UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

DOMINICAN REPUBLIC

Report No. 2039
Issue Date: 20 May 2019

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Report on the Audit of UNDP Dominican Republic
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Dominican Republic (the Office) from 11 to 22 March 2019. 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 31 December 2018. The Office recorded programme and management expenses of approximately $81 million. The last audit of the Office was conducted by OAI in 2014.

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 the inadequate use of the budget override policy.

Good practice

The Office developed an automated system (based on Lotus Notes and Excel spreadsheets) for tracking and charging Direct Project Costs (DPC) for support services provided to projects. The Office also developed standard operating procedures that detailed the way DPC should be recovered and provided guidance to users within the Office on the correct application of DPC. The Office calculated the total amount per project output using the Universal Price List for operational transactions and a Local Price List for the services not covered by the Universal Price List including programmatic support. The Office verified the availability of funds before charging DPC to projects ensuring that, by the end of each fiscal year, all DPC was fully recovered. OAI considered this a good practice that could be replicated for use and application in other offices within UNDP.

Key recommendations Total = **7**, high priority = **1**

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	Medium
Reliability and integrity of financial and operational information	3	High
Effectiveness and efficiency of operations	5	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 6, 7	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. The high (critical) priority recommendation is presented below:

Inadequate use of budget override policy and budget adjustments (Issue 3)

The Office issued a budget override policy in 2016, which outlined the conditions for acceptable budget overrides and identified the staff authorized to do so, and which was submitted to the Office of Financial Resources Management for approval; however, formal approval was not received in writing. The policy required the Programme Unit to prepare the budget override form for all budget override requests, including the written justification for the approval of the Resident Representative once cleared by the Deputy Resident Representative.
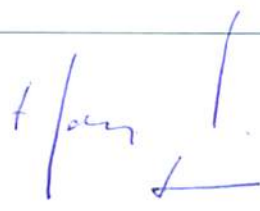
The audit disclosed that the Office processed 3,215 payment vouchers, amounting to $8 million, that were covered by the unapproved budget override policy. The audit also disclosed that there were 285 general ledger journal entries that were used to move funds between government-funded projects to make funds available to pay for project expenditures or to reverse such transactions, once funds were made available to projects. The purpose of these transfers was to ensure a timely response for priority needs of the government-funded projects.

Recommendation: The Office should improve controls on project budgets by: (a) assessing the pertinence of the existing local override policy with the incoming Resident Representative, to either adjust it or keep as it is, and obtain approval for its use from the Comptroller; (b) strengthening controls on project budgets prior to committing funds and ensuring adjustments and transfers of funds to temporarily cover project deficits are limited to exceptional circumstances and duly authorized by the donor; and (c) enhancing the monitoring of budget override activities so as to keep overrides within controlled financial risks.

Management comments and action plan

The Resident Representative accepted all 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 Santo Domingo, Dominican Republic (the Country), consisted of 23 staff members, 59 service contract holders and 2 United Nations Volunteers at the time of the audit. The UNDP Country Programme 2018-2022 was being implemented at the time of the audit in response to the needs of the Country and aligned to the Sustainable Development Goals (SDGs), with a Theory of Change focused on (i) equality and inclusion, (ii) sustainability and resilience, (iii) empowerment and gender equality, and (iv) institutions and political commitment.

II. Good practice

OAI identified a good practice as follows:

The Office developed an automated system (based on Lotus Notes and Excel spreadsheets) for tracking and charging DPC for support services provided to projects. The Office also developed standard operating procedures that detailed the way DPC should be recovered and provided guidance to users within the Office on the correct application of DPC. The Office calculated the total amount per project output using the Universal Price List for operational transactions and a Local Price List for the services not covered by the Universal Price List including programmatic support. The Office verified the availability of funds before charging DPC to projects ensuring that, by the end of each fiscal year, all DPC was fully recovered. OAI considered this a good practice that could be replicated for use and application in other offices within UNDP.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Governance/Leadership and corporate direction.</u> Key controls were in place. Overall, staff were aware of the Office's priorities, challenges and control objectives. No reportable issues were identified. The supervisory role of the Regional Bureau for Latin America and the Caribbean was adequate.

