UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

HONDURAS

Report No. 2013

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Report on the Audit of UNDP Honduras
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Honduras (the Office) from 19 to 30 November 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 2017 to 30 September 2018. The Office recorded programme and management expenses of approximately $32.2 million. The last audit of the Office was conducted by OAI in 2015.

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/some improvement needed**, which means, "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." The rating was due to weaknesses in the Office's organizational structure, and to the Office's financial sustainability being at risk.

Key recommendations: Total = **7**, high priority = **2**

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	High
	3	Medium
Reliability and integrity of financial and operational information	5, 6	Medium
Effectiveness and efficiency of operations	7	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4	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 organizational structure and unclear roles and responsibilities (Issue 1)	The audit team found the following gaps in the Office's structure:

- Two key posts remained vacant at the time of audit: The Finance Associate post (three years without being encumbered) and the Programme Assistant post. In the case of the Finance Associate post, the Office explained that finding the right candidate was a challenge due to the salary offered.

- There was a lack of operational support for programme implementation. The audit team noted that only one Programme Assistant was providing operational and administrative support to several programme unit staff members.

- The Programme Management Support Unit undertook activities that conflicted with their functions, such as resource mobilization, project implementation, monitoring and evaluation.

- Service contract holders were granted project manager access in Atlas (enterprise resource planning system of UNDP), allowing them wider access than only their projects.

- Only one staff member was assigned to approve vendors, which was not in line with the Internal Control Framework.

Recommendation 1: The Office should improve its organizational structure and clarify roles and responsibilities by: (a) ensuring that gaps and lapses in the segregation of duties are adequately addressed; and (b) providing external access to service contract holders to limit their accessibility to information in Atlas. |
| Office's financial sustainability at risk (Issue 2) | As of the audit fieldwork, there were arrears of $2.5 million in Government Contributions to Local Office Costs (GLOC) for the period covering 2008 to 2018, despite the efforts made by the Office to collect them from the Government.

The Office's delivery showed a declining trend, from $19 million in 2016, to $18.7 million in 2017, and to $15.5 million in 2018. For 2019, the Integrated Work Plan estimated $18 million in delivery. In addition, the audit team found that the percentage of General Management Support rate was low (less than 5 percent on average) and thus insufficient to cover costs, as was the case of a telecommunications project implemented at a 3.5 percent recovery rate.
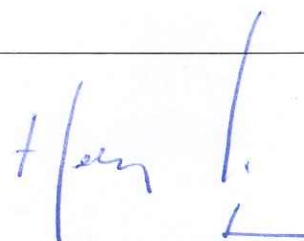
In addition, with limited donor presence, and given the middle-income status of the country, the pipeline of the Office had no Class "A" projects and only two Class "B" projects with estimated funding of close to $2 million.

Recommendation 2: The Office should improve its financial sustainability by: (a) expanding efforts to collect the Government Contributions to Local Office Costs by engaging the Regional Bureau for Latin America and the Caribbean to escalate the matter to the Permanent Mission of Honduras to the United Nations; (b) increasing delivery and reducing operational costs; and (c) enhancing the project pipeline, improving resource mobilization and seeking other funding sources. |

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Management comments and action plan

The Resident Representative accepted all seven 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 Tegucigalpa, Honduras (the Country), at the time of the audit consisted of 25 staff members, 35 service contract holders and 12 United Nations Volunteers. The Country Programme Document corresponding to the period 2017-2021 was under implementation with a focus on reducing vulnerabilities and inequalities, so that no one is left behind. The Country Programme was aligned with the 2030 Agenda, national priorities, and the UNDP Strategic Plan. The Country Programme was contributing to three of the five outcomes of the 2017-2021 United Nations Development Assistance Framework (UNDAF).

At the request of the Government to the United Nations Secretary-General, the Office was facilitating a political dialogue between the Government and the opposition to address disagreements resulting from the 2017 presidential elections.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) Operations/General administration. Records and controls were adequate for asset management.

(b) Operations/Safety and security. The governance, risk management and control systems in the Office were adequate and effective. Sound business continuity systems and security arrangements were in place.

(c) United Nations leadership and coordination. No reportable issues were identified. The audit disclosed that key controls were in place.

