UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

BELIZE

Report No. 1907

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Report on the Audit of UNDP Belize
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Belize (the Office) from 23 January to 2 February 2018. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 December 2017. Since the human resources operational function is conducted at UNDP El Salvador, the audit did not cover recruitments, separations or promotions, and did not conduct a review of personnel files of staff members and service contracts. The Office recorded programme and management expenses of approximately $7.5 million. The last audit of the Office was conducted by OAI in 2013.

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 / major improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to the following: weaknesses in resource mobilization, pipeline and partnerships management; projects implemented without project documents and authorization; and deficiencies in financial management.

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

The 10 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
	2, 3	High
Reliability and integrity of financial and operational information	6	High
Effectiveness and efficiency of operations	7, 8, 9	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 10	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:

Weaknesses in resource mobilization, pipeline and partnerships management (Issue 2)	The Office's pipeline was composed of 12 potential projects: 5 classified as "Class B" with a total estimated amount of $19.3 million and 7 as "Class C" with a total estimated amount of $2.1 million, and no projects classified as "Class A." According to the Office's management, there were ongoing negotiations for future projects that were not part of the pipeline.

In addition, the Office assigned target for resource assignment from the core (TRAC) resources to regional and local projects without having specific results linked to an annual work plan, and without a clear link to resource mobilization initiatives. The Resource Mobilization Strategy established by the Office for the programme cycle was lacking an action plan.

Furthermore, at the time of the audit fieldwork, there was $230,000 in uncollected Government Contributions to Local Office Costs for the period 2014-2018, despite the efforts made by the Office. Lastly, key partners interviewed by OAI expressed concerns on the insufficient communication on the direct implementation modality applied by the Office.

Recommendation: The Office should improve resource mobilization and pipeline management by: (a) establishing an action plan for the Resource Mobilization Strategy; (b) allocating TRAC resources strategically to allow the mobilization of resources; and (c) improving communication with partners to enhance their awareness of project modalities.

Projects implemented without applying policies on project documentation and quality standards (Issue 3)	The review of five development projects noted the following:

- Three projects were supported by simplified Project Appraisal Committee minutes without details on project scope, alignment to national development plan, Country Programme and UNDP Strategic Plan, and monitoring and evaluation framework.

- One project had no project document during its first year of implementation, and another project had no project document at all, thus the Office was implementing projects without an annual work plan and a structured budget. As a result, there were no output definitions, baselines, indicators, or targets. Furthermore, without an approved annual work plan the second authority of the Internal Control Framework was unable to determine if the payments approved for the projects were contributing to the achievement of the development results agreed with the donor.

- Two projects were directly implemented without the required direct implementation authorization from the Regional Bureau for Latin America and the Caribbean, one of which was already in the closing stage.

- Between March 2017 to March 2018, the Office closed projects and opened new ones that required quality assessments to be conducted; however, the Office did not conduct any of these.

Recommendation: The Office should improve project implementation by: (a) including quality reviews of project documents in the Project Appraisal Committee minutes and having approved project documents for all projects before their implementation; (b) recording quality assessments for new and closing projects in the system timely; and (c) obtaining the required authorization for directly implemented projects from the Regional Bureau for Latin America and the Caribbean.

Deficiencies in financial management (Issue 6)

OAI found the following deficiencies in regards financial management of resources:

- Expenses were billed to the wrong project, and hence these expenses were later reversed. The charges were made without the approval of the Project Manager and donor, which posed a risk for the Office in case funds could not be timely received. The Office effected payments in local currency and US dollars by cheque or wire transfer. Cheques were handwritten as a customary practice due to the lack of a system to print them automatically; out of a total of 4,642 payments during the period covered by the audit, 2,784 were effected by cheque (60 percent).

- Payments to seven individual contractors were based on certificates of payments, which did not include an official invoice (the Office engaged 29 consultants in 2017 and 20 in 2016).

Recommendation: The Office should improve financial management by: (a) refraining from moving funds between projects and ensuring that charges made to projects belong to the project and are aligned to the approved annual work plans; (b) assessing with the local bank the possibility of using an automated system to generate/prepare cheques and/or seek advice from the Office of Financial Resources Management through the Regional Bureau for Latin America and the Caribbean on this matter; and (c) ensuring payments are made based on official invoices containing consultant and/or company's fiscal information.

