**UNITED NATIONS DEVELOPMENT PROGRAMME**
**Office of Audit and Investigations**

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# AUDIT

# OF

# UNDP COUNTRY OFFICE

# IN

# COTE D’IVOIRE

**Report No. 1296**

**Issue Date: 2 May 2014**

**[REDACTED]**

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**Report on the audit of Côte d'Ivoire**
**Executive Summary**

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Côte d'Ivoire (the Office) from 10 to 26 February 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership, ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management, Global Environment Facility).

The audit covered the activities of the Office from 1 January to 31 December 2013. The Office recorded programme and management expenditures totalling $19.4 million. The last audit of the Office was conducted by OAI in 2012.

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

**Overall audit rating**

OAI assessed the Office as **partially satisfactory,** 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 the selection, negotiation and formulation of the agreement, and financing of the newly rented office building not being in line with policies and procedures.

**Good practices**

The Office had developed three information systems, namely: (a) Country Office Management Report, (b) Payment Advice Delivery, and (c) Service Tracking System. These systems supplement the corporate systems and assist the Office in tracking its operational performance and in improving its relationship with vendors, UN agencies, and other UNDP projects.

**Key recommendations:** Total = **9**, high priority = **1**

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

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|---|---|
| Process for renting office building not in line with policies and procedures (Issue 4) | The Office rented a new annex building in December 2013. However, due diligence was not exercised in the search and selection of the new rented building, as the Office did not conduct a needs assessment or analyse cost implications, and did not obtain a commitment from occupants of the old building to take up the cost of the increase in rent as well as the additional operational costs arising from the larger space. The new building that was rented was much larger than the space actually needed, which resulted in increased rent and maintenance costs. In addition, the selection process was not submitted for review by the Contracts, Assets, and Procurement Committee. Furthermore, the lease agreement, which was not in full compliance with the UNDP standard template, was not reviewed and approved by the Legal Support Office. In renting this building, the Office has taken operational, financial and legal risks with no immediate short and long-term viable solution.<br><br>Recommendation: Take actions to mitigate the operational, financial and legal risks relating to the newly rented office building by: (a) renegotiating as soon as possible the lease agreement with the assistance of the Legal Support Office, and submitting the revised lease agreement to the Administrative Services Division and the Legal Support Office for review prior to signing; (b) ensuring that all costs incurred in renovating the building for office use are to be borne by the landlord; (c) exploring alternate ways to minimize costs by expediting the negotiation with the two prospective UN agencies as additional partners; and (d) determining whether to renegotiate with the landlord to immediately reduce the current space being rented, or offer the unused space to other entities. As an alternative plan, the Office should consider relocating to other premises. |

**Implementation status of previous OAI audit recommendations**: Report No. 882, 1 May 2012.

Total recommendations: 10
Implementation status: 100 percent

**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 significance (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 is located in Abidjan, Côte d'Ivoire. At the time of the audit, it employed 44 staff members (8 international, 12 national and 24 General Service staff), 32 service contract holders and 3 international United Nations Volunteers. It was implementing the Country Programme Document/Country Programme Action Plan for the period 2013-2015. The Programme was aligned with the United Nations Development Assistance Framework as well as with the Government's national development priorities. The Country Programme Action Plan outcomes were as follows: (a) governance; (b) economic, food safety and environment; and (c) basic social services.

## II. Good practices

OAI identified good practices, as follows:

(a) Country Office Management Report

This is a composite system to keep track of the performance of the Office in all important operational areas (Finance & IPSAS dashboards, Project, Asset, Security Managements, Delivery Performance, extrabudgetary reserves, Atlas Security, Procurement, Audit and Human Resources Managements) which need close monitoring and oversight. The system does not duplicate corporate systems; it presents all corporate indicators in a single window. The system helps:

- make accountability more transparent at all levels;
- provide crucial and complete information to Senior Management for timely and more informed decision making;
- increase transparency within the office thus raising the overall office performance; and
- enable the Office to be more proactive in addressing issues related to operational performance.

