UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE DEMOCRATIC REPUBLIC OF THE CONGO

Report No. 1065
Issue Date: 26 June 2013

(REDACTED)

Table of Contents

Report on the audit of UNDP Democratic Republic of the Congo
Executive Summary

From 10 to 28 September 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in the Democratic Republic of the Congo (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 30 June 2012. In view of the security conditions in the field, the audit team was not able to visit the sub-office in Goma, where transactions were also carried out and related documents kept. During the period reviewed, the Office recorded programme and management expenditures totalling $300 million. The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in project monitoring, finance and procurement. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management			X	
1.1 Financial sustainability	Satisfactory			
1.2 Delegations of authority	Partially Satisfactory			
2. United Nations system coordination				X
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Satisfactory			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities			X	
3.1 Programme management	Partially Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations			X	

4.1	Human resources	Partially Satisfactory
4.2	Finance	Unsatisfactory
4.3	Procurement	Partially Satisfactory
4.4	Information and communication technology	Satisfactory
4.5	General administration	Partially Satisfactory
4.6	Safety and security	Partially Satisfactory
4.7	Asset management	Partially Satisfactory

Key issues and recommendations

The audit raised 16 issues and resulted in 15 recommendations, of which eight (53 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

Delegation of authority (Issue 1)	Insufficient assurance obtained over operations of the sub-office in Goma. The Deputy Country Director/Operations issued a delegation of authority to the staff members of the sub-office in Goma (North Kivu Province) to process payments, recruit individual contractors and service contract holders and to conduct procurements for amounts less than $30,000. According to the Office, the payment vouchers approved within the delegated authority in Goma for the period under review (Jan 2011-Jun 2012) totalled $9.5 million. The Office did not obtain sufficient assurance regarding the operations of the sub-office. All supporting documentation for transactions conducted in Goma remained at the sub-office and had not been submitted to the main office in Kinshasa for review. Further, the Office had not conducted any field missions to Goma in 2011 or 2012 to review the supporting documents for the recruitments or contracting conducted by the sub-office. OAI recommends that the Office exercise oversight over the delegation of authority to staff members in the sub-office in Goma, including the establishment of a process for regular systematic review of transactions and related supporting documents processed at the sub-office.
Project management (Issue 3)	Weak controls over NGO selection, contracting and management of service delivery. OAI noted the following weaknesses: (a) for at least 35 NGOs, the Office had not consistently complied with the Programme and Operations Policies and Procedures which require that NGOs as responsible parties be selected through a competitive and transparent process which includes submission to the Contracts, Assets and Procurement Committee for review; and (b) for at least 25 cases, the Office did not conduct a capacity assessment of the NGOs as implementing partners, which is required whenever funding exceeds $100,000 per programme cycle. OAI recommends that the Office improve controls over the selection of, and contracting with NGOs by ensuring that the staff members involved in the selection of NGOs as responsible parties or implementing partners, or working with other NGO matters are adequately trained and are fully aware of and comply with all relevant corporate policies and procedures, including but not limited to the requirements that: (a) professional services retained from NGOs and other service providers as responsible parties must be through a competitive and transparent process; and (b) capacity assessments must be conducted for NGO implementing partners receiving funds over $100,000 during a programme cycle.
Project management (Issue 4)	Weaknesses in project monitoring. There were shortcomings in project monitoring, reporting and oversight, including the lack of annual review meetings, weaknesses in the functioning of Project Boards and in project reporting, and inaccurate project tracking in Atlas. OAI recommends that the Office improve its project monitoring and oversight, as required in the

Programme and Operations Policies and Procedures, to ensure transparency and accountability in using programme funds. These include: (a) holding regular Project Board meetings for all projects and preparing minutes of such meetings; (b) preparing annual project reports for each project; (c) maintaining issue and risk logs for each project in Atlas; (d) updating/correcting project exceptions noted in Atlas; and (e) maintaining an accurate and up-to-date list of assets for all projects.

Finance (Issue 7)

Inadequate management of cash advances. Cash advances to project staff members were not properly monitored and accounted for. Some advances remained outstanding and unliquidated for more than six months, with the supporting documentation either incomplete or unreliable. Also, a large number of cash advances exceeded the threshold of $500 without the prior approval of the Office of Financial Resources Management. In this weak control environment, some project staff members received cash advances exceeding $125,000 each. OAI recommends that the Office strengthen its monitoring and oversight of cash advances to projects by: (a) discontinuing the processing of new cash advances until all outstanding advances are cleared and supporting documents submitted and verified by the Office; (b) ensuring that cash advances do not exceed the threshold of $500. If an advance exceeding $500 threshold is necessary, prior approval should be obtained from the Office of Financial Resources Management; (c) ensuring that, provided proper supporting documentation is available, cash advances are promptly liquidated, including recovery and timely deposit of any remaining balance; (d) ensuring that project staff members understand their responsibilities and accountability prior to receiving cash advances; and (e) promoting direct payment to suppliers, whenever feasible, in order to limit cash advances to staff members.

(Issue 9)

Weak banking management. Two bank accounts, reportedly closed since 2005, were still active in Atlas as of September 2012, and were used to process transactions until October 2008. The Office paid $1.6 million in bank charges for transactions in US dollars paid by Electronic Fund Transfer or cheque to local vendors, when it could have used an Electronic Fund Transfer within the same financial institution at no cost. Unreconciled items could not be explained or justified for the bank reconciliations performed in May, June and July 2012. The bank reconciliations for the sub-office in Goma had not been reviewed or certified by the Operations Management Team in Kinshasa. OAI recommends that the Office strengthen its banking arrangements by: (a) improving its banking management and, in consultation with the Treasury Division, exploring ways to reduce bank charges; (b) reinitiating with the Office of Financial Resources Management the closing procedures in respect to the two identified bank accounts, and ensuring that proper documentation confirming the closure is maintained; and (c) ensuring that senior management reviews bank reconciliations, including the list of outstanding cheques and the bank statements to enable proper follow-up and to deter and detect any errors or fraudulent activity. Furthermore, the Office should review and certify bank reconciliations submitted by sub-offices.

Procurement (Issue 10)

Weaknesses in procurement process. The Office lacked a mechanism to monitor the cumulative value of contracts in order to ensure their submission to the appropriate procurement review committee once the thresholds requiring this independent review had been reached. Further, some procurement payments were paid under the direct payment modality whereas they should have gone through the normal procurement process and a purchase order should have been raised. OAI recommends that the Office strengthen its procurement management by: (a) adhering to procurement procedures regarding the requirements for submission to the Contracts, Assets and Procurement Committee and/or the Advisory Committee on Procurement; and (b) raising purchase orders when commitments are made based on a contract.

[redacted]

Asset management (Issue 16)	Weaknesses in asset management. Several issues were noted relating to the 2011 Certification Letter for non-expendable assets, including: a lack of support documentation for the December 2011 inventory and reconciliation; delays relating to asset disposals; annual rents paid for offices not being included; and rents for offices being paid in advance without seeking the required authorization. Further, the Office lacked an accurate list of project assets and the vehicle list was incomplete. OAI recommends that the Office improve asset management by: (a) closely monitoring inventory adjustments and requiring that they be properly justified; (b) disposing of obsolete items when approved and recording the disposals in a timely manner; (c) including the value of the rent paid for field offices and requesting proper authorization to pay rents in advance; and (d) preparing and maintaining an accurate list of assets for the Office and projects.

Management comments and action plan

The Resident Representative accepted all recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 10 to 28 September 2012, OAI conducted an audit of UNDP in the Democratic Republic of the Congo. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $300 million. The last audit of the Office was conducted by OAI in 2010.

The implementation status of previous OAI audit recommendations (Report No. 714, 8 July 2010) was also validated. All 20 recommendations were noted to be fully implemented.

II. About the Office

The Office is located in Kinshasa, the Democratic Republic of the Congo (the Country). At the time of the audit, the Office employed 141 staff members, 483 service contract holders and 28 United Nations Volunteers. The Country Programme Document ended in December 2012, and as a result a new Country Programme Document for 2013-2017 was developed.

The Office played a key role in providing logistical and technical support to the Government in the November 2011 presidential and national assembly elections. These were the second multi-party elections in more than 45 years. Domestic and international observers judged that technical and logistical problems and a lack of transparency in the tabulation process contributed to serious flaws in the election processes.

