

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

DEMOCRATIC REPUBLIC OF THE CONGO

GOMA SUB-OFFICE

Report No. 1262
Issue Date: 5 March 2014

(REDACTED)

Table of Contents

Executive Summary	i
I. About the Office	1
II. Good practice	1
III. Audit results	1
A. Governance and strategic management	2
1. Organizational structure and delegations of authority	2
B. Programme activities	3
1. Partnerships and resource mobilization	3
2. Project management	4
C. Operations	6
1. Human resources	6
2. Finance	8
3. Procurement	10
4. Travel management	12
5. Safety and security	14
6. Asset management	15
7. Leave management	16
Definitions of audit terms - ratings and priorities	19

Report on the audit of the Democratic Republic of the Congo - Goma Sub-office Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Democratic Republic of the Congo (the Office), Goma Sub-office (the Sub-office) from 4 to 19 November 2013. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas:

- (a) governance and strategic management (organizational structure and delegations of authority, leadership, ethics and values, financial sustainability);
- (b) programme activities (programme and project management, partnerships and resource mobilization); and
- (c) operations (human resources, finance, procurement, information and communication technology, travel management, safety and security, general administration (including asset management and leave management)).

The audit covered the activities of the Office from 1 January 2012 to 31 August 2013. The Sub-office recorded programme and management expenditures totalling \$18.7 million. This was the first audit of the Sub-office.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office's management of the Sub-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 inadequate governance structure, inadequate supporting documents for civil works payments, deficient contract management and inadequate security measures.

Good practice

The Office has a good system for filing and organizing project-related documents. This system ensured that all project documents and other important documents were filed in the same sequence and important documents were readily available.

Key recommendations Total = 12, high priority = 4

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Inadequate governance and oversight of field presence (Issue 1)	Prior to establishing sub-offices, approvals were not sought from the Regional Bureau, the Senior Security Manager or the Administrative Services Division. Also, the final field presence guide had not been approved and a financing scheme to ensure that field offices are self-sustaining had not been developed.
---	--

Recommendation: Comply with UNDP policies when setting up local presence in the field by:

- (a) obtaining clearance from the Regional Bureau for Africa, the Security Office and the Administrative Services Division;
- (b) approving the final field presence guide; and
- (c) developing a financing mechanism to ensure that sub-offices and field offices are self-sustaining.

Deficient contract
management (Issue 7)

The Office contracted two suppliers for work totalling \$319,000 while the available budget was only \$175,000. Both contracts were signed without any review or validation of the available budget resulting in an excess commitment of \$144,000. The Office contracted another supplier for \$135,000, but the funds were used for other activities before the purchase order was created. In addition, even though four civil works contracts incurred delays, some of these contractors were awarded new contracts. Although most contractors incurred delays, their performance was not assessed and the Office did not enforce the contract penalty clause. A standard four-month completion date was applied to all civil works contracts regardless of their value and complexity.

Recommendation: Strengthen contract management by:

- (a) ensuring that awarded contract amounts are validated before creating purchase orders and contracts and make commitments only upon confirmation of available funds;
- (b) reassessing and validating delays and applying the penalty clause as appropriate;
- (c) evaluating supplier performance and sharing the evaluations with the Procurement Unit for use in selecting contractors; and
- (d) ensuring that project engineers provide realistic timeframes for completing civil works contracts.



Asset management
weaknesses
(Issue 10)

Physical inventories of assets did not take into account assets purchased and entered in Atlas since 2012, including 14 assets valued at \$246,000 which were not included in the asset listing. Furthermore, assets purchased through manual purchase orders (valued at less than \$2,500), were not captured in Atlas and were not detected through the mid-year and year-end physical inventory counts. Also, assets located at project sites were not subjected to adequate oversight.

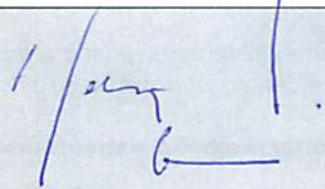
Recommendation: Strengthen asset management by:

- (a) completing physical inventories of all assets;
- (b) ensuring asset purchases are systematically included in the asset listing;
and
- (c) determining accountability for the oversight of assets at project sites.

Management comments and action plan

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

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office has one sub-office located in Goma, North Kivu Province of the Democratic Republic of the Congo (the Country). The Sub-office has 5 staff members, 41 service contract holders and 4 United Nations Volunteers. The Country Programme Document ended in December 2012 and a new 2013-2017 Country Programme Document was developed.

North Kivu Province has been subject to rebel activity which resulted in the evacuation of the Sub-office in late 2012. In addition, the province has been home to many armed groups that negatively impacted the implementation of several UNDP projects.

II. Good practice

OAI identified a good practice, as follows:

Programme management - Filing system.