(b) Payment Advice Delivery

When payments are made, an automatic notification is generated once the pay cycle is run, a message in pdf format is automatically generated and sent via email to the vendor informing them that their payment is ready for collection (for checks) or that payment instructions have been sent to the bank to credit their accounts (in case of Electronic Fund Transfer). A copy of the message is included in the vendor's database in Atlas. The system documents and makes communication between the Office and vendors more efficient, enhances transparency in the transaction process and reduces delays thus helping achieve better client satisfaction.

(c) Service Tracking System

This is an automated system to track the delivery and recover fees for services that should be billed to another agency or UNDP project. The system helps:

- optimize the cost recovery process by simplifying it and equitably sharing the cost recovery responsibilities among all units that provide services to other UN agencies and UNDP projects;
- keep a track of all services provided that can be easily monitored and billed;
- promote a "green office" approach, as supporting documents for the billing of agencies are kept in electronic form in the costing centre archives, instead of hard copies; and
- improve the accuracy and timely delivery of billing information provided to clients, thus lowering the risk of having disputed bills and speeding up the collection of funds for services rendered.

This system was developed at the Bangkok Regional Centre and the Office was the first to use it in the region as well as in the Arab region. OAI observed that this could be an excellent system for tracking payment processes and activities relating to vendors.

## III. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. The existence, adequacy and reliability of controls were satisfactory. The extrabudgetary reserve was adequately managed.

(b) United Nations system coordination. Key controls were in place. UN agencies and national counterparts expressed to the auditors their satisfaction in regard to the leadership exercised by the Resident Coordinator on inter-agency collaboration and progress made towards the implementation of 'One UN'.

(c) Programme management. OAI assessed the process leading to the extension of the Country Programme and observed that there was adequate follow-up on the outcomes.

(d) Partnerships and resource mobilization. Two donors and the government coordinating entity indicated having a positive and constructive relationship with the Office. The Office was adequately managing contributions received from all donors.

(e) Project management. OAI reviewed five projects, representing 75 percent of the programme budget and 79 percent of the office delivery, both for 2013, and was satisfied with the procedures and controls in place.

(f) Information and communication technology. The review focused on disaster recovery, planning and systems security and the results indicated that reasonable and adequate controls were in place.

OAI proposes nine recommendations that are ranked high (critical) and medium (important) priority.

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

**High priority recommendation**:

(a) Take actions to mitigate the operational, financial and legal risks relating to the newly rented building (Recommendation 4).

**Medium priority recommendations**, arranged according to significance:

(a) Ensure that key national positions in the Programme and Operations Units are immediately filled after becoming vacant (Recommendation 1).
(b) Take proactive measures in the management and collection of contributions for all shared costs of common services and premises (Recommendation 7).
(c) Improve the processing of payroll by monitoring all service contracts to ensure that payments are made only during the valid period (Recommendation 2).
(d) Strengthen the controls for review, approval, documentation, and record-keeping of all payments (Recommendation 3).

(e) Ensure that the Contracts, Assets and Procurement Committee reviews and makes recommendations to the appropriate procurement authorities (Recommendation 5).
(f) Enhance the planning, analysis and review of air travel arrangements and costs (Recommendation 6).
(g) Strengthen the identification, recording, capitalization and tracking of assets (Recommendation 8).
[redacted]

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Organizational structure and delegation of authority

**Issue 1** Extended vacancies in key positions for national officers

National officers play a crucial role in carrying out the activities of UNDP Country Offices worldwide. Their knowledge, expertise, and familiarity with national priorities make them a valuable asset for UNDP. Therefore, it is critical that their posts do not remain vacant for extended periods of time.

At the time of the audit, most of the national officers' positions were vacant, including the following key posts:

- Assistant Resident Representative/Programme (National Officer NO-D): Management indicated that when the incumbent returned from detail assignment outside of the country, he would be considered for an assignment as an International Professional. Once this was confirmed, a competitive recruitment would be initiated to fill this key position. In the meanwhile, OAI observed that the responsibilities of this post were not being discharged.

- Operations Manager (NO-C): This post was vacant as of 28 February 2014. The Office had identified an individual to take over some of the Operations Manager's responsibilities, and was being coached and guided by the Deputy Country Director - Operations.