During the time of the audit, the Country experienced armed skirmishes in the eastern provinces, especially in North Kivu Province where armed groups were operating, which negatively impacted several UNDP projects.

III. Detailed assessment

1. Governance and strategic management	Partially Satisfactory

OAI reviewed management strategies, the balanced scorecard, the management plan, internal reporting lines and delegation of authority.

OAI also reviewed the organizational structure as the Office had undergone a change management process to reassess its organizational structure. The review found that the new organizational structure was unclear, noting that three versions of the organizational chart were received by OAI before the final one.

The 2011 integrated work plan was developed in a participatory and consultative manner involving both programme and operations sections of the Office. The 2010 Global Staff Survey results were within and/or above UNDP average results. Senior management maintained close consultation and constructive coordination with the local Staff Association. Senior management team meetings were held on a regular basis.

1.1 Financial sustainability	Satisfactory

The Office had undergone several change management processes and reviews to improve its efficiency. However, this did not produce the expected cost-savings or improve extrabudgetary reserves. While the Office's extrabudgetary reserves were at 31 months at the end of 2011, they had declined to 24 months by end of 2012 (the Programme and Operations Policies and Procedures require offices to maintain a minimum of 12 months of extrabudgetary reserves).

Furthermore, costs related to staffing were high due to the number of internationally-recruited staff members at professional levels, (31 P4, 6 P5 and 2 P6), combined with an organizational structure in which each programme and each project had been staffed with its own operations unit, in addition to the main operations team already functioning within the Office. To fund these positions and other operating costs, the Office relied heavily on the extrabudgetary reserves. Expenses increased from $5 million to $6.2 million between 2011 and the end of 2012, while extrabudgetary resources generated from programmes declined over the same period from $7.9 million to $4.9 million due to a decrease in programme delivery, which fell from $206 million at the end of 2011 to $154 million at the end of 2012.

The Office indicated that it had adopted a new organizational structure and implemented a policy to reduce payroll. The Office also indicated the following: an initial report dated April 2011 showed a budget savings of $2.7 million; that it had also frozen the recruitment of the Country Director Assistant; that the cost reduction strategy, combined with a policy of cost recovery, allowed the Office to close out 2011 with an extrabudgetary fund reserve unprecedented in its history; the balance of the extrabudgetary resources as of 31 December 2011 totalled $13.4 million, representing an increase of 46.25 percent over the balance of 2010; and that the 2012 Management Efficiency Ratio[1] was 6.28 percent, which was better than the Regional Bureau for Africa and UNDP averages (13.16 percent and 23.20 percent, respectively).

The Office further stated that, in the context of the new programming cycle of 2013-2017, it was committed to aligning its organization, work force and structures with the new Country Programme Document and Country Programme Action Plan. In this respect, the Office developed an action plan that would focus on:

[1] Management efficiency ratio: Management expenditure over programme expenditure.

- establishment of a business model for programme implementation funding;
- alignment of staff member skills and expertise with the requirements of the new programming cycle;
- direct costing of all operational costs related to project implementation during the development of annual work plans; and
- updating of, and strict adherence to, implementation of the cost recovery and cost containment strategy.

Since the Office had already taken appropriate measures to control its extrabudgetary reserves and reduce overhead costs, no audit issue has been raised.

1.2 Delegation of authority — Partially Satisfactory

Issue 1 Insufficient assurance obtained over operations of the sub-office in Goma

The Programme and Operations Policies and Procedures state that the delegator of authority remains accountable for outcomes. Delegates are accountable to their delegators for the proper use of authorities delegated to them. While authorities and responsibilities could be delegated, accountability is absolute and remains with the delegator who is ultimately accountable to the Administrator for the outcomes and/or decisions taken.

The Deputy Country Director/Operations issued a delegation of authority to the staff members of the sub-office in Goma to process payments, recruit individual contractors and service contract holders and conduct procurement for amounts less than $30,000.

According to the Office, the payment vouchers approved within the delegated authority in Goma for the period under review (Jan 2011-Jun 2012) totalled $9.5 million ($6.3 million from January to December 2011 and $3.2 million from January to June 2012).

OAI noted that the Office did not obtain sufficient assurance that operations conducted in the sub-office were adequately run, since all supporting documents for the transactions conducted in Goma remained at the sub-office and were not submitted for review to the main office in Kinshasa. For example, out of a sample of 33 transactions requested, for a total of $1.5 million, 16 transactions for a total amount of $0.88 million were not submitted and the Office indicated that the documents were in Goma and could not be brought to OAI for review. Further, the Office did not conduct any field missions to Goma in 2011 and 2012 to review supporting documents for recruitments or contracting conducted by the sub-office.

Priority	High (Critical)

Recommendation 1:

The Office should exercise oversight over the delegation of authority to staff members in the sub-office in Goma, including the establishment of a process for regular systematic review of transactions and related supporting documents processed at the sub-office.

Management comments and action plan: __√__ Agreed ____ Disagreed

There were several transactions involving amounts greater than $30,000, which were initiated and approved by Kinshasa. For transactions of less than $30,000, there is a mechanism based on the principles of segregation and authorized by the delegation of authority (level 1, level 2 and level 3). It should also be noted that most of these operations concern project management. It follows that several types of verifications are regularly carried out through spot checks, programmatic visits and audits (national implementation modality/NGO or partner audits).

The Office will strengthen its oversight function in Goma by periodic and prompt controls. An oversight mission has been scheduled for March 2013.

2. United Nations system coordination — Satisfactory

2.1 Development activities — Satisfactory

The previous United Nations Development Framework was set to expire on 31 December 2012, and a new United Nations Development Framework for 2013-2017 was prepared and signed by the United Nations agencies and the Government in September 2012. The new framework was based on the national priorities outlined in the *Strategy Document for Growth and Reduction of Poverty II*.

No reportable issues were identified.

2.2 Resident Coordinator Office — Satisfactory

The United Nations agencies in the Country operated in an integrated mission with the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO). The Resident Coordinator Office is located in the integrated office shared with MONUSCO and includes staff members whose posts are financed by MONUSCO, UNDP and other agencies, as well as donors. Due to the integrated nature of the mission in the Country, the Resident Coordinator also acts as the Resident Representative for UNDP, Deputy Special Representative of the Secretary-General and Humanitarian Coordinator.

The Resident Coordinator Office is responsible for the management of the United Nations Country Team, which comprises the Heads of the United Nations agencies and the integrated mission, including MONUSCO. The United Nations Country Team also has sub-groups in which issues of mutual interest are discussed on a more technical level. These groups include the Programme Management Team and the Operations Management Team, as well as the United Nations Communications Group.

No reportable issues were identified.

2.3 Role of UNDP - "One UN" — Satisfactory

The United Nations agencies in the Country are not engaged in any formal commitment to the One UN approach, but steps have been taken to adopt aspects of the Delivering as One agenda among the agencies.

Three Area Coordinators have been appointed by the integrated office (at the time of the audit, the Area Coordinators had not yet taken up their positions) for the western provinces in the Country. The role of the Area Coordinators will be to bring the United Nations agencies closer together, and to work towards implementing the Delivering as One principle on a local level.

No area coordinators have been appointed in the eastern provinces. Armed conflicts are prevailing in the eastern provinces, resulting in a humanitarian crisis. Thus, the focus of the United Nations agencies in these provinces is primarily related to conflict prevention and humanitarian relief, and not on establishing the Delivering as One principle at this time.

No reportable issues were identified.

2.4 Harmonized Approach to Cash Transfers — Partially Satisfactory

The Office has been compliant with the Harmonized Approach to Cash Transfers (HACT) since 2009, and has been implementing it since 2011. This was done in coordination with other United Nations Development Group Executive Committee agencies. This move was triggered by a cost efficiency measure whereby the Office moved from project-based reviews and annual audits to risk-based reviews of implementing partners. By March 2010, the following activities had been completed:

- macro-assessment;
- micro-assessment of all partners (high risk);
- approval by the Government and inclusion of the appropriate HACT clauses and language in the Country Programme Action Plan;
- HACT scheduled audit plan of implementing partners; and
- an agreement on the methodology for joint assurance activities by participating United Nations agencies.

In 2010, the Office presented OAI with a plan for audits of 47 implementing partners scheduled to take place from April 2010 until September 2012. As per the HACT guidelines, scheduled audits are meant to express an opinion on an implementing partner's systems and controls and do not entail a financial verification of expenditures.