(b) <u>Governance/Corporate external relations and partnerships.</u> Implementing partners, United Nations agencies, and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner.

(c) <u>Operations/Information and communication technology.</u> The systems managed by the Office, including hardware, software and systems security, were operating adequately. The Office tested its Disaster and Recovery Plan with good results.

(d) <u>Operations/General administrative management.</u> Records and controls were adequate for asset management. The Office was overall well administered.

(e) <u>Operations/Staff and premises security.</u> The UN House was well administered and suitable to host the Office's premises.

(f) <u>United Nations leadership and coordination.</u> No reportable issues were identified. The audit team noted that key controls were in place and the Resident Coordinator de-linking process, although ongoing, was properly managed.

OAI made one recommendation ranked high (critical) and six 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 recommendation:
    (a)   Improve controls on project budgets (Recommendation 3).

Medium priority recommendations, arranged according to significance:
    (a)   Improve project design and management arrangements (Recommendation 1).
    (b)   Improve project management (Recommendation 2).
    (c)   Improve the procurement function (Recommendation 5).
    (d)   Improve the management of service contracts (Recommendation 7).
    (e)   Improve the functioning of the Contracts, Assets and Procurement Committee (Recommendation 6).
    (f)   Improve travel management (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Programme

1. Project design and implementation

Issue 1   Weaknesses in project design and management arrangements

The 'UNDP Programme and Operations Policies and Procedures' require that Country Offices ensure that project documents have the required elements, such as well-defined project activities and outputs; project monitoring and evaluation; and transition arrangements. Offices must ensure adequate monitoring by preparing annual progress reports, and maintaining issue, monitoring and risk logs. A project board, comprised of the implementing partner, representative of the beneficiary and UNDP should meet at least annually to review the achievement of project results, corresponding challenges and endorse the annual work plan at the start of the year. While projects can be revised at any time during their lifecycle, when significant changes to the design are required, the changes should address the identified design flaws and if not possible, a new project should be formulated.

As part of the sample of development projects, the audit team reviewed one project that was signed in December 2013 for the creation of a Strategic Thinking Unit for social policies and was supposed to end in 2018. The audit disclosed that:

- The original project had a total budget of $0.1 million funded by a government cost-sharing agreement. Since 2014, the project budget increased and, as of December 2018, it was $20.8 million. At the end of 2014, the Strategic Thinking Unit was created, thus the overall result of the project was achieved.

- As agreed, the project was to be nationally implemented. However, the signed project document designated UNDP the responsibility for managing the project, consistent with UNDP's direct implementation modality, where UNDP is responsible for ensuring the achievement of results and efficient and effective use of project resources.

- The project's focus had changed over the years covering a broad set of activities with expected results beyond those envisioned from its inception, all agreed to by the implementing partner. The Theory of

Change, the Results and Resources Framework, and the Monitoring Framework of the project were not updated to reflect the revised expected project results.

- The project risk log included only the original three risks identified during the project design phase. Subsequent risk assessments were not conducted, exposing the Office to impacts where there were no planned response actions.

- Funding gaps due to budget constraints from the government required frequent budget overrides in Atlas (the enterprise resource planning system of UNDP) to fulfill project commitments. The audit team also found that the Office recorded general ledger journal entries to adjust and transfer funds from other sources to temporarily cover the project's deficits (refer to Issue 3 for further details).

Without a well-formulated Theory of Change, Results and Resources Framework, or Monitoring Framework, project implementation and monitoring become weaker and achievement of agreed-upon results with implementing partners could be at risk of not being achieved. In addition, inadequate controls in budget overrides may create potential financial liabilities without available cash and may jeopardize the Office's financial position.