  In the meanwhile, management was reconsidering whether or not they would fill the post in early 2015. Without a fully dedicated Operations Manager, management may lose track of how overall controls and oversight are being performed and may affect the proper functioning of the Office.

- Programme Analyst - Governance (NO-C): The incumbent was on loan for one year to UN Women (until September of 2014), with no replacement. She was informed that there would be no further extension, given the need to complete the staffing configuration of the Office. Meantime, as international staff was brought on board for a one-year assignment to support this portfolio.

In their response to the draft report, management indicated that they recognized the need to adequately staff key national positions to ensure that the Country Office continues to deliver and operate effectively. But they maintained these vacant positions due to budget constraints and the pending adoption of the Financial Sustainability & Effectiveness Plan by the Regional Bureau for Africa in 2014. They further indicated that 2014 was a transition year when the Financial Sustainability & Effectiveness Plan would take effect as well as when the 100-day Plan and a new organizational structure for the Country Office would be approved. The new Country Office structure includes the revised staffing needs and new roles required to fully deliver on its Strategic Plan 2014-2017.

OAI appreciates the initiatives undertaken by the Office in participating in the formulation of the Financial Sustainability & Effectiveness Plan, formulating an implementation plan, as well as developing a new organizational structure. However, even during a transition period, it is still important to have someone discharge the responsibilities of key posts, particularly those which are considered middle-level manager posts. Not having individuals discharging these responsibilities for an extended period could negatively affect the Office's operations due to lack of overall supervision and weakened key controls. Senior managers may not be in a position to monitor and oversee important technical work, as they would be focused on strategic and development work as well as in implementing the ongoing planning and organizational restructuring.

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|---|---|
| **Priority** | Medium (Important) |
| **Recommendation 1:**<br><br>Ensure that key national positions in the Programme and Operations Units are immediately filled after becoming vacant by adopting an adequate succession planning when these are vacated either on a short or long-term duration. | |
| **Management action plan:**<br><br>In the context of the Financial Sustainability & Effectiveness Plan, an HR Alignment Implementation Plan was established in January 2014, encompassing the following phases:<br><br>▪ Phase I – A position matching exercise, which was open for the placement of internal staff, was conducted in February 2014.<br><br>▪ Phase II – A competitive recruitment exercise, which was open for internal/external competition, was expected to be completed by 1 July 2014.<br><br>▪ Phase III – An agreed separation programme in line with established policies will be open to eligible staff by June 2014, after the position matching and competitive recruitment exercises.<br><br>**Estimated completion date:** December 2014 | |

## B. Operations

### 1. Human resources

**Issue 2** Inadequate validation of payroll for service contract holders

The Human Resources Unit is required to ensure that all contracts are valid during the period in which payroll is processed.

In eight instances, payroll was processed although the service contracts had expired and were no longer eligible for processing. This happened because the service contracts were not terminated in Atlas on time, which would have prevented the processing of payroll for those expired contracts. This happens because even though the contract expiration date is entered in the system, Atlas does not prevent the payment of salary until the termination action is actually processed as a separate and specific action in Atlas. Of these payroll transactions, four payments were stopped prior to disbursement, and the remaining four were recovered from the concerned service contractors.

Inadequate payroll processing and validation could lead to overpayment of expired contracts, thereby increasing financial risks if not duly recovered from the concerned staff.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 2:**<br><br>Improve the processing of payroll by monitoring all service contracts to ensure that payments are made only during the valid period. | |
| **Management action plan:**<br><br>Processing of payroll for service contract holders will be rectified and strengthened by:<br><br>(a) issuance of an administrative note to describe how service contract expiration and extensions will be processed for payroll; and<br>(b) ensuring there is an indicator to reflect the total number of service contract holders with unexpired contracts to be included in the Country Office Management Report tool.<br><br>**Estimated completion date:** June 2014 | |

## 2. Finance

**Issue 3** <u>Inadequate review of documents and incorrect recording of payments process</u>

Financial Rule 122.02 states that "…an approving manager shall approve a voucher for payment when: i) It has been determined that payment had not previously been made; ii) It is supported by documents which indicate that the goods or services for which payment is claimed have been received or rendered in accordance with the terms of the contract."

