UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP MULTI-COUNTRY OFFICE

IN

SAMOA

Report No. 1553

Issue Date: 2 December 2015

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Report on the Audit of UNDP Multi-Country Office in Samoa
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Multi-Country Office in Samoa (the Office) from 7 to 14 October 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, 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 30 September 2015. The Office recorded programme and management expenditures of approximately $17 million. The last audit of the Office was conducted by OAI in 2010 with a subsequent follow-up audit 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 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 weaknesses in the Office's project assurance activities, management of individual contracts and cash advances to implementing partners.

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

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

Inadequate controls over cash advances to implementing partners (Issue 6)	The audit reviewed a sample of 12 Funding Authorization and Certification of Expenses (FACE) forms for cash advances of $5 million made to four implementing partners for implementing project activities during the audit period. However, none of the FACE forms reviewed were supported by bank statements proving the cash balances available with the implementing partners. This shortcoming occurred due to inadequate guidance or supervision. In 4 out of the 12 FACE forms reviewed, two implementing partners had spent more than the authorized advances. Subsequently, these implementing partners requested a reimbursement for the amount overspent totalling $0.4 million. There was no evidence to indicate that these implementing partners had consulted the Office or received management's clearance before spending more than the allocated advances. Recommendation: The Office should enhance controls over the management of advances to implementing partners by: (a) obtaining bank statements from implementing partners or alternatively obtaining adequate evidence to indicate the usage of funds and remaining fund balance; and (b) ensuring that the Office's management is appropriately consulted and clears any requests from implementing partners to spend more than their allocated advances.
Inadequate management of individual contracts (Issue 8)	The Office carried out a significant number of procurement activities through direct contracting during the audit period. For instance, 29 percent of procurement contracts amounting to $0.3 million were undertaken using direct contracting. The justifications for direct contracting in six cases (valued at $230,000) out of the seven procurement cases reviewed (amounting to $276,000) were that there was no competitive marketplace and there was a genuine exigency for the requirements. However, the Office had not been able to provide evidence that there was no competitive marketplace and the explanation for the genuine exigency was inadequate. The Office reported that they had taken efforts to exercise greater prudence, and as a result reduced the total number of direct contracting of individual consultants in 2015 to only three. In one instance, the Office awarded an individual contract to a consultant amounting to $63,000, contrary to the advice of the Chief, Regional Advisory Committee on Procurement (RACP). Recommendation: The Office should enhance controls over the management of individual contracts by: (a) ensuring that direct contracting is undertaken only in accordance with UNDP Financial Rule No. 121.05; and (b) seeking advice from the Chief, RACP, when needed and abiding by it.

Implementation status of previous OAI audit recommendations: Report No. 984, 21 August 2012.

Total recommendations: 4
Implemented: 4

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Management comments and action plan

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

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Apia, Samoa (the Country) and is responsible for programmes in four Pacific Island countries, namely Samoa, Cook Islands, Niue, and Tokelau. Development in these four countries has been hindered by, among other factors, their small size, isolation from foreign markets and natural disasters. The Office comprised 18 personnel at the time of the audit, and the 'United Nations Development Assistance Framework' (UNDAF) covered the period of 2013-2017.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. The Office had adequate controls over organizational structure and delegation of authority; leadership, ethics and values; risk management, planning and monitoring; and financial sustainability. There were no reportable issues.

(b) Human resources. Adequate controls were established in human resources management.

(c) General administration. Controls were generally well established and functioning adequately.

(d) Safety and security. OAI reviewed the security plan, security risk assessment, and the updated United Nations staff list and no reportable issues were identified.

(e) Information and communication technology. OAI reviewed software and hardware management, back-up and restoration arrangements, site visits to the Office's servers and the latest available disaster recovery plan. No reportable issues were 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) Enhance controls over the management of advances to implementing partners (Recommendation 6).
(b) Improve controls over the management of individual contracts (Recommendation 8).

