Atlas. The pending amount to be recovered amounted to $4,000 for 2015.
- There was insufficient cost recovery. The audit identified 24 nationally implemented projects, which recorded an expenditure of $7.8 million in 2015. These projects had not been charged with cost recovery fees stemming from activities carried out by the Office on behalf of the national implementing partners.

The audit also disclosed that for the period from 2001 to 2015, the arrears for GLOC amounted to $2 million. In 2015, the Office received $27,970 out of a target of $214,513. The Office continued to work with the Government to encourage them to pay the outstanding contributions.

In addition, the Office lacked a resource and partnership mobilization strategy that could have expanded the cadre of donors and enhanced the inflow of resources in a context where the possibilities for mobilizing resources from traditional donors were becoming limited. The Office identified sources of funding during the preparation of the Office´s Transformation Plan. Nevertheless, a separate strategic plan with clear tasks, communications plan and time frame was not established, as required.

The Office was in the process of implementing a Transformation Plan that resulted from a Management Change Team's review in order to align the Office's structure to the 'UNDP Strategic Plan 2014-2017' and the Country's priorities. The sustainability of the Office was one of the reasons for the rationale for the change in the Transformation Plan.

Failure to plan and monitor Office resources effectively may result in the Office not being able to sustain itself in the long run, and may negatively impact the extent to which it can achieve its objectives when implementing projects.

Priority	High (Critical)

Recommendation 5:

The Office should enhance its financial sustainability by:

(a) establishing a cost reduction/contention strategy to alleviate the pressure of insufficient resources;
(b) reviewing the project results and related targets for the year, and adjusting them to more realistic figures;
(c) devising a strategy to recover outstanding GLOC in cash or in-kind and continue to pursue negotiations with the Government, with, as necessary, the involvement of the Regional Bureau for Latin America and the Caribbean;
(d) reviewing the cost recovery charges for project activities; and
(e) developing a resource and partnership mobilization strategy on the basis of the Transformation Plan in

an effort to expand donors and funding opportunities.

Management action plan:

(a) The actions for this item are already specified in the Office's Transformation Plan and include the reductions of 40 percent.
(b) Project results and targets were already set with Headquarters in the Integrated Work Plan exercise. On 13 November 2015, the Office communicated to the Regional Bureau for Latin America and the Caribbean its updated projected targets for the Integrated Work Plan and Transformation Plan.
(c) The Office will engage again with the Government on outstanding contributions and devise a strategy to recover long-outstanding contributions and involve the Regional Bureau.
(d) As mentioned under Issue 4, the Office will prepare and sign new Letters of Agreement for Country Office support to national implementation, incorporating the nature and scope of services. Also, estimated costs of services will be provided. The Office has already mapped a business process with the support of the Management Change Team mission carried out in the first week of November.
(e) The new Office, which will start operations in the first quarter of 2016, has a Programme Management Support Unit and personnel who will lead and support resource mobilization efforts. Already, as part of the Transformation Plan of the Office, a clear pipeline of projects and a programmatic vision has been established, which will form the basis of the resource mobilization plan. The Unit will lead the development and implementation of the resource and partnership mobilization strategy under the direct leadership of the Office's management and in collaboration with the Programme Unit.

Estimated completion date: June 2016

OAI Response

OAI acknowledges the actions taken by management; these will be assessed at a later stage as part of the standard desk follow-up process of OAI.

B. Programme activities

1. Project management

Issue 6 Limited use of Atlas for project management

Atlas is the enterprise resource planning system of UNDP. It comprises a management information system used for project management and for processing financial and operational data for reporting to donors and other stakeholders and, as such, users are required to make good use of the system. In addition, the information entered in Atlas is used by other corporate systems, such as the corporate planning system and the snapshot that are used for Results Based Management.

OAI reviewed nine out of 66 development projects with 20 outputs, representing 70 and 66 percent of total programme delivery for the years 2014 and 2015, respectively. Out of the nine reviewed projects, six were nationally implemented and three were directly implemented by the Office. The following weaknesses were noted, which were mainly due to limited knowledge in the use of Atlas by some Office personnel:

- Risks, issues and monitoring items were not consistently entered for all projects.
- Targets, baselines and indicators for outputs were not entered or updated on a yearly basis as required.
- The initially agreed upon amount of the project budgets was not entered for any of the projects reviewed in the new project management module, affecting the Budget Cover Page report.
- The project budgets were not entered for future years because the approval process of the budget revisions were not completed.
- Programme manager names were out-of-date and still reflected the names of staff members who no longer worked for the Office.
- In three instances, for a single project created in Atlas, there was more than one project document, which was due to the fact that the Office used project documents to create outputs instead of projects.
- Incorrect information for four projects' implementing partners showing UNDP instead of the national institution name and vice versa, affecting reporting on project implementation modality.
- Key project files, such as project documents, Project Appraisal Committee minutes, project revisions, and project progress reports, were not consistently uploaded as required for the International Aid Transparency Initiative.