There were the following weaknesses in the processing of payments:

(a) Supporting documents were not always reviewed prior to approval of payments

The Office did not always review and validate supporting documentation prior to approving and making payments. Five vouchers (totalling $168,000) out of 54 (totalling $3.9 million) were finalized and paid without the required supporting documents, including the delivery confirmation or attestation of service completion. The approving manager did not review the missing documentation because the documents were not available at the time of approval.

A similar issue was also raised during the audit of the Elections Project by the external auditors, whereby the project unit processed a total payment of $1.4 million without reviewing required supporting documents (refer to OAI Report No. 1013, which was an audit of a direct implemented project conducted by an external audit firm, issued on 3 April 2013).

(b) Inadequate review of transactions details

Review of hospitality accounts showed that about 80 percent of transactions, or approximately $27,000, was incorrectly recorded. Furthermore, 24 vouchers amounting to $34,000, and representing petty cash replenishments, were incorrectly recorded to account 74525 “sundry” rather than 11015 “Petty Cash”. This occurred because the approving manager did not review the transaction details and supporting documents prior to finalizing and approving payments.

Approving payments without reviewing and ensuring the completeness of necessary supporting documentation is a dereliction of responsibility, and could lead to the processing of ineligible or unauthorized payments and puts at risk the financial resources of the organization. In addition, the incorrect recording of financial transactions affects the accuracy of financial information available to management for appropriate decision-making.

**Priority** Medium (Important)

**Recommendation 3:**

Strengthen the controls for review, approval, documentation and record-keeping of all payments by:

(a) ensuring that there is complete documentation for every payment, including confirmation of completion of services and/or delivery of goods prior to approval and actual disbursements; and
(b) reviewing the recording of transactions and making appropriate corrections prior to finalizing and authorizing any payments.

**Management action plan:**

Management action plan for recommendation 3(a):

1. The Office’s Administrative Note on payment processes will be updated to place an emphasis on the importance of the completeness of documentation before any payment is made.
2. A payment checklist setting out all relevant supporting documents will be developed to clearly outline the required steps prior to clearance, signing and approval of payments by the Project Manager, the Finance Analyst and the Approving Manager to minimize the relevant risks.

Management action plan for recommendation 3(b):

1. An Operational Oversight Team was established during the Office’s structural review to flag the recording of errors prior to payment finalization.
2. It was decided to strengthen the controls over the use of the Chart of Accounts and have the Operational Oversight Team conduct a quarterly analysis and clean-up exercise prior to the issuance of the quarterly Combined Delivery Report, which is the basis for recording financial transactions.

**Estimated completion date:** July 2014

## 3. Procurement

**Issue 4** Process for renting office building not in line with policies and procedures

To protect the interests of UNDP and to ensure that value for money is obtained, the 'Programme and Operations Policies and Procedures' outline the processes for selecting premises to rent, negotiating the relevant agreements, and paying for all related costs. It requires due diligence, such as conducting a needs assessment *vis-a vis* the related costs (for rent and maintenance); submission of proposals to the Contracts, Assets and Procurement Committee; submission of the draft lease agreement to the Administrative Services Division and the Legal Support Office for review and approval; solicitation of the agreement and collaboration of other occupants (lessees of UNDP) of the building, and ensuring that all costs will be fully and appropriately resourced.

(a) Search, selection and rental of annex building

The Office did not exercise due diligence in the search and selection of the new rented annex building, as it did not undertake a needs assessment, analyse cost implications or obtain a commitment from occupants of the current office building to the take up the cost of the increase in rent as well the additional operational costs arising from the larger space.

The new annex building, with 1,079 square meters of useable space, could accommodate about 96 staff based on the UNDP standard for space allocation (11.15 M2 per professional staff). At the time of the audit, there was only 30 personnel and non-personnel (31 percent occupancy rate). While OAI recognizes that it is difficult to meet these standards given that the building chosen was designed for residential rather than office use, the size of the building chosen may not be justifiable.

The monthly rent for the new building increased by 100 percent, from $4,500 to $9,300, compared to the rent for the old building (the Office projects that the new building can house more staff than the old building). In addition, operational costs of maintaining the new building would increase given that the building was larger than the older building. The existing partners did not commit to taking up the increased rent as well the additional operational costs arising from the larger space.

