UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

GUINEA-BISSAU

Report No. 1314

Issue Date: 7 January 2015

(REDACTED)

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Report on the audit of UNDP Guinea-Bissau
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Guinea-Bissau (the Office) from 8 to 23 September 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).

The audit covered the activities of the Office from 1 January 2013 to 30 June 2014. The Office recorded programme and management expenditures totalling $14.3 million. The last audit of the Office was conducted by OAI in 2010.

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

Overall audit rating

OAI assessed the Office as **unsatisfactory**, which means, "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." This rating was mainly due to the weak control environment, the lack of oversight of procurement practices, inconsistent vendor selection criteria, and the inadequate management of individual consultants. The rating was also due to numerous findings addressed in medium ranked recommendations. The findings could seriously compromise the Office's ability to achieve its overall objectives.

Key recommendations: Total = **14** high priority = **4**

The 14 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 2, 5); (b) reliability and integrity of financial and operational information (Recommendations 8, 10); (c) effectiveness and efficiency of operations (Recommendations 6, 7, 9, 13); (d) safeguarding of assets (Recommendations 12, 14); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 3, 4, 11).

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:

Weak control environment (Issue 1)	Several challenges, such as delays in addressing issues raised by the Global Staff Survey (i.e. lack of an open and trusting environment, lack of necessary resources for carrying out high quality work, fairness in the treatment of staff, management of conflicts and grievances) and difficulties in filling vacancies (including that of the Deputy Resident Representative-Operations) impacted the Office's ability to adhere to the Internal Control Framework. OAI also noted instances where duties were not adequately segregated and other instances where staff were given access rights in Atlas (the enterprise resource planning system used by UNDP) that were incompatible with their functions, grades or job descriptions. Recommendation: Strengthen the control environment and conform to UNDP policies and procedures as well as the Internal Control Framework.
Lack of oversight of procurement practices (Issue 9)	Oversight of procurement activities was lacking, resulting in an incomplete procurement plan, the failure to submit procurement cases to the required procurement review committee, inadequate use of online procurement review systems, the inappropriate raising of purchase orders when the related procurement processes were not conducted by the Office, and dealing with a vendor without a contract for services amounting to $180,000 for three years. Recommendation: Strengthen procurement oversight and establish a procurement plan, take advantage of Atlas queries to ensure the timely submission of procurement cases to the appropriate review body when defined thresholds are reached, fully use the online system, raise purchase orders only when the selection process is under UNDP's responsibility, and sign contracts for recurring services.
Unclear and inconsistent vendor selection/disqualification criteria (Issue 10)	The evaluation and selection processes for vendors did not meet UNDP requirements in terms of transparency and equity. There were cases of vendors being disqualified without valid reasons and vendors not being given equal opportunity. Recommendation: Reinforce transparency in procurement by ensuring that the evaluation criteria and processes are established in the bid document, and that vendor disqualifications are fully explained and documented.
Inadequate management of individual consultants (Issue 11)	The direct contracting modality, which involves selection of an individual consultant without a competitive process, was extensively used and consultants were evaluated based on unclear and inconsistent criteria. Recommendation: Improve the management of individual consultants by: (a) avoiding the use of direct contracting modalities unless exceptional circumstances warrant their use; and (b) ensuring that final selection decisions are substantiated, and any disqualifications from the hiring process are fully documented and explained.

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 Bissau, Guinea-Bissau (the Country). At the time of the audit, the Office employed 43 staff members (17 international, 6 national officers and 20 General Service), 47 service contract holders, and 20 international United Nations Volunteers. The Government and the Office signed the Country Programme Action Plan for 2008-2012 with a focus on the following areas: (a) promoting governance; (b) economic growth, poverty reduction and protection of environment; and (c) equality and promotion of human development. The process for formulating a new Country Programme Document 2013-2017 was interrupted due to political instability. Therefore, the existing Country Programme Document has been extended on an annual basis until 2015.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. OAI reviewed the programming cycle, including the review of the Country Programme Document and the Country Programme Action Plan, as well as the monitoring and evaluation system. No reportable issues were noted.

(b) Partnerships and resource mobilization. The Government's view was that UNDP's actions aligned with national priorities, and it was very appreciative of UNDP's support, particularly during the crisis. The European Union's wish to have more interaction with the Office was discussed with management, which took note of this issue.

OAI made 4 recommendations ranked high (critical) and 10 recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:
(a) Strengthen the control environment (Recommendation 1).
(b) Strengthen procurement oversight (Recommendation 9).
(c) Reinforce transparency in procurement (Recommendation 10).
(d) Improve management of individual consultants (Recommendation 11).

Medium priority recommendations, arranged according to significance:
(a) Strengthen the monitoring of receivables (Recommendation 8).
(b) Improve project monitoring (Recommendation 5).
(c) Strengthen the financial sustainability of the Office (Recommendation 2).
(d) Adhere to prescribed procedures for project appraisal (Recommendation 4).
(e) Implement the Harmonized Approach to Cash Transfers (Recommendation 3).
(f) Improve monitoring of staff performance (Recommendation 7).
(g) Strengthen the annual leave monitoring system (Recommendation 6).
(h) Strengthen travel management (Recommendation 13).
(i) Install the Internet Security and Acceleration server to improve internet performance and protect network resources from unauthorized access (Recommendation 12).
[redacted]

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Weak control environment

Senior managers are responsible for maintaining a control environment that provides a foundation for an effective internal control system. The control environment encompasses the following: communication and enforcement of integrity and ethical values, commitment to competence, involvement of governance bodies, management's philosophy and operating style, organizational structure, delegation of authority and responsibility, and adherence to the organization's human resources policies and practices.

Several weaknesses were identified in the control environment, which negatively impacted the Office's compliance with UNDP policies and procedures.