The Sub-office's system for filing and organizing project-related documents was found to be a good practice in programme management. The Sub-office harmonized the filing of project related documents and ensured that for every project, the necessary documents were available and filed in the same sequence and were readily available.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management (risk management, planning, monitoring and reporting, financial sustainability). The control processes were generally established and functioning adequately.
- (b) Programme activities (programme management). Controls were established and functioning adequately; this will help the Office achieve the programme results; and
- (c) Operations (information and communication technology). Controls were established and functioning adequately; no major issues were noted

OAI proposes 12 recommendations that are ranked high (critical) and medium (important) priority. Low priority recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

- (a) Comply with UNDP policy when setting up field presence (Recommendation 1);
- (b) Strengthen contract management (Recommendation 8);
- (c) [REDACTED]
- (d) Strengthen asset management (Recommendation 11).

Medium priority recommendations, arranged according to significance:

- (a) Improve management of donor contributions (Recommendation 2);
- (b) Strengthen selection process of non-governmental organizations (Recommendation 3);
- (c) Strengthen oversight over non-governmental organizations (Recommendation 4);

- (d) Strengthen the management of service contracts (Recommendation 5);
- (e) Strengthen the management of civil works contracts (Recommendation 6);
- (f) Strengthen financial management (Recommendation 7);
- (e) Improve travel management (Recommendation 9) ; and
- (f) Strengthen the management of rest and recuperation entitlements (Recommendation 12).

The detailed assessment is presented below, per audit area.

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Inadequate governance and oversight of field presence

UNDP Programme and Operations Policies and Procedures set out requirements which need to be met prior to establishing a local presence. These include: (a) obtaining approval from the Regional Bureau to establish a local presence, receiving security clearance from the Senior Security Manager and receiving clearance for the premises from the Administrative Services Division; and (b) establishing an appropriate structure and oversight, including: developing an organizational chart showing reporting lines within the local office and between the local office and the Country Office; developing a feasibility study and a funding mechanism; and conducting bi-annual operations and programme oversight mission reports, approved by the Resident Representative.

The Office established three sub-offices in the Country's Eastern Province. OAI noted the following:

(a) Approvals were not sought from the Regional Bureau, the Senior Security Manager and the Administrative Services Division for the establishment of these sub-offices. The Office initially indicated that it was unaware of this requirement.

In response to the draft report, Management explained that before opening the Sub-offices in Mbandaka and Bukavu, approval was sought and received through the minutes of the Executive Team meeting held on 15 February 2012.

(b) Approval of the Local Presence Guide was delayed. The Office prepared a draft guide governing the local presence of UNDP in the Country through sub-offices in addition to the Office. However, the guide could not be approved and enforced due to divergent views among the Heads of Units in the Office on how to ensure oversight of the Programme Units. As a result, reporting lines were often not clear, which created unnecessary tension among staff members; and

(c) Funding for the sub-offices was not ensured. The risk exists that these offices may not be able to sustain their operations in future years. At the time of the audit, the Office was looking for \$200,000 to continue operations in Goma and the Sub-office was waiting for Kinshasa to replenish the budget. The Office borrowed funds amounting to \$1.2 million from the UNDP Strategic Reserve (Bureau of Management) and it was unclear how the Office would be able to reimburse the funds since no major programme was being implemented in the region and donors had not provided firm commitments to fund new programmes.

Most of these issues took place because the Office did not adhere to UNDP policy on local presence.

Priority	High (Critical)
Recommendation 1:	
Comply with UNDP policies on setting up field presence by:	
<ul style="list-style-type: none"> (a) obtaining clearances from the Regional Bureau for Africa, the Security Office and the Administrative Services Division; (b) finalizing and approving the Local Presence Guide; and (c) developing a financing mechanism to ensure that sub-offices are self-sustaining. 	
Responsible Unit: Programme	
Management action plan:	
Management accepted the recommendations and added that:	
<ul style="list-style-type: none"> (a) Management will also request a post-facto approval/clearance document from the Regional Bureau for Africa, Administrative Services Division and the Security Office; (b) An ad hoc committee (programme and operations) will review the current draft of the local presence guidelines to ensure its approval as soon as possible; (c) Based on the recommendation of the Country Office Financial Sustainability Effectiveness exercise, the Mbandaka and Bukavu Sub-offices will be converted into Project Offices and will be fully funded by the relevant projects. Due to the strategic location and importance of the Goma Sub-office, it will be funded by both core programme and non-core programme resources. According to management, the Goma Sub-office had no funding deficit during the period under review, but to ensure better monitoring of its resources, the Office will allocate Sub-office budgets on a quarterly basis. Hence, the allotment for the last quarter was successfully done. 	
Estimated completion date: August 2014	

B. Programme activities

1. Partnerships and resource mobilization

Issue 2 Inadequate management of donor contributions

Business units must ensure expenditures charged to the project are incurred or committed prior to the grant expiry date. Expenditures committed after the grant expiry date are disallowed by the donor and must not be charged to the project.