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 have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Belmopan, Belize (the Country) is a sub-office of UNDP El Salvador. The Resident Coordinator/Resident Representative for El Salvador was also responsible for Belize. A Deputy Resident Representative was appointed for the first time in 2015 to undertake the day-to-day work under her responsibility. The Office in Belize continued receiving support from El Salvador on key processes such as, running the pay cycle before making payments effective, while the human resources management was largely performed at the El Salvador office as no individual had been engaged in Belize to undertake human resources administration.

The Country Programme Document for 2017-2021 was conceived under the new 'United Nations Multi-Country Sustainable Development Framework' and the 'UNDP Strategic Plan 2104-2017'. The Framework was formulated jointly in 2015 by the United Nations system and the Governments of the Caribbean sub-region. National consultations in 15 countries ensured that the development challenges identified in the Common Multi-Country Assessment were consistent with national development needs through the following four key priority areas that would inform the national and regional actions of the United Nations system and partners until 2021: (a) a sustainable and resilient Caribbean; (b) a safe, cohesive and just Caribbean; (c) a healthy Caribbean; and (d) an inclusive, equitable and prosperous Caribbean.

The Office continued to use Atlas (enterprise resource planning system of UNDP) country code SLV10 (El Salvador Business Unit), which hindered its ability to disaggregate data for reporting and decision-making exclusively for Belize, thus making reporting more cumbersome.

II.   Audit results

Satisfactory performance was noted in the following areas and sub-areas:

(a) <u>Operations/ICT and general administrative management.</u> The Office was in compliance with corporate standards.

(b) <u>Operations/Staff and premises security.</u> The governance, risk management and control systems in the Office were adequate and effective due to sound business continuity systems and security arrangements.

OAI made three 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) Improve resource mobilization and pipeline management (Recommendation 2).
(b) Improve financial management (Recommendation 6).
(c) Improve project implementation (Recommendation 3).

Medium priority recommendations, arranged according to significance:
(a) Strengthen the control environment (Recommendation 1).
(b) Improve project management practices (Recommendation 4).
(c) Improve project closure (Recommendation 5).
(d) Ensure compliance with the UNDP individual contract policy (Recommendation 7).

(e) Improve the procurement function (Recommendation 8).
(f) Improve human resources activities (Recommendation 9).
(g) Fully adopt HACT (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1   Inadequate control environment

The 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The control environment encompasses ethical values, management philosophy and operating style, organizational structure, assignment of authority and responsibility, human resources policies and practices, and efficiency, competence and integrity of personnel.

The audit noted the following shortcomings that were impacting the Office's control environment and overall effectiveness and efficiency of its operations:

Results identified in 2016 Global Staff Survey not addressed

The 2016 Global Staff Survey raised concerns, including the lack of an open and trusting environment, the lack of necessary resources for carrying out high quality work, fairness in the treatment of staff, and the management of conflicts. OAI found that despite this, the Office had established a plan of action to address the concerns posed by the results of the 2016 Global Staff Survey, these were still pending.

Inadequate set up of the Office in Atlas

The audit noted constraints for the Office's effective operation in the way Atlas (the enterprise resource planning system of UNDP) was set up, since both the Office and UNDP El Salvador shared the same business unit code (e.g., SLV10). This resulted in key processes such as the pay cycle to be run at UNDP El Salvador; the latter posed challenges in terms of effectiveness and efficiency.

In addition, the lack of a separate business unit in Atlas for the Office impaired decision-making and reporting; for example, there was no disaggregation of information for the preparation of the Results Oriented Annual Report (ROAR) and other business processes were comingled with information from both offices that made reporting/data analysis cumbersome. As an example, when assessing the Advisory Committee on Procurement Online (ACP Online) system, information was not disaggregated for each of the two offices, which made data analysis and reporting time-consuming.

Discrepancies in job descriptions

A job description is an important tool that ensures that management has defined clear duties and obligations for staff members, who acknowledge receipt and accept the duties outlined in the job descriptions by signing them. If the nature or scope of work performed by a staff member changes, job descriptions should be revised and

updated accordingly. OAI noted that job descriptions were not updated regularly regarding reporting lines and official titles, and did not reflect changes in the supervising authority of the Office, as follows:

- The role and responsibilities of the Operations Analyst were not aligned with the reporting lines; specifically, the job description stipulated a matrix reporting, including reporting line to the Operations Manager at UNDP El Salvador, which is a post that remained vacant since mid-2017 and there were no expectations that it would be filled in the near future.
- Some job descriptions were outdated in the supervisor designation, as they were approved by the former Resident Representative or Assistant Resident Representative.
- Misrepresentation of official title and function, e.g., use of "ad interim" when the designation was in charge or use of a job title that was not in accordance with the job description.
- Job descriptions for some staff members at the Belize Office did not consider the functions provided by staff members from UNDP El Salvador, on tasks related to financial management, procurement and Atlas processing.