In light of the investments made to make the new building useable and compliant with the Minimum Operating Security Standards, it was not practical to move from the old building in the short-term. Nevertheless, the Office would need to find alternate ways to minimize its costs arising from the operation of the building to make it viable in the long-term.

Management explained that it expected another two UN agencies to take up space in the building in the course of 2014 but until then, the cost of the extra space would have to be covered by the Office.

OAI appreciates the challenges faced by the Office in searching for and selecting an office building to rent. There was a time constraint of one year, and a limited number of buildings to choose from. However, by not having performed due diligence, the Office had taken enormous operational, financial and legal risks in renting this specific building, with no immediate short- and long-term viable solutions.

(b) Review of the contract by the Contracts, Assets and Procurement Committee

The lease agreement was not submitted to the Contracts, Assets and Procurement Committee for the required review although the total contract cost was $111,000 (refer to Issue 5).

(c) Negotiation and finalization of the lease agreement

In negotiating and signing the lease agreement for the new premises prior to December 2013, the Office agreed to some changes in the standard UNDP lease agreement. The following changes were not reviewed by the Legal Support Office and the Administrative Services Division:

- Article 2, requiring the vendor to provide an irrevocable letter of credit/bank guarantee in respect of the advance rent payment was removed. No guarantee was obtained from the new landlord for the six month advance and three month deposit amounting to $83,000;
- Article 16 regarding the refund of the advance in the event of early break of the agreement was deleted;
- Article 18, which transferred to the Office the responsibility of the landlord for purchasing civil liability and building insurance. At the time of the audit, the insurance had not been purchased; and
- The Office also certified in Article 9 of the agreement, indicating that the building was in good condition, but it was subsequently determined that repairs (like plumbing, etc.) estimated at $39,000 would be required to make the building useable.

The Office explained that it had to sign the new contract in early December 2013 on an emergency basis, after an unsuccessful renegotiation of extension from the initial notice to vacate the old building by December 2013. Hence, UNDP and other UN agencies had to vacate the premises by 31 December 2013. OAI acknowledged the urgency of finding new premises; nevertheless, given the significant amendments to the lease agreement, it should have been still submitted to the Legal Support Office for an urgent review.

OAI referred the signed lease agreement to the Legal Support Office and they expressed concern that having agreed to assume some liabilities and modify the standard lease agreement, the Office may have put at risk the organization in regard to the application of the national Law, which may be construed as a waiver of the immunity of UNDP.

| **Priority** | High (Critical) |
|---|---|

**Recommendation 4:**

Take actions to mitigate the operational, financial and legal risks relating to the newly rented office building by:

(a) renegotiating as soon as possible the lease agreement with the assistance of the Legal Support Office, and submitting the revised lease agreement to the Administrative Services Division and the Legal Support Office for review prior to signing;
(b) ensuring that all costs incurred in renovating the building for office use are to be borne by the landlord;
(c) exploring alternate ways to minimize costs by expediting the negotiation with the two prospective UN agencies as additional partners; and
(d) determining whether to renegotiate with the landlord to immediately reduce the current space being rented, or offer the unused space to other entities.

As an alternative plan, the Office should consider relocating to other premises.

**Management action plan:**

Management's plan to mitigate the risk consists of:

- Renegotiation of the lease agreement to safeguard the interest of the organization in conjunction with the Legal Support Office, which has already been initiated by the Office, and OAI will be informed accordingly of actions that will be taken.
- Additional agencies and/or UN office(s) have been identified and approached to join existing occupants of the new building in order to meet full occupancy of the total office space. A Memorandum of Understanding will be signed between the Office and the identified UN agencies to endorse this engagement by May 2014.
- In case identified agencies do not occupy the new building and full occupancy is not achieved, the Office will seek to terminate the lease agreement before the end of 2014.

**Estimated completion date:** December 2014

**Issue 5** Compliance with the required review by the Contracts, Assets and Procurement Committee

The 'Programme and Operations Policies and Procedures' require that any single contract or multiple contracts with cumulative value of $50,000 or more in a one year period be submitted to the Contracts, Assets and Procurement Committee for review.