(a) Delays in addressing issues raised by the Global Staff Survey

The 2013 Global Staff Survey raised many concerns, including the lack of an open and trusting environment, the lack of necessary resources for carrying out high quality work, fairness in the treatment of staff, and the management of conflicts and grievances. OAI noted that even though the Office scored below average in all of these areas, as of September 2014, the 2013 Global Staff Survey results had still not been discussed with staff.

Management explained that it had intended to take advantage of the staff retreat to tackle the Global Staff Survey issues. However, this event had not taken place almost a year after the survey was taken, and management did not arrange for an alternative forum for addressing staff concerns.

(b) High vacancy rate

Review of the staffing table and discussions with senior management showed that, at the time of the audit mission, seven positions were vacant. Among them was the position of Deputy Resident Representative-Operations, which had been vacant since October 2013. These vacancies had put an extra burden on the existing staff, especially the Deputy Resident Representative-Programme, who was acting as the de facto Country Director and Deputy Resident Representative for Programme and Operations. This arrangement affected the Office's oversight of operations, and there were weaknesses in the oversight of procurement practices, weaknesses in the management of salary advances, untimely reconciliation of bank accounts, and unclear selection of vendors (refer to Issues 6 to 11).

The Office's senior management, including the Resident Representative, explained that due to the challenging environment, attracting and maintaining qualified staff was difficult. The Office further explained that it had upgraded the Deputy Resident Representative -Operations position from P3 to P4 using extrabudgetary funds, but was still unable to fill the position despite numerous requests to the Regional Bureau for Africa for assistance. Other vacant positions were the Climate Change Specialist, Procurement Specialist for Global Fund Projects, head of the Governance Unit, a Finance Specialist, and two drivers.

(c) Job descriptions not updated, inadequate segregation of duties and conflicting rights in Atlas

A job description is an important tool that ensures that management has defined clear duties and obligations for staff members, who acknowledge receipt and accept the duties outlined in the job descriptions by signing them. If the nature or scope of work performed by a staff member changes, job descriptions should be revised and updated accordingly.

OAI's review of 10 personnel files (2 national officers and 8 General Service staff) revealed that in 8 cases, the job descriptions were not annexed to the files; in one case the description was annexed, but not signed. In the case of the IT Officer, the job description had not been revised to reflect evolving technological changes and additional functions undertaken by the incumbent. Also, although recruitment, payroll and leave monitoring responsibilities were transferred from the Human Resources Associate to a Human Resources Assistant in charge of recruitment, to the Finance Unit and to the assistant of the Deputy Resident Representative - Operations, these changes were not reflected in the new job descriptions.

OAI also noted that staff had limited understanding of the Internal Control Framework, resulting in inconsistencies between Atlas profiles and staff levels and job descriptions, and also resulted in inadequate segregation of duties. For instance:

- A review of Atlas profiles for all staff members revealed that two human resources staff held global payroll administrator (second authority) and human resources administrator profiles (first authority).
- In some instances, Atlas roles attributed to staff did not match their functions and levels of responsibility. Some Project Managers had been assigned the profile for creating General Ledger Journal Entries, whereas this profile should have been assigned to finance staff. The finance staff at the G6 and G7 levels had the disbursement officer role in payroll, even though this role should have been assigned to staff with senior manager profiles.
- Also, eight staff members were holding both the project manager and approving manager profiles in Atlas, which enabled them to approve requisitions and project orders they created for a total of $4.3 million.

Other conflicting roles in the Office were noted as follows:

- One Finance Unit staff member approved vendors (acting as the sole vendor approver), approved vouchers in Atlas, and performed bank reconciliations.
- A staff member who was not assigned to the Finance Unit was assigned the treasury/finance user role. With this treasury profile, this staff member could run the pay cycle without any control by the Finance Unit.
- Six staff members who left the organization had active Atlas profiles.
- Procurement activities were undertaken outside of the Procurement Unit. For example, the Human Resource Unit was responsible for recruiting individual consultants. Also, the head of general services performed procurement duties and acted as receiving agent, as well as certifying officer, particularly for purchases related to the Elections Project (mainly fuel and office supplies), although she was not responsible for these functions.

The Office explained that the above weaknesses were mainly due to: (a) the difficulty in attracting candidates to Guinea-Bissau as a duty station, which made it difficult to recruit qualified professional staff; and (b) the priority given to the complex electoral process and Mass Distribution Campaign for Mosquito Nets which prevented them from focusing on oversight.

A weak control environment can jeopardize the effectiveness of the entire internal control system, which can lead to the untimely detection of errors and fraud, financial losses for the organization, and may impact the overall delivery of the Office.

Priority	High (Critical)

Recommendation 1:

Strengthen the control environment and conform to UNDP policies and procedures as well as the Internal Control Framework by:

(a) creating a discussion forum in order to analyse and address issues raised by the Global Staff Survey;

(b) revising and updating all job descriptions with the objective of aligning tasks and responsibilities to the appropriate staff grade level, and ensuring that those job descriptions are annexed to personnel files;

(c) following up with the Regional Bureau for Africa to speed up the recruitment process of the Deputy Resident Representative-Operations, or seek candidates to serve on a detail assignment from other Country Offices;

(d) adequately segregating duties and returning the responsibility for recruiting consultants to the procurement function; and

(e) deactivating Atlas profiles for staff that have left the organization.

Management action plan:

(a) The Global Staff Survey discussion will be part of the staff retreat meeting and the staff general meeting scheduled for the first quarter of 2015.

(b) The job descriptions will be reviewed as part of the new programing cycle under preparation involving the new United Nations Development Assistance Framework/Country Programme Document. Alignment with the Strategic Plan and the Financial Sustainability Exercise in order to structure the Office to respond efficiently to the new challenges (Strategic Plan 2014-2017).

(c) Deputy Resident Representative-Operations recruitment is currently being completed with an offer having been made to the selected candidate.

(d) Action taken regarding segregation of duties (recruitment of individual consultants now being led by the Procurement Unit in liaison with Human Resource Unit).