OAI reviewed the implementation of HACT processes in UNDP and noted that micro-evaluations were decided within the programme units, in coordination with the Resident Coordinator's integrated office. However, the Office's HACT Audit Unit was not involved in this process. Furthermore, spot checks were decided within the programme units without consulting on frequency and dates with the HACT Audit Unit. In some cases, the programme units had notified the HACT Audit Unit and allowed them to attend spot checks, but this was not done consistently. OAI further noted that the audit of implementing partners was delayed and did not take place as scheduled in May/June 2012.

The Office stated that it will ensure full involvement of the HACT Audit Unit in finalizing the HACT audit plan, as well as in establishing a spot check plan, and that it will further ensure the Unit's attendance during spot checks of high risk partners.

The Office further stated that the Office and Ex-Com agencies had plans for audits covering a total of 166 implementing partners to whom cash had been transferred during the Country Programme Action Plan period for a total aggregate amount of $42,642,032, or 11 percent of the total amount of cash advanced by the Ex-Com agencies during the Country Programme Action Plan period ($380,646,890). Of the 166 audits planned, there were 97 audits which pertain to UNDP expenditures either in full or in part.

Of the 97 audits planned, 81 audit reports had been submitted to OAI as of February 2013. Furthermore, 53 of the 81 audit reports resulted in a “satisfactory” rating, 19 were given a “partially satisfactory” rating and 6 resulted in an “unsatisfactory” rating.

For the three remaining reports, the audit opinion expressed was similar to that of a financial-type audit rather than that of an audit of the implementing partners’ systems and controls, as applicable under the HACT audit approach. In all three audit reports, the auditors expressed an “unqualified” opinion, but in one case, the auditors had noted that an amount of $109,940 or 0.1 percent of the total amount advanced by UNDP and other Ex-Com agencies could not be reconciled.

OAI received the planned HACT audit reports between the dates of November 2012 and February 2013, as uploaded by the Office in the Comprehensive Audit and Recommendation Database System (CARDS). The extensive delays in the submission of the reports and the non-adherence to the requirements for HACT audits raise a number of concerns, namely:

- lack of assurance regarding some implementing partners which may lead the Office and other United Nations agencies to transfer funds to implementing partners without appropriate assessments;
- lack of commitment to complete planned audits as evidenced by the outstanding HACT audits (at least 35 reports),16 of which pertain to UNDP-related expenditures (either in full or in part); and
- the Office’s continuing to operate using an inefficient mixture of processes and procedures for NGO/national implementation on one hand and the HACT approach on the other, which could cause confusion and additional workload.

On 24 June 2013, OAI issued a separate memorandum that is part of its review of HACT audits. The memorandum served to assess the overall outcome of the HACT audits and to alert the Office to weaknesses identified in this process. The key results of the OAI review are summarized in this report; however, no audit recommendation has been raised, in order to avoid duplication.

3. Programme activities — Partially Satisfactory

3.1 Programme management — Partially Satisfactory

The Office has two programmes within which the Office’s projects are managed and executed: Fight Against Poverty and Governance.

The previous Country Programme Document expired on 31 December 2012, and a new Country Programme Document (2013-2017) that follows the United Nations Development Framework (2013-2017) and the national priorities has been developed. At the time of the audit, the corresponding Country Programme Action Plan was in the final stages of preparation.

Issue 2 Weaknesses in implementation of evaluation recommendations

The corporate evaluation policy states that the Executive Board of UNDP/UNFPA requires management response and follow-up to all evaluations by UNDP. It adds that the Administrator of UNDP is accountable for UNDP results, and must ensure that senior management responds to and utilizes decentralized evaluations in their operational, strategic, policy and oversight functions and that appropriate follow-up action to the findings and recommendations of decentralized evaluations is taken by the relevant units.

The Evaluation Office, in coordination with the Office, conducted an evaluation of eight outcomes and made recommendations relating to each. However, the follow-up on the implementation of these recommendations was inadequate. OAI noted that there was no process in place to ensure that the status of implementation recorded in the Evaluation Resource Centre (Evaluation Office's database) was verified independently by the Office through, for example, the verification of supporting documentation. The Monitoring and Evaluation Unit did not request supporting documentation to permit verification nor did they keep a record of any related supporting documentation.

Several recommendations in the Evaluation Resource Centre database had not been implemented in a timely manner or the implementation was overdue. For the Outcome Evaluation titled *Evaluation des Effets du programme pays du PNUD*, a total of 22 recommendations had the status of "Overdue." For the evaluation titled *Evaluation à mi-parcours du programme gouvernance*, 32 recommendations had the status of "Overdue."

Without sufficient processes in place to monitor implementation progress and ensure that recommendations are adequately addressed in a timely manner, there is a risk that the evaluation recommendations will not be implemented, thus compromising the Country programme quality and ultimately the results of development effectiveness.

Priority	Medium (Important)
Recommendation 2: The Office should ensure that recommendations are implemented in a timely and adequate manner by verifying the implementation status of recommendations through supporting documentation. Further, the Office should ensure that any supporting documentation is archived electronically.	
Management comments and action plan: __√__ Agreed ____ Disagreed The deadline to update management responses in the Evaluation Resource Centre was 31 December 2012. UNDP management had taken action from October to December 2012 which was after this audit had taken place. Since October, all management responses to the evaluations registered in the Evaluation Resource Centre were updated, and in the future, supporting documentation will also be provided.	

3.2 Partnerships and resource mobilization — Satisfactory

Major donors included Belgium, European Union, Japan (Japan International Cooperation Agency), the Netherlands, Sweden (Swedish International Development Cooperation Agency) and the United Kingdom (Department for International Development).

The most extensive project during the audit coverage period was the Electoral Cycle Support Project (*Projet d'Appui au Cycle Electoral – PACE*, Award 48238). The project aimed to support and strengthen the capacity of the Independent National Electoral Commission to organize general and local elections that are free, fair and credible. The project has a total budget of $203 million and is financed through contributions from the following donors: Belgium, Canada, European Union, France, the International Organisation of La Francophonie, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and UNDP.

The Pooled Fund and the Global Fund represented approximately 60 percent of the Office's non-core resources in 2011. With the exit of the Global Fund in 2013, the volume of available resources was expected to diminish, creating a need to mobilize resources from other sources in order to ensure adequate funding to implement projects and meet development goals and objectives. Considering that several donor agreements expired in 2012 (with the end of the United Nations Development Framework/Country Programme Document), there was added pressure on the Office to engage in resource mobilization from non-traditional sources. There were no private sector donor agreements, but the Office was exploring this opportunity.

OAI met with major donors and partners during the audit fieldwork, as well as with the Government and other United Nations agencies, and sent questionnaires to additional partners and donors prior to the fieldwork.

In general, donors indicated that UNDP was a valuable development partner in the Country, and that UNDP had an important role in the donor community. Donors pointed to some areas for improvement, including communication and a need for timelier and better quality reports. The Office was reviewing its processes of donor communication and reporting, and the improvements to be implemented included a more stringent approach of contacting donors, new guidelines for donor reporting and quality assurance of reports.

No reportable issues were identified.

3.3 Project management — Partially Satisfactory

Issue 3 Weak controls over NGO selection, contracting and management of service delivery

The Office engaged NGOs for most projects that OAI selected for review. The following deficiencies were noted:

- NGOs as responsible parties

As stated in Financial Regulation 17.01 of the UNDP Financial Regulations and Rules, an implementing partner may enter into agreements with other organizations or entities, known as responsible parties, who may provide goods and services to the project, carry out project activities and/or produce project outputs. The following types of organizations may act as responsible parties: UNDP, other UN agencies, government agencies, inter-governmental organizations (IGOs), civil society organizations (CSOs) and private firms. Firms and CSOs (except micro-capital grant recipients) shall be selected as responsible parties only on the basis of a competitive procurement process undertaken by the implementing partner. UNDP, UN agencies, IGOs, government agencies, or CSOs as micro-capital grant recipients are exempted from competitive procurement process and shall be selected under programming modalities (PAC or Project Board decisions). The Office engaged the professional services of NGOs which were not micro-capital grant recipients, and therefore needed to be selected following a competitive and transparent process and which should have been submitted to the Contracts, Assets and Procurement Committee for review. At least 35 NGOs were engaged as responsible parties in several projects implemented directly by UNDP and no competitive processes took place (examples included project IDs 60601, 63480, 63784, 72106, 73755, 75643, 78024 and 78824).