A weak internal control environment may lead to errors and low productivity.

Priority	Medium (Important)
Recommendation 1: The Office should strengthen its control environment working together with the Regional Bureau for Latin America and the Caribbean and Ethics Office by: (a) creating a discussion forum to analyze and address the issues disclosed by the Global Staff Survey results (e.g., improve communications channels); (b) examining the possibility of using the separate code for the Belize Unit in Atlas; and (c) revising and updating job descriptions for all Office personnel in alignment to the roles and responsibilities of each staff member.	
Management action plan: (a) The Office will increase its efforts to create a conducive working environment among staff. This will include a review of the current plan to improve the office climate and to include follow up on its implementation in the monthly staff meetings. A staff retreat will be held, with a focus on UNDP Code of Conduct, review of Global Staff Survey results and on utilization of formal and informal mechanisms to improve working relations and dispute resolution. For this, the Office will seek support from the Regional Bureau for Latin America and the Caribbean and request active engagement from technically versatile institutions at the HQ level, such as the Office of Human Resources (OHR), Ethics Office and/or the Office of the Ombudsman. (b) Furthermore, the Office will work with the Regional Bureau for Latin America and the Caribbean to provide training on operational procedures, based on the MCT review of business processes between El Salvador and Belize, to fully align all staff with new business processes. (c) Job descriptions of all staff will be updated, based on the recommendations of the El Salvador MCT on business processes and the latest standardized job descriptions from OHR. **Estimated completion date:** December 2018	

2. Corporate External Relations and Partnerships

Issue 2   Weaknesses in resource mobilization, pipeline and partnerships management

The Standard Basic Assistance Agreement between Country Offices and Governments provides that host Governments are expected to contribute towards the local costs of Country Offices. In addition, the 'UNDP Programme and Operations Policies and Procedures' require offices to establish effective partnerships, develop a Resource Mobilization Strategy, as well as implement a corresponding Resource Mobilization Action Plan. Pipeline management includes projects of different maturity, ranging from initial ideas (Class C), to potential projects (Class B), to interventions with secured funding and implementation capacity ready to be launched (Class A).

The 'UNDP Programme and Operations Policies and Procedures' define outputs as results for which the project has direct accountability for delivery. These outputs are articulated in the annual work plans, which also identify specific targets to be achieved during the year that contribute to the overall project outputs. Multi-donor resources are administered by UNDP in support of Country Programmes and activities of the United Nations system, which are known as target for resource assignment from the core (TRAC) funding for lower-income countries.

The review of resource mobilization, pipeline and partnerships management, identified the following weaknesses:

- The Office's pipeline was composed of 12 potential projects: 5 classified as "Class B" with a total estimated amount of $19.3 million and 7 as "Class C" with a total estimated amount of $2.1 million, and no projects classified as "Class A." According to the Office's management, there were ongoing negotiations for future projects that were not part of the pipeline. Without adequate pipeline management, the resource mobilization efforts may not materialize, thus impacting the Office's sustainability.

- The Office assigned TRAC resources to regional and local projects without having specific results linked to an annual work plan, and without a clear link to resource mobilization initiatives. Besides, the Resource Mobilization Strategy established by the Office for the programme cycle was lacking an action plan.

- At the time of the audit fieldwork, there was $230,000 in uncollected Government Contributions to Local Office Costs for the period 2014-2018, despite the efforts made by the Office.

OAI interviewed government counterparts, donors, and other UN agencies. During those meetings the key partners expressed their concerns about the direct implementation modality since it was being perceived that the Office was making unilateral decisions entailing changes to agreed Project Board decisions. This was due to insufficient communication with partners on the modality applied by the Office.

Failure to mobilize resources and manage office resources effectively combined with weaknesses in partnerships management, could result in the Office not being able to sustain itself in the long term, and may negatively impact the achievement of UNDP's overall mandate in the Country.