(e) Atlas profiles have been reviewed and updated to comply with Internal Control Framework.

Estimated completion date: April 2015

OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

2. Financial sustainability

Issue 2 Financial sustainability of Office at risk

In accordance with corporate requirements, all offices are required to maintain a minimum reserve of 12 months of extrabudgetary resources and ensure financial sustainability by securing long-term committed resources. In preparing for the financial sustainability exercise, the Office envisaged several scenarios, as illustrated in the table below:

Table 1: Extra budgetary resources projections

	Pessimistic scenario		Base scenario		Optimistic scenario	
Year	2014	2015	2014	2015	2014	2015
XB reserve (months)	17	7	22	12	26	16

At the time of the audit, the extrabudgetary resources at the Office were leaning towards the pessimistic scenario described in the table above. OAI noted that there was no reason for optimism in the near future for the following reasons:

- According to management, there was no strong commitment from the donor community to supporting UNDP's programme, and the Office had not developed a resource mobilization strategy.
- The Elections Project, which generated cost recovery revenue of approximately of $0.5 million in 2014 was closing, and no other project of comparable size was in line to replace it.
- Non-payment of the Government Contribution to Local Office Costs resulted in an outstanding amount owed to the Office of $318,492.

Management explained that the 2012 military coup, which overthrew the elected Government, affected the Office's ability to secure income from the donor community. Furthermore, they pointed out the fact that the Government had no capacity to pay its contribution due to the financial crisis it was facing. The Office also indicated that, in collaboration with the Government, a donors' round table would be organized in the first quarter of 2015 to again raise donors' interest in the Country and to formalize their commitments.

In the absence of effective resource mobilization and a rigorous cost recovery scheme, the Office might not be able to maintain its current structure and operational support to the host Government.

Priority Medium (Important)

Recommendation 2:

Strengthen the financial sustainability of the Office by:

(a) pursuing negotiations with the Government to collect the outstanding Government Contribution to Local Office Costs, considering input and assistance from the Regional Bureau as well as in kind contributions as an option; and

(b) developing a resource mobilization strategy and action plan in line with the future donors' round table.

Management action plan:

(a) Prepare a summary table of outstanding Government contributions and pursue efforts to collect them.

(b) Develop a resource mobilization strategy and action plan aligned with the Government's key priority areas for the donors' roundtable, the United Nations Development Assistance Framework 2016-2020, and the Country Programme Document 2016-2020.

Estimated completion date: June 2015

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 3 Harmonized Approach to Cash Transfers not fully implemented

To lessen the burden that the multiplicity of United Nations procedures and rules creates for its partners, the Framework for the Harmonized Approach to Cash Transfers (HACT) to implementing partners requires that participating United Nations agencies agree on and coordinate HACT activities. Compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessment of the implementing partners; (c) agreement with the Government on implementing HACT; and (d) development and implementation of an assurance and audit plan for the implementing partners.

At the time of the audit, HACT had not been implemented, and was not being discussed among the United Nations agencies. Also, the HACT task force had not met regularly during the previous year because each agency was at different stages in the HACT implementation process. OAI noted that the lack of coordination among agencies negatively impacted progress towards compliance with the harmonized approach. As a result, the steps required to reach compliance were not achieved. For example:

- The macro-assessment carried out in 2007 was no longer representative of the Country context due to the major changes that had occurred, including a coup in 2012, and a newly established Government following a general election in 2014.
- The micro-assessments carried out in 2007 were no longer valid as none of the previously assessed implementing partners were still working with the Office.
- As a direct consequence of the lack of valid micro-assessments, a joint assurance plan had not been established and no joint HACT assurance activities had taken place.

The United Nations Development Group issued a new HACT Framework in January 2014, which required Country Offices to adopt HACT in 2015. However, no task force meetings had taken place to discuss the changes and to agree on an implementation plan.

Office management explained that because of the military coup in 2012, the United Nations agencies suspended cash advances to implementing partners, which were replaced by direct payments. In that regard, the HACT lost its relevance.

The objectives of harmonizing practices among United Nations agencies, including lessening the burden of using multiple procedures, will not be achieved unless HACT requirements are implemented.

Priority	Medium (Important)

Recommendation 3:

Implement the Harmonized Approach to Cash Transfers by:

(a) taking into account the new Framework issued in January 2014;

(b) completing a new macro-assessment of the public financial system followed by micro-assessments of implementing partners;

(c) resuming Harmonized Approach to Cash Transfer task force meetings, and develop an implementation plan; and

(d) establishing assurance plans and conducting assurance activities.

Management action plan:

(a) The new HACT Framework will be disseminated among agencies as part of the new United Nations Development Assistance Framework implementation preparedness.

(b) Upon the conclusion of the new United Nations Development Assistance Framework design, new macro-assessment and micro-assessments will be undertaken.

(c) HACT task force composition will be updated in February 2015 and meetings will resume to prepare the HACT action plan.

(d) The Programme Management Support Unit will set up an assurance plans and oversee its implementation.

Estimated completion date: October 2015

C. Programme activities

1. Project management

Issue 4 Weaknesses in project design, initiation and definition

The 'Programme and Operations Policies and Procedures' set out the requirements for project design, initiation and definition. In particular, direct implementation by UNDP requires prior authorization by the Director of the Regional Bureau. Also, a project appraisal committee must meet to review and ensure that the project has been designed with a clear focus on agreed upon results. Moreover, according to the 'Programme and Operations Policies and Procedures,' micro-capital grants up to $150,000 can be issued to non-governmental organizations.

Of the existing 32 projects, OAI reviewed 4 and identified the following exceptions:

- Projects 87319 and 87320 relating to the elections were not reviewed by a local appraisal committee to ensure that project relevance, feasibility and sustainability had been agreed upon by stakeholders, prior to signing the project document.

- No authorization was requested from the Regional Bureau for Africa for directly implementing these projects, as required by the 'Programme and Operations Policies and Procedures.'