Priority	Medium (Important)
Recommendation 1: The Office should improve project design and management arrangements by: (a) assessing risks derived for the implementation of this project in all aspects (e.g., political, financial and reputational) and close it; and (b) developing a new project document to incorporate operational activities required by the implementing partner in line with the mandates of the project document, for which annual work plans and budget requirements should be agreed upon in line with the 'UNDP Programme and Operations Policies and Procedures'.	
Management action plan: Building on the project's results and learned lessons, the Office will respond to the audit observation by closing the project and will develop a revised initiative with the implementing partner along with an updated risk analysis and an upgraded implementation plan towards a new project. **Estimated completion date:** December 2019	

Issue 2   Weaknesses in project management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that 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, in line with the delegation of authority policy. 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, and project quality assessments stored in the Corporate Planning System.

The audit team reviewed a sample of 10 projects with 18 outputs (1 directly implemented and 9 nationally implemented, representing 57 percent of total programme delivery) and the Engagement Facility[1], out of a total of 60 projects with 96 outputs. The audit disclosed the following:

- Two of the 10 projects selected for review showed weaknesses in project formulation since the Results and Resources Framework contained results, indicators, baselines and targets that were not SMART (specific, measurable, attainable, relevant and trackable). Both projects were signed with a one-year duration and were extended several times with significant changes to the original design that would warrant a new project formulation.

- The Office had not signed Letters of Agreement, as required by UNDP policies, for all nationally implemented projects. The Office had, without the approval of Headquarter units (e.g., the Legal Office and the Office of Audit and Investigations), included some clauses of the UNDP Standard Letter of Agreement into the project documents and different clauses that were non-standard. This was done to accommodate to donor/project's requests.

- Expenditures of the Engagement Facility included charges that did not belong to the project and were later reversed. For instance, one project had expenditures recorded for the termination indemnity of three service contract holders from another project that had a deficit.

- Corporate systems were not regularly updated by the Office as required: (i) 5 of the 10 reviewed projects had not updated their Atlas project risk logs quarterly as stipulated in the project documents or at least twice a year as required by the 'UNDP Programme and Operations Policies and Procedures'; and (ii) the Corporate Planning System Quality Assurance module was not used for conducting quality assessments of the eight projects that were closed during the last quarter.

Failure to implement the corporate guidelines results in non-compliance with the 'UNDP Programme and Operations Policies and Procedures' and hinders the achievement of intended project outputs. This may also negatively affect UNDP's reputation and result in the loss of confidence from stakeholders and the host Government.

Priority	Medium (Important)
Recommendation 2:	
The Office should improve project management by: (a) improving the project formulation and revision stages ensuring that results are SMART; (b) ensuring that support services are not provided to nationally implemented projects that do not have a signed Letter of Agreement; (c) ensuring that the Engagement Facility is only used for its intended purposes; and (d) regularly updating corporate systems as required, including ensuring that all projects have an updated risk register with proper risk management arrangements regularly updated in Atlas.	

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[1] The Engagement Facility provides a rapid and flexible response mechanism to support policy results and test innovations with scaling-up potential and should support results identified in the Country Programme Document. The activities that the Engagement Facility can fund consultants, minor equipment purchases, publications, workshops, or research ties between institutions.

Management action plan:

The Office will:

(a) Ensure that the during the drafting of project results, all stakeholders are aware of Project Quality Assurance compliance requirements and that they are SMART by requiring partner's acknowledgement of the Project Quality Assurance analysis and recommendations.
(b) Engage with implementing partners in order to comply with the required Letter of Agreement in all national implementation projects.
(c) Update the Internal Control Framework and ensure that Engagement Facility initiatives are managed according to corporate Engagement Facility guidelines.
(d) Update corporate systems and platforms regularly, according to corporate policy, including the Atlas risk log.

Estimated completion date: March 2020

B. Operations

1. Financial resources management

Issue 3   Inadequate use of budget override policy and budget adjustments

The 'UNDP Programme and Operations Policies and Procedures' include detailed guidelines on the various conditions applicable to budget overrides. The Head of Office is responsible for defining a budget override policy for the office according to guidelines. Prior approval of the budget override policy must be sought from and provided by the Comptroller. This policy should outline the circumstances under which a budget override is acceptable and who is authorized to override the budget exception in Atlas as well as monitoring the usage of overrides. The policies also include detailed guidelines on the various conditions applicable for budget overrides: (i) budget overrides apply to commitments only and not to payments; (ii) the maximum threshold for budget overrides at any point in time should not exceed 50 percent of funds available; and (iii) there should be written assurance from the donor that the instalment payment is in progress and the funds should be received within 30 days. Any exceptions should be communicated to the head of the respective Regional Bureau, as well as to the Comptroller.