Medium priority recommendations, arranged according to significance:
(a) Enhance project assurance activities in compliance with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 4).
(b) Improve project management (Recommendation 5).
(c) Conduct the UNDAF review (Recommendation 2).
(d) Develop a comprehensive monitoring and evaluation framework and enhance efforts to improve the programme delivery rate (Recommendation 3).
(e) Pursue the full implementation of HACT (Recommendation 1).
(f) Improve financial management processes (Recommendation 7).
(g) Establish a tracking mechanism to monitor cumulative procurement transactions that require submission to RACP for approval (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. United Nations system coordination

Issue 1 Harmonized Approach to Cash Transfers (HACT) not fully implemented

To lessen the burden that the multiplicity of United Nations procedures and rules create for its partners, the HACT Framework requires that participating UN agencies (i.e. UNDP, UNICEF and UNFPA) agree on and coordinate HACT 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 HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

The Office had not fully implemented HACT, as there was no assurance and audit plan for implementing partners. The HACT Working Group was formed in May 2014 and two meetings were held in May and October 2014. The macro- and micro-assessments were completed in September 2015 and the Government approval for implementing HACT was obtained. The Office indicated that a joint assurance plan was being developed together with other UN agencies to undertake various assurance-related activities.

If the Office, together with the HACT Working Group, does not develop the joint assurance plan and implement activities within an established deadline, there is a risk that HACT implementation will be further delayed.

Priority	Medium (Important)
Recommendation 1: The Office should pursue the full implementation of HACT by establishing a joint assurance plan as well as conducting relevant assurance activities within a time-bound period.	
Management action plan: The Office will develop the joint assurance plan in coordination with the other UN Executive Committee agencies (integrated in the HACT Working Group), the implementing partners and every government aid coordination unit. The assurance activities will be initiated soon after that. **Estimated completion date:** March 2016	

Issue 2 UNDAF evaluation not undertaken

The 'UNDP Programme and Operations Policies and Procedures' require an annual review of the UNDAF as an integral part of the monitoring at the country level of the United Nations system. Further, it enables offices to assess the achievement of overall annual targets of UNDP funded activities in the context of UNDAF and national outcomes.

The UNDAF 2013-2017, under the monitoring and evaluation section, indicated that there would be several types of monitoring and evaluation activities undertaken. The first level review would comprise UNDAF annual progress reviews, while the second level review would be an assessment of the UNDAF top-level multi-country outcomes to be conducted in 2015 as well as at the end of the cycle in 2017. In addition, the United Nations together with each country would produce a country UNDAF report for each year from 2013 to 2017, highlighting progress towards national UNDAF outputs and outcomes. The UNDAF top-level multi-country outcomes (which is commonly referred to as midterm UNDAF evaluation) was planned to be conducted in June 2015; however, at the time of the audit, this had not been completed.

The Office explained that the UNDAF annual review for one of the countries under its purview was conducted in February 2015, while for the three remaining countries this would not be conducted, as the United Nations Country Team had decided that annual UNDAF reviews would be carried out only when specifically requested by the host country; otherwise, such reviews would be integrated into donor meetings.

Failure to conduct a timely evaluation of the UNDAF as well as annual reviews may prevent the Office from obtaining adequate information pertaining to the progress achieved thus far and lessons learned.

Priority	Medium (Important)
Recommendation 2: The Office should conduct the UNDAF review and where possible integrate this with development partner reviews as stated by the United Nations Country Team.	
Management action plan: The Office, through the joint UNDAF Monitoring and Evaluation Working Group, will conduct UNDAF annual reviews for each country, and where required, a comprehensive *in-situ* annual review will be conducted. The 2016 review will be integrated in the UNDAF terminal evaluation, which will take place in 2016 in order to facilitate the Common Country Assessment process for the next UNDAF. **Estimated completion date:** December 2016	

B. Programme activities

1. Programme management

Issue 3 Weaknesses in programme management

(a) Absence of monitoring and evaluation framework

The 'UNDP Programme and Operations Policies and Procedures' state that all outcomes to which UNDP is contributing must be monitored and evaluated regularly. They further require the development of a programme monitoring and evaluation framework that should include details such as clear results (outcomes and outputs), indicators, baselines, risks, annual targets as applicable as well as necessary resources. Further, the 'UNDP Handbook on planning, monitoring and evaluating development results' states that the monitoring and evaluation framework should include details such as activities needed to be monitored and evaluated, indicating who is responsible for these activities, and how and when monitoring and evaluations are to be carried out.