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

High priority recommendations, arranged according to significance:
(a) Improve organizational structure and clarify roles and responsibilities (Recommendation 1).
(b) Improve financial sustainability (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(a) Enhance payment processes (Recommendation 5).
(b) Improve project management practices (Recommendation 3).
(c) Enhance financial resources management (Recommendation 6).
(d) Strengthen knowledge management (Recommendation 4).
(e) Improve procurement planning (Recommendation 7).

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

A. Governance

1. Leadership

Issue 1 <u>Weaknesses in organizational structure and unclear roles and responsibilities</u>

The 'UNDP Operational Guide of the Internal Control Framework' stipulates that each head of office has the overall responsibility for establishing and maintaining adequate internal controls, and for ensuring documentation of their office's internal control procedures. Further, 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 vision and mission of an office as well as its organizational effectiveness rely on its adequate organizational structure, which allows for clear roles and responsibilities, as well as reporting lines.

The audit team found the following gaps in the Office's structure:

- Two key posts remained vacant at the time of audit: The Finance Associate post (three years without being encumbered) and the Programme Assistant post. In the case of the Finance Associate post, the Office explained that finding the right candidate was a challenge due to the salary offered.

- There was a lack of operational support for programme implementation. The audit team noted that only one Programme Assistant was providing operational and administrative support to several programme unit staff members.

- The Programme Management Support Unit undertook activities that conflicted with their functions, such as resource mobilization, project implementation, monitoring and evaluation.

- Service contract holders were granted project manager access in Atlas (enterprise resource planning system of UNDP), allowing them wider access than only their projects.

- Only one staff member was assigned to approve vendors, which was not in line with the Internal Control Framework.

Weaknesses in the organizational structure and unclear roles and responsibilities may negatively impact staff productivity and programme delivery. In addition, the inadequate segregation of duties may lead to errors not being detected and may result in financial losses for the organization.

Priority	High (Critical)
Recommendation 1:	
The Office should improve its organizational structure and clarify roles and responsibilities by: (a) ensuring that gaps and lapses in the segregation of duties are adequately addressed; and (b) providing external access to service contract holders to limit their accessibility to information in Atlas.	
Management action plan:	
The Office will address the issues in regard to structure, staffing and conflicting roles as follows:	

(a) The post of Finance Associate will be re-advertised for the fourth time in January 2019.
(b) The process of recruiting a second Programme Assistant is ongoing.
(c) The role of the Programme Management Support Unit will be revisited.
(d) The Office will ensure that staff members do not approve (in the future) reimbursements for those batches where they are beneficiaries of payments.
(e) The Office will request backstopping support from another office to perform the alternate vendor approving function, when needed.
(f) Project Coordinator Atlas profiles were revoked and will be replaced by external access rights.

Estimated completion date: June 2019

2. Corporate External Relations and Partnerships

Issue 2   Office's financial sustainability at risk

The Office's financial sustainability depends on several elements, such as:

a) Adherence to the Standard Basic Assistance Agreement between Country Offices and governments for host governments to contribute to local costs of Country Offices.

b) Effective partnerships, with sufficient delivery and cost recovery rates.

c) Strong pipeline funding management, to leverage and maximize partnerships and opportunities for development financing.

The audit disclosed the following:

a) There were arrears of $2.5 million in Government Contributions to Local Office Costs (GLOC) for the period covering 2008 to 2018, despite the efforts made by the Office to collect them from the Government.

b) The Office's cost recovery declined over the previous three years due to reduced delivery. The Office's delivery declined from $19 million in 2016, to $18.7 million in 2017, and to $15.5 million in 2018. In addition, the General Management Support rate for the delivery was low (less than 5 percent on average). A telecommunications project representing 51 percent of the project portfolio applied a 3.5 percent recovery rate.

c) With limited donor presence, and given the middle-income status of the country, the pipeline of the Office had no Class "A" projects, which are interventions with secured funding and implementation capacity ready to be launched, and only two Class "B" projects, which are initial ideas, with estimated funding of close to $2 million.

Lack of sufficient financial resources and insufficient cost recovery may compromise the financial sustainability of the Office and may negatively impact the achievement of UNDP's overall mandate in the Country.