- NGOs as implementing partners

Offices are required to conduct a capacity assessment of NGOs as implementing partners whenever funding will exceed $100,000 per programme cycle. No capacity assessments were conducted for at least 25 NGOs that received funds in excess of $100,000 (for example, project IDs 75643, 78024, 73755, 63784 and 63480). As a result, it was unclear if the NGO had the necessary capacity to successfully implement the project or the systems to provide adequate financial reporting and accountability.

The Office indicated a lack of training as one of the causes that led to non-compliance with the Programme and Operations Policies and Procedures requirements.

Priority	High (Critical)
Recommendation 3: The Office should improve controls over the selection of, and contracting with NGOs by ensuring that the staff members involved in the selection of NGOs as responsible parties or implementing partners, or working with other NGO matters are adequately trained and are fully aware of and comply with all relevant corporate policies and procedures, including but not limited to the requirements that: (a) professional services retained from NGOs and other service providers as responsible parties must be through a competitive and transparent process; (b) capacity assessments must be conducted for NGO implementing partners receiving funds over $100,000 during a programme cycle.	
Management comments and action plan: __√__ Agreed _____ Disagreed The Office notes OAI observations and recommendations. Considering the specific context of the Country, characterized by the quasi-absence of financial institutions in most UNDP working areas, the Office has resolved, in order not to compromise the implementation of activities and the achievement of results, to contract NGOs in a programmatic process. This does not require the Advisory Committee on Procurement or Contracts, Assets and Procurement Committee approval but rather a Local Project Appraisal Committee organized from a Call for Proposals. Under the new Country Programme Action Plan 2013-2017, the Office will ensure that the implementation modalities of program activities consistently meet the rules and procedures of UNDP, taking into account the realities on the ground. As for NGO micro-evaluations, the Office has undertaken to conduct capacity assessments for most of the NGOs for the programmatic cycle 2008-2012; periodic spot checks and audits of these NGOs have also taken place. In the same way, United Nations Development Group Executive Committee agencies are recruiting consultants for the new Country Programme Action Plan in order to carry out micro-assessments of potential institutions to implement activities for the 2013-2017 period.	

OAI Response:

OAI takes note of the Office's comments. However, when a project is implemented using direct implementation modality, the selection of NGOs as responsible parties must follow the procurement process.

Regarding the micro-evaluation, OAI wishes to confirm that during the fieldwork, no capacity assessments were conducted for at least 25 NGOs that received funds in excess of $100,000 (for example, project IDs 75643, 78024, 73755, 63784 and 63480).

Issue 4 Inadequate project appraisal and monitoring

- Inadequate project appraisal process

All projects must be appraised by a Local Project Appraisal Committee before they are approved. The Programme and Operations Policies and Procedures stipulate that the appraisal process directly supports the UNDP Administrator's accountability for approval of programme activities. The membership of the Local Project Appraisal Committee is to be comprised of UNDP staff members, a representative of the Government coordinating agency and a representative of the implementing partner. Other project stakeholders, such as technical experts, representatives of cost-sharing donors and representatives from beneficiaries, may attend the Local Project Appraisal Committee meetings and participate in an ex-officio capacity. The senior UNDP official is responsible for chairing the meeting and appointing a rapporteur to prepare minutes.

OAI noted that in 2008, the Office organized two Local Project Appraisal Committees for its Governance and Poverty Programmes. These Local Project Appraisal Committees were broad and did not address all projects under each programme. However, the Local Project Appraisal Committees were used to initiate several projects under the Governance and Poverty Units.

Local Project Appraisal Committees did not take place for the following projects: Award IDs 48238, 73755, 73425, 49062 and 49570.

Two Local Project Appraisal Committees, which were organized by the Poverty Unit, did not include participation by representatives from relevant donors or other stakeholders (Award IDs 78605, 62024), and since the Head of the Unit submitting the project chaired the meeting, an objective discussion could not be assured.

- Weaknesses in project monitoring

There were deficiencies in project monitoring, reporting and oversight. They included a lack of annual review meetings and weaknesses in Project Board functioning, project reporting, and incorrect project tracking in Atlas.

  - The Programme and Operations Policies and Procedures require that annual work plans are developed for projects that elaborate on the plan to achieve outputs for a given year. Annual work plans need to be approved by the Project Board, which steers and oversees the project. The following projects did not have a signed annual work plan: Award IDs 48238, 51109, 51109, 51109, 51109, 48521, 49062 and 12250. The lack of this document exposes the Office to the risk that UNDP resources are scattered and not focused on key priorities, and that not all resources are used in support of the agreed results. This also makes it difficult to monitor whether the Office was making progress during the course of the year in terms of meeting its project targets.

- Project Board meetings need to be held for all projects at least annually and minutes of such meetings need to be prepared. However, the minutes of Project Board meetings were not available for the following projects: Award IDs 51109, 49062, 12250 and 62024. Thus, it could not be ascertained whether Project Board meetings took place.

- Every office is required to produce annual project reports, which are submitted for review to the Project Board. Annual project reports were not prepared for the following projects: 49062 and 12250.

- Projects are required to maintain certified lists of assets. However, certified lists of assets were not available for the following projects: Award IDs 48238, 51109, 51109, 49062, 12250 and 49570.

- A total of 1,694 projects were showing exceptions in Atlas. The exceptions included the following: No Associated Award, No Institution Entered, Not Grants Project, No Project Department, Invalid Project Type, No Project Manager (904 projects) and Budget Department Not Used.

- According to project personnel, the election process stopped at the beginning of 2012 due to political issues, yet, the Office maintained a large project team (over 50 personnel). The Project Board did not meet in 2012. The project team indicated that some priority activities had been identified for implementation. However, because of tensions in the relations between the National Electoral Commission and the Office, no activity was allowed to take place. Maintaining the full project staffing structure was not efficient as it meant idle capacity for several months with no prospect of new elections. Following the audit mission, the Office indicated that the project was being closed in accordance with a decision by donors during a meeting held on 14 March 2013. The staffing capacity had been decreased from 50 to 6 staff members and further, that the team was working to finalize the operational closure of the project.

Priority	Medium (Important)
Recommendation 4: The Office should ensure that all projects are reviewed by the Local Project Appraisal Committee and that the membership of this Committee includes representatives from all key stakeholders.	
Management comments and action plan: __√__ Agreed ____ Disagreed It is recognized that during the 2008-2012 programmatic cycle, the Office opted for a Local Project Appraisal Committee at the beginning of the cycle and organized annual validation meetings to approve the Annual Work Plans of the different components (components are part of both pillars of the programme: Fight Against Poverty and Good Governance). This was also a strategic choice considering the large number of projects. Thus, it is around these duly approved pillars that projects were secured with the participation of partners. However, under the new 2013-2017 programme, the Office has taken all necessary measures to reduce the number of projects in order to focus on and facilitate the reporting of results. Therefore, any project initiated during the implementation of the new programme that is not attached to the 2013-2017 Country Programme Action Plan results framework will have to be approved by a specific Local Project Appraisal Committee.	

Priority	High (Critical)
Recommendation 5: The Office should improve its project monitoring and oversight, as required in the Programme and Operations Policies and Procedures, to ensure transparency and accountability in using programme funds. These include: (a) holding regular Project Board meetings for all projects, and preparing minutes of such meetings; (b) preparing annual project reports for each project; (c) maintaining issue and risk logs for each project in Atlas; (d) updating/correcting project exceptions noted in Atlas; and (e) maintaining an accurate and up-to-date list of assets for all projects.	
Management comments and action plan: __√__ Agreed ____ Disagreed For the 2008-2012 cycle, considering the large number of projects under both programmes (148 projects), the Office saw fit to focus reporting of the results of both programmes through their various components. Thus, it was coherent to hold a Board meeting for each component. Since late 2011, components organize Steering Committees, which include participants as per the standard format of a Project Board. Efforts to concentrate the number of projects and the development of strategic management mechanisms with partners in compliance with the Programme and Operations Policies and Procedures will take place during the 2013-2017 cycle. Also, the architecture of the programme will focus on 13 outputs and projects in Atlas. It will facilitate the: (a) holding of Project Board meetings for all projects; (b) preparation of annual reports for each project; (c) updating of "issue and risk logs" for each project in Atlas; and (d) maintenance of updated lists of assets in compliance with IPSAS requirements.	