The following procurements were not submitted to the Contracts, Assets and Procurement Committee for review:

- Five purchase orders with a total amount of $420,000 (each purchase order was above $50,000) that were submitted for review by the Committee were released to the vendors on an average of 50 days before the formal recommendation of the Committee was issued. The Office explained that a manual approval had taken place to review these cases. OAI was not able to validate this assertion because minutes of the Committee meeting were not prepared.
- Procurement of IT equipment worth $60,000 on behalf of another UN agency.
- Procurement totalling $644,000 from nine vendors, where each transaction had a cumulated amount exceeding the threshold.

The lack of an independent review and by the Contracts, Assets and Procurement Committee may affect the transparency and the competitiveness of the procurement process. It also deprives the procurement authority from having a documented and adequate basis for making decisions.

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| **Priority** | Medium (Important) |

**Recommendation 5:**

Ensure that the Contracts, Assets and Procurement Committee reviews and makes recommendations to the appropriate procurement authorities on all purchase orders reaching the threshold for review, prior to the award of the contract/purchase order. This is also applies to all purchase orders issued for either a single procurement or several procurements from the same vendor in a calendar year with a cumulative amount exceeding $50,000.

**Management action plan:**

The cases flagged by OAI will be submitted to an ad hoc Contracts, Assets and Procurement Committee and the minutes of the meeting will be kept in the Office as evidence. To ensure that cumulative procurements exceeding $50,000 are presented to the Contracts, Assets and Procurement Committee, the Office will strengthen the controls through the Operational Oversight Team, which ensures that the purchase order is signed only if the Contracts, Assets and Procurement Committee minutes are attached.

**Estimated completion date:** June 2014

## 4. General administration

**Issue 6** Inadequate analysis and review of air travel

The UNDP travel policy (updated in February 2013) requires the purchase of the least expensive non-refundable and non-endorsable tickets for all duty travel. In addition, the policy recommends that tickets be purchased 21 days in advance.

The Office did not comply with the revised travel policy, based on a sample of 11 out of 201 purchase orders for the purchase of international air tickets. These 11 travel transactions totalled $52,000.

Trip analyses for six of the sampled purchase orders did not consider alternate travel routes from different airlines, which may have resulted in a missed opportunity to purchase the least expensive tickets

There was one instance whereby the individual who prepared the trip analysis misrepresented the actual details of the trip by increasing both the inbound and outbound travel duration by one hour, so as to entitle the traveller to business class. The duration of travel indicated in the quotation was 8 hours, 5 minutes (outbound) and 8 hours, 20 minutes (inbound). However, what was actually reflected in the trip analysis was 9 hours, 5 minutes (outbound) and 9 hours, 20 minutes (inbound). The reviewer of the trip analysis did not notice the discrepancy between the quotation and the trip analysis, resulting in the authorization of business class travel, which is more expensive than economy class travel.

Non-adherence or circumvention of the requirements to purchase the least expensive and non-refundable air tickets, and not performing a comparative analysis of proposed trips could lead to the purchase of costly air tickets.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 6:**<br><br>Enhance the planning, analysis and review of air travel arrangements and costs by:<br><br>(a) considering and documenting, with cost analysis, alternative air travel routes in line with the UNDP travel policy; and<br>(b) ensuring that, to the extent possible, the least expensive non-refundable and non-endorsable tickets are purchased 21 days in advance. | |
| **Management action plan:**<br><br>The Administrative Note on travel management will be updated in line with the new UNDP travel policy released on 12 March 2014. An emphasis will be placed on the purchase of the lowest restricted and non-refundable air tickets.<br><br>**Estimated completion date:** June 2014 | |

**Issue 7** Outstanding contributions for common services and premises

For effective management of common services and premises, there must be a signed memorandum of understanding between participating agencies that sets out the details of services to be rendered by UNDP, the allocation of premises, as well as how the relevant common costs would be apportioned and paid. UNDP must then request for contributions from common services partners according to the common services budget, and prior to incurring related costs.

While the Office had signed memoranda of understanding with various UN agencies for the provision of common services, including premises, security and telecommunications in 2012 and 2013, the memoranda for 2014 were yet to be signed.