Even though the Country Programme cycle started in 2013, the Office did not have a comprehensive monitoring and evaluation framework which would guide its overall programmatic monitoring and evaluation tasks.

The absence of a comprehensive monitoring and evaluation framework may hamper the Office's efforts in monitoring its programme activities and results effectively.

(b) Weaknesses in updating evaluation report recommendations

The Monitoring and Evaluation Policy requires management to respond to evaluations of key findings and recommendations, with follow-up actions with clear timelines and updates in the Evaluation Resource Centre's website.

The review of the management actions in the Evaluation Resource Centre's website in response to the four project evaluations conducted during the current Country Programme cycle, highlighted that the Office had either not taken action to implement the recommendations made in the evaluation reports, or had only initiated actions without completing them. In the case of one project, the Project Document required a midterm evaluation to be conducted at the midpoint of the project implementation towards the end of 2014; however, this was not done and was postponed to March 2016.

The Office explained that the actions to address the recommendations were being tracked outside of the Evaluation Resource Centre's website, although the Office acknowledged that there were instances where prompt actions had not been taken. Realizing the need to ensure the timely implementation of management actions, the Office had informed all programme staff to closely track and update the implementation status of management actions on a timely basis in the Evaluation Resource Centre's website. Inadequate management of evaluations may result in the Office not benefitting from these evaluations.

Subsequent to the audit fieldwork, the Office completed the update of all relevant management actions in the Evaluation Resource Centre's website; hence, no audit recommendation is being made in this regard.

(c) Low utilization of available resources

The 'UNDP Programme and Operations Policies and Procedures' require Offices to ensure that projects are completed in a timely manner and that they achieve intended outputs.

The Office had consistently not been able to achieve the budgeted programme delivery as indicated by figures extracted from the Executive Snapshot. In 2013, the overall budgeted programme delivery was $14.5 million, but the actual programme delivery was $8.9 million (61 percent). In 2014, the total programme budget was $15.5 million while the actual programme delivery was $10.9 million (70 percent). As at September 2015, the Office had achieved a programme delivery of $4.4 million (28 percent) against a total budgeted programme delivery of $15.5 million. In addition, the Office had only utilized 43 percent and 31 percent of all resources available in 2014 and 2015, respectively.

In the 2014 Results Orientated Annual Report, the Office had stated that some expected results were not achieved because the Government requested UNDP to focus on the Small Island Developing States Conference that was held in August 2014 and postpone other activities, which impacted financial delivery.

Further, based on the first quarter progress report of one project there was no expenditure for the reported quarter because the project was experiencing challenges in developing terms of reference for technical activities, conducting procurement processes, and attracting suitable candidates. Significant delays were also noted in two other large projects, mainly due to revisions to the projects' design and to the extended amount of time taken in setting up a Project Management Unit, which contributed to the Office's overall low utilization of available resources.

Failure to fully utilize programme resources may result in the Office not achieving its intended programmatic results on time.

Priority	Medium (Important)
Recommendation 3: The Office should improve monitoring and evaluation by: (a) developing a comprehensive monitoring and evaluation framework; and (b) closely tracking its utilization of programme resources and enhancing efforts to improve the programme delivery rate.	
Management action plan: The Office will update the evaluation plan quarterly in UNDP's Evaluation Resource Centre. A monitoring tool has been redefined to follow up on action points after field visits, and will include the recommendations of annual progress reports and evaluation reports. The Office hired a Monitoring and Evaluation Specialist in October 2015 to support the Office's monitoring and evaluation tasks. The Office has enhanced efforts to reach the target of $9 million in financial delivery by the end of 2015. This includes monthly project progress meetings, acceleration of procurement processes and resolution of bottlenecks. Further, the Office is also improving its budget and resource management systems and will be more conservative in its estimates for project delivery. In particular, the Office is adjusting the resources and budgets to around 85 percent of the financial target delivery for 2015 (i.e. $10.6 million). **Estimated completion date:** January 2016	

2. Project management

Issue 4 Weaknesses in management of project assurance activities

(a) Inadequate project field visits

The 'UNDP Programme and Operations Policies and Procedures' stipulate that as part of the assurance function, a representative from a UNDP office should visit each project at least once a year. Field visits serve the purpose of results validation and should provide the latest information on progress for annual reporting preparation. Apart from visits by the programme staff in offices, project personnel are also supposed to undertake regular field visits to assess and track project progress while addressing any project implementation issues timely.