- Use of an inappropriate contractual modality in implementing Project 88609 (totalling $1.2 million) involving the Office contracting a national agency as a responsible party. This entity was responsible for selecting and sub-contracting local companies to rehabilitate the existing socio-economic infrastructure of the Country. The Office used the standard agreement for micro-capital grants for non-credit activity[1] as the contractual agreement modality to engage the national agency. According to UNDP's rules and regulations, this was inappropriate, since a micro-capital grant is aimed at non-governmental organizations and community-based organizations and not to national agencies. According to UNDP procedures, a standard letter of agreement with national institutions would be the most appropriate approach.

The Office explained that these exceptions originated from weak knowledge of the 'Programme and Operations Policies and Procedures,' as well as political pressure to deliver urgently on elections.

Weaknesses in the review of project designs, compounded by the inadequate use of contractual modalities, increase the risk of not achieving expected results, and can negatively affect UNDP's reputation and could reduce donors' interest in funding future projects.

Priority	Medium (Important)
Recommendation 4: Adhere to prescribed procedures for project appraisal by: (a) ensuring that local project appraisal committees are systematically convened for each project; (b) seeking authorization from the Regional Bureau for Africa for all projects under the direct implementation modality prior to signing the project document or extending the project; and (c) making sure that the standard UNDP letter of agreement with national institutions is used when the responsible party is a national agency.	
Management action plan: The Office concurs with recommendations (a), (b) and (c). In addition, weekly learning sessions to be resumed focusing on ensuring that staff are knowledgeable about the 'Programme and Operations Policies and Procedures' and know how to apply these policies and procedures in project management. Also, before approval of any new project in Atlas, the Programme Management Support Unit will be tasked with verifying compliance with the 'Programme and Operations Policies and Procedures.' A mandate for quality assurance	

[1] Non-credit activities are activities which do not imply a loan to beneficiaries.

will be included in this Unit's terms of reference.

Estimated completion date: February 2015

Issue 5 Weaknesses in project monitoring and closure

The 'Programme and Operations Policies and Procedures' provide specific guidance on how to implement and monitor projects, including: (a) preparing an annual work plan upon which a procurement plan is established and approved; (b) regular reporting to the project board, at a frequency defined in the project document; (c) using Atlas for substantive monitoring through the update of the issue log, risk log and monitoring log; (d) preparing an annual review report on the project and sharing it with the project board; (e) financially closing projects within 12 months after their operational closure.

OAI reviewed the Office's project list and the status of projects in Atlas, and tested 4 out of 32 projects. The following weaknesses were noted:

- Annual work plans were not prepared for Projects 87319, 87320 and 88609.

- There was a lack of compliance with reporting and evaluation requirements, as follows:

    - For Project 88609, semi-annual reporting was requested in the signed project document. However, the Office did not prepare and submit any reports during the first nine months of the project. Moreover, although the responsible party (the entity implementing activities on behalf of the implementing partner – UNDP in this case) had committed to providing quarterly reports, no such reports were received after the first tranche of funds was released in April 2014.

    - For Projects 87319 and 87320 relating to election support, despite the fact that quarterly progress assessments were required, none had been prepared since the beginning of the project in mid-2013. The Steering Committee was supposed to meet monthly, but only five meetings took place between July 2013 and September 2014.

    - The project documents for Projects 87318, 87319 and 87320 required an evaluation of these projects prior to the end of 2014. However, the project evaluations had not been scheduled and incorporated into the Office's evaluation plan, nor had the cost of the evaluations been budgeted. OAI also noted that advances were made to the responsible party, although previous tranches had not been liquidated.

    - Atlas was only used in a limited manner as a project monitoring tool, and for Projects 87319 and 87320, the issue, risk and monitoring logs were not updated since the inception of the projects.

    - Annual review reports had not been prepared for any of the four projects.

- There were 10 projects that had not been financially closed more than 12 months after they had been operationally closed.

These deficiencies were due to a lack of oversight and insufficient knowledge of UNDP's procedures in terms of project management, as well as a weak command of Atlas.

Weaknesses in project monitoring and evaluation may result in non-delivery of expected outputs, which could compromise UNDP's reputation.

Priority	Medium (Important)

Recommendation 5:

Improve project monitoring by:

(a) developing a checklist containing all reporting requirements, which should be shared with all programme staff;

(b) complying with the requirements of "implementing a project" guidelines of the 'Programme and Operations Policies and Procedures';

(c) conforming to project document requirements in terms of reporting and ensuring that outstanding reports are prepared;

(d) organizing a training session on using Atlas as a project management tool;

(e) following up on outstanding advances made to responsible parties before previous tranches are liquidated; and

(f) expediting the financial closure of projects that are operationally closed for more than 12 months.

Management action plan:

(a) Programme Management Support Unit to recirculate the checklist on reporting requirements to all staff and to send reminders 15 days before the deadline for each report submission. Reporting schedules to be included in the Country Office Management Work Plan.

(b) Learning sessions to be continued with emphasis on 'Programme and Operations Policies and Procedures' and Programme and Project Management. Reporting calendar to be prepared and monitored on a quarterly basis. Programme Management Support Unit to provide briefings to Senior Management meetings on reporting requirements compliance status.

(c) Prepare a timetable for project reporting completion as per project document.

(d) Organize Atlas training sessions for programme staff.

(e) Mandatory verification by the Programme Management Support Unit of the status of outstanding advances in liaison with the Finance Unit before submission of cash advance requests to the Deputy Resident Representative-Programme.

(f) Continue with the exercise of financially closing all projects operationally closed for more than 6 months. Rigorous monitoring of ending the project closure process.

Estimated completion date: March 2015

D. Operations

1. Human resources

Issue 6 Weaknesses in annual leave management

Offices are required to comply with the 'Programme and Operations Policies and Procedures' relating to the monitoring of staff absences. Recording leave in Atlas became mandatory from 1 January 2012.