Collections for common premises were lagging behind, with a deficit for 2012 ($85,000) and 2013 ($109,000) totalling $194,000. This was despite the fact that the Office had started to collect more proactively from UN agencies. Due to this deficit, the Office had been using project funds to pay for the rent of the common premises. About $185,000 had been charged against a development project over the two-year period. The project needs to be refunded from the collections from the UN agencies.

The untimely collection of shared costs for common services and premises from UN agencies puts at risk the financial sustainability of the Office and the concerned development projects.

| **Priority** | Medium (Important) |
|---|---|
| **Recommendation 7:**<br><br>Take proactive measures in the management and collection of contributions for all shared costs of common services and premises by:<br><br>(a) following up and collecting all outstanding contributions from previous years, including 2012 and 2013;<br>(b) discontinuing the practice of charging development projects for unrelated expenditures and refunding the amounts that were previously charged from development projects; and<br>(c) requesting upfront contributions for these costs from participating agencies and other partners. | |
| **Management action plan:**<br><br>The Office will refrain from charging common premises charges to a development project, and has started the collection of the outstanding contributions from previous years. Going forward, all charges related to common premises will be charged to the common services project and then billed to projects and agencies sharing the new building.<br><br>The amounts charged to Project 82085 during the years 2012 and 2013 will be refunded using contributions received from agencies, based on the cost apportionment table.<br><br>**Estimated completion date:** June 2014 | |

## 5. Asset management

**Issue 8** Inadequate tracking and recording of capital assets

The 'Programme and Operations Policies and Procedures' require that all assets purchased after 1 January 2012 and under the use and control of UNDP be capitalized and recorded in Atlas under the Asset Management Module. Assets acquired for Country Office support to nationally implemented projects and directly implemented projects may qualify for capitalization, if such assets are under the use and control of UNDP. Development project assets procured before 1 January 2012 that meet the use and control criteria are to be identified, and tracked outside of Atlas until January 2015 when a one-off valuation and adjustment of non-Atlas assets will be done and UNDP financial statements adjusted.

The Office reported assets amounting to $363,000 as at 31 December 2013 in its year-end certification, based on what they had inputted in the Atlas Asset Management Module. While this amount included mostly management and development project assets acquired after 1 January 2012, the audit revealed that there were at least $100,000 in assets that were not captured in the Atlas Asset Management Module. This meant that the year-end statement (end 2013) sent to the Office of Financial Resources Management was understated. The following items were not in the list of assets:

(a) computers worth $18,000 purchased in 2013 for development projects 82527 and 83064;
(b) three vehicles belonging to the Office and acquired before 2012;
(c) Country Office support to nationally implemented project (Project 82085) assets amounting to $84,000 and three vehicles belonging to Project 72234 that met the criteria for capitalization.

In addition, the Office did not prepare a list of development project assets acquired before 1 January 2012, and that met the use and control criteria. OAI identified one vehicle belonging to Project 72234 that should have been registered in this list but was not.

Inadequate recording and tracking of assets in Atlas weakens overall management and may result in the misappropriation of assets. It may also increase the risk that the Office's assets may not be accurately recorded in the organization's accounts.

| **Priority** | Medium (Important) |
|---|---|

**Recommendation 8:**

Strengthen the identification, recording, capitalization and tracking of all of assets by:

(a) ensuring that all assets that meet the capitalization criteria are properly recorded in Atlas;
(b) establishing a system for tracking development assets acquired before 2012, and conduct a physical verification of all such assets; and
(c) ensuring that for each development project, a certified list of project assets is prepared as required and submitted to the Office of Financial Resources Management.

**Management action plan:**

(a) The Office will initiate a physical verification of all the assets and then record in Atlas the assets which meet the capitalization criteria.
(b) The physical verification will facilitate the identification of pre-2012 development assets and the finalization the certified list of project assets to be submitted to the Office of Financial Resources Management.
(c) The Office will request for support from Headquarters to identify an Asset Management Specialist to strengthen the capacity of local staff.

**Estimated completion date:** September 2014

## 6. Safety and security

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

[redacted] [redacted]

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**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 contribute to 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>.