Priority	High (Critical)

Recommendation 2: The Office should improve resource mobilization and pipeline management by: (a)   establishing an action plan for the Resource Mobilization Strategy; (b)   allocating TRAC resources strategically to allow mobilization of resources; and (c)   improving communication with partners to enhance their awareness of project modalities.
Management action plan: The Office recognizes that partnership management and pipeline management need improvement. To this end, the Office will update pipeline information in Atlas and develop a Resource Mobilization Plan, in close coordination with the Regional Bureau for Latin America and the Caribbean and will take swift steps towards its implementation. TRAC resources for 2018 will be allocated as per the 'UNDP Programme and Operations Policies and Procedures'. TRAC resources will be aligned to the Country Programme Document and reflect UNDP's contribution to the SDGs. All allocations will be included in the annual work plans. The Office takes the concerns of government partners related to directly implemented projects very seriously and will ensure that counterparts are properly informed about project implementation and that decisions are documented accordingly in Project Board minutes. Furthermore, the Office will seek support from the Regional Bureau for Latin America and the Caribbean to conduct specific training for UNDP staff and counterparts on UNDPs project implementation modalities. **Estimated completion date:** July 2018

B.   Programme

1.   Quality Assurance Process

Issue 3   Projects implemented without applying policies on project documentation and quality standards

The 'UNDP Programme and Operations Policies and Procedures' stipulate that, in order to achieve project outputs, each project should have a results and resources framework clearly formulated in the project document that contains an approved annual work plan. The Project Appraisal Committee in turn revises the project document and ensures that it complies with quality requirements before recommending its approval. The annual work plan details the targets, indicators and baselines of the outputs to be achieved during the year. Outputs are produced through a set of activities, which in turn use inputs to produce the agreed upon deliverables.

The audit reviewed a sample of 5 out of 15 development projects, representing 87 percent of total programme delivery for 2016, and 90 percent for 2017, respectively, and found the following:

- Although all the reviewed projects were appraised by the Project Appraisal Committee, three of them were supported by simplified Project Appraisal Committee minutes. The simplified meeting minutes only contained information about the meeting but lacked details on: project scope; how effectively the project can achieve its outputs; alignment to national development plan, Country Programme and UNDP Strategic Plan; monitoring and evaluation framework; and an analysis of the capacity assessment of the implementing partner, among the most relevant.

- For one project there was no project document in its first year of implementation, and another project had no project document at all, thus the Office was implementing projects without an annual work plan and a structured budget. As a result, there were no output definitions, baselines, indicators or targets. Furthermore, without an approved annual work plan, the second authority of the Internal Control Framework was unable to determine if the payments approved for the projects were contributing to the achievement of the development results agreed with the donor.

- Two projects were directly implemented without the required direct implementation authorization from the Regional Bureau for Latin America and the Caribbean, one of which was already in the closing stage. To correct the situation, the Office prepared a project document and submitted it to the Regional Bureau for Latin America and the Caribbean for authorization as if it was a new project, without explaining that the project was already being implemented.

- The Office conducted quality assessments[1] of 10 projects as agreed with the Regional Bureau for Latin America and the Caribbean for 2016, while for 2017 the deadline was still running, and no quality assessments were initiated as of the time of the audit fieldwork. However, the Office closed projects and opened new ones that required the quality assessments to be conducted regardless of the initial deadline set. Those assessments should be conducted upon closure or approval of projects.

The above issues were the result of the Office not fully complying with the 'UNDP Programme and Operations Policies and Procedures'.

Weak project formulation and work plans may expose the Office to the risk of not being able to achieve the agreed project results and may engage UNDP in projects that are not feasible to implement.

Priority	High (Critical)
Recommendation 3:	

The Office should improve project implementation by:

(a) including quality reviews of project documents in the Project Appraisal Committee minutes and having approved project documents for all projects before their implementation;
(b) recording quality assessments for new and closing projects in the system timely; and
(c) obtaining the required authorization for directly implemented projects from the Regional Bureau for Latin America and the Caribbean.

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[1] Along with regular programme and project monitoring, quality assessments ensure that there was a formal focus on key performance issues (e.g., efficiency, effectiveness, sustainability, and national ownership); and ensure improved development effectiveness and greater accountability for results.

Management action plan:

The Office will undertake strong steps forward to improve the quality of its management of project documentation. The Office will undertake a quality assessment of the documentation of existing projects. A standard template for Project Appraisal Committee minutes will be used. Senior managers will review Project Appraisal Committee minutes to ensure their quality, comprehensiveness and consistency.