OAI's review of the Office's leave monitoring system revealed the following:

- Although staff absences from work were not accurately reported in Atlas or monitored daily, they were reported in a weekly attendance record managed by the leave monitors. OAI tested the accuracy of leave monitoring for 17 staff members within a four-month period by comparing the absences reported in the weekly attendance records to the Atlas records. For 12 out of 27 cases (44 percent), the leave was not reported in Atlas, resulting in an overstatement of staff leave balances by 78 days in Atlas. Furthermore, the Office did not prepare or reconcile Monthly Leave Reports with Atlas records to ensure that all discrepancies were detected and corrected in a timely manner.

- The Human Resources Unit processed eight adjustments to staff leave balances but did not retain the supporting documents for further verification. Therefore, OAI could not assess the accuracy of these adjustments.

- In one instance, a request for 21 days of annual leave was entered in Atlas and approved for a staff member who did not actually take leave during the requested period (March 2014). The staff member confirmed that this request was submitted to avoid forfeiting leave days as at 31 March 2014 (the cut-off for carrying over leave days) allowing this individual to take leave later in the year without having to submit a new leave request.

- In 7 percent of the cases reviewed, leave requests were not approved in a timely manner and prior to the beginning of the leave period.

Overall, the above issues were mainly due to the lack of verification and cross-checking of the work done by the leave monitor. Also, a Human Resources Associate at the G7 level was primarily responsible for filing documents, which was an inefficient use of resources since the Human Resources Associate function normally encompasses leave management.

Without proper leave monitoring, the Office could not ensure that leave taken was properly authorized and properly captured in Atlas. Additionally, there was a risk that staff members could take more leave than they were entitled to without being detected.

Priority	Medium (Important)
Recommendation 6: Strengthen the annual leave monitoring system by: (a) reconciling leave balances in Atlas with data shown in weekly and monthly leave reports and ensuring that discrepancies are corrected in a timely manner. This control could be covered by the Human Resources Associate function; (b) ensuring that all leave is approved prior to the beginning of the leave period; (c) retaining supporting documents relating to leave adjustments processed to permit further verification of the data; and (d) preparing annual leave plans and following up on staff member leave balances to ensure that leave days in excess of 60 are taken before the cut-off date.	
Management action plan: The Human Resources Unit was instructed in October 2014, upon receipt of the audit exit minutes, to correct leave management discrepancies and perform continuous monitoring. **Estimated completion date:** March 2015	

Issue 7 Incomplete performance management assessment and limited participation in mandatory training courses

The annual Performance Management and Development cycle is aimed at strengthening talent management by linking the corporate strategies with results, competencies, staff development and prospective career goals. According to the 'Programme and Operations Policies and Procedures'' individual work plans, as part of the Performance Management and Development process, have to be established, monitored, executed, and reported on annually. The policy makes senior and middle level managers accountable and all staff responsible for performance management.

The regular and timely assessment of staff performance through the Performance Management and Development process was limited. At the time of the audit, only 8 percent (or 3 out of 39 staff) had completed the process for 2013. For 2014, 45 percent (17 out of 38 staff) had completed the process. These delays in completing the performance assessment resulted in step increments being overdue for three staff members, as of June 2014.

Senior management issued several reminders to staff about the need to complete their performance assessments, which contributed to improving the compliance rate between 2013 and 2014. However, there was no mechanism to hold staff and supervisors accountable for the timely completion of the annual Performance Management and Development process.

The Office informed OAI that technical challenges prevented the Resident Coordinator/Resident Representative from accessing the Performance Management and Development system of staff reporting to him.

OAI also noted that only few staff members had completed the mandatory training courses, as shown below:

- Legal Framework (1 out of 43)
- Ethics (18 out of 43)
- Prevention of Harassment (14 out of 43)
- Gender (8 out of 43)

In addition, ICT staff had not completed the CISCO and Microsoft mandatory certifications required by the Office of Information Systems and Technology. Senior management reported that the ICT certifications were not pursued due to the lack of resources.

The Office indicated that more staff members completed the mandatory training courses, but that the certificates had yet to be shared with the Human Resources Unit for filing purposes.

Delays in completing Performance Management and Development may prevent management from identifying areas that need improvement. These delays may also negatively affect the Office's overall performance, as contracts may be renewed without assurance that staff performance is satisfactory. Additionally, by not completing mandatory training, staff members might not be aware of their roles and responsibilities and standard conduct expected of them, which could tarnish the organization's reputation.

Priority	Medium (Important)
Recommendation 7: Improve monitoring of staff performance by: (a) completing the Performance Management and Development process annually for staff, and in compliance with organizational policy; (b) ensuring staff complete mandatory training courses within the required timeframe of six months of the their reporting date; and (c) verifying the timely completion of the staff Performance Management and Development and mandatory training as key performance indicators for supervisors and staff.	
Management action plan: (a) Remind the supervisors and their staff to initiate the 2014 evaluation of Performance Management and Development and prepare plans for 2015. (b) Prepare the list of staff that did not take the mandatory training courses and ensure completion. **Estimated completion date:** March 2015	

2. Finance

Issue 8 Bank reconciliation and account receivables not processed in a timely manner

Bank reconciliations enable offices to ensure that effective controls are in place and that monitoring is adequately exercised. In addition, the 'Programme and Operations Policies and Procedures' provide guidance on circumstances under which salary advances may be granted to staff members, which must be exceptional, and stipulate that receivables must be adequately monitored and reconciled on a yearly basis.

OAI's review of the advance accounts and the bank reconciliation statements revealed the following:

(a) Long outstanding bank reconciliation items

OAI reviewed the bank reconciliation statements for the period from 1 January 2013 to 30 June 2014 and noted 132 unreconciled items regarding the XOF bank account, as follows: 61 deposits amounting to $100,000, 1 deal valued at $1,400, 9 Electronic Fund Transfer payments valued $12,000, and 61 manual payments amounting to $91,000 were not reconciled as at 30 June 2014. Approximately 97 percent of these unreconciled transactions were outstanding since at least before 2012. The Finance Section did not regularly review the details regarding unreconciled items, leading to the accumulation of long-outstanding items.