The inadequate use of Atlas and the incorrect input of project information could impact the completeness and accuracy of project management and financial reporting. Furthermore, not entering project information into Atlas may impact the corporate planning system used for Results Based Management at country, regional and global levels, as the Office's data may not be accurately reflected.

Priority	Medium (Important)

Recommendation 6:

The Office should improve the use of Atlas by providing training to staff members and ensuring appropriate follow-up actions, specifically in:

(a) entering and updating risks, issues and monitoring items for all active projects as required;
(b) entering and updating targets, indicators and baselines on a yearly basis;
(c) entering and updating project management information such as total project amounts, future year budgets, and project manager and implementing partner codes;
(d) ensuring that each project document is translated to one project in the system with all its corresponding outputs; and
(e) uploading key documents.

Management action plan:

(a) Training sessions will be carried out next year in the use of the Atlas project module.
(b) Some of the actions are in process: Environment Portfolio Coordinator had a training session with the Project Coordinators about the Atlas project module and are inputting information. The Integrated Work Plan reporting and Results-Oriented Annual Report require updating the information in Atlas.
(c) Updating of the project management module is in process.
(d) In process.
(e) In process.

Estimated completion date: February 2016

C. Operations

1. Human resources

Issue 7 Deficiencies in recruitment processes

The 'UNDP Recruitment and Selection Framework' describes the guiding principles behind all staff recruitment and selection activities and lays out the necessary conditions for the selection of candidates for UNDP posts. As such, only candidates who fully meet the required qualifications for the position, as specified in the vacancy announcement, may be shortlisted for a post.

The audit disclosed the following deficiencies in the four recruitments that took place during the audit period:

- The evaluation criteria did not include a required minimum score before an applicant can be considered for the next phase of the selection process. Instead, and irrespective of the score achieved, the "top 5 or top 10" applicants were automatically considered for the next phase of the recruitment process.
- The English proficiency level required for a post was not adequately weighted; for example, only a low percentage (i.e. 5 percent of the total score) was allotted for a post that required fluency in English.
- In the recruitment process of a Finance Assistant post, the results of the candidates' evaluations were questionable, considering that the selected candidate scored the highest on the English technical (finance) test offered to 16 candidates, while the same candidate had the lowest overall score on the English proficiency test. One candidate was identified by the interview panel as being "too junior" and was consequently disqualified despite the fact that this candidate had the third highest technical (finance) score and an advanced level of English proficiency.

Failure to comply with the 'UNDP Recruitment and Selection Framework' could result in a lack of transparency, which may negatively impact staff morale and the reputation of the Office, and may result in the best qualified candidate not being selected.

Priority	Medium (Important)

Recommendation 7:

The Office should ensure compliance with the 'UNDP Recruitment and Selection Framework' by:

(a) establishing a well-designed scoring methodology to ensure the fair and objective assessment of credentials and competencies of candidates; and
(b) ensuring that interview panels provide objective reasons for selecting candidates.

Management action plan:

(a) The scoring methodology will be reviewed by the Human Resources Unit; a meeting with local Compliance Review Panel members will take place to ensure improved quality assurance by the Compliance Review Panel recommendations.
(b) Compliance with Compliance Review Panel regulations will be ensured by the Office.

Estimated completion date: March 2016

2. Finance

Issue 8 Weaknesses in controls over processing payments

According to the UNDP Financial Regulations and Rules and the Internal Control Framework, at least two signatories are required to authorize the disbursements of funds. For offices that make payments from bank accounts controlled by them, the head of office must designate a "Disbursing Officer" that is tasked to: (a) review and approve pending disbursements, (b) release Electronic Bank Transfers, or (c) exceptionally in smaller offices, sign UNDP cheques. The Disbursing Officer and the Senior Finance Officer verify and approve payments. Sound business practices for dealing with confidential information or access to sensitive data/records dictate ensuring restricted access to information/data.

The Office payment function was not adequately set when compared to the key controls on the Internal Control Framework. The paycycle was processed using two different systems, namely Atlas and a local database. Atlas was utilized to process payments; however, the text file generated contained information on payments by each payee that was not compatible with the e-banking platform. This was due to a technical glitch that the Office had not been able to fix with the bank for several years (e.g. correct bank details including banking name and code). As a result, a new text file had to be produced using the local database containing the information on payments compatible with the e-banking platform. The text file generated from the local database always required manual modifications before uploading it into the e-banking platform due to a bug in the local database that resulted in erroneous bank codes. Additionally, the database was not automatically linked to the e-banking platform and the text file produced needed to be manually uploaded.

In addition, the audit identified the following weaknesses:

- There was unrestricted access by several users to the folder where the Atlas text file utilized to process payments and containing payee's information was stored. These users had full access to modify or delete data.
- The two employees that used the local database shared the same user name and password.
- The local database was located on a single computer, and was not accessible remotely. As a result, there was a risk that payments would not be effected in case of a system failure. The e-banking platform allowed only one user to approve disbursements, contrary to the provisions of the Internal Control Framework.
- Bank reconciliations were performed by matching total values of payments from Atlas and bank movements, as opposed to clearing individual transactions recorded in bank and Office records.