The Office issued a budget override policy in 2016, which outlined the conditions for acceptable budget overrides and identified the staff authorized to do so, and which was submitted to the Office of Financial Resources Management for approval; however, formal approval was not received in writing. The policy required the Programme Unit to prepare the budget override form for all budget override requests, including the written justification for the approval of the Resident Representative once cleared by the Deputy Resident Representative.

The audit disclosed that the Office processed 3,215 payment vouchers, amounting to $8 million, that were covered by the unapproved budget override policy. The audit also disclosed that there were 285 general ledger journal entries that were used to move funds between government-funded projects to make funds available to pay for project expenditures or to reverse such transactions, once funds were made available to projects. The

purpose of these transfers was to ensure a timely response for priority needs of the government-funded projects.

Inadequate controls in budget overrides may create potential financial liabilities without the necessary cash on hand to cover them, which can severely impact the financial position of the Office. Charging projects for unauthorized expenses may also create financial and reputational risks with donors.

Priority	High (Critical)
Recommendation 3: The Office should improve controls on project budgets by: (a) assessing the pertinence of the existing local override policy with the incoming Resident Representative, to either adjust it or keep as it is, and obtain approval for its use from the Comptroller; (b) strengthening controls on project budgets prior to committing funds and ensuring adjustments and transfers of funds to temporarily cover project deficits are limited to exceptional circumstances and duly authorized by the donor; and (c) enhancing the monitoring of budget override activities to keep overrides within controlled financial risks.	

Management action plan:

The Office will:

(a) Ensure stricter project budget management according to UNDP Financial Regulations and Rules. The means the following actions:

  o Internal memorandum to clarify that all transfers between projects must be approved by senior management and formally requested by the corresponding donor.
  o Ensure that all relevant staff are aware of the relevant policies, rules and regulations.

(b) Clarify the responsibilities regarding the override policy within the Internal Control Framework, and the senior management will ensure a quarterly follow-up of budget overrides through the Budget Override Monitoring Tool.
(c) Revise and update its budget override policy and define a process flowchart to define roles and responsibilities including templates and required consultations with relevant Headquarters units for approval.

Estimated completion date: December 2019

2. ICT and general administrative management

Issue 4   Weaknesses in travel management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that duty travel in Country Offices and other business units outside of Headquarters shall be authorized by the Resident Representative/Resident Coordinator. The role of the travel approver may be delegated if it is done formally, in writing. Duty travel should not be authorized by an official reporting to the traveller and under no circumstances shall a staff member authorize or process his/her own travel. The policies further stipulate that all UNDP units and Country Offices are encouraged to establish a travel plan as part of their annual work plan. Also, all staff and non-staff members are required to submit a travel claim to the authorizing unit within two weeks from completion of travel. Travel claims must be signed-off by an approving officer verifying that the mission occurred and that expenses comply with policy and are approved.

The audit team reviewed a sample of 30 travel claims processed during the audit period and found deficiencies in respect of the following:

- At the time of the audit mission, the Office had not made the request to the Bureau for Management Services for access to the Travel and Expense module, and thus processed travel requests via requisitions.

- The Office did not prepare a travel plan.

- The audit was not able to determine whether the travelers for 30 group travel requests (defined as two or more people) processed on behalf of government were associated with a specific nationally implemented project, or if travel was relevant and/or linked to a specific project result.

- The Travel Section within the Procurement Unit received travel requests from the Programme Unit often with incomplete traveller information, thus contributing to delays in processing the travels. The travel processor managed 518 travel requests and the audit team estimated that over 100 travel requests were classified as urgent, disregarding the two-week planning timeframe strongly encouraged by UNDP travel policy.

- For project personnel and non-staff, the Office processed all travel advances at 100 percent, contrary to the travel policy of advancing only 80 percent prior to the travel date.