The Office signed a 14-month agreement with a donor valued at \$3.9 million of which it expended only \$218,000 by the end of the 14th month due to political and security concerns which were beyond the control of the Office.

During the closure of this grant, the Office did not negotiate with the donor to ensure that outstanding commitments made by the Office in respect of this grant were honored as per the cost-sharing agreement. As a

result, a total commitment against the agreement made with a third party in February 2012 in respect of this grant totalling \$331,000 was not covered by the donor in line with the signed grant agreement. Consequently, the payment was charged to project 74113 starting from 2 October 2012. There was no evidence that advance authorization was obtained to charge these transactions to that project.

In response to the draft report, Management explained that the situation described above is exceptional due to political and security concerns. The implementation of the agreement was delayed because of late approval of new Disarmament, Demobilization and Reintegration processes and the fact that in May 2011 the Disarmament, Demobilization, and Reintegration operations were stopped for political reasons by the Government.

Priority	Medium (Important)
Recommendation 2:	
Improve the management of donor contributions by negotiating with the donor to ensure that commitments made before the grant closure date are charged to the donor's contribution.	
Responsible Unit: Programme	
Management action plan:	
To improve the management of donor contributions, the Office will issue a memorandum requesting programme staff members to ensure that donor agreement clauses are fully applied and proper communication is maintained with donors to address issues. The Office will also organize training sessions for programme officers.	
Estimated completion date: July 2014	

2. Project management

Issue 3 Inadequate selection and oversight of non-governmental organizations

(a) Inadequate selection

According to the Programme and Operations Policies and Procedures, UNDP can engage non-governmental organizations as Responsible Parties in charge for implementing parts or specific components of projects, including the provision of specific inputs and delivery of agreed outputs, based on a procurement process.

OAI noted that the Sub-office did not comply with this requirement and continued selecting these organizations using the old policy that was based on a programmatic selection requiring only the Local Project Appraisal Committee to approve the selection and not through a competitive process submitted to the Contract, Asset and Procurement committee.

In addition, although the minutes of the Local Project Appraisal Committee were signed by the members recommending the selection of a non-governmental organization or several of them, the Country Director had

not signed the final approval or rejection decision. Also, there was no confirmation that the recommendations of the committee were taken into account before the Project Cooperation Agreement was assigned.

(b) Inadequate oversight

UNDP has developed a standard civil works contract template for construction projects. In addition, UNDP guidance on working with non-governmental organizations specifies the following: for more complex project activities that include both a service and a goods component, a good practice is to contract the non-governmental organization for coordination, use or distribution of the assets and issue a separate procurement contract for the goods to a supplier, thereby decreasing the overall value of the contract. This method allows UNDP to take full benefit of the comparative advantages of various partners (e.g. distribution channels of local non-governmental organizations on the one hand and competitive market access of private sector suppliers on the other).

The Sub-office initiated construction projects and used the Project Cooperation Agreement to hire Responsible Parties instead of making a contract for civil works. Use of this contracting modality was not appropriate because of the large civil works component of the grants and the controls normally built into a civil works contract were not included in Project Cooperation Agreements. Grant recipients were generally required to submit expenditures reports concerning the installment previously provided to them before they received the next one. Grant recipients were not requested to provide guarantees similar to those in civil works contracts.

The Bureau for Development Policy agreed with OAI that non-governmental organizations are not to be contracted to conduct civil works activities or build infrastructures. This is a very risky practice since the Project Cooperation Agreement or Grant Agreement does not contain clauses which protect UNDP in the case of poor construction or accident.

In response to the draft report, Management explained that civil works were often included in the Project Cooperation Agreement or grant agreements with NGOs when construction work was inseparable from a community development process (establishing management committees, local participation, etc.) in the framework of inter-community reconciliation and ownership to ensure social and institutional sustainability. This setup is also a consequence of a recommendation from the former Poverty Reduction Unit to implement integrated, larger projects with NGOs with proven monitoring and implementation capacities (*partenariats stratégiques*). In those cases, the capacity assessment of the NGOs included their past achievements and their ability to conduct civil works. The civil works component in those projects was closely monitored by the UNDP civil engineer in conjunction with the technical services of the national counterpart when possible and necessary. Management added that although development results were achieved, the decision to dissociate civil works from soft components of projects and to use separate civil works contracts has now been taken and is being implemented for new projects as of January 2014.