An Excel list of approved projects along with their respective project document links will be shared with OAI. Furthermore, the Office will establish a register of direct implementation modality authorization and ensure that authorizations by the Regional Bureau for Latin America and the Caribbean are in place for all directly implemented projects as per the 'UNDP Programme and Operations Policies and Procedures'.

Estimated completion date: May 2018

2. Programme/Project Design and Implementation

Issue 4   Weaknesses in project management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that in order to achieve project outputs, each project should have a results and resources framework clearly formulated in the project document and approved by the appropriate authority. Sound project management starts with project document formulation, implementation of activities to achieve the agreed outputs, monitoring, evaluation and closing of projects. Project management information should be stored in Atlas, which is the corporate system used to process financial and operational data for reporting to donors and other stakeholders and, as such, users are required to make good use of the system.

The review of the five development projects noted the following:

- The Office was providing support services without the required Letter of Agreement to a nationally implemented project, thus compromising the cost recovery of the services rendered.

- The project document of one project indicated that the project would be implemented by the Small Grants Programme without an agreement with the implementing partner.

- One project was approved with a portion of unfunded budget. The Office managed to mobilize resources from a donor but failed in doing a substantive revision of the project – adjusting the scope and budget including the mobilized funds.

- From the five reviewed projects, only one had its risks register updated because it started in 2017 and the initial risks were entered in Atlas. For three out of five projects funded by the Global Environment Fund, the quarterly stage plans included the risks but the Office failed to enter them in Atlas. The remaining project risk register was not updated because the required risk assessments were not conducted.

Without adequate project management, the projects may not achieve agreed outputs.

Priority	Medium (Important)
Recommendation 4: The Office should improve its project management practices by: (a) ensuring that Country Office support to national implementation is provided with the required Letter of Agreement that includes the associated costs established for rendering services; (b) seeking guidance from the Regional Bureau for Latin America and the Caribbean regarding the involvement of the Small Grants Programme unit on implementing UNDP projects; and (c) conducting substantive project revisions and ensuring risks assessments are complete	
Management action plan: Like in the previous response, the Office acknowledges the need to address shortcomings in project management and will take specific measures to overcome them. A national implementation modality focal point will be assigned in the Office with the task to review all nationally implemented projects and the Office will take the necessary measures to ensure full compliance of Letters of Agreement with the 'UNDP Programme and Operations Policies and Procedures'. Any changes to project outcomes or budgets will be recorded properly in Project Board minutes, with substantive revisions in Atlas and uploaded to the Comprehensive Audit and Recommendation Database System (CARDS). The Office will ensure that projects conduct their risk assessment and that this is being properly entered Atlas. In the case of the project with OAK Foundation, the Office will seek advice from the Regional Bureau for Latin America and the Caribbean, through the Country Advisor. **Estimated completion date:** June 2018	

Issue 5   Inadequate project closure

The focus of closing a project is placed on overall performance, assessing quality, evidence of completion, lessons learned and necessary handover to ensure sustainability. The first part is to close a project operationally when the last financed inputs have been provided and the related activities have been completed. Through the Project Board, the implementing partner promptly notifies when this has been done. Should the implementing partner not do so, the UNDP Programme Manager must determine when the project is operationally complete. Projects should be financially completed not more than 12 months after being operationally completed once UNDP has closed the accounts for the project and the implementing partner has certified a final combined delivery report.

The audit reviewed the project closure process and found that out of a portfolio of 19 ongoing projects in Atlas (comprising 23 outputs), 7 of them (comprising 10 outputs) were set as being implemented and should have been operationally closed as per the project end dates entered in Atlas. Additionally, five projects (comprising 5 outputs) were operationally closed in Atlas for over 12 months and should have been financially closed by the time of the audit. The Office explained that three projects had not been financially closed due to pending adjustments to reconcile expenses, and transfer of assets. The other two projects were pending financial closure due to lack of supporting documentation.

Furthermore, lessons learned were not regularly collected during the monitoring of projects, which also affected the final project closure since the information was not available.

Without adequate project closure, the Office runs the risk of not being able to capture the lessons learned and may not have the necessary handover to ensure sustainability. Furthermore, not financially closing the projects within 12 months after their operational closure may lead to financial risks for UNDP as deficits will have to be covered with its own funds and may have reputational consequences with donors.