The Office shared 20 reports for the period January 2014 to July 2015 indicating that field visits were undertaken by the Office's programme staff to project sites. The review of these reports indicated that they were not all related to project field visits to monitor progress, as some of the visits related to Office staff conducting trainings and workshops for implementing partners. Further, these field visits were conducted with respect to only 9 projects, even though Office was managing 30 projects as of July 2015. Two projects in particular were spread over 13 Pacific Island countries, which would require more frequent visits instead of only the five visits conducted by the Office from January 2014 to July 2015. The Office had developed a tracking sheet in Excel to monitor follow-up actions to be undertaken following these project field visits. While this assisted the Office in monitoring the actions to be undertaken, it was not updated timely and actions were not closely tracked.

Failure to conduct regular and adequate project field visits may prevent the Office from tracking the progress of projects and taking appropriate actions whenever required.

(b) Failure to update risk and issue logs for development projects

The 'UNDP Programme and Operations Policies and Procedures' require risk, issue, and lessons learned logs to be created in Atlas and updated regularly.

The review of seven projects indicated that their risk, issue and lessons learned logs were not updated regularly. For example, the Project Board for one project had raised inadequate funding as a significant issue; however, this was not updated in the project risk and issue logs to enable a more organized approach to monitor and address the issue. The Office explained that this was mainly due to significant staff shortages.

Failure to update risk and issue logs in a timely manner may prevent the Office from monitoring and taking adequate actions to address project risks.

(c) Failure to close projects in Atlas

The 'UNDP Programme and Operations Policies and Procedures' require projects to be operationally closed once activities have been implemented. The operationally closed projects should then be financially closed within one year from operational closure.

According to information in Atlas, the Office had 45 projects recorded as ongoing although the project end dates were prior to 31 December 2014. These 45 projects should have been recorded either as operationally or financially closed in Atlas.

By not closing projects timely, the Office risks unauthorized expenditures charged against these projects.

Priority	Medium (Important)

Recommendation 4:

The Office should enhance project assurance activities in compliance with the 'UNDP Programme and Operations Policies and Procedures' by:

(a) ensuring an adequate number of project monitoring field visits conducted depending on the complexity of projects and risks involved;
(b) establishing a process to systematically monitor follow-up actions on issues and recommendations made on project monitoring field visits;
(c) regularly updating logs in Atlas on project risks and issues, and lessons learned; and
(d) closing projects in Atlas timely.

Management action plan:

(a) A field visit planning schedule will be integrated into the monitoring tool to follow up on action points after field visits. This monitoring tool will also include the recommendations of the evaluation reports and the annual progress reports.

(b) Management responses of previous evaluations have been updated in the online evaluation plan. The Office will follow up on the pending actions and will complete them by the end of 2015.

(c) The Office will regularly update the Atlas logs on risks, issues and lessons learned. The Office has already hired a Monitoring and Evaluation Specialist in October 2015, who will support these processes and will conduct periodic spot checks to ensure that all projects comply with that requirement.

(d) The Office has recently closed 10 of the 45 projects that were pending for closure. Moreover, 16 additional projects will be closed before the end of the January 2016. The remaining 19 projects will be extended. Management will closely monitor the closure of projects to prevent this situation in the future.

Estimated completion date: January 2016

Issue 5 Inadequate project management

(a) Implementing partner capacity assessments not completed

The 'UNDP Programme and Operations Policies and Procedures' require that potential implementing partners be assessed for their project management capacity as well as their financial and administrative capacities to implement projects and manage project funds. Capacity assessments enable identification of areas that the implementing partners need to strengthen. Where deficiencies are noted, the assessment should include recommendations to address them.

The review of seven development projects disclosed that the Office had not undertaken capacity assessments of implementing partners to determine whether they had the capacity to successfully implement and manage projects, or if they had the necessary financial reporting and management systems in place to manage funds entrusted to them.