The processing of payments outside of the Atlas system may lead to financial, legal and reputational risk. In addition, managing payments in the way the Office operated undermined the effectiveness of the oversight exercised by senior management and/or corporate units.

Priority	High (Critical)

Recommendation 8:

The Office should strengthen the internal controls over payments and minimize business risks by:

(a) liaising with the bank to request that payments be taken directly from the Atlas system, or producing an encrypted file from Atlas for uploading to the e-banking platform automatically;
(b) discontinuing the use of the local database;

(c) reviewing access to storage folders and the e-banking platform for processing payments in line with the delegation of authority; (d) establishing an adequate segregation of functions to ensure checks and balances in the e-banking platform for the processing of payments by requiring that at least two Office staff members authorize payments; and (e) improving the preparation of the monthly bank reconciliation.
Management action plan: The Office has contacted the bank for uploading the data using an encrypted file from Atlas. A response is expected on the way forward. Headquarters has also been contacted and advice has been requested on how to proceed. An action plan will be discussed and agreed with Headquarters/Treasury. **Estimated completion date:** March 2016

Issue 9 Deficiencies in cash management

According to the 'UNDP Programme and Operations Policies and Procedures', the approval of a request for an advance by an implementing partner for a particular project is subject to the verification by Country Offices that at least 80 percent of the previous advances given and 100 percent of all earlier advances have been liquidated. Nationally implemented projects can either open a dedicated bank account to process payments or request the Country Office to make a payment on their behalf.

Project cash on hand is a perpetual cash advance to directly implemented projects in remote regions with project disbursement needs that cannot be met by the Country Offices through banking arrangements. The project petty cash fund is the petty cash balance kept in the safe in the project offices to meet the disbursement requirements.

The audit disclosed the following deficiencies in the management of cash:

(a) National implementation modality advances

A total of 33 advances were granted during the period covered by the audit, amounting to $560,000. The audit reviewed 10 advances disbursed to implementing partners for $457,600 that corresponded to 82 percent of the total value advanced during the audit period. The following inconsistencies were noted:

- In two cases, the Office granted advances totalling $191,715 before receiving the required report demonstrating that at least 80 percent of the previous advances had been liquidated.
- In two cases, the forms used to request funds amounting to $248,264 were incorrectly prepared, as the outstanding balances reported did not match Atlas records.
- Amounts requested in three advances for a total of $103,016 corresponded to planned activities that were not in line with the amount disbursed.
- Funds advanced corresponding to March and April 2015 (two advances of $190,000) were pending liquidation at the time of the audit fieldwork.

(b) Cash advances

The Office was implementing a project in a remote location. In order to make payments at the project site, cash advances were authorized to one staff member (Cluster Leader) who was based far from the field. At the time of the audit, the balance recorded to be in the custody of the Cluster Leader amounted to $7,581. In addition, the last cash advance was granted before recovering the prior advance and the timing for recovering cash advances exceeded the seven days required by the procedures. The total amount of cash advances under this modality amounted to $44,914 (according to Atlas records) for the period covered by the audit.

(c) Excessive use of petty cash

Three nationally implemented and two directly implemented project units located within the Office's premises were holding petty cash, which was not in line with the respective policies. The review of petty cash supporting payments disclosed that cash was used to pay for the following: transportation costs (e.g. taxi fees paid to consultants); coffee breaks; printing materials and office supplies. Also, there were reimbursements of personal telephone charges to some staff, contrary to the Office´s established pre-set limits. The amount of expenses recorded as petty cash per Atlas records amounted to approximately $86,840 during the period covered by the audit.

Non-compliance with cash management principles may weaken the internal control environment of the Office and may lead to financial losses.

Priority	Medium (Important)

Recommendation 9:

The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' for the management of advances by:

(a) discontinuing advances in cases where expenses are not timely justified;
(b) establishing a deadline for submitting the supporting documentation to justify the expenditures;
(c) limiting the use of petty cash and refraining from making payments that are questionable; and
(d) discontinuing the use of petty cash on nationally implemented projects.

Management action plan:

(a) The project in the remote location is closing operationally on 31 December 2015. Therefore, all advances will be liquidated before year-end. In the case of the project 'Strengthening Registro Nacional de Personas', the Office is informing the implementing partner that the advance will be closed if the expenses are not timely justified.
(b) Under implementation. A letter is being sent to implementing partners requesting the immediate liquidation of advances.
(c) Implemented. A circular was sent to all UNDP/project staff with guidelines on the use of petty cash.
(d) Implemented. Petty cash for nationally implemented projects have been closed.

Estimated completion date: December 2015

OAI Response

OAI acknowledges the actions taken by management; these will be assessed 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 <u>not included in this report</u>.