4. Operations — Partially Satisfactory

4.1 Human resources — Partially Satisfactory

At the time of the audit, the Office had 141 staff members, 483 service contract holders and 28 United Nations Volunteers. The Office was providing human resource services to United Nations agencies in terms of recruitment, maintenance and separation of staff members, except for those agencies which had appointed focal points at the local level. Also, the Office remained in charge of processing payroll for its staff members and for all other United Nations agencies totalling more than 1,000 personnel.

There were 21 vacant positions, of which five were advertised. Delays in the recruitment process were regularly encountered for various reasons. Some recruitment processes needed to be relaunched due to a lack of suitable candidates or a lack of decision-making by the review panel.

OAI noted that the account balance for salary advances as of July 2012 was overstated because the recovery of advances from the monthly salaries of staff members employed by other United Nations agencies was not reflected. Only when the advance was fully recovered, a manual adjustment was booked to close the outstanding balance. Salary advances given from January 2011 to July 2012 amounted to about $0.7 million, of which $0.2 million correspond to personnel of other United Nations agencies. OAI discussed this issue with the Operations Manager, who agreed to take appropriate corrective actions.

Issue 5 Lack of monitoring Atlas Human Resources user access rights

According to the Atlas Access and Security in the Human Resources Global Payroll module, User Profiles and Roles, the global payroll manager is responsible for ensuring that the office payroll is run consistently and correctly, and that every employee is paid. The holder of this role manages the users who enter all data and transactions that impact payroll. S/he is also responsible for the validation of trial payroll results prior to the final pay run. This role has the ability to run reports in order to verify the final information that will be interfaced to the General Ledger. Therefore, staff members with global payroll manager profiles are allowed to make changes in human resource data which might impact the accuracy of salary payments as well as the financial data regarding payroll that is posted to the General Ledger.

The Office had 15 Atlas users with global payroll manager profiles, of which 10 were with UNDP and five with other United Nations agencies. OAI noted that: (a) one of five users belonging to other agencies was not clearly identified; and (b) two users with UNDP did not have the appropriate job profiles and one of them also showed a conflict regarding proper segregation of duties as the staff member had both human resources administrator and global payroll administrator profiles.

The unidentified and unknown Atlas users with global payroll manager profiles potentially have access to confidential information.

Priority	Medium (Important)
Recommendation 6: The Office should improve its monitoring of Atlas user access rights on human resources, as follows: (a) identify all user profiles with modification access levels for the human resources and payroll modules, and assess their access rights to ensure that the rights are in line with their responsibilities and also assess whether the number of users with access at each level is suitable; and (b) ensure that designated staff members do not have conflicting Atlas user access profiles in order to properly segregate duties and responsibilities.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has already taken action by cancelling the Atlas user access rights for 10 staff members. The Office now has only five staff members with the global payroll administrator profiles. These are: (a) global payroll administrator main (Country Office); (b) global payroll administrator alternate (Country Office); (c) global payroll administrator main UNV (only UNV); (d) disbursement officer (Country Office-unique role); and	

(e) operations manager (supervision, control).

The Office would like to emphasize that OAI has not detected any mismanagement or abuse in the use of the global payroll administrator profiles. The risk is therefore a virtual one. However, even if misuse had taken place, other mechanisms of control exist at the level of the payroll validation (Authority 2) and disbursement (Authority 3) to detect fraudulent activity.

Issue 6 Weaknesses in human resources management

OAI reviewed the Office's human resources management and noted the following weaknesses:

- Delays in updating staff member salaries

  As per the Human Resource Unit structure, each human resource staff member is in charge of a portfolio of personnel. The audit team's review of the staff member entitlements process showed that:

  - Human resources staff members did not review the step increment eligibilities. For seven staff members, step increments were overdue since 2011. Also, one staff member had received the step increment after a one year delay.
  - The system showed four contracts as expired without extension, whereas the subject staff members were still working.

  The OAI review of the salary payment process showed that every month there were staff members with suspended salaries. This occurred when personnel left the organization and the data (end-date) was updated in the system after the payroll had been prepared around the 22nd of every month. Therefore, staff member salaries that needed to be suspended were identified only when the pay-run occurred, while it needed to have been identified before salaries were processed for payment.

- Accumulated annual leave balances

  OAI noted that 57 staff members had accumulated annual leave balances of more than 60 days. The OAI review showed that six out of eight annual leave balances signed by the staff member and supervisor differed from the Atlas information and that three staff members did not take annual leave in 2011.

Priority	Medium (Important)

Recommendation 7:

The Office should strengthen its management of human resources, as follows:

(a) ensure that conditions on staff members' salaries are followed, that is, reports for contract expiration and step increments are reviewed once a month before the payroll is prepared and information about staff member contract's end-date (expiration or resignation) is updated in the system by the 15th of every month to properly calculate staff member salary and entitlements;
(b) ensure that staff members take annual leave in order to maintain a proper work-life balance; and
(c) review and reconcile staff member annual leave balances between signed forms and Atlas information.

Management comments and action plan: __√__ Agreed ____ Disagreed
(a) The Office has taken note of this recommendation. (b) We will continue to encourage our colleagues to regularly take their leave days and to use the Atlas e-Service. (c) The Office has already taken necessary measures to reconcile the attendance record cards and the situation in Atlas in order to issue the certification made on 31 December 2012 and uploaded it in SharePoint, which attests to the conformity of the Attendance Record Card with the information in Atlas. Currently, the Human Resources Unit intends to reconcile the Attendance Record Card and Atlas Human Resource module information systematically at the end of every month after Atlas system´s records update.

4.2 Finance — Unsatisfactory

The Office processed 37,397 vouchers during the period under review for a total of $221 million. OAI selected a sample of 50 vouchers totalling approximately $37 million for review and testing. Preliminary review showed an abnormal volume of cash advances and lack of segregation of duties in processing financial transactions; therefore, extended testing was undertaken in these areas.

Issue 7 Inadequate management of cash advances

As per the Programme and Operations Policies and Procedures, the Office is responsible and accountable for the effective and efficient management of cash resources in UNDP custody, and this includes all actions necessary for receipt, deposit, advance, investment and disbursement of cash. The Programme and Operations Policies and Procedures further state that the amount of an advance to project staff members must not exceed $500. If a larger advance is required, then prior approval must be obtained from the Office of Financial Resources Management. OAI noted the following:

- Non-compliance with the cash advance threshold and large amount of cash advances to staff members

  The Office processed $5.5 million in cash advances to project staff members, of which 95 percent of the transactions exceeded the $500 threshold, but had not received prior approval from the Office of Financial Resources Management. The top 10 vendors each received more than $125,000 in cash advances (including vendor #7699 with $475,000, and vendor #86622 with $324,000) representing about 44 percent of all advances during the audit period. The outstanding unliquidated cash advances amounted to about $176,000 as of 24 September 2012. The Office explained that activities being financed were often located in remote areas with no financial institution representation; therefore, the cash advances modality was the only option available. However, there were instances in which the Office could have paid directly to the service provider but did not.

- Cash advances not liquidated in a timely manner

  Advances were not promptly liquidated after the activity being financed took place. Some advances were liquidated eight months after the event. In many cases, only partial liquidations were made while the remaining balances were kept by the project staff members for an additional period of up to six months.

- Absence of regular monitoring

  The Office was unable to demonstrate effective monitoring and control over the use of cash advances for projects. For instance, the Office was not able to provide an accurate status on each advance. An analysis of account 16007 showed entry errors in Atlas including duplicate entries, which made it difficult to reconcile some cash advances. Five staff members were shown to have liquidated advances totalling $20,700, even though they had not actually received any advances in 2012, however, the Office had used their index number to record the advance. Furthermore, most advances were initiated, approved, processed and later liquidated at the project level, without any control or monitoring from the Operations Management Team.

- Questionable and unreliable supporting documentation

  There were discrepancies between supporting documentation and the recording of cash advance transactions. For example, with reference to voucher #152551 and the related journal voucher #158912, OAI noted that $3,800 was not fully supported, whereas the staff member claimed that 100 percent of the advance was used. Furthermore, OAI was unable to reconcile voucher #160374 for $26,130 with the supporting documentation. This advance to a staff member was later transferred to three other non-staff members via a money transfer company, which incurred additional charges. The receipts for the delivery of the funds were not available and, therefore, OAI could not confirm that funds were received by the beneficiaries.