Another issue that OAI noted on oversight pertained to the inadequate controls over assets purchased by non-governmental organizations. According to the Programme and Operations Policies and Procedures (Article VII. 'Supplies, Vehicles and Procurement': Point 2), "Equipment, non-expendable materials, or other property furnished or financed by UNDP shall remain the property of UNDP and shall be returned to UNDP upon completion of the Project or upon termination of the present Agreement, unless otherwise agreed upon between the Parties, and in consultation with the government coordinating authority." OAI found that the Sub-office did not follow-up adequately with the organizations concerned to ensure that the assets they procured were returned to UNDP and that the government coordinating authority was involved in decision making concerning the assets.

Priority	Medium (Important)
Recommendation 3: Strengthen the selection of non-governmental organizations by ensuring that a competitive procurement process is used to select responsible parties. Responsible Unit: Programme	
Management action plan: Management accepted this recommendation and stated that a memorandum will be issued to strengthen the selection process and compliance with the POPP guidelines. Estimated completion date: June 2014	

Priority	Medium (Important)
Recommendation 4: Strengthen oversight of non-governmental organizations by: (a) using the civil works contract template for construction work; and (b) ensuring that equipment, non-expendable materials and other property furnished or financed by UNDP is returned to UNDP upon completion of a project or upon termination of an agreement, unless otherwise agreed to by the parties, and in consultation with the government coordinating authority. Responsible Unit: Programme	
Management action plan: Management accepted recommendation (a) and will emphasize the use of the civil works contract template through issuance of an internal memorandum and training. Management also accepted recommendation (b) and stated that the requirement to return equipment, non-expendable materials and property acquired through UNDP will be included in the contract completion checklist for non-governmental organizations. Estimated completion date: July 2014	

C. Operations

1. Human resources

At the time of the audit, the Sub-office had 5 staff members, 41 service contract holders and 4 United Nations Volunteers. The Sub-office was providing recruitment services for service contracts and General Service staff

members below grade 5 to project offices, including Bunia and Lubumbashi. The Sub-office was not involved in the preparation of payroll.

Issue 4 Improper use of service contract holders and inadequate management of pension benefits

The service contract modality is intended to engage individuals for development projects or to conduct UNDP non-core support services that would normally be outsourced to an external company (e.g. custodial, security and information technology services). The service contract guidelines state that it is improper to use the service contract modality to hire local office personnel to carry out core functions which are of a continuing nature and are part of UNDP's central work. Moreover, the Office must ensure that service contract holders are covered under an appropriate pension plan. Where no pension scheme is in place or where there is only a national scheme that does not permit direct participation of service contract holders, a lump sum equivalent to 8.33 percent of the monthly remuneration rate is provided. This option is granted by the Director, Office of Human Resources on an exceptional basis for the period during which no pension scheme is in place and is subject to review on an annual basis.

Of the 41 service contract holders engaged by the Sub-office, 17 were deployed to perform core functions including finance, human resources, and procurement management. Although the fees for them were charged to projects, their functions are considered core and should be performed by staff members. Moreover, some of them were assigned financial management responsibilities, such as running the pay cycle and performing bank reconciliations that are contrary to the Service Contract Guidelines and the Internal Control Framework.

Allowing service contract holders to perform core functions may negatively impact the Office, as there are restrictions on the access rights and authority levels that can be assigned to service contract holders. For example, as they are not staff members, allowing them to exercise approving roles in Atlas is prohibited.

OAI further determined that the Office had opted to make lump sum payments equivalent to 8.33 percent to service contract holders, instead of making payments to a pension plan as required by the Programme and Operations Policies and Procedures. The Office did not obtain the required clearance from the Director, Office of Human Resources prior to implementing this option and it had not revalidated the exemption with the Office of Human Resources on an annual basis as required. In addition, OAI also noted that the Office had not implemented a mechanism to validate that Service Contractors were enrolled in a pension plan after receipt of the lump sum. Subsequent to the audit fieldwork, the Office obtained post-facto clearance for the use of the lump sum for 2012 and 2013 in addition to clearance for 2014. As a result, no recommendation is being raised regarding this issue.

Priority	Medium (Important)
Recommendation 5:	
Strengthen the management of service contracts by ensuring that service contractor holders are not assigned responsibilities for UNDP core functions.	
Responsible Unit: Operations	
Management action plan:	
Management accepted this recommendation and advised that a recruitment process is currently ongoing to	

recruit staff members under the fixed term appointment modality to conduct core functions in the Sub-office. The positions to be filled are Procurement Associate, Administration and Finance Associate, ICT Associate, Logistic Assistant and two drivers. The positions are already created in Atlas and the classification requests have been submitted to the Compliance Review Panel for approval.

Estimated completion date: June 2014

2. Finance

Issue 5 Inadequate supporting documents for civil works payments

The general conditions of the standard UNDP civil works contract stipulate that UNDP shall pay invoices after receipt of the certificate of payment issued by the Engineer, approving the amount contained in the invoice. Further, the Engineer may make corrections to the invoiced amount, in which case UNDP may pay the corrected amount.