Without undertaking capacity assessments, the Office cannot determine whether implementing partners have adequate technical, financial and administrative capacity to carry out projects. As such, the Office may not be able to determine the level of risk mitigation and assurance measures required.

(b) Delay in approval of project Annual Work Plans

The 'UNDP Programme and Operations Policies and Procedures' require that Annual Work Plans identify specific annual targets that are to be approved by the Project Board in the last quarter of the preceding year and signed by the implementing partners before implementation. The Annual Work Plans specify the activities to be delivered along with the resources allocated for the activities and the respective timelines for implementation. There was a delay in approving the 2014 and 2015 Annual Work Plans. A review of seven Annual Work Plans for 2014 indicated that they were signed with a delay of three to nine months. A review of two projects' Annual Work Plans for 2015 indicated that they were also signed with a delay of three and six months, respectively. The majority of the Annual Work Plans reviewed did not have specific targets and indicators were not specific, measurable, attainable, realistic and timely (SMART), hence it was difficult to ascertain and track the progress of results. In one project, it was noted that project activities had been undertaken and project expenditures had been incurred prior to having an approved Annual Work Plan.

The lack of timely approval of the Annual Work Plans may result in the delay of project implementation activities, which in turn may impact the delivery of intended outcomes.

(c) Inadequate governance over a project

The Office signed an agreement for a project with the Government in 2011. This project was initially intended to focus on two strategic outputs that would serve as a platform to consolidate and divert all pre-existing UNDP development resources in Poverty Reduction and the Millennium Development Goals (MDGs) and accelerate MDG achievement with a project budget of $0.6 million.

The review of the project indicated the following:

- It functioned more like an "umbrella" project without any activities that could be tracked back to the original Project Document signed in 2011.
- A Project Board, as envisaged in the Project Document, had not been established and the Office was implementing the project directly.
- The Annual Work Plans for 2014 and 2015 included outputs such as the complete translation of the community conversation handbook, breakthrough initiatives, and the completion of transformational leadership development programmes. These outputs were different from the outputs included in the original Project Document, hence the audit was not able to track the results achieved against the intended outputs outlined in the Project Document. The Project Document had explicitly stated that this project should have been completed within a two-year period with all outputs implemented; however, the project had been ongoing for four years.

Inadequate governance over the project may result in a waste of resources or in project outcomes not being achieved.

Priority	Medium (Important)
Recommendation 5: The Office should improve project management by: (a) undertaking capacity assessments of implementing partners; (b) having the Project Boards approve the Annual Work Plans of projects timely; and (c) ensuring adequate governance over the project as agreed with the Government, so that project activities are relevant and contribute to the intended project outcomes and outputs.	
Management action plan: The Office: (a) has recently completed the HACT micro- and macro-assessments, which evaluated the financial management capacity of the implementing partners, the risks of the public financial management	

environments and the capacities of the supreme audit institutions. Further, the Office will identify the implementing partners that still need to have a capacity assessment (or the need to update the previous one), and will arrange and implement a capacity development plan for them;

(b) will ensure that the recommendations of previous capacity assessments are fully integrated in the implementation of the projects;

(c) will make efforts to have all project Annual Work Plans approved timely;

(d) will also intensify its efforts to ensure that all non-Global Environment Facility (GEF) and non-Adaptation Fund (AF) projects establish annual milestones in their Annual Work Plans with SMART indicators (please note that GEF projects already have annual progress milestones, with SMART indicators, from 1 July to 30 June (the same applies to AF projects, but with different annual timeframes); and

(e) has been closely managing the particular project with the responsible office of the Government. However, the Office will conduct a terminal evaluation of the project before the end of the 1st quarter 2016 and close it soon after the presentation of the evaluation.

Estimated completion date: June 2016

C. Operations

1. Financial management

Issue 6 Inadequate controls over cash advances to implementing partners

The ‘UNDP Programme and Operations Policies and Procedures’ require offices to closely monitor advances made to implementing partners and require that implementing partners submit bank statements together with their FACE forms. In addition, the implementing partner should consult and seek clearance from UNDP prior to spending its own funds before seeking reimbursement.