- Year-end balance cleaned-up without supporting documentation

  The outstanding balance as of 31 December 2011 on Atlas account 16007 was brought down to zero by cleaning up open items; however, supporting documentation was not available. For example, journal voucher #158366 was processed in December 2011 for $20,158 in order to clean up some open items without any supporting documentation. Further, an analysis showed that in December 2011 alone, the Office processed accounts payable journal vouchers to liquidate previous advances for a total amount of $406,836 in order to bring the balance down to zero.

Deficient controls over cash advances could lead to fraud and cash not being used for an approved activity.

Priority	High (Critical)

Recommendation 8:

The Office should strengthen its monitoring and oversight of cash advances to projects by:
(a) discontinuing the processing of new cash advances until all outstanding advances are cleared and supporting documents submitted and verified by the Office;
(b) ensuring that cash advances do not exceed the threshold of $500. If an advance exceeding the $500 threshold is necessary, prior approval should be obtained from the Office of Financial Resources Management;
(c) ensuring that, provided proper supporting documentation is available, cash advances are promptly liquidated, including recovery and timely deposit of any remaining balance;
(d) ensuring that project staff members understand their responsibilities and accountability prior to receiving cash advances; and
(e) promoting direct payment to suppliers, whenever feasible, in order to limit cash advances to staff members.

Management comments and action plan: __√__ Agreed ____ Disagreed
(a) The Office had decided before the audit mission to better monitor cash advances to staff members. No new advance is granted to a staff member or project that has not justified the previous one. (b) Given the large volume of transactions carried out by the Office, it is very difficult to apply the rule of requesting authorization from the Office of Financial Resources Management for advances over $500. During the last Bureau of Management mission to the Country, it was agreed to request an increased authorization level for advances for the first quarter of 2013 until the finalization of the contracting process for cash delivery services. (c) We have noted with thanks the recommendation related to the clearance of the advances and the necessary action will be taken to enhance monitoring. (d) The advance requestors are aware of their duties and reminders are often sent to them by management. (e) We are fully committed to solving this problem once the cash transfer service is operational.

Issue 8 Lack of segregation of duties in approving financial transactions

The Internal Control Framework states that the standard Atlas user profiles have been designed to segregate duties. Staff members who have both project manager and approving manager profiles in Atlas must not approve a requisition and a purchase order on the same transaction, because this is a violation of the requirement to segregate the first authority from the second authority. The two functions must be segregated in order to properly safeguard assets (cash) from misuse. The Office was not monitoring the use of Atlas profiles, and OAI noted that:

- six staff members approved requisitions and purchase orders on the same transactions with a total amount of $167,000; and
- five staff members approved payments to themselves for a total of $25,000.

Lack of segregation of duties increases the risk that unauthorized transactions can occur, resulting in the loss of financial resources.

Priority	Medium (Important)
Recommendation 9: The Office should ensure adherence to the Internal Control Framework by: (a) ensuring that staff members do not approve transactions for themselves; and (b) monitoring the use of Atlas profiles and addressing any deviations or conflicts in the use of Atlas authorities (specifically, monitor compliance with segregation of the first authority from the second authority).	
Management comments and action plan: __√__ Agreed ____ Disagreed (a) This recommendation is well noted. A memorandum was signed by the Deputy Country Director/Operations to serve as a reminder of this Internal Control Framework provision. (b) The Office has developed and implemented a mechanism to undertake periodic monitoring of use of Atlas profiles aimed at identifying any deviation and reporting it to management.	

Issue 9 Weak banking management

The Programme and Operations Policies and Procedures provide guidance on the opening and closing of bank accounts. According to Financial Rule 125.10, all bank accounts shall be reconciled on a regular basis, at least monthly, with the statements submitted by the banks. Bank reconciliations must be reviewed by senior management. OAI noted the following:

- Weak banking arrangements
  - Two bank accounts, reportedly closed since 2005, were still active in Atlas during the audit field work. As a result, transactions were processed through these accounts until October 2008, while the Office thought they were closed. The Office was unable to provide any explanation regarding these transactions as they were dated back to 2008.
  - The Office paid $1.6 million in bank charges for making disbursements through Electronic Fund Transfer or cheques. OAI noted that the Office paid bank charges for processing payments to local vendors in US dollars, whereas it could have used an Electronic Fund Transfer within the same financial institution, or shared the burden of paying in US dollars with the vendor. Furthermore, the commission rate charged by the bank has not been renegotiated since 2005, whereas the contract with the bank provided the Office with the flexibility to renegotiate or seek a competitive rate in the market place.

- Weak bank reconciliations
  - Unreconciled items could not be explained for the bank reconciliations performed in May, June and July 2012. The list of outstanding unreconciled cheques was not attached as supporting documentation and was not made available to the approver of the bank reconciliation. As a result, there were two cheques dating back to 2006 and 2008 for an amount of $140,000 for which the Office had no information. During the audit field work, the Office contacted the Office of Financial Resources Management for assistance in resolving these transactions.
  - The bank reconciliations for the sub-office in Goma were not reviewed or certified by the Operations Management Team in Kinshasa. The Office stated that it just started the review of field office bank reconciliations, but no documentation was provided to OAI.

Inadequate management of bank accounts and bank reconciliations could lead to loss of financial resources.

Priority	High (Critical)

Recommendation 10:

The Office should strengthen its banking arrangements by:

(a) improving its banking management and, in consultation with the Treasury Division, exploring ways to reduce bank charges, such as promoting the use of Electronic Fund Transfer payments within the same bank, negotiating with the vendors on the sharing of bank fees associated with US dollar payments, renegotiating with the bank the commission rates charged on transactions and researching the availability of more competitive banking arrangements in the Country;

(b) reinitiating with the Office of Financial Resources Management the closing procedures in respect to the two identified bank accounts, and ensuring that proper documentation is kept on file to confirm the closure; and

(c) ensuring that, as part of the bank reconciliation review and approval process, senior management reviews the list of outstanding cheques and along with the bank statements to enable proper follow-up and to deter and detect any errors or fraudulent activity. Furthermore, the Office should review and certify bank reconciliations submitted by sub-offices.

Management comments and action plan: __√__ Agreed _____ Disagreed

(a) The Office is already working on this issue. Before the arrival of the audit mission, the Office had submitted for approval to Headquarters the contract between UNDP and Standard Bank for the use of an electronic platform (New Business Online). Once the contract is signed, the Office will focus on electronic transfer payments free of bank charges. In addition, all transfer modalities will be renegotiated with the other banks.
(b) The two accounts have now been closed by the Office of Financial Resources Management and Administration and the evidence of the closure is duly archived.
(c) The recommendation is implemented. The report is now printed and attached to the reconciliation and bank statement. Also, the office in Goma is sending the bank reconciliation for review and approval by senior management on a monthly basis.

4.3 Procurement — Partially Satisfactory

The Office issued 4,421 purchase orders amounting to approximately $109 million during the period under review. OAI reviewed a sample of 60 purchase orders with a value of approximately $13 million or 12 percent of all purchase orders. Twenty-eight individual contract files were also reviewed.

The Office had not requested an increased delegation of procurement authority from $100,000 to $300,000 although the volume of transactions would have required such an increase. Management stated that because of the activation of Fast Track policies for the Elections Project, they did not request for an increased delegation, but they would consider it, as the Fast Track was set to expire by January 2013.

Issue 10 Weaknesses in procurement process

- Not all procurement cases submitted to appropriate procurement committee

  The Programme and Operations Policies and Procedures state that offices must submit for review all procurement cases greater than $30,000 to the Contracts, Assets and Procurement Committee and procurements over $100,000 to the Advisory Committee on Procurement.

  The Office did not have any mechanism to monitor the accumulation of contract value to support submission to the appropriate procurement review committee when the thresholds were about to be exceeded. Examples are as follows:

  - In four cases, the contract value for each vendor accumulated more than $100,000 and these were not submitted to the Advisory Committee on Procurement (total contract value of $2.4 million). The Office agreed to submit these cases to the Advisory Committee on Procurement on a post facto basis.
  - In 40 cases, each vendor accumulated more than $30,000 in contract amount and these cases were not submitted to the Contracts, Assets and Procurement Committee (total contract value of $2.4 million).

The Office agreed to prepare the corresponding post facto submissions to the Contracts, Assets and Procurement Committee.