Priority	Medium (Important)
Recommendation 5: The Office should improve project closure by ensuring that: (a) the Atlas project end date correctly reflects project duration; (b) projects are operationally closed when the last financed inputs have been provided and the related activities have been completed; and (c) the financial closure of projects is accelerated by finalizing the pending financial adjustments and transferring project assets as agreed in the project documents and ensuring that lessons learned are timely captured allowing for a timely final closure.	
Management action plan: The Office will advance with project closure. A periodic review of all Atlas project end dates will be conducted aligned to project documents or approved project extensions. Renewed emphasis will be placed on analysing lessons learned, given its importance for institutional learning and UNDP's regional knowledge leadership. Programme staff will ensure proper documentation of lessons learned and an end of year programme meeting will be dedicated to this specific topic. Lessons learned per project will be logged in Atlas and consolidated lessons learned will be incorporated in the ROAR. **Estimated completion date:** December 2018	

C.   Operations

1. Financial Resources Management

Issue 6   Deficiencies in financial management

According to the 'UNDP Financial Regulations and Rules', payments should be based on documentation that ensures that services or goods have been received. In addition, proper accounting for financial transactions requires the use of correct account codes when recording transactions in Atlas.

The audit found the following:

- The review of the expenses of a sample of five projects found that expenses were billed to the wrong project, and hence were later reversed. The audit identified 28 cases for a total of $60,232 that was charged to the wrong project. This was mainly due to the fact that the projects did not have enough funds at a given moment in time.

- The Office effected payments in local currency and in US dollars by cheque or wire transfer. Cheques were handwritten as a customary practice due to the lack of a system to print them automatically; out of a total of 4,642 payments during the period covered by the audit, 2,784 were effected by cheque (60 percent). Time and money could have been saved if the entire process of preparation, verification and data entry was done automatically, through an electronic application.

- Payments to seven individual contractors were based on certificates of payments, which did not include an official invoice (the Office engaged 29 consultants in 2017 and 20 in 2016).

Charging projects with unauthorized expenses defeats the purpose of the Internal Control Framework as the second authority is not properly exercised and may lead to reputational risks for the Office; financial risks also increased due to unauthorized charges to projects. In addition, lack of supporting documents for payments may increase the risk of fraud or the inappropriate use of UNDP resources.

Priority	High (Critical)
Recommendation 6: The Office should improve financial management by: (a) refraining from moving funds between projects and ensuring that charges made to projects belong to the project and are aligned to the approved annual work plans; (b) assessing with the local bank the possibility of using an automated system to generate/prepare cheques and/or seek advice from the Office of Financial Resources Management through the Regional Bureau for Latin America and the Caribbean on this matter; and (c) ensuring payments are made based on official invoices containing consultant and/or company´s fiscal information.	
Management action plan: The Office takes note of the audit observations on financial management and will implement the budget override policy as per the 'UNDP Programme and Operations Policies and Procedures'. The budget override policy will be circulated to staff for their compliance. The Office will implement cheque printing solutions once resolved with ICT and engage Treasury on EFT solution advancement. The Office will also comply with recommendation (c) and sample of individual contractor invoices will be uploaded to CARDS quarterly to demonstrate compliance. **Estimated completion date:** April 2018	

2. Procurement

Issue 7 <u>Deficiencies in the management of individual contracts</u>

The individual contract modality is used for the procurement of services of an individual to perform time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs, which must be clearly identified in the contract and directly linked to payment. The engagement of individuals as contractors under the individual contract modality is subject to the general procurement principals of: (i) best value for money in acquiring the

best services at the most competitive rates for a particular skill; (ii) fairness, integrity and transparency, to ensure the proper use of the individual contract modality and its results; (iii) effective competition whereby individual contracts are awarded through a competitive selection process to skilled and highly qualified individuals; and (iv) the protection of the interests of UNDP. Where the cost of undertaking a competitive procurement process outweighs the benefits, there is some scope for applying non-competitive methods, known as direct, sole source or single source contracting, provided certain conditions are met as stipulated in UNDP Financial Rule No. 121.05.

 The audit review of a sample of 12 individual contracts identified the following:

- Sourcing of suppliers for goods and services. 10 out of the 12 contracts reviewed had been awarded through direct contracting. The Office did not have a qualified roster of suppliers. Considering that some projects had been ongoing for several years (e.g., Global Fund), the Office should have developed or made use of a roster of suppliers for the provision of services.
- Contract management. Contract management was usually carried out by the project units, without the involvement of the Procurement Associate.