The audit reviewed a sample of 12 FACE forms for cash advances of $5 million made to four implementing partners for implementing project activities during the audit period. However, none of the FACE forms reviewed were supported by bank statements proving the cash balances available with the implementing partners. This shortcoming occurred due to inadequate guidance or supervision.

In 4 out of the 12 FACE forms reviewed, two implementing partners had spent more than the authorized advances. Subsequently, these implementing partners requested a reimbursement for the amount overspent totalling $0.4 million. There was no evidence to indicate that these implementing partners had consulted the Office and received management’s clearance before spending more than the allocated advances.

The Office acknowledged this shortcoming and indicated that it was establishing a standard operating procedure to ensure that management approval was sought before the national implementing partners spend more than their allocated quarterly cash advances.

The inadequate management of cash advances may result in financial losses for UNDP.

Priority	High (Critical)
Recommendation 6: The Office should enhance controls over the management of advances to implementing partners by: (a) obtaining bank statements from implementing partners or alternatively obtaining adequate evidence to indicate the usage of funds and remaining fund balance; and (b) ensuring that the Office's management is appropriately consulted and clears any requests from implementing partners to spend more than their allocated advances.	
Management action plan: The Office recently discussed the procedures for reimbursement requests with the main implementing partner and other project coordinators. The Office will send a written communication to all its implementing partners and will have an additional conversation with the relevant authorities to ensure that they are well informed about the due process. The Office will establish procedures to ensure that the Office's management is consulted and clears any request from implementing partners to spend more than their allocated quarterly advances. The Office will liaise with the implementing partner to enable possible submission of bank statements together with their requests for quarterly advances in the future. **Estimated completion date:** December 2015	

Issue 7 <u>Inadequate controls in financial management processes</u>

(a) Outstanding Government Contribution to Local Office Costs (GLOC)

In accordance with the provisions of the standard basic agreement that govern UNDP operations in programme countries, host governments are expected to contribute towards the local cost of Country Offices.

As of August 2015, there were outstanding GLOC contributions amounting to $563,000. The Office indicated that they had been following up with the countries for GLOC. As there were challenges due to minimal financial resources with the countries, the Office had brought these challenges to the attention of UNDP headquarters. However, the Office could not provide any documented communication on this issue.

(b) Inadequate tracking system for cost recovery

The 'UNDP Programme and Operations Policies and Procedures' require offices to create cost recovery projects and otherwise ensure a complete and accurate recovery of all costs relating to services provided to UN agencies and development projects.

The Office did not maintain a tracking system for its cost recovery for the implementation support services provided to projects and UN agencies. The practice was that the Finance Unit received copies of documents from various operations units on services provided to UN agencies and development projects.

The audit disclosed that the Office had not recovered costs for all services provided in 2014 and 2015. For example, OAI did not find cost recovery records in Atlas for 35 purchase orders issued on behalf of other UN agencies for travel tickets. In addition, there was no evidence to indicate that the Office had recovered costs in respect of services provided for processing 39 individual contracts for various development projects. There was inadequate supervision over the processes of cost recovery.

The absence of an appropriate system to track the support services provided may result in loss of revenue for the Office.

Priority	Medium (Important)
Recommendation 7: The Office should improve financial management processes by: (a) recovering the long-outstanding GLOC; and (b) establishing controls to ensure costs are recovered for implementation support services rendered to UN agencies and development projects within a time-bound period.	
Management action plan: The Office periodically informs governments about GLOC targets and arrears. The Office's management will closely monitor to facilitate the clearance of arrears of GLOC. The Office will establish a tracking system for support services in order to ensure their full cost recovery. The tracking results will be presented to the Office's management on a quarterly basis. In addition, the Office will recover service costs incurred in 2015. **Estimated completion date:** December 2015	

2. Procurement

Issue 8 Inadequate management of individual contracts

(a) Frequent use of direct contracting

Direct contracting is a procurement method that allows the procurement of goods and/or services without competition. The 'UNDP Programme and Operations Policies and Procedures' provide that UNDP staff may only use this method when it is not feasible to undertake a competitive bidding process, and that proper justifications exist. UNDP Financial Rule No. 121.05 provides nine cases that can be considered justifications for direct contracting. The 'Individual Contract Guidelines' provide options to negotiate fees on the basis of the financial proposal submitted by the individual.