OAI noted that a final payment of \$7,040 for a civil works contract was made before receipt of the final invoice and prior to issuance of the Certificate of Final Completion by the Engineer. In another instance, an agreement with a non-governmental organization in the amount of \$200,000 that included construction of markets at two different sites valued at \$133,000 was certified as 80 percent complete by the project manager to facilitate payment of the final tranche of \$40,000. However, the project manager's certification did not take into account the engineering certification of one of the construction sites (valued at \$71,000) which showed that construction work on that site was only 30 percent complete.

In response to the draft report, Management clarified that the engineer certifies all payments for civil work. This last payment of civil work done without an engineer's certification was an isolated case due to the lack of security and limited access due to poor roads. The civil engineer could not reach the project site to produce the final engineering certification before the audit mission. However, before processing the last payment, the Sub-office received confirmation from project stakeholders that all civil works on the site were properly completed.

Another audit issue that OAI noted was that the Sub-office engaged a non-governmental organization to manage procurement and oversight of a civil works contractor on its behalf without implementing mitigating controls to manage the risks arising from this arrangement. As a result, the contractor selection process undertaken by the non-governmental organization was not validated by the Sub-office, as called for in the agreement. Moreover, the Sub-office did not obtain an engineering certification report to validate the progress of construction activities valued at \$57,000 paid by this organization in two tranches within a period of less than two weeks.

Priority	Medium (Important)
Recommendation 6:	
Strengthen the management of civil works contracts by ensuring that: (a) progress or final payments are not made in the absence of an engineering certification; and (b) adequate controls are defined and implemented whenever the Office engages non-governmental organizations to manage the procurement and oversight of	

civil works contractors on its behalf.

Responsible Unit: Operations

Management action plan:

Management accepts recommendation (a) and stated that it will strengthen internal control processes to avoid a recurrence of such a situation.

Management also accepts recommendation (b) and will develop a Standard Operating Procedure to define adequate controls and a monitoring system when engaging non-governmental organizations to manage procurement and oversight of civil works on its behalf.

Estimated completion date: August 2014

Issue 6 Improper accounting of financial transactions

Accounting transactions must be consistently identified and tracked against the correct department code and charged against the appropriate implementing agent code in order to ensure true and fair presentation of accounts.

The Sub-office did not record any of its transactions under its own department code (ID 32417) opting to use the Office's department codes (32401 to 32414). As such, it was not possible to isolate the actual amount of transactions for which the Sub-office was responsible, given that some transactions may have originated from the Sub-office but finalized at the main Office in Kinshasa and vice versa.

Furthermore, the Sub-office charged a total of \$1.2million against the implementing agent code (2687 COD-*Conseil National des ONGs*). However, this was not the appropriate implementing agent for any of the transactions since this agent code should only be used for planning and budgeting purposes.

Understanding the true cost of delivery is important for the allocation of resources. The inability to identify the correct amount of transactions delivered by the Sub-office runs the risk that the Sub-office may be under- or over-resourced relative to delivery.

Priority Medium (Important)

Recommendation 7:

Strengthen financial management by recording Sub-office transactions in the correct department and implementing agent codes.

Responsible Unit: Operations

Management action plan:

Management accepted this recommendation and will use the department ID of the Sub-office for transactions belonging to the Sub-office. However, it clarified that some programme units in Kinshasa have projects or activities in the Sub-offices, which explained the use of the Office department codes for these

projects.

The Office also presented its understanding that the setting up of department codes in Atlas is done at a corporate level, on a thematic basis and is the same structure for all UNDP Country Offices. The implementation of this recommendation would thus be difficult as it will change from the thematic approach to department IDs to a geographical approach and will require approval of UNDP HQ. Also, corporate analysis of expenditures on a thematic basis will be affected if this set-up is changed.

Estimated completion date: August 2014

OAI Response:

OAI notes the comments of the Office with regard to the potential challenge with the use of the department codes. To the extent that UNDP HQ approval is required for the implementation, OAI will validate that this approval was sought and granted and that the use of the department code is consistent with the notes accompanying such approval.

3. Procurement

Issue 7 Deficient contract management

According to the Programme and Operations Policies and Procedures, adequate contract management 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.

The Sub-office managed 10 civil works contracts amounting to \$880,000 during the period under review. OAI selected all four completed contracts and two ongoing contracts to assess the contract management process in the Sub-office. The following weaknesses were noted:

(a) Commitments greater than available budget

The Sub-office contracted with two suppliers for civil works totalling \$319,000 while the available budget in the work plan for such activities was only \$175,000. This happened because the project did not validate the total awarded contracts against the available budget. As a result, the Sub-office had an excess commitment of \$144,000 for which it did not have funding. The Sub-office further contracted another supplier for \$135,000. However, by the time the purchase order was created, the project had already used the available funds for other activities, which invalidated the purchase order. As a result, the Sub-office had a legal binding contract for \$135,000, but no funds to honor its commitment.