From a sample of 30 processed travel requests, the audit team found 10 cases where the travellers did not submit travel claims. Also, the audit team identified two cases where there was an overpayment of daily subsistence allowance, but without a travel claim, it was unclear if the funds due to UNDP were reimbursed by the travellers. In another case, the Office advanced funds for a project staff member to participate in a UN-sponsored event in Singapore, yet it was unclear if the Office recovered the funds from the organizers of the event.

Gaps in the travel management process may result in inefficient use of resources. The implementation of the Atlas Travel and Expense module will allow the Office to streamline the travel process, facilitate follow-up on outstanding travel claims and settlements, and increase efficiency of the travel function carried out by the Procurement Unit.

Priority   Medium (Important)
Recommendation 4: The Office should improve travel management by: (a) implementing the Atlas Travel and Expense module; (b) ensuring all travel information is available for accurate and timely processing of travel requests, including the relevance and/or linkage to project results; and (c) ensuring that travel claims are timely received, approved and reimbursement of unused travel expenditures are timely re-applied to appropriate projects.
Management action plan: The Office will: (a) Roll out and implement the Atlas Travel and Expense module in compliance with corporate guidelines. (b) Request justification related to the implementation of the project results for each travel request, to verify the relevance of each travel and the linkage to expected project results. (c) Establish the process for accurately managing travel claims and ensuring that all reimbursements are timely deposited on the UNDP representative account through an internal memo. The Operations Manager will revise the monthly report on the status of pending items. **Estimated completion date:** December 2019

3. Procurement

Issue 5   Weaknesses in procurement function

Procurement is critical to enhancing programme/project delivery. Procurement, as a managerial function (and not an administrative one), requires that those in charge of discharging their duties possess certain managerial skills and use tools to enhance the overall effectiveness and efficiency of the function. To do so, it is imperative that the Office (i) ensure better management of procurement risk, (ii) develop a procurement strategy, and (iii) ensure adequate procurement planning.

The Procurement Unit at the Office was composed of two staff members (Procurement Analyst at the level of National Officer Level A and a Procurement Associate at the General Service Level 6) and five personnel holding service contracts, namely, two Procurement Associates and three Procurement Assistants. The following weaknesses were noted:

- The Procurement Unit had not developed a strategy to ensure adequate workflows and analysis of workload demands.

- The Procurement Unit lacked a service tracking system to check the status of cases and assess the workload requirements/demands, and plan accordingly. A service tracking system for the Procurement Unit had been developed by the Office's ICT unit and was available yet was not in use at the time of the

audit mission. The Office indicated that the tracking system was not endorsed by the Programme Unit and therefore was not in use at the time of the audit.

- During the absence of the head of the unit, a service contract holder was designated ad interim, which included the supervision of a staff member.

- The Unit used OneDrive for storing and filing all electronic documentation that was available to all Procurement Unit personnel, irrespective of the phase of the procurement process; as a result, the information could be viewed by others not involved in the process and altered and/or deleted.

- E-tendering was used by the Procurement Unit only for the processing of individual contracts; the full roll out of this management tool was pending. The Office indicated that suppliers were resistant to using the module as it was not in Spanish.

- Project procurement plans were uploaded in the Procurement Management Platform (PROMPT) by the Procurement Unit instead of the Programme Unit, while the project/programme staff were responsible for managing the project procurement plans.

The effectiveness of the procurement business function was at risk as corporate instruments were not fully or adequately implemented, while other managerial actions were not performed to ensure the sensitivity and confidentiality of the procurement processes.