- Lack of purchase order

The Programme and Operations Policies and Procedures state that a commitment, represented in Atlas by purchase orders, creates a legal obligation arising from a contract, agreement or other form of undertaking by UNDP, or based on a liability recognized by UNDP, against the resources of the current year, in respect of UNDP programme activities and the current budget period in respect of the institutional budget. The Programme and Operations Policies and Procedures also provide guidance on the use of non-purchase order vouchers for the following categories: small value purchases under $2,500, advances to implementing partners, payment services on behalf of other United Nations agencies, grants where a procurement process is not involved, staff member advances and payments using miscellaneous balance sheet items.

OAI noted the following:

- Out of 20 non-purchase order vouchers sampled, nine (totalling $319,000) needed to go through the normal procurement process and to have a purchase order created prior to payments. Therefore, these nine vouchers did not comply with the requirements of the direct payment modality.
- The Office signed Long Term Agreements with three audit firms for the audit of several nationally implemented projects. Following the Long Term Agreements, the Office signed individual contracts for single or multiple project audits, but failed to raise purchase orders. Payments were instead made using the direct payment voucher modality upon presentation of the invoice from the audit firms. As a result, the Office did not monitor the accumulation of contract values, and it was difficult to trace payments to specific contracts. This creates a risk that the contracts may exceed the total value that was recommended for approval by the procurement review committee.

Priority	High (Critical)

Recommendation 11:

The Office should strengthen its procurement management by:
(a) adhering to procurement procedures regarding the requirements for submission to the Contracts, Assets and Procurement Committee and/or the Advisory Committee on Procurement; and
(b) raising purchase orders when commitments are made based on a contract.

Management comments and action plan: __√__ Agreed _____ Disagreed

(a) Not all procurement cases submitted to appropriate procurement committee

Management recognizes that not all procurement cases have been submitted to the appropriate procurement committee. However, it wishes to emphasize that most cases had been reviewed by these committees before the contract was awarded. With the high volume of transactions of the Office and the decentralized management required for the size of the Country, it is quite conceivable that a few cases had slipped out of the control system. Periodic checks have been carried out by running necessary queries to detect such cases and post facto cases have been submitted. Some of those post facto cases reported have covered Long Term Agreements for which the approved ceilings have been exceeded, or cumulative value of individual contracts which have exceeded the allowed threshold.

To further strengthen the measures already in place, a directive has been issued to the local procurement committee and to all buyers that no case shall be accepted for review by the local procurement committee if not accompanied by an Atlas report showing the aggregate contracts awarded to the concerned vendors within the calendar year. (b) Lack of purchase orders Management takes note of the OAI observation, but wishes to state that measures have since been put in place to ensure that no contract is signed unless it is accompanied by an approved and dispatched purchase order. A directive has also been issued in this regard. In view of the above, management is of the opinion that the rating "High (critical)" for this issue is unjustly penalizing the Office in spite of the enhanced control measures put in place.

Issue 11 Weak contract management

According to the Programme and Operations Policies and Procedures, adequate contract management process ensures that all parties to the legally binding agreement fully meet their respective obligations as efficiently and effectively as possible. It allows a business unit to track and manage the clauses, terms, conditions, commitments and milestones throughout the life of its contracts to maximize business benefits and minimize associated risks.

OAI reviewed the procurement done relating to the Elections Project and noted the following:

- Questionable relationship among key vendors

  The Office signed Long Term Agreements (LTA 2009-48 and LTA 2009-48bis) with two money vendors, which were sub-contractors to each other, in order to make daily subsistence allowance payments to project personnel throughout the Country. Prior to the execution of the contract, the vendor with the largest portfolio and lowest commission rate informed the Office that it could not honour the signed agreement because of changes to their sub-contractor pricing. This situation left the Office with no other choice but to contract with the other vendor at a much higher commission rate of 3.65 percent instead of 2.25 percent. The Office failed to consult on this significant change in the terms and conditions of a signed contract with the Legal Support Office and, therefore, failed to explore any options to recover part of the financial damage.

- Full payment not validated by audit firm

  Commission payment to the money vendors for the elections was based on a satisfactory validation of final payment to beneficiaries. An audit firm was hired to validate 100 percent of the payments made by the vendors to beneficiaries, but was able to validate only 70 percent of them. According to the audit firm, the limitation was due to the lack of supporting documentation to justify payments to beneficiaries not included in the list of payees. The Elections Project Team, in collaboration with the Independent Elections Commission and the vendor, stated that the terms of reference provided to the vendor was different from the terms of reference provided to the audit firm. However, no valid explanation was provided for the incorrect terms of reference provided to the audit firm. As a result, an agreement was made between the Elections Project Team, the Commission and the vendor, in which the vendor agreed to pay for any future claim (if any) of non-payment from the electoral agents. Thus, the vendor was paid 100 percent of its commissions.

Inadequate contract management could lead to financial loss and reputational damages.

Priority	Medium (Important)

Recommendation 12:

The Office should strengthen its contract management process by:

(a) taking appropriate measures to mitigate the sub-contracting risk in the future, which include disclosing any third party relationship, requiring a firm commitment from the sub-contractor as part of the technical and financial proposal, obtaining bid security to enable the Office to recover any financial loss in the case of breach of contract and contacting the Legal Support Office for any legal disputes arising from contracts; and

(b) establishing a process to ensure that the terms of reference for both the audit firms and contractors are clear and consistent in order to avoid any disagreement arising from the results of an audit.

Management comments and action plan: __√__ Agreed _____ Disagreed

The observation is noted.

On the issue of full payment not validated by the audit firm, the observation is also noted; however, the decision not to pay in accordance with the terms of reference of the solicitation was a political decision taken by the Independent Elections Commission and partners, as the vendor was threatening not to start payment for the 2011 general elections unless they were fully paid for the revision of the voters' list.

Issue 12 Inadequate management of individual contracts

As a general policy, an individual contract is used for the procurement of services of an individual to perform non-staff member tasks in connection with clear and quantifiable deliverables which shall be listed in the contract and linked to payment. Furthermore, according to the guidelines, individual contracts in excess of $100,000 require a mandatory interview, reference check and advertisement. Individual contracts exceeding $100,000 per 12-month period need to be submitted to the Regional Advisory Committee on Procurement.

The Office processed 761 individual contracts during the period under review. OAI reviewed 28 individual contract files and noted the following:

- Lack of monitoring of accumulated contract values

  Six individual contracts reached the threshold of $100,000 and were not submitted to the Regional Advisory Committee on Procurement. Four other cases were submitted on a post facto basis. Contract extensions did not include the total value within the last 12 months, making it difficult for senior management to monitor the threshold per contractor.

- Incorrect use of individual contracts

  Some core positions in the Office, including the Finance Specialist, Programme Specialist, and Operations Team Leader were held by personnel hired on individual contracts, contrary to established guidelines.

Furthermore, their respective contracts exceeded 12 months and $100,000, but were not submitted to the Regional Advisory Committee on Procurement. The Office stated that some of these positions were being converted to fixed-term appointments through a standard recruitment process.

- Deficient procurement process

  The contracting process was deficient in terms of the reference checks and advertisement requirement for contracts over $100,000. OAI also noted the following:
  - One candidate was shortlisted as having a master's degree, whereas he/she only had a bachelor's degree. This deficiency would have disqualified the candidate from being shortlisted. The candidate was selected and an individual contract was executed for a total amount of $235,750 over 20 months.
  - One candidate was disqualified because of a score of 695 out of 700 required on technical evaluation, leaving just one candidate for the interview stage, even though a minimum of three qualified candidates were required to be interviewed as per the Programme and Operations Policies and Procedures.

Inadequate management of individual contracts could affect programme delivery and have a negative impact on the reputation of UNDP.

Priority	Medium (Important)
Recommendation 13: The Office should strengthen its management of individual contracts by: (a) monitoring the accumulation of contract amounts and, when thresholds are to be exceeded, submitting these cases to the Regional Advisory Committee on Procurement; (b) discontinuing the issuance of individual contracts to fill core functions; (c) complying with the requirements for advertisement and reference checks; and (d) completing an evaluation of candidates based on actual credentials, including educational degrees.	

Management comments and action plan: __√__ Agreed _____ Disagreed

(a) The observation is noted. However the Office has submitted cases of some of these individual contracts to the Regional Advisory Committee on Procurement/Regional Bureau for Africa on a post facto basis; the Office wishes also to clarify that in some of the cases mentioned, these individual contracts were initially recruited as consultants, but their contracts were converted into fixed-term appointments while their classification in Atlas remained as individual contracts.
(b) On the issue of incorrect use of individual contracts, the observation is noted and measures are being taken to discontinue the incorrect use of individual contracts for staff member functions.
(c) With this point, the Office confirms that all procurement notices are published except for selection from rosters and those under the limit of $100,000.
(d) The deficiencies observed in the procurement process resulted from the understaffing of the Procurement Unit. Subsequently, the Unit has been reinforced with the recruitment of a Procurement Officer and further recruitments are in process.