Priority	High (Critical)
Recommendation 2: The Office should improve its financial sustainability by: (a) expanding efforts to collect the Government Contributions to Local Office Costs by engaging the Regional Bureau for Latin America and the Caribbean to escalate the matter to the Permanent Mission of Honduras to the United Nations; (b) increasing delivery and reducing operational costs; and (c) enhancing the project pipeline, improving resource mobilization, and seeking other sources of funding.	
Management action plan: The Office will address the recommendation by: (a) Enhancing quarterly monitoring of the Office's finances and Integrated Work Plan targets. (b) Ensuring that the Office's Sustainability Plan is regularly monitored. (c) Submitting a letter to the relevant government ministry for the collection of the GLOC and requesting for support at the level of the Regional Bureau for Latin America and the Caribbean. **Estimated completion date:** June 2019	

B.   Programme

1.   Programme/Project Design and Implementation

Issue 3   Weaknesses in project management

Projects receiving office support should be audited by UNDP under the direct implementation audit modality (DIM) to give assurance on the correct use of resources and adherence to the correct use of internal processes. Projects need to be appraised according to the Social and Environmental Screening Procedures before the start of the project to ensure that proper safeguards are in place, such as environmental impact assessments. Risk assessments need to be performed for all projects to ensure optimal delivery of the planned activities.

The audit team reviewed a sample of five development and engagement facility projects, in addition to six projects receiving Country Office support, and found the following:

- The audit of expenses incurred by the Office for six projects receiving Country Office support was covered by the Harmonized Approach to Cash Transfer (HACT) financial audit exercise and not under the DIM audit modality.

- Four projects were appraised without the Social and Environmental Screening Procedures; the screenings were only conducted after the projects were approved.

- Risk assessments were not conducted as required.

▪ As of November 2018, half of the Office's ongoing projects reported less than 55 percent delivery.

The Office explained that the political context, combined with the reduced number of staff and the impact of the Transformation Plan affected the pace of delivery.

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

Priority	Medium (Important)
Recommendation 3: The Office should improve its project management practices by: (a) ensuring that the implementation modality of the projects is a discerning factor when considering OAI's call letter for the HACT financial audit exercise; (b) ensuring that the Social and Environmental Screening Procedures are conducted before projects are appraised; and (c) conducting risk assessments as required and monitoring project delivery closely to ensure levels are as planned and adjusting annual work plans as needed.	
Management action plan: The Office will ensure: (a) Due diligence while elaborating on the 2019 Audit Plan. (b) Compliance with Social and Environmental Screening Procedures. (c) Risk assessments/registers are timely/properly completed. (d) Atlas programme and project management requirements and improved monitoring of project delivery takes place. **Estimated completion date:** September 2019	

2. Knowledge Management

Issue 4 Weaknesses in knowledge management

The key objective of knowledge management in UNDP is to drive UNDP's global leadership in achieving the outcomes of the Strategic Plan. It requires a systematic approach in planning, executing and recording of project data.

The audit team reviewed a sample of five ongoing development projects and four project closures and found the following:

▪ The Corporate Planning System, Quality Assurance module showed:

   o The Office conducted quality assurance assessments without providing supporting documentation for the ratings selected.
   o The Social and Environmental Screening Procedure results were not uploaded into the system.

      ○   For four development projects, the Office conducted the quality assurance closure assessment without supporting documentation, such as the required final lessons learned report.

- Out of the five ongoing projects, three did not capture the lessons learned in their monitoring reports.
- Field visits were not documented and there was no field-visit plan.
- The project documentation did not use clear naming conventions and files were missing for 10 projects.

Without a systematic approach to sharing knowledge with counterparts and capturing lesson learned, the Office is at risk of repeating previous mistakes, which may compromise the achievement of programme results.

Priority	Medium (Important)
Recommendation 4: The Office should strengthen knowledge management by: (a) ensuring that required documentation such as Social and Environmental Screening Procedures and lessons learned reports are uploaded to the Corporate Planning System's Quality Assurance module to support the ratings given to the project assessments for implementation and closure; (b) capturing lessons learned in monitoring reports and planning and documenting field visits as required by the 'UNDP Programme and Operations Policies and Procedures'; and (c) defining a nomenclature to ensure that documents are easily identifiable and ensuring that documents are correctly uploaded to Atlas/SharePoint as applicable.	
Management action plan: The Office will: (a) Maintain compliance with the Corporate Planning System, Quality Assurance module. (b) Update the Corporate Planning System twice a year and improve lessons learned documentation. (c) Improve records management. **Estimated completion date:** September 2019	

C. Operations

1. Financial Resources Management

Issue 5   Weaknesses in the payment process

The 'UNDP Financial Regulations and Rules' stipulate that all disbursements shall be made by cheque or bank transfer, except to the extent that cash disbursements are authorized by the Treasurer. The purpose of the Electronic Banking Interface is to facilitate the routing of payments to UNDP's disbursing banks and collection of bank statements from UNDP's reporting banks.