(b) Delays and accumulation of civil works contracts

All four completed civil works contracts incurred delays for various reasons such as security issues or financial difficulties.

(c) Absence of supplier evaluations

Although most contractors incurred delays, their performance was not assessed regarding compliance with the statement of work, delays, quality of material used and quality of construction. Without a performance evaluation suppliers with a history of financial difficulties or frequent delays could be awarded additional contracts, negatively affecting the achievement of objectives.

(d) Unnecessary pressure to execute contracts in four months

A standard four-month completion date was applied to all civil works contracts regardless of the value and complexity of the civil work. For example, contracts valued at \$27,000 and \$200,000 had the same execution period, which could place pressure on suppliers to deliver without full compliance with the statement of work or negatively impacting quality standards. The programme engineer did not comment on the reasonableness and feasibility of completing some contracts within four months.

Inadequate contract management could lead to financial loss and reputational damage to UNDP.

Priority	High (Critical)
Recommendation 8: Strengthen contracts management by: <ul style="list-style-type: none"> (a) ensuring that the awarded contract amount is validated by the project prior to creating purchase orders and contracting with suppliers and that no commitments should be made on behalf of the organization if fund availability has not been confirmed; (b) ensuring that delays are properly reassessed and validated, and the penalty clause be applied for any delay except those beyond the suppliers' control; (c) evaluating supplier performance at the end of each contract, and sharing these evaluations with the Procurement Unit to be considered in subsequent selections of civil works contractors; and (d) ensuring that project engineers provide realistic timeframes for completing civil works contracts in order to avoid unnecessary pressure on suppliers. 	
Responsible Unit: Operations	
Management action plan: Management accepted the recommendations and committed to do the following: <ul style="list-style-type: none"> (a) request the project manager (budget owner) to endorse in writing the evaluation minutes before approval and prior to creating purchase orders and/or signing the contract. No contract will be signed by management if it is not accompanied by an approved and dispatched purchase order; (b) ensure that the project manager submits progress reports for each milestone. The Legal Unit will be required to analyze the reason for any civil work delays in order to determine applicability of the penalty clause; (c) require the project manager to share all performance evaluation reports with the Procurement Unit at regular intervals; and (d) ensure that when the Statement of Work is comprised of various lots, the Procurement Unit requests the project engineer to indicate a timeframe for each lot. If a contractor wins more than one lot, in addition to the technical and financial capacity assessment of the contractor, the situation will be 	

discussed with the project manager to see if the programme of activity will allow for construction work to be carried out in sequence instead of simultaneously.

Estimated completion date: June 2014

4. Travel management

Issue 8 Inadequate travel management

According to the Programme and Operations Policies and Procedures, travel must be managed efficiently through proper planning, administration and follow-up, and by adhering to travel policies and guidelines to ensure that travel is authorized and the best value for money is obtained. Furthermore, the travel policy states that beginning in 2013 the least expensive, non-endorseable and non-refundable air tickets must be acquired for business travel.

OAI reviewed the management of business travel in the Sub-office and noted the following:

(a) Absence of trip analysis to demonstrate that the best value for money was achieved

OAI reviewed a sample of eight cases amounting to \$13,000. In all eight cases, tickets were purchased based on e-mail exchanges with the traveller indicating his/her preferences rather than on an assessment of compliance with the organization's travel policy. The financial impact of the traveller's preference in terms of Daily Subsistence Allowance and ticket cost was not assessed.

(b) Travel claims not filed

Staff members did not systematically file the required travel claims within two weeks of returning from an official mission and no airline boarding passes were available in five of eight instances to demonstrate that staff members had actually travelled and that the Daily Subsistence Allowance received by the staff members was accurate. One payment out of the five cases of missing travel claims showed an overpayment of \$400 Daily Subsistence Allowance. The staff members agreed with OAI's calculation and reimbursed the excess payment during the audit field work.

(c) Inadequate travel planning

Due to lack of planning or traveller indecision, tickets were purchased three to seven days prior to the departure date, which caused ticket prices to be higher than earlier quotations by up to \$300, in addition to causing inefficiencies and extra work for the Travel Unit.