During the audit fieldwork, the Office started reviewing these long-outstanding unreconciled transactions, and as a result, the balance of unreconciled deposits dropped down from $100,000 to less than $6,000.

(b) Weak management of salary advances

Analysis of staff receivables – review of the salary advance account revealed the following exceptions:

- *Excessive requests for salary advances* – Between January 2012 and September 2014, 66 salary advances amounting to $204,000 were distributed to 17 UNDP staff members, with 13 of the 17 beneficiaries renewing their requests for salary advances immediately after the Office recovered the previous advances.

- *Accumulated salary advances not recovered in a timely manner* – At least three staff members had accumulated salary advances while the balance of a previous advance was outstanding. Moreover, there were two cases where the recovery process started several months after the advances were granted and went beyond the expiration date of the staff members' contracts.

- Salary advances under "GL account 14020" amounted to $86,000 as of as of 30 June 2014. Of these:

    - At least $65,000 was outstanding prior to 2013, and of this amount, approximately $38,000 was recorded into 57 staff accounts, which were inactive since the end of 2013.
    - The receivables in GL account 14020 also incorrectly included salaries that had been improperly paid following staff separations, which were not processed in a timely manner in Atlas. OAI identified two such cases valued at $7,600 and was informed that these staff members were still working for UNDP and that the Office would initiate a recovery process.

(c) Advance accounts not reconciled in a timely manner

- OAI also noted that other advance accounts were not timely reconciled. As of 30 June 2014, long-outstanding advances were pending in the following advance accounts:

    - *Account 14050 – Staff Receivables Other*: $11,000 pending since 2012, of which 38 percent involved staff no longer working for UNDP.
    - *Account 14015 – Contributions Receivables*: $11,000 pending due to differences in exchange rates between the time the commitment was recorded and the time it was recovered.
    - *Account 14056 – VAT/SALES TAX*: $5,300 was pending since 2012, despite the fact that the Office was exempted from VAT (Value Added Tax). The Office explained that the amount was related to a procurement processed via the Mozambique Business Unit (MOZ10) and the related project was already closed.
    - *Account 14057 – Petrol Advances*: $12,990 was pending since 2012 and no movement had been recorded in the account.

The Office acknowledged the above issues and mentioned that most of the issues pertaining to the untimely bank reconciliation and ageing of advances were prior to 2012. The Office added that, since then, progress has been made to comply with the organization's policies and procedures.

Inadequate monitoring of advances and lapses in the review of bank reconciliations may result in errors and fraud, and in the inability to detect them in a timely manner. This situation could also lead to financial losses for the organization.

Priority	Medium (Important)
Recommendation 8: Strengthen the monitoring of receivables by: (a) properly reviewing bank reconciliation results to ensure that any long-outstanding amounts are fully investigated and followed up on with the payee as part of the reconciliation exercise; (b) ensuring that salary advances are granted in compliance with organizational policies and procedures to avoid excessive numbers of advances and repeat requests; (c) recovering accumulated and long-outstanding advances from individuals as soon as possible; (d) ensuring that all receivable accounts are reconciled in a timely manner and followed up on regularly; and (e) establishing a mechanism as part of the staff check-out process to recover all receivables from separated staff before they leave the organization.	
Management action plan: (a) Assign one staff member to investigate all long-outstanding bank reconciliation items and request support from HQ to resolve this issue. (b) Accumulated and long-outstanding advances from individuals will be recovered as soon as possible.	

In the meantime, salary advances will be authorized in accordance with regulations. Before approval, the Human Resources and Finance Units will review eligibility and advise senior management. In coordination with the Human Resource Unit, the check-out process will be reinforced to recover all receivables from separated staff before they leave the organization.

(c) Assign a Finance Unit staff member to analyse the ageing outstanding advances and seek support from HQ if necessary.

(d) The Finance Unit will implement a mechanism which will allow for reviewing and reconciling all accounts receivable on a monthly basis.

Estimated completion date: March 2015

3. Procurement

Issue 9 Lack of oversight of procurement practices

Adequate oversight of procurement practices ensures that all appropriate rules and regulations have been followed. The 'Programme and Operations Policies and Procedures' provide guidance on effective procurement practices, such as proper use of purchase orders and adequate procurement planning. Furthermore, the organization has developed a tool for the online Advisory Committee on Procurement (ACP online) aimed at facilitating the procurement review process and centralizing documentation to support procurement decisions.

The Office also did not effectively use procurement tools to monitor procurement activities and to centralize procurement documentation for decision-making. The absence of oversight resulted in ineffective procurement practices. The following issues were noted:

- *Incomplete procurement plan* – Procurement planning was incomplete, as not all projects had submitted their requisition plans at the end of 2013. As such, the Office was not able to prepare and benefit from a consolidated procurement plan, which could have avoided extensive use of the direct contracting modality.

- *Inadequate monitoring of cumulative thresholds for Contracts, Assets and Procurement Committee review* – The Office did not effectively use Atlas queries and the procurement dashboard[2] to ensure that procurements were timely submitted to the appropriate procurement review body.

- *Ineffective use of ACP online system* – Of the 8 cases initiated through the ACP online review tool, 3 were cancelled and 5 were never processed to completion. Three of the five incomplete cases were never manually reviewed by the Contracts, Assets and Procurement Committee, and required post facto submissions totalling $298,000, while the two remaining cases included a duplicate transaction, and the remaining case was cancelled due to an entry error.