- Lack of clarity in terms of reference. Terms of reference of consultants were usually developed by the Government in vague and general terms, thereby subject to interpretation.

- Low performance by consultants. In three cases, consultancies were cancelled (two) and/or terminated (one) due to unacceptable deliverables, or inappropriate conduct by an individual consultant.

- Completion of services and payment prior to the signature of the contract. An individual consultant initiated and completed the consultancy prior to the signing of the contract; both the contract award and payment were processed on the same date. Furthermore, the total amount of the consultancy was processed for payment on the same date the individual consultant contract was signed, although the deliverable was identified as partially completed.

- Frequent extensions of contract durations. Maturity dates of contracts assigned for intellectual/technical services were often extended due to delays encountered in the review of deliverables. This occurred more often with the individual consultants hired on behalf of the Government counterpart in health services.

Deficiencies encountered in the contracting of consultants may entail reputational risks for the Office.

Priority	Medium (Important)
Recommendation 7: The Office should comply with the UNDP individual contract policy.	
Management action plan: The Office will share an updated individual contract – standard operating procedure with all staff and request from the Regional Bureau virtual training sessions on the procurement process to ensure staff understanding of roles and responsibilities. **Estimated completion date:** September 2018	

Issue 8   Weaknesses in overall procurement business function

The procurement business function should encompass formalized planning, requisitions, sourcing of suppliers, solicitation and evaluation of offers, contract review, contract award and the management of contracts processes. For procurement planning, offices are required to utilize the Procurement Planning and Management Platform (PROMPT).

Procurement was carried out by a Procurement Associate under the supervision of the Operations Analyst for procurement processes of up to $30,000 or less.

The audit identified the following deficiencies:

▪ Business workflow not established. The Office had not developed a workflow for the procurement business process. Without a workflow for the procurement function, the functional responsibilities and accountability remained unclear to the Office's personnel. Contract management was usually carried out by the project units without the involvement of the Procurement Associate for contractual matters. Contracts were not always reviewed at the supervisory level, i.e., by the Operations Analyst.

▪ Non-activation of PROMPT. At the time of the audit mission, the Office had yet to actively implement the corporate procurement planning tool, PROMPT.

▪ Inadequate safeguarding of procurement files. The procurement files were located within the Office premises in an 'open' area, rather than in a restricted area, which jeopardized their safeguarding. This was due to the space arrangements in the Office. As a result, procurement files could be lost or mishandled as these files were easily accessible (refer to issue 1 and recommendation 1).

Weaknesses in the procurement function may jeopardize the achievement of development project outcomes. In addition, these weaknesses may increase the risk of non-compliance with 'UNDP Financial Regulations and Rules'.

Priority	Medium (Important)
Recommendation 8: The Office should improve the procurement function by: (a) establishing a procurement workflow for its activities, including supervision and contract management; (b) implementing the corporate tool (PROMPT) for the improvement of the procurement business function; and (c) safeguarding of procurement files to mitigate any risk of loss or mishandling of confidential and sensitive documentation.	
Management action plan: To improve procurement, the Office will organize a comprehensive training on the use of PROMPT and E-Tendering. The Office's Procurement Associate will complete the online course on e-procurement. Following the training, E-Tendering will be initiated. Long Term Agreements will be established for recurring goods and roster of consultants. In the context of the work space review, the Office will ensure that procurement files are placed within a locked cabinet. Procurement workflows will be adjusted, following the recommendations	

from the MCT on how to optimize work processes. The Office will utilize the MCT of El Salvador for updated procurement workflows.

Estimated completion date: December 2018

3. Human Resources Management

Issue 9   Deficiencies in management of human resources activities

The management of human resources entails the following: (i) efficient recruitment processes so that the Office has the right talent at the right time; (ii) implementation of the gender equality principle; (iii) adequate staff performance management; and (iv) adequate management oversight of the human resources function in compliance with UNDP policies and procedures.

UNDP El Salvador is responsible for the Office's human resources function, leave management, and payroll related activities. At the Office level, the Operations Analyst serves as the focal point for human resources related issues, when required. All personal files for staff member and service contracts are retained at UNDP El Salvador, as well as all process documentation for recruitments, separations and promotions. As new leave types in e-services, official business and compensatory time are to be requested and approved in Atlas, so as to avoid manual entries.