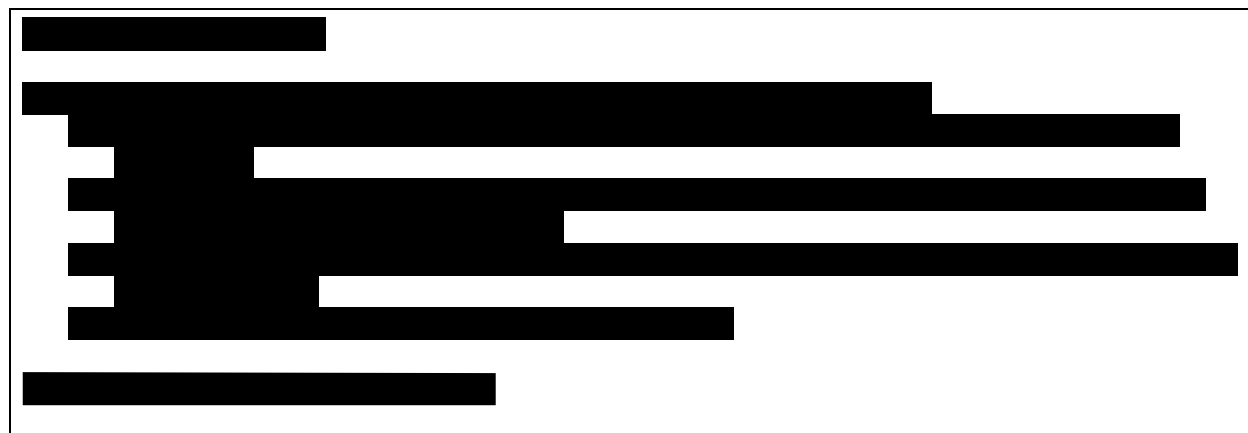
(d) Inappropriate travel arrangements

The Office also made travel arrangements which did not comply with the travel policy. Four staff members from one project were authorized to attend training. As the project did not have the funds, each staff member agreed to use one week of annual leave as their personal contribution in order to make the training feasible for the project. Subsequently, all four staff members reported that they were on official business in their monthly leave reports, because they had signed an agreement to report one week of annual leave. In

another case, one staff member extended official business for personal reasons, but reported those personal days as official business rather than annual leave.

Incorrect processing of travel benefits and entitlements could lead to excess payments and financial loss to the organization.

Priority	Medium (Important)
Recommendation 9: Improve travel management by: <ul style="list-style-type: none"> (a) promoting early purchase of tickets and completing a trip analysis in order to determine the least expensive, non-endorseable and non-refundable air tickets for an official trip. Staff member preferences can then be assessed and any cost differences paid by the staff member; (b) reinforcing the mandatory filing of travel claims within two weeks upon return from official travel. The Office should also require the five staff members identified in OAI's sample to file their travel claims in order to determine if the staff members actually travelled and whether there are any outstanding payments to the staff members or reimbursements due from them; and (c) ensuring travel arrangements comply with organizational policies and are adhered to by all staff members. The Office should also adjust the leave balances of staff members who agreed to donate annual leave to offset training costs. 	
Responsible Unit: Operations	
Management action plan: Management accepted all the recommendations and noted the following: <ul style="list-style-type: none"> (a) a new mechanism is in place to address the issues identified, such as the need for early purchase of tickets and identifying the least expensive travel option in line with travel policy; (b) a Standard Operating Procedure will be drafted to reinforce all the requirements for official duty travel, including proper completion and submission of travel claims after a mission; (c) adjusted leave balances for those staff members who agreed to donate annual leave to offset training costs. 	
Estimated completion date: June 2014	
OAI Response OAI acknowledges the action taken by management; this will be reviewed as part of the standard desk follow-up process of OAI.	



6. Asset management

Issue 10: Asset management weaknesses

The Programme and Operations Policies and Procedures require offices to maintain complete and accurate records of all assets. UNDP assets are also to be capitalized and recorded in the Atlas Asset Management Module and subsequently disposed of due to sale, obsolescence, damage or theft.

Overall, asset management was deficient regarding oversight, physical counts and recording. In addition, accountability between the Office and the Sub-office in Goma for oversight and monitoring of assets at project sites was unclear. OAI also noted the following:

(a) Deficient physical asset inventory

The year-end 2012 and mid-year 2013 physical inventory counts did not take into account assets purchased and entered in Atlas since 2012. The Sub-office used an Excel assets list which was not regularly updated. As a result, the certified asset list provided to the Office for the purpose of mid-year and year-end asset certification did not capture relevant information on assets including purchase date, acquisition cost, or Vehicle Identification Numbers. Furthermore, the asset list included at least four duplicate entries for the same vehicles. These weaknesses were not detected by the asset verification team during physical inventories on 31 December 2012 and 30 June 2013.

(b) Purchased assets not accounted for

OAI randomly selected assets purchased in 2012 and 2013 and traced them to the asset list provided to the Office for the purpose of year-end and mid-year certification. Fourteen assets amounting to \$246,000 were not included in the asset list. Furthermore, assets purchased through manual purchase orders valued at less than \$2,500, were not captured as assets in Atlas and were not detected through the mid-year and year-end physical inventory count.