- *Inappropriate use of purchase orders* – Two purchase orders amounting to $1.3 million (representing 23 percent of the 2014 total procurement volume as at the time of the audit fieldwork) were created for the processing of grant payments, which is not considered a procurement activity. This practice inflated the procurement volume by $1.3 million in 2014, which could in turn affect managerial decisions. Furthermore, the Office raised two purchase orders worth $28,000 for two procurement activities that were undertaken by the national implementing partner. Since procurement was not undertaken by the Office, the payments should have been processed without creating the two purchase orders.

Vendor without contract – The Office directly procured customs clearing services with a vendor valued at $46,000, $26,000 and $108,000 in 2012, 2013, and 2014, respectively, without signing a contract, which was contrary to the organization's procurement rules. OAI's review showed that the customs clearing agent charged at least three different rates related to the value of the items cleared (0.07 percent; 1.30 percent and 1.65 percent) for services rendered. However, Office staff could not explain such variances, although the head of General Services Unit noted that informal discussions took place whenever the Office needed clarification on the invoices.

Inadequate oversight of procurement practices could lead to non-compliance with existing policies, and could lead to inaccurate data being collected for managerial decision-making.

Priority High (Critical)

Recommendation 9:

Strengthen procurement oversight by:

(a) gathering inputs from all projects and ensuring that a comprehensive procurement plan is prepared;

(b) periodically running Atlas queries and the procurement dashboard in order to monitor procurement, and submitting vendors that have exceeded the cumulative threshold for review by the appropriate procurement committees;

(c) systematizing full use of the Advisory Committee on Procurement online review system, including ensuring that the current status of all cases is updated regularly and all documentation and communication is maintained online;

(d) ensuring that purchase orders are used appropriately and only for valid procurement actions in accordance with existing guidance; and

(e) conducting a competitive selection process for recurrent services and signing contracts with the selected vendors.

Management action plan:

A message will be sent to all Programme Managers to provide individual project procurement plans to the Procurement Unit by year end. Procurement plans will be part of the project annual work plans. The Office will continue weekly dashboard and Atlas queries reviews. The Advisory Committee on Procurement online system will be updated and all new cases will be submitted online. The purchase order approval process will be strengthened to avoid misuse.

Estimated completion date: March 2015

Issue 10 <u>Unclear and inconsistent vendor selection/disqualification criteria</u>

According to UNDP Financial Regulation 21.02, certain general principles must be considered when executing procurement on behalf of the organization. These include best value for money, fairness, integrity, transparency, effective international competition, and UNDP's best interests. The evaluation process needs to be conducted in a fair and transparent manner to ensure equal treatment of all bidders. Clear and specific evaluation criteria should be included in the bidding documents.

OAI reviewed 32 purchase orders amounting to $1.5 million and noted several instances where vendors were selected or disqualified based on unclear and inconsistent criteria, as follows:

- Two vendors were disqualified from competition because their financial proposals for civil works were below a threshold based on an internal estimate prepared by the Office for this service. The disqualification threshold was inconsistent, and was only established during the evaluation process.

- A vendor was disqualified after review of the financial proposal because the price structure was not compliant with requirements. However, another vendor in the same process was allowed to correct an error in the pricing sheet. This opportunity was not offered to the disqualified vendor whose offer was $25,000 below the winning bid. In another procurement process, a vendor was judged to be technically non-compliant, but there was no explanation to support this decision.

- A vendor’s proposal was selected based on a partial order, while other vendors offered quotations for all items requested in the bid documents. No comparative analysis was done to determine best value for money, and no explanation was provided for the selection of the partial order.

Inadequate procurement decisions could lead to unfair treatment, financial losses, collusion or fraud, which in turn could tarnish the organization’s image.

Priority	High (Critical)
Recommendation 10: Reinforce transparency in procurement by ensuring that the evaluation criteria and processes used are established in the bid document, and that vendor disqualification is fully explained and documented.	
Management action plan: All procurement processes above $5,000 shall be certified by the Procurement Unit before approval. The Procurement Unit will ensure that the evaluation criteria and processes used are established in the bid document, and that vendor disqualification is fully explained and documented. **Estimated completion date:** March 2015	

Issue 11 Inadequate management of individual consultants

The Individual Consultant Guide defines the modalities for hiring individual consultants, which should follow the procurement principles for transparency and best value for money. The following weaknesses were noted in managing 11 individual consultants' files:

- *Excessive use of direct contracting* – the Office used the direct contracting modalities without adequate justification in 7 out of 11 consultants' files reviewed. Other weaknesses identified by OAI's review of the files were as follows:
  - Direct contracting (i.e., selection of a consultant without competition) was used to hire a Cluster Team Leader although the terms of reference and other items had been prepared four months earlier. The selected consultant also did not provide a financial proposal or a methodology for the project. It was therefore unclear how fees of $34,000 were determined and why this individual was selected.
  - UNDP's 'Programme and Operations Policies and Procedures' state that individual consulting contracts should not be issued to candidates being considered for staff contracts while they are waiting for the recruitment process to be finalized. Two staff (Procurement and Supply Management Specialists) were issued individual consultant contracts while awaiting completion of the recruitment process. The consultants were engaged using the direct procurement modality, but there was no justification on file for these actions.
  - One individual contractor (a Finance Specialist) was awarded a three-month individual contract on a trial basis, as the service contract recruitment process did not conclude with a decision to proceed with the recruitment of the individual. Recruitment rules do not allow the award of an individual contract to a person who did not meet all the requirements of the post subject to recruitment.

- *Unsubstantiated disqualification* – Selection and disqualification of candidates from competition were not adequately substantiated in some instances. For example:
  - Two candidates were shown to have received the identical highest combined total technical and financial scores in a procurement process. However, the comparative evaluation sheet showed that only one bidder obtained the highest score without any additional explanation. The selected candidate proposed higher fees of $3,000 more than the other candidate, and was subsequently offered two additional contracts without competition.
  - In another instance, a candidate was eliminated from the technical assessment even though his technical score was 70 (the minimum score required to move on to the financial proposal review). No explanation was provided.
  - In another case, at least two of three candidates shortlisted had less than 5 years of experience even though the experience requirement was 10 years.