4.4 Information and communication technology — Satisfactory

OAI conducted a review of the management of the information technology and communication processes and resources, including related documentation. A physical review of the information technology and communication facilities and equipment was also conducted. Minor issues were noted, which were discussed directly with the information and communication technology management. Since the last audit in 2010, the Office had implemented an off-site storage for back-up of Office data. The off-site back-up storage is located at the UNDP Country Office in Brazzaville, Republic of Congo.

No reportable issues were identified.

4.5 General administration — Partially Satisfactory

OAI reviewed general administration activities, including travel, hospitality, common services and premises-related matters.

A review of a sample of 20 travel advances showed no significant issues. Two medium priority issues were identified. Therefore this area was rated as "partially satisfactory."

Issue 13 Personal use of UNDP vehicles not in line with policy

According to the Programme and Operations Policies and Procedures, UNDP vehicles are not be used to transport internationally-recruited staff members other than the Resident Representative, Resident Coordinator or Head of Office to and from their residences. However, the Resident Representative or Head of Office may authorize in writing the personal use of official vehicles for a fixed period of time, until the arrival of a new staff member's private automobile, or for a maximum period of three months (whichever is earlier).

OAI noted that official vehicles had been used by international staff members for more than three months and, in four instances, the vehicles had been used continuously for almost two years. This practice was a security measure as the Office is a non-family duty station. The monthly fee paid for the personal use of official vehicles amounted to $200 in Kinshasa and $100 in other locations.

Outstanding amounts to be recovered from vehicle users amounted to approximately $20,000 as of July 2012. At the time of the audit, costs for personal use of vehicles for August and September 2012 were also not recovered (estimated at $10,000). A memorandum sent to staff members in September 2010 stated that in cases of delay in payments, the outstanding amount would be settled by payroll deductions; yet, this was not done.

Improper personal use of UNDP official vehicles may lead to abuse and result in additional costs for the Office. It may also affect the morale of national staff members that are not entitled to such personal use of official vehicles. Further, visible non-compliance with policies and procedures regarding the use of official vehicles may help set a broader tone of disregard for policies and procedures.

Following the audit mission, the Office established a mechanism to monitor the payment for personal use of UNDP vehicles. The Transport Unit sends monthly invoices to staff members using UNDP vehicles for personal purposes, sending a copy to Finance for payment tracking. For any delay of two months, the Finance service informs the Deputy Country Director/Operations who sends warning letters to the concerned staff members; if the staff member has unsettled bills for three months, the authorization for personal use of UNDP vehicles is withdrawn. As of 31 March 2013, a balance of $4,000 existed mainly for unpaid bills from February and March 2013.

Therefore, OAI has not issued a recommendation.

Issue 14 Fuel consumption not monitored

OAI noted that there was no reconciliation between fuel quantities distributed by the gas station and quantities consumed by each of the projects or the vehicles belonging to the Office. OAI reviewed quantities consumed by three projects and declared by the supplier in February 2012 and noted that quantities declared by the supplier were considerably higher than the consumption reported by projects. The difference for *Gouvernance Judiciaire et Sécuritaire* Project reached 217 liters, for the *Unité d'Appui au Programme* Project it was 134 liters, and for vehicles belonging to the Office it was estimated at 270 liters. A new system of fuel distribution was under testing, which was to buy fuel using cards in different gas stations in order to avoid dependency on a single supplier.

Daily measurements on tank quantities were performed by the supplier but were found to be unreliable. According to management, this was due to the fact that the storage tank was not horizontal; therefore, stock measures did not represent the real quantity of stock.

OAI checked the fuel receiving process and observed that the quality test of fuel was performed after the fuel had been stored in the tank. In June 2012, a quality issue was observed in "tank N.1"; as a consequence, the extraction of fuel was requested, losing 6,775 liters, with an estimated value of $9,000.

Following the audit mission, the Office confirmed that corrective actions have been taken. As of January 2013, the Office conducts periodic reconciliations between the data provided by the manager of the gas station company and UNDP records. The Office has also launched a tender to select a company for the supply and distribution of fuel. The selected company will be responsible for all management using new techniques in electronic management systems (an electronic payment terminal) and reporting.

Since corrective action has been taken, no issue has been raised. However, OAI will follow up on this issue in the next audit mission.

4.6 Safety and security [redacted]

[**NOTE**: This section has been redacted as it is deemed to contain sensitive information.]

[redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]
[redacted] [redacted]
[redacted] [redacted] [redacted] [redacted]

4.7 Asset management — Partially Satisfactory

OAI reviewed asset management. One high priority issue was identified. Due to its relative importance, this area was assessed as "partially satisfactory."

Issue 16 Weaknesses in asset management

The 2011 Certification Letter for non-expendable assets required the Office´s statements on the following: furniture, fitting and equipment (opening balance, adjustments, acquisitions, disposals and closing balance), premises (types of agreements or in-kind contributions), owned land, equipment leases and leasehold improvements.

The OAI review of the supporting documentation to validate the information presented in the 2011 Certification Letter showed that:

- Neither the inventory counting sheets nor the supporting documents for reconciliation of inventory differences were available for the inventory conducted in December 2011. As a result, the inventory adjustment amounting to $120,000 could not be substantiated.
- Total disposals amounting to about $840,000 were reported. This included 89 items amounting to $210,000 that had been approved for disposal in October 2008. According to management, the delay in reporting was due to the fact that information technology materials are not disposed of easily and therefore remained on the premises.
- Annual rents amounting to $300,000 for field offices in Goma, Kisangani, Bukavu, Mbuji-Mayi, Bunia, Mbandaka, Lubumbashi and Kindu were not reported. OAI also noted that rents for these field offices were paid in advance without seeking the required prior authorization from UNDP Headquarters.

Moreover, there was no accurate list of project assets to permit proper follow-up on transfers or disposals. The OAI review of vehicle management for the Office and for projects pointed out incomplete lists of vehicles. OAI noted that 34 motorbikes belonging to the Elections Project and four cars under the *Unité d' Appui á la Gouvernance* Project were not included in the list. The inventory of vehicles showed that 21 cars belonging to the Elections Project were obsolete and one car used by the *Unité d' Appui á la Gouvernance* Project belonged to a closed project.

Failure to properly record and account for all assets can lead to assets being lost or misused.

Priority	High (Critical)

Recommendation 15:

The Office should improve asset management by:

(a) closely monitoring inventory adjustments and requiring that they be properly justified;
(b) disposing of obsolete items when approved and recording the disposals in a timely manner;
(c) including the value of the rent paid for field offices and requesting proper authorization to pay rents in advance; and
(d) preparing and maintaining an accurate list of assets for the Office and projects.

Management comments and action plan: __√__ Agreed ____ Disagreed

(a) Instructions received from the Administrative Service Division of New York for 2011 year-end certification recommended that:

- In-Service Reports generated from Atlas be signed by all the inventory team; and
- Add-on and Discrepancies sheets be provided along with the Certification Letter.

All this documentation has been made available to the audit team, but the Office accepts the fact that inventory counting sheets are not systematically filed. As adjustments become functions shared between Offices and the Global Shared Service Centre, the Office is committed to providing full documentation for adjustment requests in the Document Management System and addressing the issue of inventory filing in the standard operating procedure.

(b) The Office agrees that it has taken a long time for the disposal of these assets. To shorten disposal delays, a committee has been formed to help the General Administration Unit to speed up asset disposals. Also, a standard operating procedure will be finalized to follow assets from receipt to swift disposal.

(c) The Office agrees that this information about field offices was missing during 2011 certification. The Office is committed to capturing all this information in the Administrative Services Division's SharePoint application. The Legal Unit of the Office will be instructed to clear all lease contracts before signature and to make sure that prior authorization from Headquarters is obtained prior to making any rental advances.

(d) The Office will make sure that the Asset Focal Point maintains an up-to-date inventory list. The Asset Focal Point is working to consolidate the list of assets, especially vehicles for the Office and the projects, to be reviewed during the mid-year inventory count schedule for June 2013.

ANNEX Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to significant 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 <u>not included in this report</u>.