(c) Absence of oversight of project assets

The Sub-office did not manage the assets at projects sites. The Office stated that oversight of project assets

was done during field visits; however, documentation to support this assertion was not provided to OAI. As a result, 24 assets purchased in 2012 and 2013 for \$107,000 belonging to projects were not monitored by the Sub-office. OAI could not validate that these assets were physically verified and included in the asset certification.

Inadequate asset management could lead to loss and misappropriation of assets. There is also a risk that assets may be over or under stated in the Office's books.

Priority	High (Critical)
Recommendation 11: Strengthen asset management by: <ul style="list-style-type: none"> (a) conducting a full physical inventory to provide an accurate picture of existing assets and completing the asset list by adding previously missing relevant information; (b) ensuring that asset purchases are systematically included in the asset list and are physically verified during the asset physical inventory; and (c) determining accountability for oversight of assets at project sites and conducting a physical inventory to verify these assets. Responsible Unit: Programme	
Management action plan: Management accepted the recommendations and committed to do the following: <ul style="list-style-type: none"> (a) a full physical inventory will be carried out to provide an accurate picture of existing assets and to ensure all the information required in the asset list is added; (b) the Office will ensure that assets purchased by the Sub-office are systematically included in the asset list; and (c) the Office will emphasize the responsibility of project managers to safeguard and monitor assets under their responsibility. Monitoring and Evaluation missions to the field will be coordinated with asset focal points in the field. The Office will map all project sites and ensure that appropriate asset committees are in place with a proper schedule to best complete physical verification of assets. Estimated completion date: June 2014	

7. Leave management

Issue 11 Inadequate management of rest and recuperation

"Rest and Recuperation" entitlement allows for periodic travel away from the duty station and approved time off from work. Various rules govern the award of this staff entitlement, including the amount of time spent in the duty station. According to the Programme and Operations Policies and Procedures, UNDP pays staff members for the cost of rest and recuperation travel based on the lowest fare economy class ticket using the

cheapest and most direct route from the duty station to the destination. The Office may either purchase the air ticket or provide a lump sum payment equivalent to the cost of the ticket.

The Office was using the full fare economy ticket price to determine the entitlement while UNDP policy requires payment to be based on the lowest cost economy fare ticket. An analysis of travel costs to various destinations from 1 October to 31 December 2013 showed differences of between 12 percent and 80 percent between the lowest fare economy and the full fare economy used by the Office.

Inadequate management of rest and recuperation entitlements results in the loss of UNDP funds as staff members and contractors are paid benefits that exceed the appropriate entitlements.

Priority	Medium (Important)
Recommendation 12: Strengthen the management of rest and recuperation entitlements by ensuring that the travel benefit is calculated based on the lowest fare economy ticket. Responsible Unit: Operations	
Management action plan: While the Management accepted the recommendation, they elaborated on their current position as detailed below, at the same time committed to communicate with the Policy Unit to obtain a final decision on this matter. The Office uses the lowest full fare economy class price for rest and recuperation travel and this rate is different from the full fare economy class. In the interest of United Nations harmonization in the Democratic Republic of the Congo, the United Nations Country Team through the Operations Management Team has determined a lump sum amount applicable to each rest and recuperation destination using the lowest full fare economy class. If the lump sum amounts vary, the Office provides the lowest lump sum amount. The following aspects must be considered before using the lowest fare economy class for R&R travel entitlement: <ul style="list-style-type: none"> ▪ changing the basis for the calculation of the rest and recuperation entitlement for only UNDP will make UNDP out of step with the other United Nations agencies in the country; and ▪ the practice of using the lowest full fare economy class for rest and recuperation is common for other UNDP Country Offices. Thus, changing this calculation for the Office may create discrepancies among UNDP Country Offices. Providing a lump sum based on the lowest fare may mean that staff members do not receive enough money to actually cover the cost of the rest and recuperation ticket when they purchase the ticket themselves, and could result in the majority of staff members (of which there are hundreds of international staff members) requesting the Office to purchase tickets for them; this would be an untenable workload for the Office. Estimated completion date: June 2014	

OAI Response

OAI acknowledges the concern of the Office, but notes that the Office did not provide any evidence that use of the lowest economy fare ticket to monetize rest and recuperation benefits has had a negative impact on any other Office that has implemented it. The decision to monetize the R&R entitlement using full fare economy ticket costs as opposed to the lowest fare economy ticket cost has an important impact on the overall expenditures related to this entitlement, as our analysis above has shown. Under the circumstances, we concur with the Office's proposal to refer the issue to the policy owner for advice and guidance.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.