Inadequate selection of individual consultants could impact programme delivery and negatively impact the organization's image.

Priority	High (Critical)

Recommendation 11:

Improve the management of individual consultants by:

(a) avoiding the use of direct contracting modalities unless exceptional circumstances warrant their use; and

(b) ensuring that final selection decisions are substantiated, and any disqualifications from the hiring process are fully documented and explained.

Management action plan:

(a) Project Managers shall submit recruitment plans by end of 2014 and update the plans on a quarterly basis to avoid last minute recruitment processes and to avoid incorrectly resorting to direct contracting. The Procurement Unit will continue to lead the individual contract recruitment process in liaison with Human Resources Unit. Senior Management will circulate an internal memo in this regard.

(b) The Procurement Unit will enforce the recommendation.

Estimated completion date: January 2015

4. Information and communication technology

Issue 12 Inadequate protection of internet system

Information and communication technologies represent a critical asset in fulfilling the organization's mission. There are unforeseen situations and threats that can damage or disable critical information systems. Therefore, offices are requested to ensure adequate protection of their information systems.

OAI's review of the Office's information system showed that the last review performed by the Office of Information Systems and Technology during 2011 recommended that the Office install an Internet Security and Acceleration server. This server was designed to help improve internet performance for users on the network, protect the network resources from unauthorized external access and control access to the internet. However, OAI was informed that due to financial constraints, the Office had not yet procured the Internet Security and Acceleration server. As a result, access to inappropriate internet websites could not be restricted on the local network, and utilization of the wi-fi internet connection could not be controlled.

Weak protection of the internet system increases the risk of data losses and external attacks.

Priority	Medium (Important)

Recommendation 12:

Install the Internet Security and Acceleration server to improve internet performance and protect network

resources from unauthorized access.
Management action plan: ▪ Purchase of software and equipment as per the request submitted since August 2014. ▪ Provide ICT mandatory training to IT staff as per the proposed training programme. **Estimated completion date:** April 2015

5. General administration

Issue 13 Weaknesses in travel management

The travel policy was revised in 2014 to align with the organization's strategic objectives by emphasizing cost reduction, including purchasing the lowest restricted ticket. It also emphasized proper planning and administration, such as purchasing tickets at least 21 days in advance, and using virtual technology whenever feasible. Travel is to be undertaken based on an approved travel authorization and itinerary, and travel claims should be filed within two weeks of returning from travel on official business. Furthermore, travel agents should provide assistance and advisory services as agreed upon in the contractual document signed with the Office.

OAI selected 11 travel vouchers valued at $89,000 for review and noted the following weaknesses:

- *Unjustified/undocumented travel purpose* – There was no documentation, such as an official invitation to justify the purpose of three international trips. In two instances, the travelers combined two destinations, while only one destination was authorized in the documentation (invitation letter). In the third case, the Office was unable to provide documentation other than the invoice from the travel agent. As such, OAI could not validate the legitimacy of the travel and the accuracy of the entitlements, including daily subsistence allowance paid to the staff member.

- *Failure to obtain three travel cost quotes* – The Office could not demonstrate that its procurement of travel was in line with the organizational policy. By routinely seeking one quote from the travel agent instead of three as required by the policy, the Office was not able to perform a trip cost analysis. Without a comparative analysis of multiple quotations, the Office cannot ensure best value for money and may be paying higher prices for its travel related expenditures.

- *Travel claims not consistently filed* – Payment of daily subsistence allowance in conjunction with official business travel is considered an advance until the required travel claims are filed within two weeks after returning from such travel. In 8 out of 11 trips sampled, travel claims were not filed due to lack of oversight. As such, the Office did not validate that travel took place according to an approved travel authorization. Without the travel claims, the Office may not be able to recover excess or undue payments to travelers.

- *Inadequate coordination of travel* – OAI identified three instances where travel procurements were initiated outside of the Travel Unit, and then submitted to the Procurement or Travel Unit for finalization without full disclosure of the travel requirements. As such, full daily subsistence allowance was paid to the staff for a meeting or other events even though part of the costs, including meals, was covered by the meeting organizers. This was due to a lack of oversight during the processing of the travel payments. As a result, the requesting unit did not deduct expenses paid by the event organizers.

- In all five travel cases tested, the Office paid terminal expenses of Rest and Recuperation, contrary to the travel policy.

Inadequate management of travel could lead to payment of higher prices, incurring unnecessary costs or delays in recovering excess daily subsistence payments to travellers.

Priority Medium (Important)

Recommendation 13:

Strengthen travel management by:

(a) processing travel requests based on travel authorizations and official documentation showing the name, location and dates of events (if the business purposes cannot be validated for the three instances identified, the Office should seek reimbursement of undue payment of daily subsistence allowance and additional travel costs);

(b) obtaining and comparing at least three different quotations from the travel agencies, and completing a trip analysis to obtain the lowest price in accordance with the travel policy;

(c) filing travel claims within two weeks after returning from official business travel;

(d) centralizing travel procurement requests in the Travel Unit, and ensuring that all details of travel are made available to the Administrative Assistant responsible for travel arrangements before processing; and

(e) complying with the travel policy by discontinuing the practice of paying terminal expenses for Rest and Recuperation travel.

Management action plan:

(a) The Office already requires that all official travel be initiated with a detailed travel request. The Office has obtained reimbursement for undue payment of daily subsistence allowance and additional travel cots. This amount was deposited into the UNDP account.

(b) This is already the practice and shall be strengthened.

(c) The Office started strictly following up on F.10 claims and this has resulted in improvements.

(d) An official communication shall be sent to all staff to centralize all travel requests to the Procurement and Travel Units.

(e) Terminal expenses are no longer paid for Rest and Recuperation travel.

Estimated completion date: March 2015

OAI Response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

6. Safety and security

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

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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>.