OAI conducted a limited review of the human resource function based on the documentation available in the Office at the time of the audit mission. The following was noted:

- Lack of recording official business and compensatory time off in e-services. Although the Office was using the Atlas e-services module for leave management, official business and compensatory time off were not recorded.

- Service contracts salary survey not conducted since 2013. The Office was eligible for interim salary surveys every two years. An interim salary survey for staff members was scheduled within the current year. No service contract salary survey had been conducted since 2013, and yet the Office had 13 service contractors. Service contract personnel interviewed expressed concerns about the lack of a salary survey, especially given the current economic situation in the Country and its effects on purchasing power.

- Retention of high leave balances. As of 31 March 2016, and 2017, two staff members retained high annual leave balances of more than 60 leave days. The Office did not have a consolidated leave plan in place to adequately plan for staff annual leave or to transfer a reasonable leave balance from one year to the subsequent one.

- Training needs not aligned with Talent Development Centre (TDC, formerly LMS). The Office learning plan included approved training for the procurement staff Procurement Certification Level 4 training, beyond the maximum required level 3.

By not addressing the above discrepancies, the Office is at risk of non-compliance with UNDP human resource and learning policies.

Priority	Medium (Important)
Recommendation 9: The Office should improve human resources activities by: (a) using e-services for the submission of official business for local and international travels and compensatory time, as applicable; (b) consulting with the Office of Human Resources on the need and timing for conducting a salary survey for service contractors; (c) preparing a consolidated leave plan to adequately plan leave; and (d) ensuring that all training/learning needs are aligned with the TDC and as stipulated in the UNDP learning policy and service contract guidelines.	
Management action plan: Actions recommended by the audit in human resource management will be fully implemented. The Office will review with staff training material on e-services. The Learning Manager will update the learning plan as indicated in the Talent Development Centre and a Learning Committee will be established at the Office, to review and approve this plan. An official communication to the Office of Human Resources on salary survey for service contractors at the Belize Country Office has been issued. **Estimated completion date:** May 2018	

D. United Nations Leadership and Coordination

Issue 10 Harmonized Approach to Cash Transfers not fully implemented

To lessen the burden caused by the multiplicity of the United Nations procedures and rules for its partners, the 'Framework for the Harmonized Approach to Cash Transfers (HACT) to Implementing Partners' has been established. 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. According to the Framework, UN agencies will adopt a risk management approach and will select specific procedures for transferring cash based on the joint assessment of the financial management capacity of implementing partners.

At the time of the audit mission, HACT was pending to be fully adopted; the Office had the following activities pending:

- Macro-assessment.
- Micro-assessment for new projects related to new programming cycle.
- Inter-agency assurance plan: spot checks and field visits inclusive.
- HACT audit plan (Inter-agency).

The Office only collaborated with the United Nations Office on Drugs and Crime during the period covered by the audit. Hence, the Office ran the risk of not being able to implement the common action plans expected for the programming cycle.

Unless all HACT requirements are fulfilled, the objectives of harmonizing practices among United Nations agencies may not be achieved.

Priority	Medium (Important)
Recommendation 10: The Office, in coordination with the government implementing partners and other participating United Nations agencies, should fully adopt HACT by completing the pending activities, such as the macro-assessment, micro-assessments as well as spot checks and field visits. In addition, the Office should further explore the possibilities of programming jointly with other UN agencies as per the 'Multi-Country Sustainable Development Framework' mandate.	
Management action plan: The Office takes note and will advance with HACT in UNDP. Towards this end, the Resident Coordinator Office and UNDP will coordinate closely with the HACT focal point of the United Nations Country Team for the completion of the macro-assessments, micro-assessments and the Inter-Agency Assurance Plan and the corresponding audit plan. The Office notes, however, that the timely and full delivery of these products requires action and financing from other United Nations agencies too. A UN Resource Mobilization Plan for 2018 will guide the development of joint programmes. Special efforts for joint fundraising will continue, especially in the context sub-regional 'Multi-Country Sustainable Development Framework' projects. **Estimated completion date:** December 2018	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

▪ **Satisfactory**
The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Some Improvement Needed**
The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Major Improvement Needed**
The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

▪ **Unsatisfactory**
The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in negative consequences for UNDP.

▪ **Low**
Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.