The Office strengthened the payment process based on OAI's recommendations contained in a prior audit report (OAI Report No. 1543, dated 22 December 2015). Although additional controls were introduced in 2017 and 2018, the payment process was not fully automated and still required human intervention, making it cumbersome and exposed to manipulation.

The audit team identified weak controls in the use of bank account codes, as Atlas information for the payments was not verified against payment information in the E-Banking web application before releasing the payments.

The audit team also noted that 33 payment vouchers totalling $0.1 million from FY 2016, 2017 and 2018 processed in Atlas were not paid. Those vouchers represented project expenses, but related funds were not disbursed.

Insufficient controls to verify that payments approved in Atlas match with those sent to the bank for release may result in unauthorized payments or could lead to undetected errors.

Priority	Medium (Important)
Recommendation 5: The Office should enhance its payment processes by: (a) further exploring the option of an automated interface for the release of payments and ensuring proper controls either by contacting the local bank representative in the Country or enhancing the interphase to process payments from Atlas directly into the E-banking platform; and (b) clearing payment vouchers processed in Atlas for which funds were not released by requesting support to the Office of Financial Resources Management through the Regional Bureau for Latin America and the Caribbean.	
Management action plan: The Office will: (a) Contact representatives of the local bank in the Country. If this attempt does not yield solutions, the Office will implement a technological solution for the enhancement of the interphase in consultation with Treasury. (b) The Office of Financial Resources Management will be consulted for clearing the old, unused vouchers. **Estimated completion date:** December 2019	

Issue 6   Incorrect management of NIM advances

The accountability of an implementing partner, among other responsibilities, is to maintain documentation and evidence that describes the proper and prudent use of project resources in conformity with the project agreement, and applicable regulations and procedures. This documentation should be available upon request to project quality assurers and designated auditors. Under the national implementation modality (NIM), UNDP is accountable for the effective and efficient use of resources for the achievement of programme results in conjunction with the implementing partner, but responsibility for NIM projects rests with the government.

The audit team reviewed a sample of 10 advances amounting to $1.3 million and found the following shortcomings:

- Six advances, amounting to $0.9 million, did not comply with the rule that at least 80 percent of the previous advance and 100 percent of all earlier advances should be liquidated prior to granting a new advance.
- In all 10 cases, the Funding Authorization and Certificate of Expenditure (FACE) forms reviewed by the audit team contained inconsistencies in the account codes as well as in the expenditures recorded. Amendments had to be made by the Programme Assistant prior to approval and processing.

Inadequate use of funds and improper payments might negatively impact the Office's reputation and increase business risks with donors.

Priority	Medium (Important)
Recommendation 6: The Office should enhance its financial resources management by: (a) approving NIM advances in accordance with the UNDP regulations and rules, including proper supporting documentation; and (b) ensuring that FACE forms are properly filled out.	
Management action plan: The Office will tighten controls at the level of the Office and NIM project administrative personnel will be re-trained to offset the impact of high staff turnover as a measure to keep NIM advances within the boundaries of policies and procedures. FACE form preparation will be also improved. **Estimated completion date:** June 2019	

2. Procurement

Issue 7 Shortcomings in procurement planning

As per the 'UNDP Programme and Operations Policies and Procedures', business units and Country Offices must develop consolidated procurement plans annually. An analysis of the consolidated procurement plan provides an opportunity to identify economies of scale and better use of resources, providing an overview of the scale of the procurement activities.

At the time of audit, a consolidated procurement plan was not in place in the Office as the Procurement Unit had not implemented the use of the Procurement Management Platform (PROMPT). Individual procurement plans were developed only for those projects with significant levels of procurement. The Procurement Support Unit held webinars on this new platform and encouraged its use to improve the effectiveness of the procurement business function.

The Office claimed that a lack of procurement resources hindered the implementation of PROMPT.

Ineffective procurement planning may limit the Office's ability to obtain best value for money for the organization.

Priority	Medium (Important)
Recommendation 7: The Office should improve its procurement planning by adopting PROMPT.	
Management action plan: The Office will implement, through a phased approach, the use of PROMPT, starting with procurement plans of projects with a significant amount of procurement actions. **Estimated completion date:** September 2019	

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.