The audit disclosed that 29 percent of procurement contracts during the audit period ($0.3 million out of total procurement contracts of $1.1 million) were undertaken using direct contracting. The justifications for direct contracting in six cases (valued at $230,000) out of the seven procurement cases reviewed amounting to $276,000 were not in accordance with UNDP Financial Rule No. 121.05. In all six cases, the justifications were that there was no competitive marketplace and that there was a genuine exigency for the requirements. However, the Office had not been able to provide evidence that there was no competitive marketplace and the explanation for the genuine exigency was inadequate.

The 'UNDP Programme and Operations Policies and Procedures' stipulate that former staff members who receive a pension benefit from the United Nations Joint Staff Pension Fund (UNJSPF) may not receive more than $22,000 (excluding travel costs and per diem) per calendar year in emoluments from the UN system or may not be engaged under a contract in excess of six months per calendar year. In one case, a former UNDP staff member was hired through an individual contract amounting to $52,000.

The Office's management indicated that they had taken efforts to exercise greater prudence and care to avoid direct contracting of individual consultants, where possible, in recent months. As a result, the number of direct contracting of individual consultants in 2015 was only three cases.

Failure to comply with requirements of UNDP financial rules on direct contracting may impact the Office's reputation and may lead to financial losses.

(b) Inadequate justification in one case of potential conflict of interest

The 'UNDP Programme and Operations Policies and Procedures' state that UNDP may exclude suppliers, contractors and consultants from tendering for procurement opportunities in UNDP supported programmes or projects if the offeror in question or their affiliates provided consulting services for the preparation and implementation of a project, and in order to prevent a conflict of interest, the offeror and their affiliates are disqualified from subsequently providing goods and civil works under UNDP financing for the same project.

In one instance, the Office awarded an individual contract to a consultant despite the contrary advice of the Chief, RACP, amounting to $63,000. The Chief, RACP, had indicated that there would be a conflict of interest in contracting this consultant to a project to which he had participated in the past during the preparation of the Project Document. However, the Office prepared a note to the file explaining that there would not be any conflict of interest. The Office subsequently proceeded to contract this consultant.

Failure to prevent potential conflicts of interest may result in reputational/financial risk to the organization.

Priority	High (Critical)
Recommendation 8: The Office should improve controls over the management of individual contracts by: (a) ensuring that direct contracting is undertaken only in accordance UNDP Financial Rule No. 121.05; and (b) seeking advice from the Chief, RACP, when needed and abiding by it.	
Management action plan: The Office will conduct a workshop on best procurement practices and will request the online participation of the Regional Operations Advisor to facilitate the discussions. In cases where direct contracting may still be required, the Office commits to present a more thorough justification of the case in full alignment with the policies. Senior management will closely supervise these	

processes.

The Office has also requested access to two new rosters (one specific for the Pacific region created by the UNDP Office in Fiji and the other one recently finalized by headquarters) to expedite urgent consultancy processes.

Estimated completion date: December 2015

Issue 9 Failure to submit procurement cases to RACP

The 'UNDP Programme and Operations Policies and Procedures' require that procurement cases which exceed the threshold of $100,000 be submitted to RACP for review.

During the audit period, the Office did not submit two cases to the RACP that amounted to $386,000. The Office did not have an internal mechanism in place to track and monitor cumulative procurement transactions that would require submission to RACP.

Not adhering to procurement process requirements may lead to financial losses for the Office and for UNDP.

Priority	Medium (Important)

Recommendation 9:

The Office should enhance controls to ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' by establishing a tracking mechanism to monitor cumulative procurement transactions that require submission to the RACP.

Management action plan:

The two vendors that reached the threshold are travel agents; hence, the Office will establish long-term agreements to address the concerns above.

The Procurement Associate has been tasked to review the procurement dashboard weekly and report to the Operations Manager on the status of accumulative procurement transactions requiring submission to the RACP.

Estimated completion date: January 2016

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>.