Priority	Medium (Important)
Recommendation 5: The Office should improve the procurement function by: (a) ensuring that the Procurement Unit and its staffing, working arrangements and electronic tools are adequately deployed; (b) developing an appropriate procurement strategy; and (c) using PROMPT.	
Management action plan: The Office will: (a) Ensure that procurement risks are properly monitored on a quarterly basis and that the Unit's structure, working area arrangements and electronic filing accessibility are optimal. (b) Revise its procurement practices and ensure an adequate procurement strategy (including the use of e-tendering) is adopted. (c) Ensure that all procurement plans are duly uploaded in PROMPT. **Estimated completion date:** December 2019	

Issue 6   Shortcomings in functioning of the Contracts, Assets and Procurement Committee

UNDP requires an independent review of the procurement process prior to a contract award. The review confirms that offers received are the result of a fully compliant process, enough funding exists, and risks have been adequately assessed and mitigated. The Contracts, Assets and Procurement Committee provides

independent written advice and recommendations on a procurement case to the individual approving the procurement action. Members of the Committee are required to remain independent and up to date on UNDP procurement rules and regulations.

The audit disclosed the following shortcomings:

- The Operations Manager, who had supervisory responsibility for the Procurement Unit, undertook the role of Committee Chairperson, undermining the impartiality and objectivity required for this role.

- Committee members were not procurement certified (lacked the official procurement certification assessment for buyers – CIPS Level 1) and had not undertaken procurement training to become familiar with UNDP procurement policies and procedures.

Weaknesses in the structuring of the Contracts, Assets and Procurement Committee puts UNDP at risk of not securing the best value for money in each procurement process.

Priority	Medium (Important)
Recommendation 6: The Office should improve the functioning of the Contracts, Assets and Procurement Committee by: (a) resourcing the Contracts, Assets and Procurement Committee with the necessary staffing component; and (b) encouraging Committee members to complete procurement training.	
Management action plan: (a) All procurement cases after the audit have been submitted to the Regional Advisory Committee on Procurement for approval until the new Deputy Resident Representative arrives in post. (b) The Office will ensure that all Committee members complete the basic UNDP Procurement Certificate Level 1 course to reinforce their role within the Committee. **Estimated completion date:** September 2019	

4. Human resources management

Issue 7 Weaknesses in management of service contracts

The 'UNDP Service Contract User Guide' stipulates the roles and responsibilities to manage service contracts. The responsible officer, delegated by the Resident Representative, manages the planning and contracting of resources, and as such, may be delegated the responsibility and accountability for the management of service contracts.

The audit team identified the following instances of non-compliance with the 'UNDP Service Contract User Guide':

- Five service contract holders were conducting core functions within the Procurement Unit.

- The salaries of service contract holders recruited by the Office were not always set according to the salary scales. For example, service contract holders were recruited at the SC 5 level upon being hired, yet the audit team found that in some cases the education and experience of the candidate, and in other cases the job description, did not support the salary being offered. In one case, a waiver was not obtained from the Regional Bureau for Latin America and the Caribbean to upgrade a service contract position from SC 3 to a SC 5. Instead, the service contract was upgraded, justified as part of the year-end accelerated delivery scheme.

- Service contract holders had not provided their certificates proving their participation in the lump sum pension scheme.

- The UN holiday schedule was not made clear for those UNDP service contract holders working off site.

- Private medical plan coverage was not provided to service contract holders travelling on official business outside of the duty station.

Weaknesses identified in the management of service contract holders increase the financial and reputational risks of the Office.

Priority	Medium (Important)
Recommendation 7: The Office should improve the management of service contracts by: (a) engaging service contract holders for their intended roles; (b) ensuring that service contract levels and salaries are set in accordance with the pay setting guidelines; and (c) ensuring that service contract holders are enrolled in the corresponding pension fund, private medical scheme for travel outside of the duty station and are allowed absences for the 10 UN holidays.	
Management action plan: The Office will: (a) Revise and update the Internal Control Framework to ensure that all core functions are conducted by the corresponding trained staff. (b) Ensure that all service contract holders recruited will be paid following the salary scale based on UNDP guidelines. Also, in the future, for a need to fill in a post using accelerated delivery measures, clearance will be obtained from the Regional Bureau for Latin America and the Caribbean. (c) Ensure that the respective due diligence required for managing service contract holders is enforced. In this regard, the Office will identify a private pension fund scheme in the Country, which may provide service to service contract holders and clarify the number of holidays available to them; in addition, the Office will explore options for a medical coverage scheme for service contract holders travelling on official mission. **Estimated completion date:** March 2020	

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.